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How's it going with the CPTPP?

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There is no doubt that the United States is losing out on market access. But one of the original goals of the Trans-Pacific Partnership (TPP) was for a rules-based trading regime in the Pacific, namely rules not written by China. Thanks to Australia and Japan that seems to be happening even with the U.S. no longer at the helm.

The Comprehensive and Progressive Trans-Pacific Partnership or the awkwardly nicknamed CPTPP is a Pacific trading bloc that consists of 11 countries, spanning the Pacific Rim, and includes Malaysia and Chile. The member countries represent 13% of world GDP. Once the UK officially joins, that figure jumps to 15% and the trade bloc will reach across the Atlantic.

The United States was key in drafting the text of the agreement, starting with the George W. Bush administration, which was clear in its commitment to openness. As China shifted back to a more state-controlled economy, the Obama administration underscored a key U.S. goal: for the United States and not China to write the trade rules for Asia. Key goals included modernizing countries' rules on ecommerce and digital trade and establishing rules on state-owned enterprises. The Obama administration carried the Trans-Pacific Partnership (TPP) through right up to the finish line. President Trump took a sharp turn and withdrew the United States from the agreement, claiming the agreement would not be good for the United States.

Even though there are signs that the American public is open to more trade, the Biden administration and Congress have not pursued Trade Promotion Authority or any new trade deals that would lock in more market access abroad. The United States is no doubt missing out on market access in parts of the Pacific, especially agriculture. But thanks to quiet leadership by Australia and Japan a rules-based trading bloc in the Pacific not led by China is forming.

The economics

For the United States, the economic case to get back into the CPTPP is easy. The agreement is an opportunity to join a fairly large free trade bloc and get better market access in the member countries. The U.S. helped draft the text of the agreement. Not all of the provisions the U.S. wanted made it to the final CPTPP agreement, but many did.

Under the CPTPP, most tariffs would go to zero, and we'd get better regional market access in agriculture, services and e-commerce – areas where U.S. producers and workers tend to outperform their competitors abroad.

CPTPP also establishes clear rules on trade in the region, including origin rules, customs and trade facilitation, regulatory cooperation, government procurement, trade in services, and labor mobility (the Canadian Government has a detailed summary here). All firms would stand to benefit but especially small- and medium-sized firms. Compliance costs are largely administrative and smaller firms don't have the vast resources that large firms often have. Consumers would also enjoy more access to more goods and services at competitive prices—all welcome developments as the U.S. continues its fight against inflation and faces a potentially slowing economy.

Even better is that the agreement contains cross-cutting provisions on ecommerce. Most of the changes that member countries are implementing in these groundbreaking areas are domestic policy changes that would appear to benefit all trade. That includes their trade with the U.S. even though the U.S. is not a CPTPP member. The agreement includes provisions for non-discrimination of digital products, paperless trade (accepting digital trade documents), and cybersecurity capabilities. Protecting source code and enhancing cybersecurity are emerging as key areas of progress in CPTPP.

Also a plus is the agreement's rules on trade-distorting subsidies and state-owned enterprises. The rules aim to establish a level playing field between state-owned enterprises and their private competitors.

The (geo)politics

The world has changed a lot since President George W. Bush announced that the United States would begin trade talks with the small group of Pacific Rim countries comprising Brunei, Chile, New Zealand and Singapore in 2008.

A recent speech by National Security Advisor Jake Sullivan gives insight on the meaningful changes in geopolitics. Sullivan focused on authoritarian regimes such as China and its continuing subsidies on a massive scale, and Russia and its aggressive military ambitions. Watch his speech, and the world map gets reorganized before your eyes: democracies on one side and authoritarian regimes on the other.

So far it doesn't look like the world economy will be cleanly split into two, but Biden's trade policies are carving out key areas. For instance, mini-sectoral trade arrangements with allies include the Global Arrangement on Sustainable Steel and Aluminum with the European Union; a series of critical minerals deals with partners including Japan; and diplomacy with allies to limit cross border flows of critical and dual use technologies with authoritarian regimes like China and Russia.

On paper, this means tariffs, subsidies, and Buy American provisions. Recent speeches reflect an extreme focus on manufacturing and excessive economic nationalism. Expanding market access for U.S. agriculture producers does not appear to be a priority for this administration or Congress.

On the bright side

The U.S. is not a member of the CPTPP, did not have final say on the text, and is no doubt missing out on market access from lower tariffs and trade barriers, especially in agriculture. But the U.S. still stands to benefit from these countries modernizing key areas like digital platforms and state-owned enterprises.

The original U.S. goal of TPP was to get more countries in the Pacific to commit to market-based rules instead of a China-style state-driven economy. That appears to be inching forward even without the U.S. at the table. If and when the U.S. is ready to rejoin, the "comprehensive and progressive" trade bloc will be larger and might even be ready for an update, including a better name.

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