The CPTPP: (Almost) One Year Later

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Nearly one year after its entry into force, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) has yielded a mixed bag of benefits to its 11 signatories. Trade flows have boomed between some countries while remaining steady for others. To what degree these changes are due to the CPTPP, however, is difficult to measure; other trade accords and frictions have also influenced commercial flows in the Asia-Pacific. Regardless, the CPTPP remains a significant trade agreement with room to expand.

Q1: What is the CPTPP? What are its relevant provisions?

A1: The CPTPP is a free trade agreement between 11 countries in the Asia-Pacific region: Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. Signed on March 8, 2018, it entered into force on December 30, 2018, after a majority of signatories ratified the agreement. The pact binds its members, which represent about 13.5 percent of global merchandise trade, to 30 chapters providing for freer trade and investment access.

Although its text remains similar to that of the Trans-Pacific Partnership (TPP)—which the United States abandoned in January 2017—the CPTPP suspended or changed 22 of the original provisions. Many of these changes are minor, but a few mark significant shifts from the TPP. For example, two types of investment agreements that were litigable under the TPP are no longer under the CPTPP. Moreover, Chapter 18, which deals with intellectual property, underwent the most sweeping revisions. The CPTPP cuts TPP provisions on patent delays, pharmaceutical patent test data, technology protection, and copyright term length, all of which were advocated for by the United States and meant to protect brand name pharmaceuticals.

The CPTPP is branded as a "next-generation" trade agreement. Of its 30 chapters, several stand out as innovative. On e-commerce, the CPTPP largely prohibits data localization and prohibits customs duties on electronic transmissions. It facilitates regionalized supply chains and liberalizes trade in services beyond the participating countries' WTO commitments. The deal also calls for domestic adoption of internationally agreed-upon labor laws and environmental commitments.

The specific benefits of the agreement vary from country to country. For Canada, market access for goods has markedly expanded. Canadian pork, beef, wheat, fish, lumber, and many industrial goods are expected to make significant gains with Japanese, Vietnamese, and Malaysian buyers. Australia has also benefited from reductions in Japanese beef tariffs, as well as access for its dairy products in Japan and Canada and mining reforms in Mexico. Japan, on the other hand, will liberalize access to some of its traditionally protected industries in the short term and has in practice assumed the mantle of trade leadership in the Asia-Pacific.

Q2: Since the CPTPP came into force, how have trade flows between member states changed?

A2: Trade volumes between CPTPP member states have varied in the last year, even among its three largest economies: Australia, Canada, and Japan. On the one hand, Australia has seen a trade boom with CPTPP partners. In 2018, its trade grew 19.1 percent with Japan, 16.5 percent with Malaysia, and 13.3 percent with Vietnam, all exceeding its overall annual trade increase of 11.6 percent. Its goods exports skyrocketed, increasing 25.2 percent with Japan and 25.6 percent with Malaysia, compared to 14.4 percent overall. On the other hand, for Canada, exports have experienced more measured growth. Ottawa saw modest export growth of about 1 percent with all CPTPP partners, similar to its overall export volume increase.

While 2019 data is not yet available for Australia and Canada, Japanese statistics from the first half of 2019 provide an even more recent picture. Japan saw its trade deficit expand with Australia, Vietnam, and Canada compared to the same period last year. Its overall reduction in exports—4.7 percent—is dwarfed by plummeting sales to Australia, down 17.9 percent, and to Canada, down 10.4 percent. On the other hand, Japan's imports from its top two CPTPP trade partners—Australia and Vietnam—jumped 5.1 percent and 7.0 percent, respectively, from the first half of 2018. These increases are particularly notable when compared to Japan's overall import reduction of 1.1 percent. Clearly, nearly a year after it became effective, CPTPP economies have seen mixed results in the short term.

Q3: Are these changes in trade volume only due to the CPTPP?

A3: While the CPTPP has the potential to affect long-term trade relations between its 11 member states, it is difficult to say exactly how much influence it had on the last year's trade patterns. Broader macroeconomic trends and the economic wrecking ball of the U.S.-China trade war have both contributed to recent changes. An Asian Development Bank model from December 2018 displays how reciprocal tariffs by Beijing and Washington have a spillover effect on both countries' major trading partners, including Japan. Bilateral agreements between CPTPP and non-CPTPP economies also affect trade volumes. For example, the EU-Japan Economic Partnership Agreement, which went into force in February 2019, brought about significant changes to the EU-Japan trade relationship. It eliminated duties on Japanese agricultural and fishery goods and began a phase-out period of Japanese auto tariffs. For European goods, tariffs on chemical products, leather goods, and some agricultural products like pork were similarly liberalized . Last month's U.S.-

Japan trade deal could also impact CPTPP economies, especially agricultural exporters like Australia, New Zealand, and Canada. Due to the interdependent nature of the global economy, identifying any single cause of trade shifts is nearly impossible, especially only one year after the CPTPP's enforcement began. The CPTPP still has the potential to raise global income by $147 billion annually, but it may take some time to bear fruit.

Q4: What's next for the CPTPP?

A4: The CPTPP has plenty of room for growth, both among its signatories and among other interested nations. Brunei, Chile, Malaysia, and Peru all signed the CPTPP in March 2018 but have not ratified the agreement in their domestic governments. Of the four, Chile has come the closest; its lower legislative body approved accession in April, but its Senate has not yet ratified it, despite being expected to do so without much resistance. Brunei has been quiet about the chances of its accession before 2020, and Malaysian officials have communicated their misgivings about ratification. After assuring the press of a March 2019 approval, the Peruvian government's process also appears to have stalled.

Meanwhile, several economies wait in the wings to join the bloc. Taiwan has voiced its interest in joining the accord several times, as have Thailand and Indonesia. At the same time, South Korea, which was considering filing an application, halted its discussion in July amidst acrimonious relations with Japan. Moreover, rumors of a post-Brexit appeal by the United Kingdom were dismissed by Australian objections. Of course, the Trump administration has no plans to reverse its withdrawal from the original TPP. However, the United States' pursuit of trade pacts such as the United States-Mexico-Canada Agreement and the U.S.-Japan Trade Agreement could lay the groundwork for its readmission under a different administration.

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