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New Pacific Alliances: Transforming Transpacific Relations

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As far as acronyms go, the CPTPP (i.e., the Comprehensive and Progressive Agreement for Trans Pacific Partnership) is not among the most memorable. But beyond the somewhat pretentious title, there is little doubt that the "TPP11" (the denomination of choice for the agreement among many observers) signed on March 8, 2018, in Santiago, Chile, marked an important milestone.

At a time when protectionism and isolationism are raising their ugly heads, the TPP11 conveyed a potent signal. In fact, the agreement was signed on the very day that U.S. President Donald Trump announced the imposition of U.S. tariffs on imports of steel and aluminum. Eleven countries from three continents (Asia, Australasia and Latin America), both developed (Australia, Canada, Japan, New Zealand and Singapore) and developing (Brunei, Chile, Malaysia, Mexico and Peru), capitalist and socialist (Vietnam), comprising 13 percent of the world's GDP (US$ 10 trillion), 15 per cent of global trade and a population of 500 million, banded together in the cause of liberalized commerce, globalization and a rules-based international trading order.

These diverse nations are pushing for a more open trans-Pacific trading system at a time when the geo-economic axis is shifting from the North Atlantic to the Asia-Pacific, and the North Atlantic powers themselves are turning inward, under the spell of nativist and populist currents. It is not farfetched to suggest that new Pacific alliances are emerging.

Responding to the Trump Administration

In January 2017, President Trump unceremoniously ditched the current CTTPP agreement's predecessor, that is, the Trans Pacific Partnership (TPP), despite nine years of laborious negotiations. Most observers thought it had effectively been killed for good. The United States' ultimate rejection of a project that the preceding Barack Obama administration had made the centerpiece of its international trade policy was not well received among the rest of the signatories; but it had an especially deleterious impact on Japan. Japan was the last of the Member States to join the TPP, and the government of Prime Minister Shinzo Abe had waged a hard fight, against strong opposition from many sectors of Japanese society, to get the Diet's approval to go ahead. This battle was won only a month before the United States withdrew from the agreement.

There was thus much hand-wringing among the remaining group of nations as to what to do next. Obviously, any such agreement without the United States would not be the same and would have a smaller growth impact—with the U.S. in the pact, the TPP had represented 40 percent of global GDP; without the U.S., the TPP counted for a significant but smaller share. But too much political capital and institutional time had been spent on the project by all signatories to allow the agreement to vanish in thin air.

In due course, a joint diplomatic venture of sorts between Japan and Chile allowed the Agreement to move forward. As the remaining economic heavyweight within the group, Japan had much at stake in bringing the deal to fruition. Prime Minister Abe saw it as a key tool in opening and liberalizing the Japanese economy.

Chile made trans-Pacific free trade its own cause. Although by some estimates, Chile is the member state that would benefit the least directly from the TPP (because it already has FTAs with all of the other signatories), it was also among the most determined to make the agreement happen. Chile thus hosted an initial meeting of Foreign Ministers held in the coastal town of Viña del Mar on March 14-15, 2017 ("The High Level Dialogue on Regional Integration Alternatives in the Asia Pacific"), which convened the 12 signatories of the initial TPP, plus China, the Republic of Korea, and Colombia, and kicked off the complex task of reformulating the original TPP text in the absence of the United States. In the end, 22 provisions of the original text (mostly related to some of the most aggressive intellectual property [IP] protection measures the United States had pressed for) were suspended, and most of the rest of the agreement was left intact. Followed up by several meetings held in Japan in the course of 2017 and early 2018, it all culminated in the improbable signing of the CPTPP on March 8 in Santiago, Chile [1]

The unlikely rebirth of the Agreement between the TPP11, despite the odds stacked against it, raises many relevant considerations. It highlights that although there has been a backlash against globalization and free trade in the United States and in the United Kingdom in the course of the past few years, this backlash is by no means universally shared. There are many countries still committed to a liberal, rules-based international trading order. In the absence of the traditional hegemon's leadership in this matter, will it be possible for other nations to step in and make up for this by crafting formal agreements, and, perhaps more informally, international trade regimes that will obviate the United States' absence from (if not downright opposition to) the liberal trading order? How much room do smaller powers have to save such an order from the forces of protectionism and isolationism that are threatening and puncturing it on many fronts? How should Latin American countries, traditionally dependent on the United States for much of their trade and investment flows, cope with this extraordinary situation? And what about China? Is China, against which President Obama famously argued the TPP should be set up in the first place, ironically a key defender against encroaching anti-globalization forces?

[1] For the text of the CPTPP document signed in Santiago, see http://dfat.gov.au/trade/agreements/not-yet-in-force/tpp-11/official-documents/Documents/tpp-11-treaty-text.pdf

In the remainder of this essay, we will attempt to answer these questions from the perspective of Latin American nations. The latter are caught in the crosshairs of an impending trade war between the great powers. They are in the difficult position of having to balance their interests between the fast-growing and ever more significant markets of Asia, and the rearguard action of the traditional hemispheric hegemon pulling them back into its own sphere of influence.

Evolving Transpacific Relations and the New Pacific Alliance

The starting point for any such discussion has to be the tectonic changes that have taken place in Latin America's position in the world economy. For much of its 200 years of independent history, the region was heavily dependent on the United States and Western European nations for its foreign trade and investment. Yet, in the course of the present century the economic situation has changed dramatically for Latin American countries. Trade between China and Latin America, to give an example, has increased from a paltry US$ 10 billion in 2000, to some US$ 266 billion in 2017. For Brazil, Chile, Peru and Uruguay, China is their number one trading partner; for many of the other countries in the region it is their number two trading partner. Chile now exports twice as much to China as it does to the United States, and actually runs a trade surplus with China (as opposed to the deficit with the United States). More than a quarter of all Chilean exports (27 percent in 2017) go to China. Though much lower in absolute terms, this share is even higher in the case of Uruguay, at 28 percent.

Moreover, this shift is not confined to China. Among Chile's top ten export markets, four are to be found in Asia (China, Japan, Korea and India, in that order), and half of all Chilean exports go to Asia. Similar patterns obtain for other South American countries.

The full significance of this major realignment of South American nations in the world economy remains to be internalized, and more broadly understood. Yet, there is some evidence that it is having an impact. One of the most refreshing developments in Latin American regional integration in this decade has been the creation of the Pacific Alliance (PA). Formed in 2012 by Chile, Colombia, Mexico and Peru, the PA has brought together four of the fastest growing and most dynamic economies of the region. In the course of the past six years, the PA has become one of the most dynamic and forward-looking of all Latin American regional groupings, attracting as many as 49 observer states, and currently negotiating the accession as associate members with several of them.

And shortly after the United States left the original TPP it was in fact the PA, under the *pro tempore* presidency of Chile, that called for the High Level Dialogue on Regional Integration Alternatives in the Asia Pacific, which ended up being crucial to cutting the Gordian knot on the new TPP scenario. The willingness to move ahead, regardless of Washington's withdrawal, coalesced and made it possible to lay the groundwork for TPP11.

A frequent question is what purpose is served by the veritable smorgasbord of regional and sub-regional integration entities that exist in Latin America? Well, one reason for the region's many groupings is for member states to interface in a more effective manner with the rest of the world, and this is precisely one such instance. The main reason the Pacific Alliance came into being was to garner collective diplomatic energy to deal with the Asia-Pacific region, something it has done well, as this example illustrates.

APEC, the P4 and the Changing Role of Large and Small Powers

Japan is, by far, the biggest economy in the TPP11 and it played a key role in making it happen—though, it was the last member state to join the original TPP. However, the emergence of the TPP11 cannot be understood without factoring in the significant role played by smaller states such as Chile.

Tracing back the origins of the latest regional integration in the Asia Pacific, we must step back to the creation of the Asia Pacific Economic Cooperation forum (APEC), established originally by Australia in 1989 (its first summit was held in 1991) which made a special effort to promote trans-Pacific free trade, increase the density of trans-Pacific links via special branches dedicated to business and to academia, and otherwise succeeded in positioning the organization as a key reference point in international affairs. It acquired a special impetus as a result of the dynamism of the East Asian and South East Asian economies, which made doing business with the region such an attractive proposition. It also garnered the interest of Latin American countries such as Mexico (which joined in 1993), Chile (which did so in 1994) and Peru (1999).

However, by the early 2000s, the APEC forum seemed stuck in neutral. Efforts to further its free trade agenda were getting nowhere. Observers viewed the yearly APEC summits as fancy "talk shops". It was at that point that some member states decided to branch out on their own and step up the pace for liberalized trade. Exchanges among "like-minded" countries on how to move ahead on the free trade front thus took place. The Pacific Three Closer Economic Partnership (P3CEP), formed by Chile, New Zealand and Singapore, met on various occasions from 2002 to 2005, joined also by Brunei. Shortly thereafter, in 2006, the Trans-Pacific Strategic Economic Partnership (TSEP), known as "P4" came into force.

The P4 was described as a "high quality", comprehensive, business-friendly agreement designed to further trade liberalization in the Asia-Pacific, as well as through the WTO. It also included an accession clause that allowed other APEC members to join in the future. The idea was that the group would act as a catalyst, stimulating at least some of the other 17 APEC members to join and move forward on the free trade agenda. Given the small size of the P4 economies, some government representatives of the larger Pacific powers looked at this initiative with a mixture of derision and contempt. However, by 2008, with APEC still unable to move forward on free trade, and the Doha Round effectively dead, it became evident that the P4 was "the only game in town". In September 2008, the Office of the U.S. Trade Representative (USTR) announced that it would join the P4. Predictably, a number of additional APEC members, Australia, Peru and Vietnam, followed suit.

The United States took its own good time to follow through on the decision to join the P4, as the incoming Obama administration undertook a major international trade policy review. By the November 2009 APEC summit, USTR Ron Kirk stated that the United States was ready to announce formal negotiations with the P4. This finally happened in Melbourne in March 2010. For once, the world's largest economy sought to join a trade initiative generated in the South. This was a real game-changer. Later, at various times, Canada, Malaysia, Mexico and Japan joined what was then renamed the Trans-Pacific Partnership, (TPP), and what was recast as the flagship trade policy project of the Obama administration.

Under Washington's leadership, the newly invigorated TPP negotiations added more and more items to the agenda, including not just goods and services, but also telecommunications, investment, financial services, sanitary and phyto-sanitary barriers (SPS), technical barriers to trade (TBT), government procurement and IP provisions.

However, as the TPP became an increasingly ambitious initiative, adding disciplines and items (as well as countries) to its agenda, a paradox became apparent in the closed door negotiations: the more the TPP defined itself as a "comprehensive" and "21st century" agreement, the more rocky became the negotiations. Contentious issues, such as IP, exacerbated differences among the negotiating parties and threatened the viability of the agreement itself. In the end, all 12 signatories came around to signing the text -- only to watch in disbelief as the United States ended up disowning what it had fought for, for almost a decade.

Considerations for China and the United States

China has championed a different agreement, the Regional Comprehensive Economic Partnership (RCEP), part of whose membership – including Australia, Japan, Malaysia and New Zealand— overlaps with the TPP11. There has been some progress in these negotiations over the past few years. For China, there is the temptation to see the TPP11 as some sort of competitor to the RCEP, and thus to continue to distance itself from the agreement (although Foreign Minister Wang Yi has seemingly welcomed it[2]).

The very overlap in membership between both entities reflects what we would call the variable geometry of trans-Pacific trade dynamics. Rather than looking at the much-needed effort to regain the momentum of trade and investment flows across the world's biggest ocean as a zero-sum game, China should look at the combination of TPP11 and RCEP as it does at much of its foreign policy—as a win-win proposition. The end game in this endeavor is movement toward the desired outcomes of the Free Trade Area of the Asia Pacific (FTAAP), a long term objective of the Asia Pacific Economic Cooperation Forum (APEC), whose feasibility study was delivered to the heads of state assembled at the 2016 APEC Lima Summit, and something that China has championed for some time.

In this context, where does the United States stand?

As the next figures show, the RCEP and CPTPP member economies are very relevant trade partners of the US. For instance, RCEP represent 20 percent of US total exports and 39 percent of US total imports. However, only 3 percent of US exports have trade preferences in RCEP (the only RCEP country with an FTA with US is Korea).[3] Hence, 17 percent of US exports are vulnerable and less competitive in terms of market access in RCEP countries.

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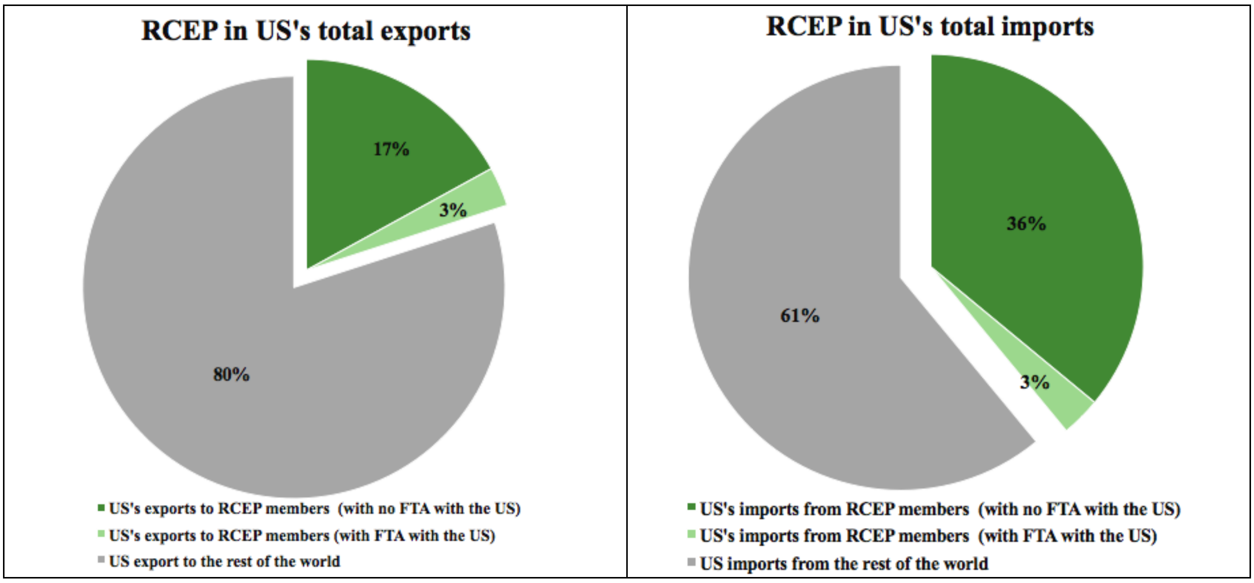
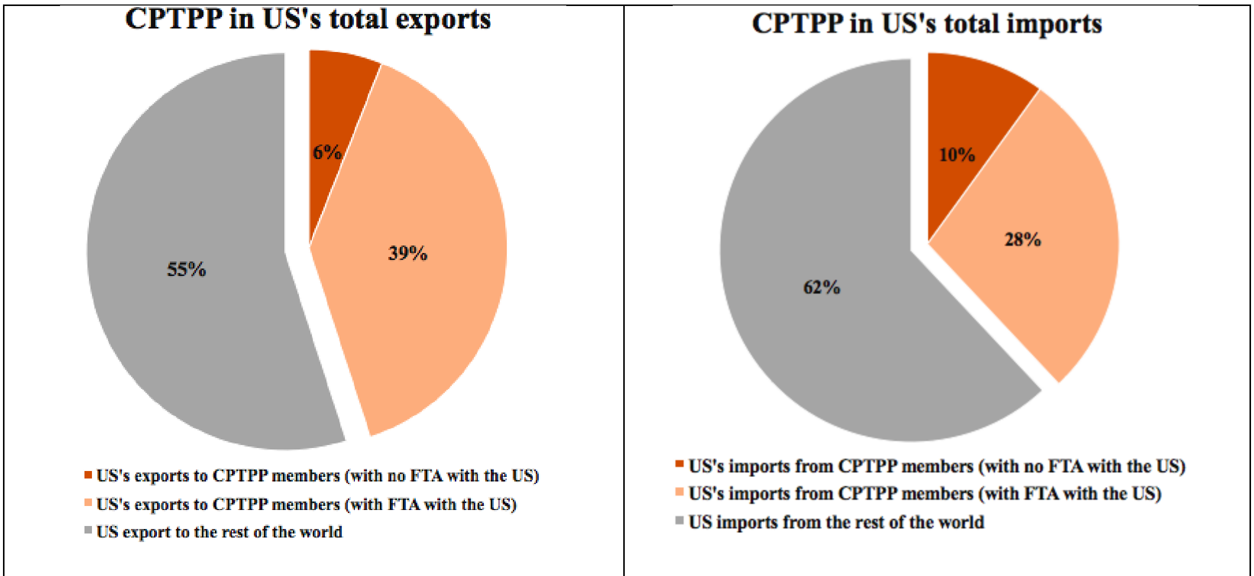
[2] For Foreign Minister Wang Yi's statement, see http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1540928.shtml

[3] List of US's free trade agreements in force: < https://ustr.gov/trade-agreements/free-trade-agreements>.



On the other hand, CPTPP represents 45 percent of US's total exports and 38 percent of its total imports. However, 28 percent of US's exports has trade preferences in CPTPP.[4] The other 10 percent enter to CPTPP with almost no trade preferences.



Source: created by the authors based on UN COMTRADE statistics for 2016

By way of Conclusion

The improbable rebirth of the TPP as CP-TPP, albeit a diminished version, tells us much about the shifting underpinnings of trans-Pacific realities. On both sides of the Pacific, small and medium-

[4] List of US's free trade agreements in force: < https://ustr.gov/trade-agreements/free-trade-agreements>.

sized powers are ready to take destiny in their own hands, without waiting for the United States. Nor are these emerging economies (be they in Asia, Australasia, or Latin America) subservient to China, as they are sometimes portrayed. Faced with the possibility of having to give up many years of work towards a trade agreement that would enhance free commerce and a rules-based trading order across much of the Pacific Basin, they moved ahead to recast the agreement, and their future, despite the obvious obstacles of doing so without the United States.

We recommend (similar to Parag Khanna) that instead of focusing obsessively and almost exclusively on the behavior of the United States and China, we should realize that in the transition to a multipolar world, small and medium-sized powers are coming into their own, setting their own paths and priorities. As should be obvious, good, old-fashioned multilateralism has much to offer to them—which is why these nations stand up for it. The same can be said for opening their economies and otherwise pushing ahead with regional integration.

The inward turn of the United States and Europe/United Kingdom is having the unintended effect of pushing the nations of Latin America and Asia to generate their own institutional frameworks to harness their ongoing quest for growth and development. In Latin America, the protectionist upsurge of the United States has paradoxically given new impetus to regional integration and new ways to open to each other's markets. In Asia, RCEP, larger, though less ambitious than the CPTPP, with its 16 member states, may also be signed in 2018.

In summary, expanding trade and investment flows between Asia and Latin America signal the enormous opportunities offered by trans-Pacific trade. Given that global trade in goods is growing at half the rate it did before the 2008-2009 recession, it is especially important to keep pushing for its facilitation. The TPP11, emblematic of the newly emerging Trans-Pacific relations, is a harbinger of things to come in what increasingly appears to be the Asian century.

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