

## From TPP to new trade arrangements in the Asia-Pacific region

### SUMMARY

The Trans-Pacific Partnership (TPP), signed in February 2016 by the representatives of its 12 member countries, is a comprehensive regional agreement dealing with a wide range of trade and trade-related issues. In January 2017, President Donald Trump withdrew the United States from the TPP, making it impossible for the agreement, as it is currently drafted, to take effect.

Despite the US withdrawal, the remaining TPP participating countries are determined to salvage the benefits of the agreement, and are working to develop alternative approaches to bring the trade deal into force.

The failure of the TPP is likely to influence the way that other economic and trade cooperation initiatives, including the Regional Comprehensive Economic Partnership (RCEP), will develop in the Asia-Pacific region.

The US withdrawal also represents an opportunity for the EU, which is strongly committed to a robust trade policy and an open trading system, to advance its interests in the region. The EU is currently working on or has already concluded bilateral trade agreements with almost all TPP member countries.

*This briefing is an update of an earlier one on the Trans-Pacific Partnership, from May 2016: [PE 582.028](#).*



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## Background

The [Trans-Pacific Partnership](#) (TPP) is a mega-regional trade agreement between 12 Asia-Pacific region countries, with members accounting for roughly a quarter of global trade and approximately 40 % of global GDP. It was designed to provide further liberalisation for trade in goods and services and to introduce a set of common rules in a number of fields, going beyond current WTO-plus commitments<sup>1</sup> in existing free trade agreements (FTAs). After more than five years of intense negotiations, a [final agreement](#) was reached in October 2015. The TPP was signed by representatives of the participating countries in February 2016.

**Figure 1: Original TPP configuration in figures**



Data source: Australian Senate [Report on the Proposed Trans-Pacific Partnership \(TPP\) Agreement](#), 2017.

According to the provisions for the entry into force of the TPP, a minimum of six signatories must complete ratification for the agreement to come into effect. Those six countries need to account together for at least 85 % of the combined gross GDP of the 12 original TPP signatories. As the United States and Japan are the two largest economies among the 12, the agreement could only take effect, based on the above GDP threshold requirement, if it is ratified by both countries. To date, [Japan](#) and [New Zealand](#) are the only two countries to have fully accomplished their ratification (respectively in January and May 2017).

The TPP was a crucial element of former US President Barack Obama's 'pivot to Asia' policy, serving economic as well as strategic objectives. His successor, Donald Trump, first rejected the agreement during his presidential campaign, [declaring](#) that it would have a severe negative impact on the United States' employment rates and manufacturing industry. As one of his first [official acts](#), on 23 January 2017 he signed a [presidential memorandum](#) withdrawing the USA from the TPP, and declaring his intention to pursue bilateral agreements, which his [administration](#) considers more in the interest of the USA than multilateral ones. The US exit, therefore, means that the TPP, as currently formulated, will not enter into force.

## Where to go from here?

### First meeting of TPP 11 representatives in Chile

Since the US withdrawal, representatives of the remaining 11 member countries came together for the [first time](#) in March 2017, on the margins of the [High-Level Dialogue](#) on Integration Initiatives in the Asia-Pacific Region organised in Chile. The dialogue took place with the participation of the Pacific Alliance,<sup>2</sup> the TPP member countries, China and South Korea. At their meeting, the 11 TPP countries reached consensus regarding the need to pursue free trade and regional economic integration and issued a [joint statement](#) to this effect. However, there was no clarity as to how the objective of securing the future of the TPP could best be achieved. Should the remaining TPP member countries move forward with the agreement (with or without an option for the USA to join again later), or should they draw up a new trade deal? Should new members be considered? Moreover, how quickly should the remaining countries proceed?

### *Alternatives to TPP discussed in Chile*

Representatives of some TPP member countries examined the possibilities for advancing the TPP in one form or another, while others, such as the Peruvian trade minister, stated that the TPP could provide a basis for future bilateral deals. Yet others, such as the Chilean foreign minister, expressed interest in joining the Regional Comprehensive Economic Partnership (RCEP)<sup>3</sup> upon the conclusion of the RCEP negotiations.

Well before the Chile talks, the Australian [prime minister](#) had stated that his country would go further with the TPP even without the USA; this stance was confirmed by the Australian [trade minister](#) in April 2017. In its new [trade agenda](#) published in March 2017, New Zealand stated that it would prefer if the USA stayed in the TPP. Should the US withdrawal be definitive, New Zealand would explore ways to implement the results of the TPP negotiations with the remaining countries. This position was confirmed during the Chile meeting by New Zealand's trade minister, who considered the initiative advantageous for his country and therefore worth pursuing, even if the USA were missing. For Australia and New Zealand, two of the world's top agricultural exporters, an agreement without the USA would still provide [increased access](#) to Japan's and other participating countries' agricultural markets.

Initially, Japan was [not in favour](#) of moving further with the TPP without the USA. Accordingly, in November 2016 the Japanese prime minister [declared](#) that without the participation of the USA, the agreement would be 'meaningless'. Japan has no free trade agreement with the USA; being part of the TPP would have granted Japan preferential access to the US market, which was one of its main incentives for joining the agreement. Similarly, one of the greatest benefits for other signatories, such as Vietnam, would have been to get better access to the US market, which represents almost two thirds of the market share covered by the TPP.

According to statements by senior Malaysian and Chilean officials before the Chile talks, Malaysia and Chile<sup>4</sup> have also welcomed the idea of working towards an alternative version of the agreement. [Singapore](#) has been reported to be favourably inclined towards a deal without the USA as well.

### *Potential new partner countries*

Despite being neither members of the Pacific Alliance nor TPP signatories, China and South Korea were also invited to the Pacific Alliance meeting in Chile. In this context, the question raised most often concerned China's involvement in the potential reworked TPP.

Although [analysts](#) expected that China would show interest in taking over the USA's role in the pact, this has not happened. Australia and some other TPP member countries have [noted](#) the possibility that the US withdrawal could give China the option of replacing the USA, but the Chinese Ministry of Foreign Affairs has not commented on its position regarding TPP membership. Instead, the ministry's spokesperson has [repeatedly mentioned](#) China's interest in two other regional trade instruments: the RCEP, which should be concluded soon, and the Free Trade Area of the Asia-Pacific (FTAAP), which the Chinese government continues to promote.

As regards [South Korea](#), in 2013 the country expressed interest in joining the TPP, but has neither followed up on the issue nor expressed a position regarding the US withdrawal from the TPP.

### *How quickly to proceed?*

During the Chile talks, the 11 TPP member countries expressed differing viewpoints regarding the pace<sup>5</sup> at which a new deal or deals should be concluded. Mexico, for instance, faced with the US plans to renegotiate the North American Free Trade Agreement (NAFTA),<sup>6</sup> wanted to accelerate talks on the new trade arrangements. On the other hand, other TPP signatories, such as Vietnam and New Zealand, were less concerned about how quickly the process develops. One factor that may play a role here is the current level of trade liberalisation resulting from free trade agreements among TPP partners. For the time being, among the original 12 TPP members, [Chile](#) is the only one to have concluded FTAs with all other members.

### **Meeting of the TPP 11 trade ministers in Hanoi**

The future of the TPP was discussed again by the 11 remaining TPP trade ministers on the sidelines of the Asia-Pacific Economic Cooperation (APEC)<sup>7</sup> trade ministers' meeting in Hanoi, on 21 May 2017. The ministers expressed their countries' [commitment](#) to move forward with the agreement without the USA. Japan, which has recently become [open](#) to the possibility of a TPP without the USA, together with Australia and New Zealand, is one of the members [most committed](#) to saving the agreement. This turn may be [explained](#) by a number of reasons, such as a move against rising protectionist pressures, or the objective of establishing a set of high-standard trade rules in the Asia-Pacific region.

According to the [timetable](#) established, the decision on the future of the TPP will be taken at the APEC leaders' summit, to be organised in November 2017. In the meantime, trade officials of the TPP 11 countries will analyse the various alternatives to bring the agreement into force. Questions such as what needs to be changed with an 11-member instead of 12-member agreement could be clarified. The [US Trade Representative](#) present in Hanoi categorically rejected the idea of the USA returning to the TPP.

However, to conclude an alternative version of the agreement – among the remaining 11 member countries or among remaining and potential new countries – would necessitate carrying out new negotiations to update the current ratification requirements and to guarantee a new balanced sharing of potential economic benefits for all member countries involved.

Meanwhile, it has been [reported](#) that high-ranking Canadian and Australian trade experts have raised the idea of the UK joining the TPP after Brexit, as a way for it to establish trade relations with all TPP member countries without lengthy negotiations.

## Alternative trade agreements for reviving regional trade

### RCEP

With the TPP sidelined, the RCEP, currently under negotiation, is viewed as a potential replacement, as it could play a significant role in broadening economic integration in the Asia-Pacific region. Although the RCEP, like the TPP, is a comprehensive regional agreement, its scope is narrower and the level of ambition lower than that of the TPP. A [study](#) published by the Asia Society Policy Institute notes that the areas where there are likely to be considerable differences between the TPP and RCEP are digital trade, investment and state-owned enterprises.

The actual progress of RCEP negotiations will depend on the balanced [outcome](#) of the negotiations, which are taking place among countries

with widely divergent levels of economic development and trade liberalisation. Japan and Australia – both involved in the TPP and RCEP negotiations – are striving to incorporate the TPP's high-quality trading standards into the RCEP. Unlike Japan and Australia, China, being mainly interested in market access and lower tariffs, wants a rapid and less ambitious agreement. It appears likely that the [position](#) of the Association of Southeast Asian Nations (ASEAN)<sup>8</sup> will decide which approach will prevail.

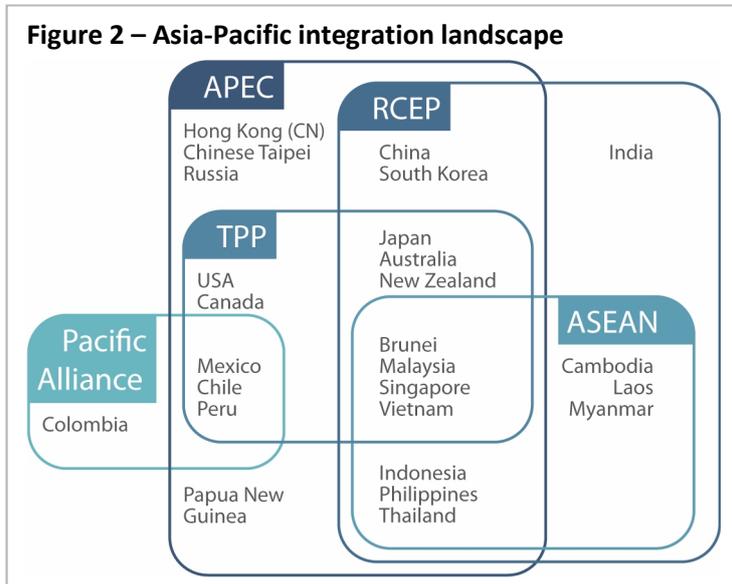
In January 2017, the Australian and Japanese prime ministers declared that their countries would work toward the [prompt finalisation](#) of the RCEP. New Zealand, which considers China an important trade partner, is also keen to continue the RCEP [negotiations](#).

### FTAAP

The RCEP and the TPP have both been described as potential building blocks of a multilateral trade area, the Free Trade Area of the Asia-Pacific ([FTAAP](#)), pursued by APEC. A collective strategic [study](#) on the realisation of the FTAAP recently published by APEC stated, among other things, that the FTAAP could be a [major tool](#) for promoting regional economic integration, and that the 'groundwork for making progress toward an FTAAP has been advanced'. At the same time, it highlighted that the significant barriers to trade and investment needed more work.

### Pacific Alliance

Member countries of the Pacific Alliance have expressed a strong interest in strengthening ties with the remaining TPP members and, more broadly, between the alliance and other groupings in the Asia-Pacific region. For example, Mexican trade officials have already considered the enlargement of the Pacific Alliance with TPP members, and Canada and New Zealand have been mentioned as the first candidates to negotiate an FTA with the alliance.



Similarly, the Peruvian government has brought forward the idea of developing closer ties between the Pacific Alliance and ASEAN. In September 2016, the third ASEAN-Pacific Alliance Ministerial Meeting adopted the [ASEAN-Pacific Alliance Framework for Cooperation](#), which will serve as a basis for cooperation in four priority areas, including the economy. This is the [first bloc-to-bloc agreement](#) linking the east Asian and Latin American regions. While a multilateral FTA is not currently an objective of the cooperation, this agreement shows that ties between the two regions are developing.

## Failure of the TPP – a game changer for the EU in the region?

### Potential implications for EU trade policy

By moving towards protectionism and pulling away from the TPP, the USA has created a window of opportunity for the EU to become an alternative trade partner. European Parliament sources have suggested that the EU should [seize the opportunity](#) and, by extending its trade relations, it should [move into the vacuum](#) left by the USA. Moreover, at the European Council of March 2017, [European leaders declared](#) that 'the EU remains strongly committed to a robust trade policy and an open and rules-based multilateral trading system'.

Mapping the implications of the US retreat from the TPP, analysts have also [suggested](#) that the EU may have to take over the leadership role in advancing high-level regulatory standards in trade agreements.

Finally, experts have also [mentioned](#) that the US administration's restrictive approach to trade policy could lay the foundations for deeper EU-China economic ties.

### The EU in the Asia-Pacific region

In October 2015, the European Commission presented a new trade and investment [strategy](#) for the EU, entitled 'Trade for All: Towards a more responsible trade and investment policy', which featured, among other things, the objective of strengthening the EU's presence in the Asia-Pacific region. During her visit to Singapore in March 2017, EU Trade Commissioner Cecilia Malmström [stated](#) that the uncertainties surrounding the TPP encouraged the EU to redouble its efforts in pursuing trade negotiations, including those with the TPP countries. On the other hand, it has been [reported](#) that after the USA withdrew from the TPP, some of the countries that are negotiating with the EU have also expressed strong interest in accelerating trade talks. For instance, Japan and Vietnam are [enhancing their efforts](#) in order to have their EU FTAs in place, and the Mexican president has declared that the upgrading of the Mexican-EU FTA is one of his priorities for 2017.

#### TPP compared to EU-FTAs

From the point of view of content, the TPP differs from the EU FTAs in the region, for which negotiations have been concluded, such as the trade agreements with Vietnam and Singapore. For instance, the TPP contains provisions, such as on data localisation, which do not feature in the EU FTAs. Other TPP provisions, for example on extending the term of pharmaceutical patents, are more restrictive than those contained in the EU FTAs. Furthermore, the TPP has a different approach to geographical indications (GIs), as a result of US influence. Yet another difference is that the investment chapter of the TPP contains an 'investor-state dispute settlement' (ISDS) clause, while in the EU-Vietnam FTA, for instance, this model has been replaced by a new investment court system (ICS). The Commission is exploring, together with Singapore, how to bring the investment protection provisions in the consolidated text of the EU-Singapore FTA into line with the EU's new approach. The Comprehensive Economic and Trade Agreement (CETA) with Canada contains an ICS clause as well. The TPP and EU FTAs also differ in respect of some substantive rules on investment.

## EPRS From TPP to new trade arrangements in the Asia-Pacific

The EU is working on or has already concluded free trade agreements with all TPP member countries, except Brunei.

<b>Australia</b>	At the end of 2015, the EU decided to work towards opening <a href="#">FTA negotiations</a> with Australia. The scoping exercise <sup>9</sup> was <a href="#">concluded</a> in April 2017 and talks are expected to start later this year.
<b>Canada</b>	The Comprehensive Economic and Trade Agreement (CETA) between the EU and Canada was <a href="#">signed</a> in October 2016. CETA is currently being ratified by the individual EU Member States.
<b>Chile</b>	The Commission is currently waiting to obtain a mandate from the Council of the EU in order to start talks for the <a href="#">modernisation</a> of the EU-Chile Association Agreement, including its trade component.
<b>Japan</b>	EU-Japan FTA <a href="#">negotiations</a> started in 2013 and are ongoing. The objective is to reach a conclusion by the end of 2017.
<b>Malaysia</b>	Negotiations on an FTA between the EU and Malaysia were <a href="#">launched</a> in October 2010, but were put on hold at Malaysia's request in 2012. In 2016, a stocktaking exercise was conducted to assess the prospect of resuming talks.
<b>Mexico</b>	Formal negotiations for a comprehensive <a href="#">update of the EU-Mexico Global Agreement</a> , including its trade pillar, were launched in May 2016, and both parties are eager to conclude the talks by the end of 2017.
<b>New Zealand</b>	At the end of 2015, the EU decided to work towards opening <a href="#">FTA negotiations</a> with New Zealand. The scoping exercise was concluded in <a href="#">March 2017</a> and talks are expected to start later this year.
<b>Peru</b>	A comprehensive trade agreement was concluded with Peru and Colombia in 2012, it has been provisionally <a href="#">applied</a> with Peru since 2013.
<b>Singapore</b>	EU <a href="#">negotiations</a> for an FTA with Singapore were concluded in 2014. The resulting agreement has yet to be ratified.
<b>Vietnam</b>	EU <a href="#">negotiations</a> for an FTA with Vietnam were concluded in 2015. The resulting agreement has yet to be ratified.
<b>USA</b>	EU-US <a href="#">negotiations</a> on the Transatlantic Trade and Investment Partnership (TTIP) agreement are currently <a href="#">on hold</a> , pending a review by the new US administration of its trade policy with the EU.

In addition to the TPP member countries, non-TPP Asian countries are also in the [EU's focus](#). Negotiations for bilateral FTAs began with Thailand in 2013 (talks were suspended after the country's military seized power in May 2014), the Philippines in 2015 and Indonesia in 2016. The EU's final objective is to have a region-to-region agreement with ASEAN, based on the bilateral FTAs concluded with the ASEAN member states.

It can be expected that due to the uncertainties surrounding the TPP, ASEAN members may place greater emphasis on expanding trade relations with the EU. However, there seems to be strong interest among these countries to move ahead with the RCEP. The Philippines, which chairs the grouping in 2017, [aims](#) to finalise the RCEP by the end of the year.<sup>10</sup> This factor may push the EU down the list of priorities.

As regards the Pacific Alliance, the High Representative of the EU for Foreign Affairs and Security Policy, Federica Mogherini, confirmed that the Pacific Alliance has the [political backing of the EU](#), and representatives of the two blocs agreed to further expand cooperation.

## Main references

Asia Society Policy Institute (ASPI), Independent Commission on Trade Policy, [Charting a Course for Trade and Economic Integration in the Asia-Pacific](#), March 2017.

## Endnote

- <sup>1</sup> 'WTO plus' (WTO+): commitments building on those already agreed to at the multilateral level, for instance, a further reduction in tariffs. 'WTO extra' (WTO-X): commitments dealing with issues going beyond the current WTO mandate altogether, for instance, on labour standards.' (Source: [Beyond the WTO? An anatomy of EU and US preferential trade agreements](#).)
- <sup>2</sup> 'The Pacific Alliance is a[n] ... initiative by Colombia, Mexico, Peru and Chile; countries that seek to create a new process of regional integration in Latin America and the Caribbean.' (Source: [Emerging Markets – The Pacific Alliance – Perspectives and Opportunities for Latin America](#).) The [Pacific Alliance](#) was established in 2011. There are three TPP signatories among its member countries.
- <sup>3</sup> The RCEP, which is currently being negotiated, is a regional trade agreement among the ASEAN member states, China, Japan, India, South Korea, Australia and New Zealand. With negotiations launched in 2012, the RCEP is expected to be signed in 2017. There are seven TPP signatories among the countries negotiating the RCEP.
- <sup>4</sup> Tom Azzopardi: Chile, TPP Partners to Discuss New Pacific Trade Deal Minus U.S., Bloomberg BNA, 24 January 2017.
- <sup>5</sup> Tom Azzopardi: TPP to Live On in Future Agreements, Officials Predict, Bloomberg BNA, 16 March 2017.
- <sup>6</sup> The North American Free Trade Agreement ([NAFTA](#)) was established in 1994, creating one of the largest free trade areas in the world. It has three members, the USA, Canada and Mexico. All three are TPP signatories.
- <sup>7</sup> The Asia-Pacific Economic Cooperation ([APEC](#)) is one of the most important regional economic groupings. Established in 1989 with 12 members, APEC is currently made up of 21 member economies: Australia, Brunei Darussalam, Canada, Chile, People's Republic of China, Hong Kong (China), Indonesia, Japan, Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, Russia, Singapore, Chinese Taipei, Thailand, the United States and Vietnam. APEC focuses its work on trade and investment liberalisation; business facilitation; and economic and technical cooperation. All TPP signatories are APEC members.
- <sup>8</sup> The Association of Southeast Asian Nations ([ASEAN](#)) was established in 1967. Currently it is made up of ten member countries: Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Vietnam, Laos, Myanmar and Cambodia. Based on the principles of consensus and non-interference, ASEAN was established to secure peace and stability and to promote economic development in the region. There are four TPP signatories among the ASEAN member countries.
- <sup>9</sup> 'In most cases, the Commission starts an informal dialogue with the country concerned on the content of a future negotiation, which is known as a scoping exercise.' (Source: [European Commission](#).)
- <sup>10</sup> Hermine Donceel: EU ASEAN trade deals – state of play, Borderlex, 10 March 2017.

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