

## Working Paper

SWP Working Papers are online publications within the purview of the respective Research Division. Unlike SWP Research Papers and SWP Comments they are not reviewed by the Institute.

RESEARCH DIVISION ASIA / BCAS 2018 | SESSION NR. 5, OCTOBER 2018

# The United States and the Rise, Fall and Future Prospects of the (Comprehensive and Progressive Agreement for) Trans-Pacific Partnership

*Xianbai Ji and Pradumna B. Rana*

## Introduction

On 23 January 2017, President Donald Trump withdrew the United States (US) from the Trans-Pacific Partnership (TPP), a 12-nation mega-free trade agreement (mega-FTA). The move was not wholly unanticipated given Trump's open hostility towards the deal; still, it sent strong shockwaves across the Pacific Rim. Following a period of confusion and concern, the remaining 11 countries decided in July 2017 to forge ahead without America. The renamed and surgically trimmed-down Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) was signed in March 2018. Paradoxically, the US' complicated relationship with the TPP did not come to an end with the resurrection of the (CP)TPP – Trump in April 2018 weighed re-joining the TPP bloc on the premise that the underlying agreement can be thrown open to 'substantial' improvement.

With little exaggeration, it can be said that Washington's swinging interest, disinterest and 'renewed interest' in the (CP)TPP was very much behind the tumultuous journey of this landmark mega-FTA in the past decade. Though the full history of the (CP)TPP is yet to be written, we in this discussion paper give a rundown of the rise, fall and future prospects of the (CP)TPP at a time when regional trade landscape is in flux. The paper is structured as follows. The next section traces the genesis of the TPP and the US' three-fold geo-economic motives in leading the negotiations of the accord. The third section analyses the US' domestic oppositions to the TPP, which (predate but) came to the fore with the election of Trump. The fourth section ponders upon the future of the (CP)TPP.

## The Rise

The seeds of the TPP agreement were sown by Singapore, New Zealand, Chile and Brunei when they entered into a closer economic agreement, the Trans-Pacific Strategic and Economic Partnership (TPSEP), in 2006. The TPSEP phases out all tariff restrictions on merchandise trade among signatories while committing them to completing the partial agreement by negotiating the outstanding Financial Services and Investment chapters within 2 years of entry into force. Heeding the pending talks, the Bush administration notified Congress of the intention of becoming a full member of TPP in September 2008. The signalled interest of the US participating in the TPP served as the magnet to draw in Australia, Peru and Vietnam in November 2008. The eight countries started negotiations in March 2010. Thereafter, Malaysia, Canada, Mexico and Japan joined the talks at various points in time, bringing the total number of TPP partners to twelve. Formal negotiations reached conclusion in October 2015. As the 'gold standard' trade agreement, the TPP included 30 chapters on a wide spate of '21<sup>st</sup> century' topics, ranging from market access for goods and services, competition and state-owned enterprises, to intellectual property, investor protection, labour and environment standards.

For the US strategists, the regional trade strategy in the Asia-Pacific, embodied in the pursuit of the TPP, first of all resulted from a historic impetus of maintaining and extending America's presence and power in Asia. Washington would oppose any official attempts of 'drawing a line down the middle of the Pacific', former Secretary of State James Baker famously asserted. Pursuant to this objective, the Clinton administration sought to promote trans-Pacificism as an Asia strategy, hoping that it would pre-empt the emergence of any narrower Asia-only regionalism. In 1993, Bill Clinton elevated the Asia-Pacific Economic Cooperation (APEC) forum from an ad hoc ministerial-level dialogue to an annual summit among national leaders. However, the founding principles of APEC centred on voluntarism, informality and consensual decision-making ran contrary to Washington's attempt of creating a formalised economic bloc spanning the Pacific Ocean under an institutionalised US leadership. When George W. Bush was president, Washington, while willing to engage with APEC for economic reasons, discontinued the trans-Pacific policy as a channel of influence in Asian affairs and shifted attention to cross-Pacific bilateral trade diplomacy. The logic was that bilateral FTAs would give rise to a US-centric hub-and-spoke system that enabled Washington to pick off individual partner countries in Asia. To operationalise the strategic thinking, the US reached deep-integration FTAs with Singapore, Australia and South Korea between 2003 and 2007. But for all these 'sweetheart deals' with traditional allies, American bilateralism overall did not live up to the strategic credo spelt out for it. Washington's relentless drive to securitise economic arrangements and persistent pushes for highly legalistic trade treaties drew a dividing line between the US and Asian countries sitting opposite the negotiating table. For example, trade negotiations with Malaysia and Thailand were suspended, and the proposed FTA with Indonesia did not materialise either. On top of the mismatch in ambitions, a real wild card that got into the way of America's bilateral strategy was China's meteoric economic ascendancy which diverted regional countries' attention to the new regional centre of gravity. Negotiations between China and the Association of Southeast Asian Nations, Thailand, Singapore, New Zealand and Australia all made headway before leading to FTAs that are in force now. By the end of the Bush presidency, a recalibrated and hybrid strategy – that was, to build a coalition of the willing among like-minded countries that were receptive to American leadership – was called for. It was in this context that the low-profile TPSEP with a visionary accession clause crept into Washington's trade agenda.

The TPP under Obama started off with a mercantilist cast. It was initially mentioned alongside the National Export Initiative devised for America to expedite economic recovery. The launch of the 'Pivot/Rebalance to Asia' strategy in the fall of 2011 enlisting the TPP as the economic plank of it came as the watershed moment for the trade deal. Re-defined in economic statecraft terms, the TPP took on three salient missions in the US' strategic turn to Asia. The first was to lay the foundation of 'an open international economic system, where rules are clear and every nation plays by them'. To that effect, the TPP was foreseen as a fountainhead of an opener, broader and higher-standard regional trading architecture which would expand by attracting interested economies to join. The development of the TPP pact indeed bore out this tenet. Not only had the membership roster elongated steadily as noted above, the deal was also constructed as a 'living agreement' – one takes up new trade and investment issues on a regular basis. Importantly too, the second strategic mission was to rebalance TPP countries' trade relations in and across the Asia-Pacific. For the US, the TPP's effects of diverting trade away from China and into other countries in the bloc would augment its strategic autonomy vis-à-vis Beijing and de-centralise China in the regional economy. In largely the same vein, for other partners, the TPP held out the potential to mitigate their trade dependence on China by binding them closer to the US economy. Since countries such as Japan, Australia, Singapore and Vietnam all pledged to play important supporting roles in other pillars of the Rebalance strategy such as security and diplomacy, there was the interpretation that the TPP was a strategic side-payment for America to economically reward its allies. The third mission of the TPP had much to do with the intention of ensuring the rising China to play by the rules consistent with American interests and values. Bill Clinton socialised China on trade when making its entry into the World Trade Organisation (WTO) conditional on domestic liberal reforms. Obama was attempting a similar feat by temporarily excluding Beijing from the TPP negotiations on the theory that China would have to reform its way into the bloc in accordance with the progressive marks Washington set down in the TPP agreement. When China turned to the Regional Comprehensive Economic Partnership (RCEP) as the countermeasure, the TPP was reframed by Obama as a more defensive measure to prevent China from writing rules to govern trade in the world's most economically vibrant region ahead of the US and in ways that contradicted American interests and values. Either way, China featured prominently in Washington's strategic advocacy of the TPP. Much of the synergies between the Asia Rebalance and the TPP was undeniably compelling (even with a bit of hindsight), and the case for the TPP was stronger if one takes America's multi-generational leadership role in global economic affairs in the past seven decades into account.

In the immediate aftermath of World War II, the US exercised international economic leadership by sponsoring the establishment of rule-based international institutions to create a more civilised global commercial environment. Bretton Woods institutions – the World Bank, the International Monetary Fund and the General Agreement on Tariffs and Trade (GATT) – were successively created to provide various global public goods. By the middle of the 1970s, the US set upon a course that unilaterally reduced tariffs and/or expanded quotas through the Generalised System of Preference (GSP) to designated goods and countries. Coupling GSP eligibility with a country's compliance with a number of value-based American policies, the GSP promoted sensible economic governance in beneficiary countries. It was also during this period that Washington altered the objective of trade policy from regulating domestic commerce to reducing trade barriers around the world. This paradigm shift paved the way for the introduction of the 'competitive liberalisation' strategy in 2000. It rested on the idea that the US could spur global trade liberalisation and spread liberal economic norms by stimulating a race-to-the-top competition among foreign trading partners which wanted free market access to the US. The FTAs with Chile,

Morocco, Oman, Peru and a consortium of five Central American countries, signed between 2002 and 2007, all had roots in this strategy. In the new century, the development of trade rules failed to keep pace with the spectacular growth of international trade. When comprehensive multilateral rules were not within grasp – as the long-drawn-out Doha Development Agenda had demonstrated – the US took on the responsibility of crafting new trade rules and standards in conformity with modern commercial realities marked among others by trade-investment-services nexus and digital trade. The TPP was America's answer to the call of the time, and with the TPP, (re-)writing rules replaced lowering barriers as the priority of American leadership of the global trading system.

The analyses above underscore that the TPP was geo-economic in nature. But trade is, in the end, a 'two-level game'. Though the TPP was a well-conceived international economic strategy, it eventually got bogged down near the finishing line by unfavourable domestic politics in the US.

## The Fall

The TPP was initialled in February 2016, shortly before America dived into the presidential election mood – the timing could not be worse for any trade agreement awaiting ratification. By the time the latest election cycle got underway, the erosion of consensual political culture, the decline in bipartisanship on trade and the rising economic anxiety had reached a critical point that the dark arts of negative campaigning, trade-focused criticism and FTA scapegoating were deemed integral to a fruitful strategy to take power. The upshot was that dispassionate scrutiny on the TPP's substance did not gain traction and TPP-bashing became a common denominator spanning the platforms of different presidential candidates. They each carved out a facet of the over-5600-page agreement to discredit<sup>1</sup> in an effort to competitively style themselves as the trustworthy guardian of the well-being of American working-class.

Candidate Trump stigmatised the TPP as inter alia a 'disaster done and pushed by special interests who want to rape our country'. At the same time, he hit out at the Democratic nominee Hillary Clinton for 'unleash[ing] a trade war against the American worker' by supporting 'terrible' trade deals like the TPP. Defending Trump, Republican vice president candidate Mike Pence argued that ditching the TPP was all about 'tough love', aimed at clearing the way for Trump to clinch a better deal for American workers and the country as a whole. Trump's and Pence's anti-TPP arguments found common ground with the socialist-leaning Bernie Sanders of the Democrats who condemned the TPP as the source of employment and profit off-shoring. Cognizant of the external and internal pressure, Hillary Clinton came out to oppose the TPP in October 2015. Clinton justified her about-face on the ground that the final TPP agreement did not meet the high standards she set for the deal. Clinton's running mate Tim Kaine backtracked on his support of the TPP to align the position with hers, claiming that the TPP's dispute settlement mechanism gave the business community privileges that were not extended to other civil society organisations and labour unions. Two third-party contenders in the presidential race also joined the growing chorus of opposition to the TPP. Jill Stein of the Greens, who exalted a 'Flush the TPP' slogan, expressed the concern that the deal would advance ungrateful corporate personhood,

<sup>1</sup> Two notable exceptions were Gary Johnson of the Libertarian Party and Evan McMullin, an independent candidate. Both expressed unwavering support for the TPP. In addition, the division on the TPP was across partisan lines. There were both supporters of and opponents to the deal within political parties.

if not nationhood, at the direct expense of American jobs and wages. Darrell Castle of the right-wing Constitution Party said he was 'dead set against' the allegedly intrusive TPP because it would force America to change its trade policy according to the preferences of foreign companies.

Besides having a corrosive effect on the TPP, the outbreak of anti-TPP rhetoric played a contributing role in the protectionist, nativist resurgence in the US, which in turn turbo-charged Trump to power. Trump axed the TPP on his first working day. Though the demise of the TPP in the US was closely associated with the 2016 election, Trump's disdain for the agreement was reflective of some of his core beliefs about America's role in the world.

One central pillar of Trump's unilateralist worldview has been the idea that the US is unfairly victimised by the 'rigged' multilateral system which works to tie America down and makes it beholden to the mercy of 'unaccountable' international law. As such, leaving the TPP was seen as the opening shot of Trump's revenge against this 'unjust' state of affairs and the globalism ideology in reasserting the superiority of American sovereignty. Beyond the TPP, Trump upended America's participation in a string of international arrangements such as the Paris Climate Accord, the Iranian nuclear deal, several United Nations agencies (including the Human Rights Council) and the Global Compact on Migration. The White House additionally threatened to abandon its security commitments to Europe, obstruct the functioning of the WTO by blocking the appointment of judges to the dispute settlement body, and declared the International Criminal Court 'dead'. The second persuasion animating Trump's denigration of the TPP was that preceding administrations' 'dumb' trade policies did not look out for America itself and the TPP in particular represented 'the biggest betrayal in a long line of betrayals where politicians have sold out US workers'. To drive home this point, scrapping the TPP came on top of Trump's transactional trade agenda which was accompanied by commitments to reviewing, re-negotiating and potentially revoking all major trade agreements entered by America to address bilateral trade deficits and reboot manufacturing employment. Yet another defining feature of Trump's self-interested approach to trade policy is his propensity for bilateralism. In Trump's mind, a sovereign US should leverage disparity of power in every one-on-one setting exploitatively to extract maximum trade concessions from its partners, which ought to, as he sees it, treat the opportunity to trade with the US as a 'privilege'. Trump's personality was not on the TPP's side neither. The egoistic president has shown great interest in making his reign 'great' through belittling and nullifying his predecessor's policy heritage. As of January 2018, the Trump administration issued 17 executive orders, adopted 96 cabinet-level agency decisions, initiated 14 congressional review acts and signed into law 3 new legislations with a common view to repealing and reversing Obama's policies. Therefore, to a certain extent, the TPP as Obama's signature foreign economic policy initiative was crippled under narcissistic politics, and abolishing the TPP could be all but one victim of Trump's all-out assault on Obama legacy in the furtherance of self-aggrandisement.

Trump's shock was not the whole story. Much of the pushback against the TPP in the US was not purely manufactured but symptomatic of deep trouble with the underperforming American trade policy ecosystem at large. For historical, ideological and constitutional reasons, the US' trade agenda had been pre-occupied with the business of taxing imports, taxing exports, subsidising imports and subsidising exports. So when reducing import duties by pursuing an FTA, many pre-FTA issues with legitimacy implications and complementary post-FTA policy prescriptions which would grant the negatively affected a softer landing place were, on numerous occasions, not handled properly as a result of the very

narrowness in scope of trade policy. This bizarre situation precipitated a political environment wherein public support for trade liberalising initiatives rolled out by Washington and the process by which FTA decisions were made was gradually chipped away as people felt that the interests of the rich were front and centre on the negotiating table and they would be forced to embrace foreign competition without much meaningful assistance from those who rushed to open the border in the first place. The memory of the struggles, however temporary, after the enactment of the North American Free Trade Agreement (NAFTA) was still alive and well. A growing portion of the frustrated middle and working class understandably wanted trade policy to be run differently, even if it necessitated giving mandate to a commander-in-chief as unconventional as Trump to change course<sup>2</sup>. In retrospect, had Obama taken active steps to democratise the TPP and raise the importance of Trade Adjustment Authority and other labour-market adjustment mechanisms and social welfare packages to make free trade more worker-friendly, it is conceivable that the TPP could be less of an easy target in the elections and more politically sustainable in the longer run. In the contrary, Obama tried to sell the TPP primarily on its role in the Asia Re-balance strategy. He was being truthful to the electorate about the conception and development of the TPP, but his one-dimensional discourse concentrating on the long-term strategic benefits of the TPP turned out to be a losing proposition for the economically insecure electorate. The reason was simply that people do not live in a geo-economic world and they are not pre-disposed to buying into elitist arguments that appear to have put their daily livelihood and economic future second to international adventurism and geo-political theory. Trump's nativist and populist 'America First' credentials, on the other hand, were welcomed as giving a voice to the fermenting public grievances over the internationalist elitism that was on full display throughout the TPP life-cycle. 'I was elected to represent the citizens of Pittsburgh, not Paris', Trump unapologetically claimed and his emotional promise of re-orienting trade policy towards the basics of standing (only) for American national economic priorities helped win the hearts, though not necessarily the minds, of many average Americans.

In the US, the TPP may have been ground to a halt due to the mix of bad timing, bad politics and bad context. The Trump withdrawal, however, did not spell fatal doom for the deal outside America. In the next section, we contemplate the future of the (CP)TPP by asking and tentatively answering five essential questions.

## **The Future Prospects**

### *Will the (CP)TPP be ratified?*

The revised ratification rule stipulates that the (CP)TPP will take effect 60 days after at least six signatories have completed domestic procedures to ratify it. Mexico became the first country to ratify the deal in April 2018. To Mexico leaders, the CPTPP constitutes a 'Plan B' hedge should the NAFTA renegotiation fall through. Japan followed suit on 6 July. For Tokyo, the leading force behind the re-birth of the (CP)TPP, carrying over the trade liberalisation momentum from the TPP negotiations was necessary to press ahead structural reform at home while sending out a reassuring political signal that the world's third largest economy remains committed to a cooperative trade order. Highlighting the deal's

<sup>2</sup> Ironically, instead of making flawed trade policy work better than it current does, through for instance adopting a more holistic and comprehensive approach to trade policy-making, Trump resorts to trade protectionism and economic nationalism as the guide for trade policy-making.

complementarity with its existing free trade networks, Singapore passed legislation for the (CP)TPP on 19 July. On 25 October, New Zealand became the fourth member to pass the (CP)TPP into law, citing the rapid escalation of protectionist pressure around the world as key reason for the decision. Australia became the sixth nation to ratify the (CP)TPP on 31 December. As such, the deal will kick in on 30 December 2018.

Other countries likely to implement the (CP)TPP in the first wave include Canada, Vietnam and Peru. Canberra started the ratification process in March. The deal is making its way through the parliament. Facing trade confrontation with the US, Canada joined the ratification race in June. Ottawa expects to secure an expeditious parliamentary approval in 2018. Vietnam is making an effort to ratify the (CP)TPP by year end. In Peru's case, the deal is almost self-executing. Since the (CP)TPP does not require modifying existing laws and agreements, Lima suggests that the accord will pass this year through a supreme decree.

The passages of the (CP)TPP in Chile, Brunei and Malaysia face comparatively greater uncertainties. At the time of writing (October 2018), Chile has not publicly declared a timeline for sending the (CP)TPP up for a vote; but considering the country's liberal economic philosophy, there is no particular reason to worry that Chile would be the foot dragger to unreasonably put the (CP)TPP off. As with Chile, Brunei has not made available a specific deadline for passing implementation legislation. The sultanate is reportedly aiming to implement the deal by 2020. Prime Minister Mahathir bin Mohamad reaffirmed Malaysia's participation in the (CP)TPP in August, saying the country would lose credibility if it withdraws from the pact. Nevertheless, Malaysia needs to amend as many as 19 existing laws before it can move to ratify the (CP)TPP agreement.

#### *Will the United States return?*

The next big question hanging over the (CP)TPP is whether the US would make a comeback in the near term. In January 2018, Trump said that '[i]f we did a substantially better deal, I would be open to [the] TPP'. This message indicative of a reconsideration – and with it a possible major reversal – of trade policy vis-à-vis the TPP caught many listeners by surprise. Adding to the bewilderment, Trump, in April 2018, instructed officials to look into negotiating America's re-entry into the TPP bloc. Trump's moves raised more questions than they answered as there was no clarity on the exact reasons why he toyed with the prospect of re-joining the (CP)TPP. Perhaps after two years in his presidency, Trump started to show an understanding of the virtues of the TPP. Or was he merely trying to set America's regional allies in the (CP)TPP grouping in opposition against Beijing amidst the brewing trade war? The possibilities are profuse and Trump's capricious one-man diplomacy makes it difficult, if possible, to ascertain.

If the intents of Trump moderating his stance on the TPP are difficult to pin down, so are the pre-conditions to be met for Trump to come back. Though the (CP)TPP is unlikely to be re-negotiated all over again, there are several possible ways to make the deal 'substantially better' – in a quintessentially Trumpian sense. The US could re-enter with some obligations suspended for instance. The obvious danger is that it could set an unwanted precedent where future entrants could join the pact on their terms instead of honouring the existing deal as a *fait accompli*. A second possibility is for the 11 (CP)TPP partners to sharply sweeten their offers to coax Trump backing in. Scrapping Canada's dairy management system, opening up Japan's and Vietnam's agricultural and automobile markets further, locking down TPP-plus trade rules, and revising the rules of origin to mandate more

economic activity be undertaken in the US to be eligible for trade preferences would appeal to Trump. Additional concessions can be added to the list, but such a deal designed to disproportionately benefit one particular signatory nation could prove a hard sell for others, particularly when Trump is likely to offer little in return. Moreover, given Trump's affection of trade deals that can be terminated, inserting a sunset clause into the (CP)TPP might be an option. Trump trumpeted for an escape clause in the re-negotiated NAFTA (known officially as the 'US-Mexico-Canada Agreement', USMCA); getting his way in the (CP)TPP would offer some sort of political cover for Trump to justify the re-engagement. Canada and Mexico bowed to Trump over the USMCA, but it is doubtful if other (CP)TPP contracting partners would go along with the demand. In 2017, the US ran bilateral trade deficits with five (CP)TPP countries (Canada, Japan, Malaysia, Mexico and Vietnam); achieving more 'balanced' merchandise trade could be conducive to a return of the US. Yet, America's bilateral trade deficits resulting in part from product differentiation and exchange rate factors cannot be fixed by trade policy alone. Unsurprisingly, the (CP)TPP countries, reacting coolly to Trump's remarks, have made it clear that the US should expect no special treatment and take the (CP)TPP as written if it wants to re-integrate within. If that is the case, it is prudent for one to assume that the chance of a return to the (CP)TPP by the Trump administration is reasonably slim.

#### *Will China (and others) join?*

The US' stance on the (CP)TPP has implications on China. Throughout China's chequered relations with the (CP)TPP, there were two main windows of opportunity for China to join the trade pact. The first came in May 2013 when China said it 'will analyse the pros and cons and the possibility of joining the TPP. The subsequent intensification of RCEP talks, the pronouncement of the massive 'One Belt, One Road' and the advanced progress of TPP negotiations, however, joined force to suffocate China's infatuation with the TPP. In early 2017, Trump's TPP exit again set up the possibility of China filling the economic and political void in the bloc. But the idea of China salvaging the TPP proved elusive as Beijing quickly clarified its preference in terms of pursuing regional integration and national trade interests through RCEP and FTAAP instead of the pre-existing TPP. A cursory reading of the text of the (CP)TPP offers important clue as to why China has yet signed onto the agreement and why it is unlikely to be roped into it in the foreseeable future. The (CP)TPP's state-owned enterprise chapter strikes at the heart of China's state capitalism system; the chapters on transparency and anti-corruption represent an intrusion of interstate trade agreement into national sovereignty from the Chinese perspective; and the labour provisions legalising freedom of association and collective bargaining are certainly unacceptable to Beijing. With the US taking part in the TPP, China might eventually liberalise to the standard of the TPP due to the economic 'carrot' of greater export opportunities to the American market and the invidious geo-political 'stick' associated with exclusion and isolation in case of non-compliance. The withdrawal of the US, however, removed both the carrot and the stick, and one would be hard pressed to find concrete reasons why China would take pains to reform itself following the (CP)TPP roadmap. Taiwan's quest for (CP)TPP membership might be an action-forcing event as Beijing could have an incentive to be part of the bloc so that it can block Taipei's accession from within. That said, China presumably has a wide portfolio of instruments short of formal (CP)TPP membership to achieve that aim.

Besides Taiwan, there are several economies that could be potential newcomers. In June, Columbia officially sought entry into the (CP)TPP. Indonesia has urged the six ASEAN countries not participating in the TPP process to negotiate into the (CP)TPP together for



better terms. Among the six, Thailand is particularly keen to join the (CP)TPP. Bangkok expressed intents to join the original TPP, and the renewed interest in the revamped (CP)TPP could see the country submit an accession request by the end of 2018 with the help from Tokyo. South Korea, for its part, is expected to finalise its decision on the (CP)TPP policy by October. Countries like Sri Lanka, the Philippines and Ecuador are also considering their options. The enlargement process is likely to start in 2019 after the deal goes into effect in ratified countries. Emphatically, the circle of interested parties even stretches to the shore of Europe. After it completes the divorce from the European Union (EU), Britain could be an important addition to the (CP)TPP, economically and politically.

#### *Will the (CP)TPP be the pathway to FTAAP?*

In addition, its role in the fluid context of Asia-Pacific economic integration has important bearings on future of the (CP)TPP. In 2014, the TPP and RCEP were identified by APEC leaders as potential pathways to the realisation of a Free Trade Area of the Asia-Pacific (FTAAP). At this point, it remains uncertain how the interactions between the two regional undertakings would pan out, but conceptually there could be three possible scenarios going forward.

*Co-existence.* In the first scenario, the (CP)TPP and RCEP engage in a head-on competition to attract new members and the one winning the day would be chosen as the foundation on which a future FTAAP could build. The TPP looked more promising but we contend that this is no longer the case since the US pull-out cuts into its gravitational tug. More important still, the built-in strict standards of the (CP)TPP would make accessions and ratifications by newcomers lengthy and contentious. By contrast, RCEP's comparatively lower ambitions could facilitate its speedy expansion. It may be true that a return to the (CP)TPP by the US, however unlikely, would make a difference, but the soft power dissipation of the (CP)TPP bloc cannot be reversed unless Washington breaks clean with its current protectionist, bullying policy trajectory and recovers its image as a credible and benign leader.

*Convergence.* In the second scenario, the (CP)TPP and RCEP converge into an FTAAP. Both a bottom-up, dual-track approach and a top-down, multi-tier approach have been proposed. Under the former option, the key is to encourage countries to secure dual membership. (CP)TPP-only countries should sign up to RCEP when possible, and RCEP track-only signatories should reciprocate the move by seeking accession into the (CP)TPP. Then there would be natural impetus to rationalise inefficiency and redundancy arising from the co-existence of the (CP)TPP and RCEP by merging the two into one agreement. The multi-tier option, on the other hand, envisages the installation of an 'umbrella agreement' at the outset. Within this overarching agreement, the (CP)TPP and RCEP members each adhere to their own rules, and the two groups of countries are glued together by a common set of intermediate obligations, for instance, to substantially liberalise all tariff barriers. The expectation is that RCEP countries would voluntarily ratchet up their commitments towards (CP)TPP standards in the long run.

*Divergence.* What seems likelier, in our assessment, is the third scenario in which the (CP)TPP and RCEP take divergent paths ahead. Ever since the conclusion of the (CP)TPP negotiations, there has been calls for bringing the deal's so-called WTO-plus and WTO-extra disciplines back to Geneva for plurilateralisation and, if possible, multilateralisation. The specifically raised possibility of transposing the (CP)TPP's services trade and e-com-

merce chapters to push forward the slow-moving negotiations on the WTO's Trade in Services Agreement corroborates the 'multilateralise regionalism' narrative. A pitch is also being made to incorporate the (CP)TPP's public procurement chapter to update the plurilateral Agreement on Government Procurement. With respect to the RCEP grouping, it would expand its geographical reach following the trade-diversion-driven enlargement logic. The RCEP talks have stirred up fears in South Asia, and excluded countries such as Bangladesh and Pakistan are positioning themselves as RCEP candidates to be admitted in a second tranche. In the longer term, RCEP could advance to become an Asian mega-trading bloc (a consequence counter to American economic and strategic interests).

*(CP)TPP and RCEP: Asia-Pacific's response to Trump?*

While the long-term relationship between (CP)TPP and RCEP is subject to conjecture, the two mega-FTAs do constitute the first prong of Asia-Pacific's strategic responses to Trump's 'America First' agenda. Additionally, Asia-Pacific countries have tried to enhance regional connectivity through infrastructure development to pushback against Trump's protectionism.

The headline-grabbing activity in this regard is China's Belt and Road Initiative (BRI). The BRI aims to leverage Chinese outbound investments and foreign reserves to connect more than seventy countries across the Afro-Eurasian supercontinent via large-scale projects including railways, roads, bridges, ports, and pipelines. Criticisms related to the lack of transparency, security backlash and debt-trap diplomacy notwithstanding, the BRI is largely seen as an attractive option for developing countries that are in need of investment but have limited access to international finance. In 2016, ASEAN unveiled the new Master Plan on ASEAN Connectivity. The plan envisions a 'seamlessly and comprehensively connected and integrated ASEAN' by 2025. It includes major region-wide infrastructure projects such as the ASEAN Highway Network, ASEAN Power Grid, and Trans-ASEAN Gas Pipeline, as well as an ASEAN telecommunications single market, a roll-on/roll-off shipping network, and integrated waterway networks. India is collaborating with Japan under the Asia-Africa Growth Corridor proposal launched in 2017 to develop maritime connectivity across Africa, India, and Southeast Asia. Though Washington belatedly proposed its own vision of connecting Asia under the mantra of 'Free and Open Indo-Pacific', its initial down payment of \$113 million is modest at best<sup>3</sup>.

A third prong of the Asia-Pacific's response to rising protectionism in America is to forge inter-regional economic partnership. On 5 March 2018, the Philippines ratified its FTA with the European Free Trade Association. Several months earlier, Australia signed an FTA with Peru, and Indonesia signed a comprehensive economic partnership agreement with Chile. Australia and New Zealand had started their respective FTA negotiations with the EU, and ASEAN hopes to resume its stalled region-to-region FTA negotiations with Brussels under Singapore's ASEAN chairmanship. Singapore is negotiating an FTA with the Pacific Alliance. Among East Asian countries, South Korea signed FTAs in February with a number of Central American countries, and is presently negotiating with the Eurasian Economic Union (EAEU) and Israel. A Korea-Mercosur FTA was launched in September. Japan and the EU signed an economic partnership agreement on 17 July. China, for its

<sup>3</sup> The passage of the Better Utilisation of Investments Leading to Development (BUILD) Act allowing greater financial and political commitments from Washington could be a game changer, and America's emerging tri-lateral partnership with Japan and Australia would help scale up the alliance's collective presence in the realm of infrastructure financing.

part, recently embarked on a series of negotiations with the EAEU, Moldova, Mongolia, and Mauritius, to name a few. Taken together, these deals suggest that Trump could be losing ground in Asia-Pacific when it comes to market opening and trade diplomacy. The newly commenced talks on a narrow Trade Agreement on Goods (TAG) with Japan provide some temporary relief, but it is no cause for celebration because a TAG is nowhere near a full-fledge FTA, not to mention the comprehensive (CP)TPP as long as impact and influence is concerned.

Given a choice, it is fair to say Asia-Pacific countries would have preferred the more open US of the past. They cannot do anything to reverse protectionism or tame Trump on trade. They do, however, have a number of ways to respond constructively. Perhaps Trump has done more to promote regional and interregional cooperation in the Asia-Pacific than these countries would have done on their own.

*Xianbai Ji* is a PhD candidate at the S. Rajaratnam School of International Studies (RSIS) at Nanyang Technological University (NTU) in Singapore holding the Nanyang President's Graduate Scholarship (NPGS).

*Pradumna B. Rana* is an associate professor the S. Rajaratnam School of International Studies (RSIS) at Nanyang Technological University (NTU) in Singapore.

© Stiftung Wissenschaft und Politik, 2018  
**All rights reserved**

This Working Paper reflects the author's views.

**SWP**  
Stiftung Wissenschaft und Politik  
German Institute for International and Security Affairs

Ludwigkirchplatz 3–4  
10719 Berlin  
Telephone +49 30 880 07-0  
Fax +49 30 880 07-100  
[www.swp-berlin.org](http://www.swp-berlin.org)  
[swp@swp-berlin.org](mailto:swp@swp-berlin.org)