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TPP's Resurrection: Will It Be Finally Ratified?

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Synopsis

The resurrected and renamed TPP, or the CPTPP, is a "high quality agreement" in terms of content and economic impacts. The ratification rule has been revised, which should facilitate the signing of the final agreement.

Commentary

ON 11 November, on the sidelines of the APEC Summit in Vietnam, 11 countries on the Pacific Rim decided to go ahead with the Trans-Pacific Partnership (TPP) despite the withdrawal of the United States on the third day after Donald Trump took office.

The deal was renamed the "Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)" to reflect the new consensus that had emerged after the four rounds of negotiation since the US withdrawal. Is the CPTPP still a "high-quality agreement"? Will it be finally ratified this time around?

CPTPP vs TPP

While the details are yet to be worked out, the joint ministerial statement and its annexes suggest that the CPTPP will essentially be a replica of the original TPP. Tariffs schedules are kept as negotiated with custom duties on 95% of trade in goods to be removed in the long run.

Commitments to liberalise in key areas such as textiles, technical barriers to trade and sanitary and phytosanitary measures, competition, state-owned enterprises and small- and medium-sized enterprises, labour, and dispute settlement, are still intact.

The CPTPP, nevertheless, differs from the TPP in two ways. First, it suspends 20 provisions from chapters on trade facilitation, investment, services, public procurement, intellectual property rights (IPR), environment and transparency. These rules inserted in the TPP at the insistence of Washington have been put on hold for now (but could be reinstated at a future date).

Notably, the chapter on IPR has undergone the most significant change. For example, duration of copyright protection has been reduced from 70 to 50 years after the demise of the creator. Other noteworthy revisions include suspending labour requirements as a prerequisite for CPTPP firms to bid on government contracts, and cancelling preferential treatment for express couriers in the provision of cross-border services.

Second, as opposed to the neoliberal thinking and beliefs on free trade and market forces which were embedded in the TPP, the CPTPP notes that in policy-making members should first and foremost consider their own changing “country-specific” circumstances and priorities. Enhanced policy space and regulatory flexibility will be incorporated in the new articles on “withdrawal”, “accession” and “review” that are to be drafted.

As of now, Malaysia wants a longer transition period before stringent competition rules are applied to its state-owned enterprises. Vietnam seeks more time before its nascent trade unions are subjected to dispute settlement measures. Canada wants to protect its politically sensitive cultural and broadcasting industries.

Economic Impacts of CPTPP

Some believe that without the US, the TPP is a meaningless deal. This is because the US accounts for 60% of the TPP bloc’s combined gross domestic product (GDP). But our simulation results using the advanced multi-region, multi-sector Global Trade Analysis Project (GTAP) model suggest otherwise.

On the whole, our estimates show that the net benefit of CPTPP to all its members from liberalisation of trade in goods and services is roughly 0.3% of their combined GDP or US$37.3 billion, in the medium run. The CPTPP will also add US$21 billion to global welfare. These benefits will increase as membership expands and the dynamic benefits from trade liberalisation such as productivity improvement and economies of scale are realised over time.

All 11 members will be better off with the CPTPP than without it. Among the Asian members, Malaysia will gain the most (2% of GDP) followed by Vietnam and Brunei (with 1.5% each), and New Zealand and Singapore (with 1% each). In Latin America, Mexico and Chile will gain relatively more than others (0.4% each).

Prospects for Ratification

Although the CPTPP has been agreed in-principle at the ministerial level, it has yet to be ratified. This will require legislative actions in all member countries. The process is likely to be relatively straightforward except in Canada which faces a bit of a dilemma.

The country is concerned that pressing ahead with a deal despised by Trump could impact adversely on the on-going negotiations of the North American Free Trade Agreement (NAFTA); yet a revamped CPTPP could paradoxically serve as an insurance policy against the potential breakdown of NAFTA renegotiations. That is perhaps why the country did not participate in one of the meetings in Vietnam.

The revised ratification rule could also help in this regard. The CPTPP has removed the 85% GDP threshold requirement for TPP ratification; it has stipulated that the deal could be triggered once six out of the eleven members complete their domestic ratification process. Flexibility which is to be introduced in the new negotiations should also facilitate ratification.

Going Forward: More the Merrier?

No other trade deal has been in the limelight more than the TPP. First, in 2005, the Trans-Pacific Strategic Economic Partnership comprising four small open countries (Brunei, Chile, New Zealand and Singapore) was signed. Then, in February 2016, the pact was expanded and became US-led during the Obama administration. Dubbed the TPP12, it was initialled with much fanfare but was subsequently ditched by the Trump administration. Now the CPTPP involving the remaining 11 countries looks all set for signing by the first quarter of next year.

Going forward, the interest of several aspirant countries such as Colombia, Indonesia, Taiwan and Thailand to join the trade pact should be actively encouraged to knock down trade barriers in those economies. Who knows, the US may wish to come back once Trump leaves the White House and sanity returns to Washington's trade policy.

China and India may also wish to eventually join this crucial trading group covering the Pacific Rim countries once they conclude the current talks on the Regional Comprehensive Economic Partnership (RCEP).

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