



*Special Report:
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TRANS-PACIFIC PARTNERSHIP

U.S. President Donald Trump surprised the world when he hinted in January 2018 that he may be willing to bring the U.S. back into the Trans-Pacific Partnership (“TPP”) trade agreement, provided the U.S. can secure fair and reciprocal treatment. This represents a pivot for the U.S. Administration, which withdrew from the Pacific Rim trade and investment pact shortly after taking office in January 2017. The Administration has focused instead on bilateral agreements where it believes Washington can better use its leverage. The U.S. president gave no specific timeline for new negotiations.

Meanwhile, since the U.S. withdrew from the TPP one-year ago, eleven remaining member countries in Asia and the Americas have since retooled and renamed the deal the Comprehensive and Progressive Trans-Pacific Partnership (“or CPTPP”). On January 23, of this year, the 11 remaining members met in Tokyo and thrashed out the final details. The new CPTPP [or TPP-11] agreement is to be formally signed in Chile in early March 2018, and aims to reduce 98% of all tariffs between the member countries of Japan, Australia, Canada, Mexico, Singapore, Malaysia, Vietnam, Chile, Peru, New Zealand and Brunei. Together these countries represent a market size of close to \$14 trillion. The agreement will take effect in 2019. It will be one of the world’s most exacting trade pacts, measured by openness to investment from other members, the protection of patents and environmental safeguards. According to one characterization CPTTP will serve as an ‘engine to overcome protectionism’ which is an emerging phenomenon in parts of the world.



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Already, Thailand, South Korea, Indonesia, the Philippines and the UK have indicated interest in becoming members to the revised trade pact. The original TPP which included 12 countries of which the U.S. was one, would have represented almost 40% of global trade. The CPTPP agreement represents 14% of the global economy that includes a population of 500 million people. In other words without U.S. participation this agreement represents a significantly smaller share of global trade.

The pact’s resurrection is one of the more unlikely events over the past year. After all, the U.S. accounted for a substantial portion of the original bloc’s \$28 trillion in annual output. Access to the vast American market was what made other members willing to open their own. When the U.S. withdrew it sent a dismal message about the prospects of the open, rules-based order that the U.S. had underwritten over the past five decades. The Asia-Pacific region has benefited more than any other region from that order in recent decades- yet the Trump Administration declared multilateralism dead and signaled an intention to raise barriers to trade. Soon afterwards the Administration ordered South Korea to renegotiate its free-trade agreement with the U.S. Later the Administration launched talks with Mexico and Canada to renegotiate NAFTA [the North American Free Trade Agreement] (“NAFTA”). The U.S. threatened to withdraw from NAFTA, but negotiations continue. In mid-January 2018 the U.S. imposed punitive tariffs on imported washing machines and solar panels, aimed at South Korean and Chinese manufacturers. These trading partners are not pleased with how quickly their relationships with the U.S. turned negative.

Notwithstanding this forbidding backdrop, the remaining 11 nations to the TPP persevered and found common ground without the U.S. The new deal has been structured to allow the possibility of the U.S. rejoining it in the future, but President Trump’s latest comments suggest that substantial renegotiation would be required to win U.S. participation. Several countries who are members of the new CPTPP have welcomed the suggestion that the U.S. might want to rejoin, but emphasized that they will move ahead to implement the new agreement without further delay. A majority believe that any U.S. participation will likely be years away.





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Twenty-two provisions of the original TPP agreement have been fully suspended. Those provisions would only be reactivated after renegotiations and if the U.S. re-entered the pact. That’s probably due to these provisions being of particular concern to U.S. interests.

While the Trump Administration has consistently argued that the TPP was a “bad deal” for U.S. jobs and manufacturers, being sidelined from the agreement will put U.S. producers at a disadvantage in some countries. For example, in Japan agricultural exports from CPTPP countries will now have a more favorable access than U.S. produced crops. Australia is looking with anticipation to the CPTPP to boost its agricultural exports (including sugar), creating hundreds of jobs and boosting economic growth. The Australian government expects the CPTPP to provide Australian companies and businesses with competitive access to the Japanese, Vietnamese and Peruvian markets. However, The Australians point out that in the sugar sector, with the U.S. withdrawal from the pact, market access fell from \$180 million down to around \$25 million.

The biggest foot-dragger to the new agreement was Canada, the second-biggest economy in the group (after Japan), which wanted special treatment for cultural industries such as television and music- a concern for Francophone Canadians- and changes to the rules on imports of cars. Canada has a big car-parts industry, which caters mainly to Americans carmakers. With the U.S. out of the pact, fewer cars from this integrated North American supply chain will have enough content from CPTPP countries to qualify for tariff-free access to other members. But Canada will still have to open its market to Asian cars, subjecting its car-parts firms to a one-sided dose of foreign competition. In the end Canada’s concerns were met with a favorite TPP trick: ‘side letters’ between it and other members. One of the side letters promised Canada greater access to the Japanese auto market. CPTPP members were sufficiently determined to revive the pact then gritted their teeth and compromised.



With multilateralism out of favor how does CPTPP remain relevant? For some members, including Japan, which has done the most to keep the



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idea alive, there is a strategic imperative: to prop up the old rules-based global order in the absence of the U.S. Many fear that the less-welcome alternative might be a trade order overseen by China. The new agreement is a huge boost for the Japanese government. Prime Minister Abe has been pushing hard to save the trade pact, arguing that it will serve as a stimulus to growth and will encourage reform. Japan like many of the countries participating, view this pact as a symbol of commitment to free trade and multilateral agreements at a time when the U.S. is pulling away from such commitments. Others like Chile consider the CPTPP as an innovative path toward job creation in member countries. The Canadians emphasized that while they stood firm in order to get better terms for Canadian interests, they believe the new agreement meets the objectives of creating and sustaining growth, prosperity and better paying middle-class jobs over the long haul. Canada is convinced this will provide billions of dollars in economic benefits to Canadian companies and workers. The Canadian forest products industry, for example, expressed satisfaction that they would benefit by knocking down tariffs as high as 40% across Pacific nations.

Losing the U.S. from the TPP was a setback. However, some countries are of the opinion that the U.S. will eventually return to the partnership. For starters the CPTPP (and TPP before it) is not typical of the tariff-cutting deals that the Trump Administration claims have been unfair to the U.S. Rather, it breaks ground in setting U.S.-inspired standards and safeguards for everything from online commerce to creative industries. Some believe U.S. firms upon reflection, will be clamoring to be a part of this new arrangement. In addition to the five new countries that have so far expressed an interest in joining the eleven existing members and pursue membership in the CPTPP, it should not be a surprise that still more countries may express an interest in joining over the next several years.

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