

Countering Global Protectionism: The CPTPP and Mega-FTAs

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1. INTRODUCTION

Protectionism and trade friction are expanding throughout the world. Mr. Donald Trump was inaugurated as United States (US) president in January 2017, and the United States withdrew from the Trans-Pacific Partnership (TPP) soon after. The US has increased the trade friction with China and other countries, and protectionism is rapidly increasing in the world. The spread of protectionism and trade friction has a major negative impact on the world economy. The evolving East Asian economy will be hit hard.

In view of the expansion of protectionism, Japan proposed the 11-nation Trans-Pacific Partnership free trade agreement (TPP11) in May 2017. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) was agreed on at the Ministerial Meeting in November 2017, signed by 11 countries on 8 March 2018, and finally entered into force on 30 December 2018. Also, the Japan-EU Economic Partnership Agreement (EPA) came into force on 1 February 2019. The East Asia Regional Comprehensive Economic Partnership (RCEP), which is a mega-free trade agreement (Mega-FTA) in East Asia, is aiming to conclude negotiations in the fall of 2019.

With the current rise of protectionism and trade friction in the world economy, the development of the CPTPP is important. The original TPP promoted ASEAN and East Asian economic integration. Similarly, the CPTPP will promote ASEAN and East Asian economic integration. In addition, three Mega-FTAs: the CPTPP, the Japan-EU EPA and the RCEP will have the potential to gradually reverse the current trend of increasing protectionism and trade friction practices.

The Association of Southeast Asian Nations (ASEAN) was founded in 1967 and East Asian economic integration began some time after. I have analysed ASEAN and East Asian economic integration within the structural changes of the world

economy, on a specific and long-term basis. This paper will consider the significance of CTPPP and Mega-FTAs against the trend of protectionism, including looking back on the original TPP's impact on East Asian economic integration.

2. EAST ASIAN ECONOMIC INTEGRATION AND THE TPP'S IMPACT

In view of the structural changes since the global financial crisis starting from 2008, the TPP has accelerated East Asian economic integration. Furthermore, this economic integration has progressed through interaction. The TPP and East Asian economic integration were a great impetus to promote a freer trade system in the world economy. This section will review this process.¹

In East Asia, ASEAN has led economic integration. ASEAN was established in 1967, and has promoted regional economic integration since 1976, aiming to realise the ASEAN Free Trade Area (AFTA) from 1992, and aiming to realise the ASEAN Economic Community (AEC) from 2003. At the end of December 2015, ASEAN finally established the AEC, and ASEAN has set its sights on a new AEC goal ("AEC 2025"). Also, in East Asia, multi-layered cooperation has been developed, centring on ASEAN. Regional economic cooperation initiatives such as ASEAN+3 and ASEAN+6 have been developed in response to the 1997 Asian economic crisis. In addition, five ASEAN+1 FTAs have been established around ASEAN.

The structural changes after the world financial crisis forced East Asia to make a major transformation. Given the structural changes in the world economy, the US joined the TPP with the aim of expanding its exports to East Asia, the world's growth centre. The TPP was originally P4, comprising Brunei, Chile, New Zealand and Singapore, coming into effect in 2006. But the United States, Australia, Peru, and Vietnam joined the grouping and the TPP became very significant in the world economy. The TPP negotiations began in eight countries in March 2010, and Malaysia also joined in October.

While the TPP was establishing itself, Japan and China made a joint proposal in August 2011, and agreed to advance an FTA for the entire East Asian region, which had not progressed much until then. Under these circumstances, ASEAN proposed, in November 2011, the RCEP, an FTA for East Asia as a whole, because ASEAN wanted to maintain its centrality in East Asian regional cooperation.

¹ Refer to Shimizu (2016a, 2016b).

The first RCEP negotiation meeting took place in May 2013. Japan officially participated in the TPP negotiations in July 2013. The TPP was agreed upon in October 2015 and signed in February 2016.

The TPP supported negotiations on the Japan-China-Korea FTA and the Japan-EU EPA. Furthermore, the progress of the RCEP negotiations also boosted the TPP and other FTA negotiations.

3. PRESIDENT TRUMP'S INAUGURATION AND PROTECTIONISM

3.1. President Trump's Inauguration and the US Withdrawal from the TPP

Mr. Trump was elected in the US presidential election on 8 November 2016, and took office as President of the United States on 20 January 2017. He has changed the trading landscape significantly. On 23 January 2017, President Trump signed an executive order withdrawing the US from the TPP. President Trump has also reversed the US trade policy that has driven the world's free trade system, aiming to renegotiate the North American Free Trade Agreement (NAFTA) and the United States-Korea Free Trade Agreement (US-ROK FTA) and to negotiate bilateral FTAs instead of multilateral FTAs.

The US withdrawal from the TPP also greatly affected the economic integration of ASEAN and East Asia. It became almost impossible for the TPP to accelerate economic integration in East Asia.²

3.2. The Trade Friction between the US and China

The US's actions on protectionism and trade friction have further damaged the world economy. Along with the US's withdraw from the TPP, President Trump renegotiated the NAFTA and the US-ROK FTA and caused trade friction by imposing high tariffs on imports from countries around the world.

In particular, trade friction with China from 2018 onwards has had a major negative impact on the world economy. On 23 March 2018, the US imposed additional tariffs of 25% and 10% on steel and aluminum, respectively, based on Section 232 of the Trade Expansion Act of 1962. In opposition to this measure, China imposed additional tariffs on fruits and pork from the US on 2 April.³

² Refer to Shimizu (2017).

³ Refer to Maie (2018) about trade friction between the US and China.

Furthermore, as measures against China were implemented, the US imposed an additional 25% tariffs on imports of US\$34 billion from China on 6 July, under Article 301 of the Trade Act of 1974. On the other hand, China imposed 25% tariffs on imports of \$34 billion from the US as a retaliatory measure. Next, the second round: on 23 August 2018, the US put additional 25% tariffs on imports of \$16 billion from China. In response to this measure, China imposed an additional 25% tariffs on imports of \$16 billion from the US. In the third round, on 24 September 2018, the US put an additional 10% tariffs on imports of \$200 billion from China. On the other hand, China imposed an additional 5-10% tariffs on \$60 billion of imports from the United States. As a result of these measures, the United States is applying high tariffs to about 50% of the imports from China while China is applying high tariffs to about 70% of the imports from the US.

The expansion of protectionism and US-China trade friction are having a major negative impact on the world economy. It will not only hurt the economies of the US and China, but also the countries and companies providing parts and intermediate goods to the United States and China. East Asia, especially, is experiencing a great negative impact, because in East Asia parts and intermediate goods are mutually traded in a huge production network and East Asia is developing rapidly through this production network.

Furthermore, the slowing growth of the US and China economies, the world's two largest economies, will have a major negative impact on the world economy. And the slowing of world economic growth will have a major negative impact on the world economy as a whole.

The increased protectionism and the US-China trade conflict have also affected the Asia-Pacific Economic Cooperation (APEC) and G20 forums. For example, at the APEC Summit in November 2018, it was not possible to adopt the Summit Declaration for the first time since the start of the Summit in 1993 due to the conflict over trade policy between the US and China.

4. THE CPTPP IN GLOBAL PROTECTIONISM: FROM THE TPP TO THE CPTPP

4.1. Japan's Proposal and the Entry into Force of the CPTPP

The withdrawal of the US from the TPP and the expansion of protectionism led Japan to propose the TPP11. The TPP11 negotiations were launched in May 2017, and the CPTPP was agreed on at the Ministerial Meeting in November 2017. The CPTPP was signed by 11 countries on 8 March. Some of the tough conditions each

country had contracted with the US in the TPP were suspended. Six countries completed their domestic procedures in November and the CPTPP finally entered into force on 30 December.⁴

The CPTPP comprises 11 countries: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam. The CPTPP will be a Mega-FTA with a population of 500 million people, about 13% of world GDP, and 15% of total trade.

4.2. The Contents of the CPTPP: Inheritance of the Original TPP

The CPTPP inherits the contents of the original TPP. The original TPP was characterised as having a high level of trade liberalisation and included new rules in services trade, investment, e-commerce, government procurement, state-owned enterprises, intellectual property, labour and environment.⁵ In the CPTPP, market access such as tariff elimination and services trade liberalisation remain as in the original TPP, and most of the original TPP's rules remain except for 22 suspended items.

The CPTPP consists of the following seven articles: "Preamble," "Article 1: Incorporation of the Trans-Pacific Partnership Agreement," "Article 2: Suspension of the Application of Certain Provisions," "Article 3: Entry into Force," "Article 4: Withdrawal," "Article 5: Accession," "Article 6: Review of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership," and "Article 7: Authentic Texts," followed by "Annex."⁶

The CPTPP itself is a short agreement consisting of seven articles, but "Article 1" incorporates the original TPP agreement with 30 chapters. Although "Article 2" provides for the suspension of the application of specific provisions, the suspended provisions finally account to 22 in total. Half of them are related to intellectual property, and there are two items for government procurement and two items for state-owned enterprises.

The requirement for entry into force of the CPTPP became easier than the original TPP. "Article 3: Entry into Force," prescribes: "this agreement shall enter

⁴ Refer to Shimizu (2016a), Umada, Urata and Kimura (2016) and some papers in "East Asian Economic Integration" (Introduction: Shimizu, K., Papers: Hirawaka, H., Ishikawa, K., Yukawa, K. and Oba, M.) in *Asian Studies*, Vol. 64 No. 4, December 2018.

⁵ "Text of Trans-Pacific Partnership," <http://www.tpp.mfat.govt.nz/text>.

⁶ "Comprehensive and Progressive Agreement for Trans-Pacific Partnership," <https://www.mfat.govt.nz/assets/CPTPP/CPTPP-Text-English.pdf>.

into force 60 days after the date on which at least six or at least 50 per cent of the number of signatories to this agreement, whichever is smaller, have notified the depositary in writing of the completion of their applicable legal procedures.”⁷

4.3. The Effects of the CPTPP

The impact of the entry into force of the CPTPP is significant, although CPTPP became smaller compared to the original TPP. The CPTPP will promote trade liberalisation and rule-making in the Asia-Pacific region. And it will be a template for future Mega-FTAs. Finally, the CPTPP will boost AEC deepening and RCEP negotiations. The original TPP strongly promoted AEC, the RCEP and the Japan-EU EPA. The CPTPP will boost them again.

With the entry into force of the CPTPP, new members will be welcomed. The expansion of the CPTPP with new members will further increase its impact. Currently, Thailand, Indonesia, the Philippines, Korea, Taiwan, Colombia, the United Kingdom, etc. have announced their participation and interest in it. In January 2019, the first Commission meeting of the CPTPP was held in Japan, and the procedures of “accession” were discussed.

The entry into force of the CPTPP within 2018, earlier than the initial forecast of 2019, will enhance the impact of the CPTPP, due to the acceleration of trade liberalisation. In the CPTPP, tariff reductions began on 30 December 2018, the day the agreement entered into force. On 1 January 2019, only 2 days later, the second year’s tariff reductions were implemented.

5. THREE MEGA-FTAS COUNTERING GLOBAL PROTECTIONISM: THE CPTPP, THE JAPAN-EU EPA AND THE RCEP

Through the boost the CPTPP provided, the Japan-EU EPA came into force on 1 February 2019. The RCEP, which is a Mega-FTA in East Asia, is aiming to conclude negotiations in the fall of 2019. These three Mega-FTAs: the CPTPP, the Japan-EU EPA and the RCEP, will have the potential to gradually reverse the current trend of increasing protectionism and trade frictions.

The Japan-EU EPA entered into force on 1 February 2019, promoted by the CPTPP negotiations. In addition to the CPTPP, which is a Mega-FTA across the Asia-Pacific, a Mega-FTA across Japan and Europe has also taken effect. The CPTPP and the Japan-EU EPA will have a positive effect on each other.

⁷ Ibid.

The Japan-EU EPA will be a Mega-FTA with a population of 640 million, about 28% of world GDP and 37% of world trade. The Japan-EU EPA has a high trade liberalisation level and a high level of rules by developed countries, under the 23 chapters of the agreement. It will be a comprehensive Mega-FTA, including trade in goods, trade in services, investment liberalisation, e-commerce, capital movement, government procurement, state-owned enterprises and intellectual property.⁸

Despite the expansion of protectionism, the RCEP negotiations have also been advanced. The RCEP is a Mega-FTA in East Asia, which is the world growth centre, and aims to conclude negotiations this fall. The RCEP will have a significant positive impact on East Asia and the world economy.⁹

The RCEP comprises 16 countries: the 10 ASEAN countries and Australia, China, India, Japan, Korea and New Zealand. The RCEP will be a Mega-FTA with a population of 3.4 billion, which is about half of the world's population, about 32% of world GDP and about 29% of world trade. The RCEP has three pillars, "market access", "rules" and "cooperation", and the negotiation field covers 18 broad areas, including trade in goods, trade in services, investment, intellectual property, e-commerce, government procurement.¹⁰

Although the RCEP negotiations aimed to arrive at a substantial agreement by 2018, it could not be concluded as planned. This was due to the gaps between some countries about trade liberalisation and various rules. It was also due to an Indian factor. India had great concerns about further trade liberalisation before the general election in spring 2019, because India had a trade deficit with China.

The RCEP aims to completely conclude negotiations this fall after the election in India. The "Joint Leaders' Statement on the RCEP Negotiations" stated: "We have advanced to the final stage of negotiations. We are determined to conclude a modern, comprehensive, high quality, and mutually beneficial RCEP in 2019."¹¹

⁸ "Agreement between the European Union and Japan for an Economic Partnership," <https://www.mofa.go.jp/files/000382106.pdf>.

⁹ Refer to Shimizu (2018a, 2018b) about the RCEP.

¹⁰ "Joint Leaders' Statement on the Negotiations for the Regional Comprehensive Economic Partnership (RCEP) (as at November 2017)," <https://www.mofa.go.jp/mofaj/files/000307671.pdf>.

¹¹ "Joint Leaders' Statement on the Regional Comprehensive Economic Partnership (RCEP) Negotiations (as at November 2018)," <https://www.mofa.go.jp/mofaj/files/000419160.pdf>.

6. CONCLUSION: THREE MEGA-FTAS COUNTERING GLOBAL PROTECTIONISM AND JAPAN'S ROLE

Despite the expansion of protectionism, the CPTPP finally entered into force. Also, the Japan-EU EPA came into force. The RCEP is aiming to conclude negotiations in the fall of 2019. The original TPP promoted AEC, the RCEP and the Japan-EU EPA. The CPTPP will again boost them. Furthermore, these three Mega-FTAs will interact and have a synergistic effect.

In addition, the increase in the number of member countries, for example, in the CPTPP, will have further synergetic effects. Although the current world economy is in a very difficult situation, the three Mega-FTAs will gradually reverse the current trend of increasing protectionism and trade frictions.

Japan, the world's third largest economy, plays a large role in countering global protectionism in the current tough conditions of the world economy. Japan is promoting three Mega-FTAs and countering global protectionism. Japan must go ahead with these three Mega-FTAs. Japan must cooperate with ASEAN so as to work towards the successful conclusion of the RCEP negotiations.

Next, Japan must continue to persuade the US to return to the TPP, explaining the benefits of the TPP and Mega-FTAs. The CPTPP has a good mechanism to release the 22 suspended items when the United States returns.

Finally, Japan must manage the G20 to counter global protectionism. Japan is the chair of G20 in 2019 and will hold the G20 Summit in Osaka in June. Japan must play a major role in countering global protectionism.

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