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Consequences of the U.S. Withdrawal from the Trans-Pacific Partnership

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Donald Trump, at the beginning of his presidency, decided to withdraw the United States from the Trans-Pacific Partnership, a 12-nation free trade agreement signed in 2016. By this act, the U.S. has lost a very important economic and geopolitical tool in the Asia-Pacific region. Although there are chances that the remaining 11 countries will ratify the agreement without the U.S., it is much less significant and most probably will not be a template for future trade agreements as planned. As a result, the leadership of regional integration may fall to China, which perceived TPP as part of a U.S. containment strategy. At the same time, the EU can benefit from the disarray by pursuing its own trade agenda in the Asia-Pacific region.

The foundation of the Trans-Pacific Partnership (TPP) was a free trade agreement (FTA) between New Zealand, Chile, Singapore, and Brunei that came into force in 2006. The project was enhanced to a wider TPP format in 2009 when the United States and others decided to join the negotiations. Gradually, the TPP talks embraced 12 countries: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam. Given the economic potential of its members, the wider TPP would have been the biggest free trade agreement ever signed. The GDP of all the countries involved (given official exchange rates) was \$28.5 trillion, which in 2015 accounted for nearly 40% of the world's GDP.¹ Moreover, its member states' share of world trade exceeded 25%.² TPP was perceived by the U.S. administration under President Barack Obama as an economic pillar in its so-called "pivot to Asia."³ The notion embraces U.S. activities to create and strengthen the network of alliances with countries in the Asia-Pacific region, based on political, military, and economic links. China, the main U.S. competitor in the region, was outside the agreement and saw TPP as a political initiative to counter the rise of the Middle Kingdom.

The TPP negotiations were concluded in October 2015 and the deal was signed in early 2016. The ratification process by the member states was to end within two years, once at least six countries accounting for 85% of the GDP of the signatories had ratified the agreement. It follows from that rule that without the U.S., which alone would have accounted for around 60% of the overall GDP of the deal, TPP could not enter into force. So, when newly elected U.S. President Donald Trump withdrew the United States from TPP on 23 January 2017, three days after he took office, he, in fact, terminated

¹ *The World Factbook*, CIA, www.cia.gov/library/publications/the-world-factbook.

² "Trans-Pacific Partnership Agreement—TPP MARKET SNAPSHOT," Department of Foreign Affairs and Trade, Australian Government, <http://dfat.gov.au/trade/agreements/tpp/Pages/trans-pacific-partnership-agreement-tpp.aspx>.

³ M. Wąsiński, "Europe Left Behind: Trans-Pacific Partnership and Its Impact on the EU," *PISM Bulletin*, no. 92 (824), 19 October 2015.

the current agreement. During the presidential campaign, Trump had strongly criticised TPP as a bad trade deal for the U.S., one that would contribute to lost jobs by Americans and deepen the country's trade deficit. Trump announced that his administration instead will focus on bilateral trade deals with countries in the region that bring more benefits to the U.S. economy.

Slim Chance of a U.S. Return to TPP

TPP was to strengthen American influence in the Asia-Pacific region, hedging against the growing role of China. By boosting economic cooperation, TPP could have strengthened U.S. alliances in the region as well as support diversification of trade. But the stake for the U.S. was even bigger. American negotiators had drafted the text to secure other interests, such as the promotion of U.S. standards in trade and products as well as labour and environmental fields, and reform of state-owned enterprises. It was meant to push countries such as Vietnam to increase its standards, which would entail a reduction of unfair competition and ultimately protect jobs in the U.S.⁴ Moreover, it would have made it harder for China to join the group without making reforms to its own internal market. Furthermore, the U.S. rules in the agreement on regulating Intellectual Property Rights, food (GMOs, Geographical Indications), data flows, and "new economy" sectors such as e-commerce, would have given American companies wider access to Asia-Pacific markets. TPP was also meant to be a template for other ambitious and complex trade agreements in the future.⁵ However, without the U.S., this template is less likely to follow to other trade deals. Given all that, it would seem the U.S. withdrawal from the TPP, driven by Trump's political agenda, contradicts the country's economic and foreign policy interests.

Since the Trump administration is prone to wide turns in policy, in particular, issues in foreign affairs, e.g., relations with China or NATO, the future involvement of the U.S. in TPP should not be completely ruled out. The early ratification of TPP by Japan in December 2016, almost immediately after Trump's victory in November, may be seen as an effort to bring the U.S. back to the table. Withdrawal from TPP was a high priority for Trump in his campaign and was presented as one of the president's most significant decisions in his first 100 days in office. The importance of that means a return to the current form of TPP seems hardly imaginable.⁶ Nevertheless, there might be an effort to make some modifications to the agreement and then "sell it" under a new name while claiming it a success of the current U.S. administration. However, it is more likely the U.S. will try to secure its interests through direct agreements with individual TPP members, particularly Japan, New Zealand, and Malaysia.⁷

Bilateral Trade Deals between the U.S. and TPP Members

The focus on bilateral trade deals outlined in Trump's economic plan presented during the presidential campaign as well as in his presidential trade policy agenda published in March this year shows that the new administration sees these negotiations as a more suitable tool to fulfill U.S. economic goals.⁸ Trump himself has declared he is a supporter of free trade, but exchange based on rules that maximise the benefits to the U.S.

⁴ S. Basu Das, "Labour Provisions of the Trans-Pacific Partnership (TPP) and how they may Affect Southeast Asian Countries," *ISEAS Perspective*, Iss. 2016, no. 37; S. Donnan, "TPP: seven things worth knowing," *The Financial Times*, 12 October 2015.

⁵ D. Wnukowski, "Trans-Pacific Partnership Negotiations: Lessons for the TTIP Talks?," *PISM Bulletin*, no. 104 (557), 2 October 2013. Even the current U.S. administration admits that parts of the agreement are well-negotiated and may be copied to, e.g., a renegotiated NAFTA. See: A. Swanson, "Trump's trade nominee breaks with White House hard-liners," *The Washington Post*, 14 March 2017.

⁶ There are only a few supporters of such an idea. For more, see: B. Słomińska, M. Wąsiński, "Możliwe kierunki polityki handlowej za prezydentury Donalda Trumpa," *Sprawy Międzynarodowe*, nr 1, 2017. Recently, newly appointed U.S. Trade Representative Robert Lighthizer declared that the U.S. is not interested in returning to TPP, but will follow the bilateral path. For more, see: "U.S. trade representative says no return to TPP deal and wants bilateral deals in Asia," *Reuters*, 21 May 2017, <http://uk.reuters.com/article/uk-apec-vietnam-lighthizer-idUKKCN18H06F>.

⁷ Canada and Mexico, too, but within the framework of NAFTA renegotiations.

⁸ Trump said it will "increase our economic growth, promote job creation in the United States, promote reciprocity with our trading partners, strengthen our manufacturing base and our ability to defend ourselves, and expand our agricultural and services industry exports," "The President's 2017 Trade Policy Agenda," USTR, March 2017, <https://ustr.gov>.

Reaching bilateral deals that would be more beneficial than TPP might be problematic. The agreement among 12 Pacific Rim countries was the outcome of negotiations in which the U.S. played the leading role and others had to make major concessions to be part of the agreement. In bilateral deals, the U.S. position would be even stronger and could entail bigger concessions, thus discouraging potential partners. The least pressure likely will be felt by Australia, Singapore, Chile, and Peru, which already have their own bilateral FTAs with the U.S. Meanwhile, Canada and Mexico are also in a different position because of U.S. pressure to renegotiate NAFTA.

Of the remaining five partners, Japan most wants a deal with the United States. After the U.S. signed an FTA with South Korea in 2012, U.S.-Japan trade declined by over 10%, rebounding only slightly in 2016.⁹ It is no coincidence that Shinzo Abe visited the United States in recent months (first to meet with the president-elect and later after he assumed office) and signalled openness to the idea of bilateral negotiations. Within that framework, the U.S. administration's main aim would be a reduction of the trade deficit in goods with Japan (at nearly \$69 billion in 2016). Still, reaching agreement is important for the U.S., since Japan is the third-biggest economy in the world and the U.S.'s fourth-biggest goods export market. Moreover, since Japan is in trade negotiations with the EU and China (along with South Korea), sealing a deal is important for U.S. companies to remain competitive on the Japanese market.

Australia and New Zealand also are potential partners for the U.S. in new bilateral deals.¹⁰ For Australia, it would mean the renegotiation of an older FTA, but it likely will not be a priority for the U.S., which has a trade surplus with this country. In the case of New Zealand, which records a minor trade surplus with the U.S. (\$0.5 billion in 2016), reaching common ground on a bilateral FTA might be relatively easy. Vietnam and Malaysia, with which the U.S. records significant trade deficits (\$32 billion and \$25 billion in 2016, respectively), the new U.S. administration has not clarified its plans. However, in the long run, a multilateral deal such as TPP would probably bring more economic growth to all participating states than bilateral agreements that could pay off for the U.S. economy, especially its exporters and investors.

Modified TPP May Survive U.S. Withdrawal

The U.S. withdrawal from TPP has forced the other participant countries to question its future. A few countries, specifically Australia, New Zealand (which was second to ratify the agreement, in May this year) and Singapore,¹¹ have pushed for ratification of the deal by the remaining 11 countries. Japan has supported this stance although Prime Minister Shinzo Abe initially dubbed it "meaningless"¹² after Trump's decision to pull the U.S. out of the deal and announced Japan would focus on a bilateral agreement. Nevertheless, the potential gains from market openings within TPP and countering China's rise even without the U.S. have encouraged Japan to change its stance and push for implementation of the deal.¹³ Still, some countries, including Vietnam and Malaysia, are less eager to sign since access to the U.S. market was their main motivation to engage with TPP.¹⁴

Since Trump's announcement, other states have been trying to pursue the project on their own. Their attachment to the benefits of TPP was presented in a statement after a meeting on the margins of the High Level Dialogue on Integration Initiatives for the Asia Pacific in Viña del Mar, Chile, in March. Moreover, on the margins of the Asia-Pacific Economic Cooperation (APEC) trade ministers meeting in Hanoi, Vietnam, in late May, the remaining members, termed the "TPP 11," set the goal to continue the project without the U.S.

⁹ Merchandise trade turnover declined between 2012 and 2016 by 10%, trade services declined only by 1%. At the same time, merchandise trade with South Korea grew by 5% (by 8% between 2012 and 2015, decreasing slightly in 2016). Own calculations. Source: U.S. Department of Commerce, Bureau of Economic Analysis, and U.S. Census Bureau.

¹⁰ Both were mentioned in this regard by Peter Navarro, Trump's economic advisor from the campaign and current head of the White House Office of Trade and Manufacturing Policy.

¹¹ I. Reynolds, M. Heath, "Australia Pushes for TPP Without U.S. after Trump Exits Deal," Bloomberg, 24 January 2017, www.bloomberg.com/politics/articles/2017-01-24/australia-leads-push-for-tpp-without-u-s-after-trump-exits-deal.

¹² "Japan ratifies TPP trade pact to fly the flag for free trade," Reuters, 9 December 2016, www.reuters.com/article/us-japan-tpp-idUSKBN13Y0CU.

¹³ It was emphasised by appointing a deputy foreign minister as chief negotiator for the TPP in April 2017.

¹⁴ "Malaysia Less Interested In TPPA with US Withdrawal—Mustapa," The Malaysian National News Agency (BERNAMA), 13 March 2017, www.bernama.com/bernama/v8/newsindex.php?id=1337336.

However, TPP minus the U.S. is much less significant or beneficial for either the region or the world. For instance, without the U.S., the volume of trade between the remaining countries would be about a quarter of the original plan.¹⁵ Given this, the task to keep all 11 TPP members on board is not an easy one. Moreover, even if TPP is to be kept, it must be reshaped. For instance, Peru now looks like it wants to change rules on pharmaceuticals and Vietnam on garments.¹⁶ The results of these talks could decide whether some countries remain or leave the talks.¹⁷ In any case, without the U.S., the conditions for TPP to take effect also have to be modified. To tackle these challenges, representatives of participating countries will meet in Japan in July. Their aim is to prepare proposals for TPP modifications that will be discussed in autumn 2017.

China Hopes to Push Forward Its Own Trade Deals

There is now uncertainty in the Asia-Pacific economic integration process. However, the actions of the remaining TPP members show there is a willingness to continue. Opening markets and fighting protectionism are perceived as important factors in regional development and ones that also can affect other parts of the world (e.g., through global value chains). Some TPP members like Australia and New Zealand advocate for China to join the agreement, which would give it new impetus. However, there is not much interest on China's part in joining a deal¹⁸ it did not negotiate and which includes regulations it might consider too stringent, such as those on the protection of intellectual property rights (IPR) or labour and environmental issues. Nevertheless, China has its own offer to the countries in the region.

In recent years, China, already the biggest economy in the world¹⁹ and the main trading partner for many countries in the Asia-Pacific area, has been pursuing its own agenda for regional economic integration. The most advanced project is the Regional Comprehensive Economic Partnership (RCEP), which is officially an ASEAN idea but in fact, China is its driving force. RCEP encompasses 16 states from the Asia-Pacific region—10 ASEAN members and six countries that have an FTA with ASEAN (Australia, New Zealand, India, Japan, South Korea and China). In short, RCEP excludes the United States. China has perceived this initiative as a counterbalance to TPP (with the U.S.) and an instrument to enhance the country's influence in the region through stronger trade and investment bonds between participating states. RCEP is less ambitious than TPP since it concentrates on lifting duties and non-tariff barriers to trade rather than creating high-level norms and standards.²⁰ Nevertheless, it could provide better access to the markets of all participating states. It is especially important for countries that do not have an FTA with each other, such as Japan and China or Japan and South Korea. In this regard, with the U.S. distancing itself from engagement in multilateral agreements, countries in the Asia-Pacific region may be more interested in investing the political capital and human resources in negotiations on RCEP. Until now, there have been 18 rounds of RCEP negotiations and the aim is to conclude them by the end of 2017.²¹

China also sees an opportunity to build a future Free Trade Area of the Asia-Pacific (FTAAP). It is a grander idea that could embrace existing trade deals in the Asia-Pacific (bilateral as well as multilateral) to create a single, comprehensive agreement for the whole region. In that sense, RCEP could be a stepping stone to FTAAP. Important, China's vision of FTAAP also embraces the U.S. It can be presented

¹⁵ "U.S. and Pacific Rim countries at odds in heated trade meeting," Reuters, 21 May 2017, www.reuters.com/article/us-apec-vietnam-idUSKCN18H02B.

¹⁶ S. Jegarajah, "Asia-Pacific's 'Ocean's 11' huddle in Hanoi in bid to resuscitate TPP trade deal without US," CNBC, 19 May 2017, www.cnbc.com/2017/05/19/asia-pacifics-oceans-11-huddle-in-hanoi-in-bid-to-resuscitate-tpp-trade-deal-without-us.html.

¹⁷ K. Iwamoto, "Vietnam 'considering' options for TPP renegotiation, PM says," *Nikkei Asian Review*, 5 June 2017, <http://asia.nikkei.com/Spotlight/The-Future-of-Asia-2017/Vietnam-considering-options-for-TPP-renegotiation-PM-says>.

¹⁸ L. Shengli, "Will China join TPP is not the question," *China Daily*, 20 March 2017, www.chinadaily.com.cn/opinion/2017-03/20/content_28608540.htm.

¹⁹ Given purchasing power parity. In nominal terms, it is still second after the U.S. See: www.cia.gov.

²⁰ However, countries such as Japan or Australia that participate in TPP are trying to put some of the rules negotiated in this agreement, e.g., those regarding e-commerce or public procurement, into the RCEP. See: R. Harding, "Trump withdrawal from TPP creates high stakes turmoil," *The Financial Times*, 4 May 2017, www.ft.com/content/37f1dcb8-0288-11e7-aa5b-6bb07f5c8e12.

²¹ However, there are signals that the talks could be extended to mid-2018. See: IANS, "India urges speedier RCEP negotiations," *Business Standard*, 24 May 2017, www.business-standard.com/article/news-ians/india-urges-speedier-rcep-negotiations-117052400040_1.html.

as a positive offer towards one of its biggest rivals in the region as well as a sign of Chinese willingness to cooperate rather than compete. However, RCEP and a future FTAAP may face some hurdles, including countries' different stances on opening their markets, trade rules, regulations of labour rights, IPR protection, etc., between states at different stages of development (e.g., Australia and Japan on one side and India and/or China on the other). Moreover, political competition between some countries, such as Japan and China, and territorial disputes in places like the East and South China seas, could impede the project's implementation.

China also is heavily promoting its Belt and Road Initiative (BRI), also known as the "New Silk Road," as the cornerstone of future economic cooperation between Asia, Europe, and Africa. Other countries from the Asia-Pacific region could become involved in BRI, even South American nations.²² From the Chinese perspective, BRI is a useful tool to export its internal overcapacity, e.g., in the construction and steel sectors, as well as in integration in the region based on common infrastructure projects and with the use of Chinese capital. It also wants to contribute to shaping international trade norms and regulations by unifying customs procedures, creating free-trade zones, industrial parks, and economic corridors. Given this, the New Silk Road, along with RCEP (and later FTAAP), could further deepen the region's economic dependence on China and thus increase the country's political clout, more visible recently.²³

Opportunity for the EU

The vague situation of the trade architecture of the Asia-Pacific region could be a chance for other players, including the EU. From the Union's perspective, the current situation is an opportunity to boost trade with its partners in the Asia-Pacific region and promote its standards of trade. While both China and the U.S. are the most important trade partners for the countries in the region, the European Union might be an alternative for them as they seek to diversify their trade and investment flows. This is especially important given that after its withdrawal from TPP, the U.S. needs time to negotiate bilateral trade deals and China has gained more political leverage with its economic presence in Asia-Pacific. In this context, EU companies' capital and know-how, as well as wider access to the EU market, could constitute an interesting offer to partners in the region. Moreover, a stronger EU economic presence in Asia-Pacific could be more acceptable to China than similar U.S. activity because it is unlikely to undermine China's geopolitical position.

Among the TPP 11, the EU has FTAs with Chile, Peru, and Mexico²⁴ and has signed deals with Canada, Singapore, and Vietnam.²⁵ It is in ongoing negotiations with Japan and Malaysia and soon will launch talks with Australia and New Zealand.²⁶ Of other countries in the region, the EU has started FTA talks with Indonesia and the Philippines. Finalising the negotiations of deals or the process of ratification should be speeded up to enable better market access and increase trade sooner.²⁷ Putting into these FTAs a new model of investment protection (Investment Court System, ICS) to protect states' rights over the U.S.-preferred framework (Investor-State Dispute Settlement, ISDS) might help in future negotiations. Also, other issues in which there are differences between EU and U.S. standards (e.g., on data flows, geographical indications, etc.) might be of greater value to the EU and its partners if signed before agreements with the U.S.

²² This was demonstrated by the presence of the presidents of Chile and Argentina at the Belt and Road Forum in Beijing in May.

²³ For example, Cambodia, perceived as one of China's main economic and political partners in ASEAN, has in the past impeded the organisation's efforts to criticise China for its activity in the South China Sea. Currently, a similar situation concerns the Philippines. For the sake of closer economic and political relations with China, the Philippines, serving as chair of ASEAN this year, did not include a provision on concerns about China's militarisation of artificial islands in the disputed South China Sea in the final statement of the ASEAN Summit in Manila in April. See: "Philippines goes easy on China in final ASEAN statement," *The Philippine Star*, 30 April 2017, www.philstar.com/headlines/2017/04/30/1695416/philippines-goes-easy-china-final-asean-statement.

²⁴ The EU-Mexico deal is currently being renegotiated.

²⁵ They are not yet in force since they need to pass through the ratification process.

²⁶ "Overview of FTA and other trade negotiations," European Commission, updated in May 2017, <http://trade.ec.europa.eu>.

²⁷ The Asia-Pacific region has been noted as a crucial one and the negotiations with Japan already named a priority in the EU's trade strategy. See: "Trade for All. Towards a more responsible trade and investment policy," European Commission, 14 October 2015, <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1381>.

Conclusions

Less than a year is left for the ratification of TPP in its current shape, but a change of the U.S. position is unlikely. Therefore, the future of TPP is uncertain. However, there are signs that the TPP 11 will try to revamp the deal even if the economic gains from the agreement are smaller without the U.S.²⁸ It cannot be excluded that a reshaped deal could include some provisions aimed at encouraging the U.S. to return to the deal in the changed political landscape.

Abandoning TPP altogether potentially decreases U.S. influence in the region and undermines its image as a credible partner. Moreover, it marks the symbolic end of the Obama-era “pivot to Asia,” in which the economic component was meant to be its greatest success. Instead, the U.S. will probably follow up with bilateral trade agreements with partners in the region. Given the Trump administration’s inclination to use bilateral negotiations to maximise economic benefits to the U.S., sealing those deals will be more difficult. A delay in moving to a closer economic partnership also might negatively affect the network of U.S. alliances in the Asia-Pacific region.

The uncertainty in U.S. trade relations with its partners in Asia-Pacific poses an opportunity for China. Its trade policy agenda, including RCEP negotiations, could become more attractive for the remaining TPP members. If RCEP is implemented and some projects are completed under the framework of BRI in the coming years, China stands to be in a better position to exert economic pressure on Asia-Pacific countries to gain political benefits (e.g., regarding territorial disputes).

The EU also could gain from the U.S. withdrawal from TPP. To tap emerging economic opportunities, the Union should increase its efforts to finalise the ongoing negotiations with Japan, speed up talks with ASEAN members and ultimately negotiate a deal with the organisation as a whole, reinvigorate discussion with India and Mercosur, and initiate talks with new partners, including New Zealand and Australia. However, the EU also has to improve its credibility as an attractive negotiating partner after having faced serious hurdles to win support from all Member States for an FTA with Canada (CETA) last year.²⁹ The EU’s image may improve in the future since a recent Court of Justice of the European Union decision on EU institutions and Member States’ roles in negotiations and ratification procedures³⁰ contributes to more transparency in this area. Therefore, the EU can better prepare a long-term trade strategy for the Asia-Pacific region.

²⁸ In that case, the role of leader and initiator of discussions would probably shift to the second-biggest TPP economy after the U.S., which is Japan.

²⁹ M. Wąsiński, “Potential Consequences if the EU Rejects CETA,” *PISM Bulletin*, no. 68 (918), 25 October 2016. Although eventually successfully accepted by the governments and the European Parliament, CETA still needs full ratification by each EU Member State. Rejection in one country could hamper the whole deal and the credibility of the EU.

³⁰ On 16 May 2017, the Court of Justice of the European Union ruled that the FTA between the EU and Singapore is a mixed one. It defined that this FTA included non-exclusive EU competences in the field of non-direct investments and dispute settlement between investors and the state. Thus, the ratification process has to take place in each EU Member State, not only in the EU institutions. This ruling means that future trade deals will also need to follow that procedure. See: S. Morgan, “Singapore trade deal cannot be concluded by EU alone,” *Euractiv*, 16 May 2017. www.euractiv.com/section/economy-jobs/news/singapore-trade-deal-cannot-be-concluded-by-eu-alone-ecj-rules; “The free trade agreement with Singapore cannot, in its current form, be concluded by the EU alone,” Court of Justice of the European Union, Press Release no. 52/17, 16 May 2017, <https://curia.europa.eu/jcms/upload/docs/application/pdf/2017-05/cp170052en.pdf>.