

TRADE AND INVESTMENT POLICY WATCH

Rebuild the Trans-Pacific Partnership back better

Jeffrey J. Schott (PIIE)

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Image credit: REUTERS/Jason Reed

Faced with so many tough decisions on reviving the US economy, why would President-elect Joseph Biden want to invest scarce political capital in a new initiative to rebuild a trade agreement between the United States and Asia-Pacific nations that was never popular in the first place? The reason is that developments in the region have changed dramatically since the United States signed the Trans-Pacific Partnership (TPP) in 2016, which President Donald Trump later abandoned upon taking office. China's influence has grown while US ties with key allies have frayed. The new administration needs to reverse this trend; negotiating an improved and restructured trade deal with its Asia-Pacific partners could help strengthen US economic and strategic interests in the region, curb China's growing dominance, and support Biden's agenda of "building back better."

NEW CHALLENGES TO US TRADE LEADERSHIP IN THE ASIA-PACIFIC REGION

Congress never ratified the TPP, in part because of skepticism or outright opposition by Democrats and especially labor unions. Among the concerns were provisions that favored producer over consumer interests on patents for biologics—new drugs and therapies derived from biological rather than chemical sources. Also drawing criticism were investor-state dispute settlement (ISDS) procedures that allow private investors to contest policies adopted by trading partners that allegedly limit companies' rights in their countries (included in the deal to gain support by Senate Republicans). Many Democrats also regarded the pact's labor and environment obligations as inadequate and subject to weak enforcement. Others also criticized the financial services chapter for not banning data localization requirements. Republicans in general were reluctant to give the Obama administration a legislative victory in the run-up to the presidential election. In the 2016 presidential campaign, both Hillary Clinton and Trump dumped on the deal.

The US pullout in January 2017 raised a red flag about US engagement in the region and contributed to a weakening of US economic and security interests in Asia and the Pacific as US allies advanced trade pacts without the United States and with China. For example:

After the US withdrawal, the remaining 11 countries modified the text to remove provisions that most had opposed in the negotiations but had been included in the final text at US insistence. The most notable carveouts were the pharmaceutical patent rules for biologics and recourse to ISDS procedures, the provisions on which Democrats strongly objected. In those areas, the pact, renamed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), now largely resembles the United States-Mexico-Canada Agreement (USMCA), which Congress passed with bipartisan support earlier in 2020.^[1]

Negotiations among 15 countries on a Regional Comprehensive Economic Partnership (RCEP) concluded and the pact was signed on November 15, 2020, deepening China's ties with the 10-member Association of Southeast Asian Nations (ASEAN), plus Japan, South Korea, Australia, and New Zealand. RCEP rules of origin will encourage investments in supply chains that include China and discriminate against US firms, strengthening China's vast ambitions in Asia in conjunction with its Belt and Road Initiative (BRI).

Complementing RCEP and BRI, China is negotiating a separate trilateral free trade accord with Japan and South Korea to deepen liberalization among the three northeast Asian countries beyond RCEP requirements. It also has been upgrading its bilateral free trade agreements (FTAs) with other CPTPP countries that are highly dependent on the Chinese market.

Other countries also have expressed interest in joining the CPTPP. Membership in the pact is open to countries or separate customs territories (e.g., Taiwan) anywhere in the world willing to meet the CPTPP's rigorous requirements and negotiate market access agreements with each current member. The United Kingdom hopes to join the pact as a follow-up to its recently concluded FTA with Japan. Taiwan already is adapting its policies and regulations to conform to CPTPP requirements in hopes that it can soon negotiate membership. Most recently, China has signaled that it too may consider joining the CPTPP.^[2]

Taiwan is being increasingly isolated from China-dominated Asia-Pacific supply chains, which poses major risks for a key US ally. Taiwan is not a member of the CPTPP, was excluded from RCEP, and does not have bilateral pacts with its major trading partners. Regional trade discrimination and Chinese economic pressure on Taiwan have prompted calls for the United States to launch bilateral FTA talks with Taiwan, which would likely inflame US-China relations.

In sum, the Asia-Pacific region has moved forward without the United States while deepening ties with China, further integrating China into regional supply chains. The result is more discrimination against US firms in Asian markets and more rather than less dependence on China.

RESTORING US LEADERSHIP IN THE ASIA-PACIFIC REGION

The incoming Biden administration's domestic policies to strengthen US output and employment and to support the most vulnerable in society should not deter it from attending to the dramatic changes in the Asia-Pacific region, perhaps sooner rather than later if US-China tensions escalate and require a concrete policy response in concert with US allies. It helps that the president-elect's choice for Secretary of State, Antony J. Blinken, was an architect of the "pivot to Asia" under President Barack Obama.

Working with allies in the region on rebuilding economic relations would restore confidence in US engagement after the sad experience of the Trump administration downgrading US activity in various cooperative efforts, including the Asia-Pacific Economic Cooperation forum (APEC) and ASEAN. Protectionist measures against US friends in parallel with the US-China trade war have not helped either.

A new and updated pact, if properly designed, would reassert US leadership in the region while supporting the needs of American workers and protecting the environment. Simply acceding to the CPTPP would not suffice; the current deal needs to build on USMCA innovations and introduce climate obligations, as I discuss below.

A new regional pact could be at the forefront of new US-led initiatives to address Chinese efforts to expand influence in the region through RCEP, BRI, and its bilateral FTAs. In addition, it could provide a regional pathway for deepening US-Taiwan trade ties that is relatively less provocative to China than the direct bilateral trade talks sought by members of Congress.

A revised trade initiative would also advance new trading rules based on US law and practice, covering areas such as subsidies for state-owned enterprises and digital trade, and providing a foundation for future negotiations in the World Trade Organization and elsewhere.

Finally, a new trade deal would increase US trade and income. The original TPP had promised more than \$130 billion in expanded US output annually by 2030 (after the pact was fully implemented). A new pact, with more members and upgraded rights and obligations, could offer a potentially larger windfall.

REBUILDING AND REBRANDING A NEW ASIA-PACIFIC INITIATIVE

From the outset, the Biden administration needs to convey a coherent message that the United States is back in the game in the Asia-Pacific region and wants to build better relationships with its allies through cooperative actions rather than unilateral diktats à la Trump. Consultations to develop a common purpose with allies must precede trade negotiations.

Given recent developments in the region, including the new RCEP agreement, the United States needs to reclaim leadership in writing the rules for trade and investment. President-elect Biden admitted as much in response to Chinese participation in RCEP; China's new expression of interest in CPTPP should convince longstanding TPP critics that it is now time to return to the negotiating table and work out a new, improved trade deal before China engages and tries to recalibrate the terms to fit its own requirements (as I warned in a [June 2020 blog post](#)).

The current CPTPP members would warmly welcome US reengagement in a regional pact, even though the Biden administration would require changes and additions to the existing deal to garner political support for congressional ratification. This would involve a new negotiation that modifies and builds on the current CPTPP, and the deal would have to be approved anew by national legislatures. But the effort would be worth the time and trouble. Had the United States participated in the original TPP, aggregate real income gains for partner countries would have expanded to more than \$450 billion by 2030. The United States

itself would have been a major beneficiary, accounting for more than a quarter of those income gains. Moreover, US reengagement could spur South Korea and other countries to consider participation as well.

That said, it will be difficult to advance US leadership in the region if US policy insists on decoupling from the Chinese market.^[3] US partners in Asia and Oceania depend on trade and investment with China and do not want to be forced to choose sides. They want to work cooperatively with both. That is why Japan and South Korea joined China in RCEP and continue to pursue FTA talks with China. But their positions in bilateral talks with China would be improved if they deepened their ties with the United States via a new Asia-Pacific deal.

Just as the North American Free Trade Agreement (NAFTA) became the USMCA, the new Asia-Pacific trade deal would need to be retitled. The name TPP still evokes bad memories among critics, and CPTPP isn't much better. Charles Lake, chairman and representative director of Aflac Life Insurance Japan and former US trade official (and PIIE board member), has suggested rebranding the deal as the Comprehensive Agreement for International Partnership (CAIP), inferring an initiative that could expand to Europe.

What could be included in a new deal to assuage US concerns and support US workers and the environment? As noted above, current CPTPP members have already remedied several US concerns with the original TPP. Negotiators could also learn from the USMCA experience and add or expand chapters on labor, environment, digital trade, currency policies, and financial services. Regional monitoring of abusive labor practices could substitute for the unique rapid response monitoring and enforcement process in the USMCA. Vietnam could also revive and strengthen its labor reform commitments originally included in a separate US-Vietnam side deal to the TPP.

Perhaps the biggest improvement could be achieved in the environmental area, where climate provisions in the TPP surprisingly were opposed by the Obama administration for fear that it would cost Republican votes in Congress for the trade pact. A new pact could make a dramatic improvement over the TPP (and USMCA) by adding a new chapter on trade and climate change, with provisions that encourage the development and distribution of renewable energy resources, ban fossil fuel subsidies, and promote cooperative green growth initiatives to reduce greenhouse gas emissions. Such a chapter could become a hallmark of Biden era trade accords that contribute to regional cooperation on climate policies.

NOTES

1. The CPTPP entered into force on December 28, 2018, even though 4 of the 11 signatories have not yet completed domestic ratification procedures.

2. At the annual APEC meeting in November 2020, Chinese President Xi Jinping said that China would actively consider joining the CPTPP.

3. Some decoupling will inevitably occur due to US export controls mandated by recent US legislation, which is unlikely to change under the Biden administration. Those controls should be narrowly focused and targeted on high-priority security concerns.

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Jeffrey J. Schott

Senior Research Staff

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