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**TPP11 (CPTPP): Its Implications for  
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Relations in Times of Uncertainty\***

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## **TPP11 (CPTPP): Its Implications for Japan-Latin America Trade Relations in Times of Uncertainty**

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### **ABSTRACT**

The paper examines the economic and political implications of the entry into force of the TPP11 (CPTPP) on trade relations between Japan and Latin America amid the increasing anti-globalism sentiments and protectionism in the world economy. The paper argues that its entry in force sends the world the message that Japan is prepared to play a leading role in preserving the multilateral trading system and that the benefits of TPP11 are significant; it has a potential to discourage harmful trade policies by building a 21st-century rules-based trading system, with a possibility that its trade rules will become the de facto trade rules of the Asia-Pacific region. The TPP also differs from other conventional mega FTAs by incorporating development dimensions into trade negotiations. In addition, TPP11 is likely to fill a geopolitical vacuum created by the retreat of U.S. global leadership, which is unlikely, at least for now, to be filled by China's "socialist-type" trade liberalism. Another benefit of TPP11 might be that it will open to Latin America new venues and ways to construct strategic relations with the Asia-Pacific countries, and rewrite integration strategies within the proper LAC region. A more unified and enlarged regional market resulting from joint efforts between the Alliance and Mercosur, on the one hand, and more connected regional markets with the EU, EFTA and Asia-Pacific countries (e.g., Australia, Canada, Korea, Singapore, and possibly Japan), on the other, will enhance the attractiveness of LAC as a region. However, as the membership of the Pacific Alliance expands, there might emerge two similar, overlapping transpacific mega agreements in progress; this might pose a challenge to the ongoing "Japan-led" TPP process.

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## I. Introduction

Against the backdrops of the U.S. withdrawal from the Trans-Pacific Partnership (TPP) agreement in January 2017, the steady increase in U.S. protectionism immediately after the inauguration of President Trump, his proclivity towards bilateral free trade agreements (FTAs) over plurilateral deals, coupled with the World Trade Organization (WTO) in need of a serious reform, Japan has managed to conclude negotiations in six months and to have “The Comprehensive and Progressive Agreement for Trans-Pacific Partnership” (CPTPP), commonly known as TPP11, signed by other 10 countries, in March 2018, in Santiago, Chile. The Japanese authorities went on to sign a core Economic Partnership Agreement (EPA) with the European Union (EU) in July 2018. TPP11 entered into effect on December 30, 2018. The Japan-EU EPA also entered into force on February 1, 2019 before the United Kingdom officially leaves the EU.

The entry into force of both agreements sends the world the message that with concern over the global rise of anti-globalism and protectionism, Japan is prepared to play an active role in preserving the multilateral trading system. Japan has played a “mediator” and “coordinator” role in TPP11 renegotiations. Thanks to the Japanese government engagement, the number of “suspended” provisions in TPP11 was kept to a minimum. Japan has made efforts to keep the member countries interested in TPP11 and promoted consultations with non-TPP participating countries to expand its membership. In Japan’s view, both mega-agreements would have increased the probability of the United States returning to the original TPP (hereafter abbreviated as TPP12), while reducing the likelihood of a bilateral FTA with the United States. Under the present circumstance of the United States pressuring Japan to accept a bilateral deal — “Trade Agreement on Goods” (TAG) as a starter<sup>1</sup>—, the possibility of the United States returning to TPP12 is increasingly remote.

TPP11 entered into force after 60 days if more than six signatory countries had completed domestic procedures. Though the six-country quota was met in November 2018, assuring prompt ratification by Chile and Peru is also a high priority on Japan’s diplomacy. Japan also wants Colombia’s new government to renew its interest in joining TTP11, expressed earlier by the ex-Santos administration. Once Colombia joins TTP11, Japan’s relations with the Pacific Alliance (Chile, Colombia, Mexico, and Peru) can be realigned; Japan-Colombia EPA negotiations have been on a standstill since 2015. Ecuador, reluctant in engaging in FTA networks with Asia-Pacific countries up to now, has indicated interest in joining TPP11 and the Pacific Alliance. However, Japan’s commercial interests in Latin America go beyond the TTP11 and the Pacific Alliance. There has been a renewed interest in a Japan-Mercosur (Southern Common Market) EPA as well. Recently, both the Pacific Alliance and Mercosur (Argentina, Brazil, Paraguay, and Uruguay)

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<sup>1</sup> The United States and Japan announced on September 26, 2018 that both parties will open negotiations on a bilateral trade agreement. It is a significant shift by the Abe administration that has been a strong advocate of TPP12. Although this move gave Japan certain relief from the immediate threat of punitive tariffs on its auto exports to the United States, hard negotiations are expected on sensitive sectors such as autos and agricultural products. From the U.S. government perspective, this agreement is to be expanded to become a full-fledged FTA to later include services, investment and other issues. The agribusiness sector of the United States expects from Tokyo greater concessions than those offered in TPP12 and the Japan-EU EPA (Shigeta and Tobita 2018).

have intensified their free trade agenda with extra-regional partners. Japan does not want to miss out on these opportunities.

This paper will examine the economic and political significance of TPP11 for Japan and the three Latin American countries (Chile, Mexico, and Peru) and explore the prospects of the Pacific Alliance and Mercosur from the optics of trade relations between Japan and Latin America. Chapter II highlights the significance of TPP11 and the Japan-EU EPA for the preservation of free trade and the multilateral trading system. Chapter III outlines the major differences between TPP12 and TPP11, by looking at the “suspended” provisions in the latter agreement and economic and political implications of both agreements for Japan and Latin American countries. Chapter IV analyzes the recently agreed USMCA in replacement of NAFTA, especially from the viewpoint of Japan’s automobile sector. In Chapter V, after reviewing the recent efforts in the convergence of trade rules between the Pacific Alliance and Mercosur, Japan’s new economic diplomacy toward both integration organizations is examined. The paper concludes with Chapter VI, which discusses some policy implications of TPP11 and other mega FTA initiatives in progress across the Asia-Pacific and Latin American regions.

## **II. Japan’s leadership in the TPP11 deliberations**

The announcement of the Trump administration’s withdrawal from the TPP agreement in January 2017<sup>2</sup> has dampened the momentum of mega free trade agreements (FTAs), which were, up to that point, considered as a major revitalizer of world trade and investment. In the same year, the United States indefinitely suspended the negotiations of the Trans-Atlantic Trade and Investment Partnership (TTIP) with the EU and forced the renegotiation of the North American Free Trade Agreement (NAFTA). With respect to the TPP agreement, contrary to most predictions, however, one year later (March 8, 2018), the remaining 11 countries have agreed on and signed TPP11. Since then, each participating country has started domestic procedures for its ratification. Of the original version of the TPP Agreement (TPP 12) that the 12 countries including the United States signed in October 2016, all concessions on tariff elimination were maintained under TPP11, but in the areas of disciplines and rules, 20 provisions were suspended from TPP12. TPP11 has introduced more relaxed conditions for the entry into force of the agreement than those included in TPP 12.<sup>3</sup>

TPP11 entered into force on December 30, 2018. At the time of this writing, seven countries have finalized the domestic ratification procedures: Mexico, Japan, Singapore, Canada, New Zealand, Australia, and Vietnam, in the chronological order. The remaining four countries (Brunei,

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<sup>2</sup> The 12 countries including the United States reached agreement in principle, in October 2015, and formally signed the agreement in February 2016. President Trump declared to withdraw from TPP12 immediately after his inauguration, and signed the presidential decree, stating “I will withdraw from the TPP, forever.”

<sup>3</sup> For the TPP12 to enter into force, it must be ratified by at least six of its members, who together represent at least 85% of the total GDP of the 12 signatory countries. Given a large share of the United States, it is considered difficult for TPP12 to enter into effect, as long as the United States is determined not to participate in the agreement. Unlike TPP12, TPP11 will enter into force 60 days after at least half of its signatory countries have ratified the agreement. It will only become legally binding on the remaining signatory countries 60 days after they ratify. This will prevent any one Party from being able to veto the entry into force of the agreement.

Chile,<sup>4</sup> Malaysia, and Peru<sup>5</sup>) are expected to conclude the domestic process soon. Seen by many Mexicans as an objection to the protectionist agenda of the Trump administration, the Mexican Senate ratified TPP11 on April 25, 2018, with a clear majority (73 votes in favor, 24 against and 4 abstentions), becoming the first signatory country to approve TPP11. Japan's domestic procedures for ratifying TPP11 were completed on July 6,<sup>6</sup> the same day the United States imposed the first round of prohibitive tariffs on some Chinese goods. With escalating trade tensions between the United States and China and anti-globalization sentiments, Singapore ratified the agreement on July 19, becoming the third nation to do so. Canada and New Zealand started the proper ratification process early in June and August, respectively. Australia ratified the agreement on October 31. Vietnam, reluctant at first to join since the benefits it expected from TPP12 came mostly from U.S. markets, ratified TPP11 on November 12. Malaysian Prime Minister Mahathir Mohamad, who earlier called for a review of the TPP agreement, is reportedly to have softened his stance, saying that there is a possibility the country will ratify TPP11, but the country will ask for some exemptions.

Since President Trump declared U.S. withdrawal from TPP12 in January 2017, Japan has led the TPP11 negotiations. Among the 11 countries, Japan is the largest economy. Of the five high-level official meetings held to reach a core agreement, four of those were held in Japan. At the same time, after the U.S. exit, Japan played a crucial role in keeping Vietnam and other participating countries interested in TPP11 by maintaining close contact with them and inviting other non-participating countries such as Thailand and the United Kingdom to join TPP11 after the agreement takes effect. To a certain extent, Japan has found itself assuming new leadership responsibilities in the Asia-Pacific region, as it tries to dampen the rise of U.S. protectionism and the rapidly increasing China's influence in the Asia-Pacific integration process.

As conceived as an FTA whose membership will be eventually open to countries outside the Asia-Pacific region, TPP11 can be a guide for the construction of new world trade and investment rules of "golden standards," suitable for the 21 Century. The Republic of Korea, Indonesia, Thailand, and Taiwan in Asia, and Colombia in Latin America, as well as the United Kingdom which earlier decided to withdraw from the EU, have expressed interest in joining TPP11, at one time or another. Ecuador has also expressed interest to join. The Japanese government is encouraging other countries to do the same.<sup>7</sup> Accession talks with potential newcomers have started in 2019 when TPP11 is in force.<sup>8</sup>

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<sup>4</sup> According to some official sources, Chile has started the domestic ratification procedure and the TPP11 will be ratified in Congress in the first quarter of 2019 and approved by the government during the first half of the same year.

<sup>5</sup> The Peruvian government expects to ratify TPP11 during the first half of 2019 (Andina: Agencia Peruana de Noticias 2019). The agreement will be ratified through a supreme decree to be issued by the Executive Branch; there seems to be no need to go through Congress, since existing laws will not be modified (Andina 2018).

<sup>6</sup> The TPP-related bill was passed and approved in the Lower and Upper House plenary on June 18 and June 29, respectively with the majority votes from the ruling coalition.

<sup>7</sup> Article 30.4 of TPP11 on Accession stipulates that "this Agreement is open to accession by: (a) any State or separate customs territory that is a member of APEC; and (b) any other State or separate customs territory as the Parties may agree, that is prepared to comply with the obligations in this Agreement."

<sup>8</sup> In fact, in the first TPP Commission meeting held on January 19 in Tokyo, the representatives approved the procedures for admission of new members and the process of the arbitral tribunal related to state-to-state settlement of disputes as well as a code of conduct for arbitrators related to the settlement of disputes between an investor and a state (ISDS).

Japan has led the way in safeguarding the global rules-based order by pressuring the conclusion of TPP11 and signing the Japan-EU EPA. Professor Kimura of Keio University claims that “the broad agreement on the TPP11 is a tremendous achievement that heralds the dawn of a new era in Japan’s economic diplomacy” (Kimura 2018). As some experts (Armstrong 2018) point out, TPP11 is unlikely to keep the United States strategically engaged in the Asia-Pacific region, nor provides as a strong safeguard of the global trading system as TPP12. However, TPP11 does send the world a strong message on the Asia-Pacific region’s commitment to rules-based multilateral trade liberalization. As protectionist trends by the Trump administration intensify and his preference for bilateral FTAs over plurilateral deals becomes evident while the WTO is called upon to undergo reforms, the entry into force of TPP11 and the Japan-EU EPA becomes a breakwater for protectionist tides, reconfirming signatory countries’ commitment to free trade and the multilateral trading system (Petri and Plummer 2018b).

In April 2018, President Trump asked his trade team to look at rejoining the TPP agreement, shortly after the other 11 countries in the deal agreed to move ahead with the TPP without the United States. He insisted that though he opposes plurilateral FTAs, he would consider negotiating with them collectively if it was in the U.S. interest. Japanese officials welcomed Trump’s interest in rejoining TPP12 but expressed hope that Washington would do so under the original terms (Baird 2018). It has been of major concern for the Abe administration that a possible return of the United States to the TPP agreement, or a bilateral deal between Japan and the United States, would lead to a reopening of negotiations on agricultural products, automobiles, and other sensitive products. The Japanese government has tried to avoid renegotiations on these products, while signing a bilateral deal will facilitate the U.S. government to obtain better (“free” and “fair” in President Trump’s terms) market access than those offered in the original TPP or the Japan-EU EPA.

The U.S. government has given top priority to renegotiating NAFTA. The revised NAFTA, now called the United States-Mexico-Canada Agreement (USMCA), will have profound implications on corporate strategies not only of the three countries concerned but also Japanese business sectors who have heavily invested in Mexico in recent years. In addition, the outcome of the mid-term elections in November has already started to reshape the U.S. trade policy. In fact, there is a possibility that the newly elected Democratic representatives vote against ratifying the USMCA due to their resentment toward the current president. Democrats are already making demands to the Mexican authorities to update its labor laws to increase wages before Congress votes on the new trade deal (Wasson and Leonard 2018). In turn, the outcome of the mid-term elections has given the Trump administration little incentive to soften its confrontational trade tactics (Mayeda 2018). In addition, there is some bipartisan consensus with the Democrats that the United States should take tougher action against China across a range of fronts, from the military, to trade, intelligence and diplomacy (Jiang and Westcott 2018).

The Japanese government has identified trade policy as one of the pillars of its growth strategy. As the trade war between the United States and China intensifies, Japan has hurried to conclude negotiations on an EPA with the EU. The signing of the Japan-EU EPA on July 11, 2018 also sent the world a strong message that Japan and the EU will continue to play a leading model of

preserving free trade and multilateral trading system. This agreement may be considered as a prototype trade agreement of the 21st century based on free and fair rules, incorporating, for example, state-owned enterprises (SOEs), intellectual property rights (IPRs), and emerging trade issues such as those caused by new technology. This EPA will create one of the largest free economic areas in the world, with 28% of the world GDP and 37% of world trade (see Table 1). The agreement was ratified the European Parliament and the Japanese Diet on December 12 and December 8, respectively. The agreement entered into force in February 1, 2019, before the United Kingdom leaves the EU.

**Table 1: Select Mega-FTA Initiatives, Shares in World Population, GDP and Trade, 2017**

	Population	World GDP	World Trade (Exports + Imports)
	(%, Million Persons)	(%, Billions US Dollars)	(%, Billions US Dollars)
TPP12	11.2	37.6	25.5
TPP11	6.8	13.3	14.9
TPP16*	13.7	18.1	22.1
TPP16 + UK + Colombia	15.3	21.8	25.3
Japan- EU EPA	8.7	27.7	36.6
RCEP	48.4	31.7	29.0
Revised NAFTA (USMCA)	6.6	27.8	15.3
<b>World Total</b>	<b>7,349</b>	<b>80,051</b>	<b>35,700</b>

Notes: TPP11 includes the TPP11 participating countries (Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam). TPP16\*/ consists of the TPP11 member countries and Indonesia, Korea (Rep. of), Philippines, Taiwan Province of China, and Thailand.

Sources: Elaboration by the author. Population and world GDP figures are based on IMF Economic Outlook database. World trade data are taken from UNCTAD database.

TPP11, together with the Japan-EU EPA, add a huge momentum to broader liberalization not only in the Asia-Pacific region but the rest of the world by facilitating expansion of membership and by lifting the quality of disciplines and rules in the Regional Comprehensive Economic Partnership Agreement (RCEP), an agreement under negotiation among the 10 ASEAN members as well as Australia, China, India, Japan, New Zealand and the Republic of Korea. Should this happen, it will be, to a certain extent, multilateralization of the high-standard disciplines and rules included in those agreements to the rest of the world. Once in place, TPP11 will facilitate additional integration in the Asia-Pacific region and beyond, with large attendant gains (Petri et al. 2017, Petri and Plummer 2019). The entry into force of both mega agreements may speed up the protracted negotiation process of RCEP and improve the quality of its trade rules. There is a possibility that the trade rules of TPP will become the *de facto* trade rules of the Asia-Pacific region.<sup>9</sup> Besides, both TPP and RCEP are considered by many as an effective means to achieve the Free Trade Area of Asia-Pacific (FTAAP). The 16 participating countries in RCEP taken together represent half of world population, roughly 30% each of world GDP and world trade (see Table 1).

During 2018, Japan co-chaired the RCEP process with Singapore. Japan focused on pushing through a reworked version of RCEP with the other 15 remaining members. Japan anticipated that

<sup>9</sup> In the RCEP negotiations, Australia and New Zealand are reportedly calling for importing several TPP11 rules into RCEP (Petri and Plummer 2018a).

having emerging countries (for example, Malaysia and Vietnam) agree to a higher level of liberalization on the RCEP agreement would help persuade both China and India to accept lowering their trade barriers and introduce higher trade standards within RCEP.<sup>10</sup> China also appears eager to conclude the 16-member regional trade pact as a counterweight to Trump's protectionism. But after almost six years of talks —and several attempts to reach a year-end deal in 2015, 2016, and 2018—, RCEP members have achieved a consensus on just seven<sup>11</sup> of the agreement's 18 chapters (RCEP 2018). The member countries still struggle with issues including market access in agriculture, trade in services, e-commerce, IPRs, and investment rules.<sup>12</sup> There are still wide gaps in market-access ambitions between relatively developed and least developed ASEAN countries, on the one hand, and between China and India, on the other. The slow progress made so far has obliged the member states to postpone the deadline once again in order that a “substantially” complete agreement be reached at an earliest date, to be signed by the end of 2019 (Japan Times 2018). Under these circumstances, as a path to achieving FTAAP, Japan-led TPP11 seems to be a more pragmatic approach than the once China-led RCEP.

In sum, Urata and Petri (2017) suggests that there are at least four reasons for TPP 11 to be beneficial to Japan and other signatory countries. First, even if some 20 provisions in the rules and disciplines areas are suspended from TPP12, TPP11 contributes to the economic growth of the participating countries by maintaining high-quality, comprehensive trade rules. In addition to the effects of tariff reduction, the introduction of new trade rules can contribute to resource allocation, productivity improvement, service trade, and investment expansion. Second, TPP11 has the potential to become a model of FTAs in the future, and it can become a template of FTAs not only in the Asia Pacific but also in other regions. In that sense, it helps to improve complementarity with other mega FTAs. Third, it might become a breakwater of the spread of protectionist measures adopted by countries such as the United States. And fourth, the withdrawal from TPP12 will damage the competitiveness of the U.S. merchandise in the markets of TPP11 participating countries, which will eventually encourage the return of the United States to TPP12. Apart from these four points, with the U.S. exclusion, some TPP participating countries now are free of the anti-Chinese bias embedded in the original TPP, making it easier for China to join TPP11. Besides, TPP11 can consolidate the coalition of the free trade advocating countries in the Americas and provide new impetus to regional integration schemes such as Pacific Alliance.

In addition, an important, but often not fully appreciated, feature of the TPP is that it adopts a quite holistic approach to the development-related issues, designed especially for developing member countries by including the so-called “Horizontal” (Fergusson et al. 2013). TPP11 consists of 30 chapters, 4 of which have a very clear “development-cooperation” focus:

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<sup>10</sup> For example, Australia and New Zealand seek a high-standard trade liberalization, while India is less enthusiastic on trade opening. Regarding the rules of e-commerce, Australia, Japan, Republic of Korea seek high rule standards. In contrast, China and India are less keen in this area.

<sup>11</sup> The seven chapters that had been concluded as of November 14, 2018, when the RCEP Summit meeting was held in Singapore, are the following: 1) SME promotion; 2) economic and technical cooperation, 3) government procurement; 4) customs procedures and trade facilitation; 5) institutional provisions; 6) sanitary and phytosanitary measures and standards; and 7) technical regulations and conformity assessment procedures (RCEP 2018).

<sup>12</sup> In RCEP, liberalization schedules are less ambitious than in TPP11; Some countries may reduce only 80% of tariff lines with long phase-out periods, in comparison with close to 100% in the TPP11. Liberalization of non-tariff barriers and non-border measures, or on IPRs and trade in services is likely to be of a limited scope (Petri and Plummer 2018a).

Cooperation and Capacity Building (Chapter 21); Competitiveness and Business Facilitation (Chapter 22); Development (Chapter 23), and Small and Medium-Sized Enterprises (Chapter 24). What distinguishes the TPP from other conventional mega FTAs is that the TPP incorporates, from the outset, development dimensions into trade negotiations.<sup>13</sup> TPP11 is called ‘Progressive’ because it includes overarching issues previously not considered in trade agreements, such as how to make compatible the regulatory systems of the TPP nations to support innovation and high-quality job creation, principally in SMEs. Emphasis on development in the TPP bodes well with Japan's trade policy, baptized by the name of "Economic Partnership Agreement" (EPA), instead of a free trade agreement (FTA). Admittedly, in the TPP agreement, no Party shall have recourse to dispute settlement under the Dispute Settlement (Chapter 28) for any matter arising under these chapters. These chapters are designed to be fine-tuned in accordance with the needs and interests of developing member countries.

### **III. Differences between TPP12 and TPP11: Economic and Political Impacts**

Some concern has been expressed regarding the possibility that TPP11 could jeopardize the possibility of developing member countries from successfully carrying out their development strategies (Rowden 2015). Though slightly modified from the original TPP12, TPP11 is still an FTA of high standards, which might undermine a policy maneuvering space of developing countries, especially in the areas of 1) Investor-to-State Dispute Settlement (ISDS) mechanism, 2) the IPRs that would extend existing patents on essential drugs and expand the scope of patents and raise the costs of reverse-engineering, and 3) restrictions on state-owned enterprises (SOEs). However, for Chile, Mexico and Peru, which have been front-runners of trade liberalization over the years, these concerns are not necessarily new to them. For the past 15 years, the three Latin American countries have addressed these concerns when they negotiated FTAs with the United States, Canada, the EU, and Japan. Chile and Peru have emphasized in the TPP negotiations duration of the drug patents, but the provision on a longer patent period demanded by the United States was suspended in TPP11. TPP11's investment chapter is almost identical to the respective chapters of FTAs signed by Chile, Mexico, and Peru with the United States. The commitments made in TPP11 are aligned with the regulatory frameworks in place in Chile, Mexico, and Peru; thus, the obligations under TPP11 are not more ambitious than those already imposed by national laws and practices (CEPAL 2016).

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<sup>13</sup> This holistic modality was clear in the Obama Administration's approach to the Asia-Pacific. As evidenced by the statement by Chairman of the APEC Trade Ministers' Meeting held in Hawaii in 2011, U.S. policy toward the Asia-Pacific began to emphasize not only trade liberalization, but development gaps and the building of regional capacity to respond to the needs of “next-generation” trade and investment issues. In the U.S. government's view, the following issues should be included in APEC's deliberations: 1) conceptualization of Global Value Chains (GVCs) to expand trade; 2) promotion of SMEs' participation in GVCs; 3) promotion of effective and market-driven innovation policies; 4) standardization and harmonization of Customs procedures; and 5) Green Growth. It should be noted that in Honolulu, the U.S. government was also seeking solid progress with the TPP agreement, considered by the same government as a 21st-century agreement that would tackle pressing trade concerns in new ways and address cross-cutting issues previously not included in trade agreements (Statement, the 23rd APEC Ministers Meeting, Honolulu, Hawaii November 11, 2011).

## A. The original texts (TPP12) vs. the revised texts (TPP11)

The major difference between TPP12 and TPP11 is a set of “suspended” provisions (22 in total) until the United States comes back to the table.<sup>14</sup> The provisions are a list of 19 items that officials from the member countries have agreed to remove temporarily from the agreement texts, one that has been changed, and two that clarify terms in the deal. Some elements remain subject to future negotiations: SOEs (Malaysia), services and investment in the coal industry (Brunei), dispute settlement (Vietnam), and cultural exceptions (Canada).<sup>15</sup> Some critics have assumed that these suspended provisions are a significant proportion of the document and that the withdrawal of the United States and the removal of the 20 elements, therefore, make TPP11 less relevant. However, in the view of some experts (Kimura 2018, The Asian Trade Centre 2018), the changes introduced are relatively narrow items that should not degrade the quality of TPP12.

TPP11 has no changes to any of the current member schedules or commitments in areas like market access for goods, services, temporary movement of business persons, government procurement, or SOEs, and rules of origin. Despite some disagreements expressed by several members throughout TPP talks, important chapters did not suffer modifications. For example, the e-commerce chapter was left intact.<sup>16</sup> The overall government-to-government dispute settlement provisions are untouched (The Asian Trade Centre 2018, Fergusson and Williams 2018). The greatest number of changes can be found in the Investment Chapter which temporarily removes two kinds of provisions and in the IPR Chapter.<sup>17</sup> Therefore, the consensus is that most of TPP11 are identical to what was negotiated originally under TPP12.

In the investment chapter, the Investor-State dispute settlement (ISDS) provision is suspended for “investment screening” (e.g., the criteria by which a party approves an investment) and for a dispute between “a host state government and an investor”, a subject matter of great concern for both developed and developing countries. These changes potentially could lead to a requirement to use domestic courts and apply domestic laws to resolve investment disputes, contrary to longstanding U.S. objectives in bilateral investment treaties (BITs) and FTAs; the FTAs signed by the United States have incorporated ISDS provisions with all other FTA partners except Australia (Fergusson et al. 2015). In the case of Japan, with Chile, Mexico, and Peru, the

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<sup>14</sup> The expression, “suspension” of 20 provisions, is based on the premise that TPP12 will not come into force until the United States returns. However, the U.S. decision to return to TPP12 would imply not only the “resumption” of the suspended provisions but the whole TPP12 be renegotiated in accordance with the demands of the Trump administration. In the present situation where TPP11 participating countries deny renegotiation of the TPP12 texts, the possibility of the United States returning to the TPP without modification is also low.

<sup>15</sup> The TPP agreement is said to depart from longstanding Canadian policy by not containing a full cultural exception. The exemption, which is found in agreements such as NAFTA and EU-Canada Comprehensive Economic and Trade Agreement (entered into force September 21, 2017), gives the government full latitude to implement cultural policies to support the creation of Canadian content.

<sup>16</sup> In e-commerce, the parties suspended the obligation to review *de minimis* tariff levels on express shipments.

<sup>17</sup> The suspended IPR provisions include matters such as biological data protection and copyright periods. The major suspended provisions are as follows: 1) patentability for inventions derived from plants; 2) patents for new uses, processes, or methods of existing products (so-called evergreening); 3) patent term adjustment for marketing and patent approval delays; 4) protection of undisclosed test data for chemical and biological drugs; 5) the author/creator life plus-70 year copyright term; 6) legal liability and safe harbor provisions for internet service providers; 7) circumvention and digital rights management; and 8) protections of encryption and satellite program and cable signals (Fergusson and Williams 2018).

procedure for ISDS has already been included in the bilateral EPAs. Japan's bilateral EPA with Australia does not have an ISDS provision. Therefore, it is likely that in the case of an ISDS, the case is resorted to bilateral agreement. The controversy on the ISDS is not limited to TPP11. The incorporation ISDS provision was controversial in the Japan-EU EPA negotiations. The two Parties decided not to include it for the time being; an ISDS can be settled in the domestic courts, pending future agreement on an appropriate dispute resolution mechanism.

Among the IPR-related provisions subject to suspension were a proposed eight-year protection for data on next-generation biological medicines and extensions of copyright protection to 70 years after an author's death, which have been a major concern for some TPP11 member countries. But it is significant that in the revised agreement, rules ensuring freedom in digital activity remain intact, including three principles on electronic trade: 1) cross-border transfer of information, 2) a ban on member states requiring foreign entities to set up computer servers in the states' territory, and 3) a ban on states ordering software source code disclosure. While President Trump is determined to protect declining 20th-century industries such as steel and coal, TPP11 has enshrined a set of innovative new rules on digital economy. These principles may encourage multinationals of different origins to enter the burgeoning economies in the Asia-Pacific region. "They also may speed up their big data capabilities, which could help drive innovation in artificial intelligence" (Ota and Murayama 2018).

At the outset of renegotiation, some 40 provisions were earmarked for suspension, but thanks to Japanese government efforts, the number of suspended items were reduced to roughly about a half. To preserve U.S. interest in the original TPP, Japan pushed hard for this agreement to suspend TPP provisions where consensus could not be reached, rather than amend them. These 20 provisions were primarily sought by the United States and agreed to by other countries in the first place in return for better access to U.S. markets. When the United States left, the deal lost its carefully maintained balance built on mutual concessions (Ota and Maruyama 2018). The 11 countries worked hard to find a new balance among themselves. As mentioned above, TPP11 has frozen part of the provisions on IPRs and ISDS, so there is a possibility there will be more policy maneuvering space of developing countries, which may encourage their accession to TPP11.

## **B. Economic Impacts**

While complicated technical problems remain in estimating the economic effects of the TPP, it seems clear that the withdrawal of the United States would greatly reduce the economic impacts of the agreement. TPP11 countries account for 6.8% of the global population (500 million people) and have a collective GDP of \$10.6 trillion (at nominal values in 2017). Though still significant, accounting for 13% of world GDP, the economic size of the TPP11 area is about one-third of the 38% under TPP12 (see Table 1). TPP11 countries are responsible for 15% of world trade (exports and imports). In contrast, TPP12's share in world trade is 26%. By comparison, Japan-EU EPA accounts for 8.7%, 28%, and 37% of world population, GDP, and world trade, respectively.

Regarding GDP and trade, the economic size of TPP11 is less than half of the Japan-EU EPA. TPP11 is a mega FTA, like the Japan-EU EPA or RCEP, but without the United States, its share

in world GDP and world trade is almost half of the share of TPP12. However, when the TPP11 membership is expanded to include, for example, the five countries (Indonesia, the Philippines, the Republic of Korea, Taiwan Province of China, and Thailand: TPP16), the share of this group in world trade rises to 22%. When the United Kingdom and Colombia are added to the TPP16, the trade share goes up to 25%, close to that of TPP12. These figures show, once again, in order to enhance the attractiveness of the TPP11, it is highly desirable to expand its membership.

With the withdrawal of the United States, based on 2017 export values of each member country, TPP's intra-regional exports will shrink from \$1,978 billion to \$389 billion, and as a result, the centripetal force of the TPP as “a Free Trade Area” will diminish sharply. Likewise, three NAFTA member countries (the United States, Canada, and Mexico) account for approximately 70% of intra-TPP12 trade (Table 2). This indicates that the NAFTA is by far the most important trade nexus within the TPP12 region. Because exports by Chile and Peru to the United States are larger than or as large as exports to the entire TPP11 markets, under the TPP11 framework, these countries will lose one of the engines for trade expansion. However, since both countries have FTAs in force with the United States, the impact of withdrawal from that country regarding trade creation may be limited. On the other hand, Vietnam's dependence on the U.S. market is high, and it is inevitable for this Asian country to be cautious about TPP11. The United States is also the second largest export market for Malaysia after Singapore, though its dependence is less than that of Vietnam.

**Table 2: Trade Matrix of the TPP11 vs. TPP12 2017**  
(Exports of Each Member Country: U.S. millions of dollars)

	Australia	Brunei	Canada	Chile	Japan	Malaysia	Mexico	New Zealand	Peru	Singapore	Viet Nam	TPP11	USA	TPP12
Australia		31	1,090	296	24,008	3,409	131	6,796	50	3,581	3,503	42,895	8,425	51,321
Brunei	152		1	0	1,630	626	0	1	0	426	44	2,880	29	2,908
Canada	1,541	2		682	9,117	554	6,051	380	548	1,044	812	20,731	318,955	339,686
Chile	225	1	1,390		6,445	201	1,172	68	1,766	64	279	11,611	9,997	21,607
Japan	16,011	85	9,592	1,754		11,269	2,463	758	12,763	22,654	15,054	92,401	135,060	227,461
Malaysia	7,495	534	816	165	17,300		2,224	1,043	117	30,979	6,388	67,060	20,576	87,636
Mexico	1,190	5	11,376	1,804	4,056	711		113	1,511	905	292	21,964	327,358	349,322
New Zealand	6,252	4	481	128	2,276	722	256		84	810	513	11,524	3,781	15,305
Peru	240	-	1,202	1,041	1,880	130	418	23		50	153	5,138	6,940	12,078
Singapore	10,006	758	732	79	17,057	39,580	1,281	1,799	81		12,294	83,666	24,183	107,849
Viet Nam*	2,865	20	2,653	805	14,671	3,342	1,888	360	277	2,420		29,302	38,473	67,775
TPP11	45,976	1,441	29,332	6,754	98,441	60,543	15,882	11,342	17,197	62,932	39,333	389,172	893,777	1,282,948
USA	24,523	121	282,082	13,605	67,602	12,964	243,287	3,920	8,662	29,773	8,133	694,672		694,672
TPP12	70,499	1,562	311,413	20,359	166,043	73,507	259,170	15,262	25,859	92,705	47,466	1,083,844		1,977,621

Notes: \*/ Figures for Vietnam correspond to the year 2016.

Source: calculation by the author, from UN COMTRADE database.

In the case of TPP12, three NAFTA member countries are major markets within the TPP region. As a result, the outcomes of NAFTA renegotiation will dramatically change potential gains of TPP11 to both Canada and Mexico and other TPP11 participating countries, when and if the USMCA enters into force. In addition, among TPP11 participating countries, there are countries

where China is a more important export destination than the United States, except in the case of Canada, Japan, Mexico and Vietnam for which the United States is the No.1 export market. Chile and Peru would have been more interested in a geographically wider, new Pacific-Rim scheme which includes China, Republic of Korea or even India. In that sense, although the RCEP's scope for trade liberalization is less ambitious than that of TPP11, for the Latin American countries that have strengthened trade relations with the Asia-Pacific countries on an individual basis over the years, cooperation with RCEP and ASEAN countries might become a high priority.

According to the Petri et al. study (2017), TPP12 will generate global income benefits of \$492 billion annually (gains for member countries estimated at \$465 billion and gains for non-member countries at \$27 billion) for the year 2030. Benefits includes income gains of \$131 billion for the United States and substantial percentage gains for other members, especially for Japan (\$125 billion), Malaysia (\$52 billion) and Vietnam (\$41 billion). In turn, TPP11 will generate substantially lower global income benefits of \$147 billion, less than one-third of the above-mentioned \$492 billion for TPP12. Gains are smaller for every member not only because benefits for TPP11 is much smaller without the United States, but also many TPP11 members already have FTAs in effect among each other. The differences between the two agreements are most obvious for Japan, Malaysia, and Vietnam, with the benefits of each reduced to about one-third to one-fourth of their TPP12 benefits. Therefore, the shortfall would be largest for economies that offered significant policy concessions motivated by their market access to U.S. markets, such as Japan, Vietnam, and Malaysia. No TPP economy gains from replacing TPP12 with TPP11. As evident from these figures, the return of the United States is critical for trade creation possibilities for TPP11 member countries.

The same study shows, at the same time, benefits obtainable from the expanded TPP16 (TPP 11 members and Indonesia, Philippines, Republic of Korea, Taiwan, and Thailand) might exceed those generated by other alternatives examined, with income gains, which are higher than in TPP12 itself. The largest beneficiaries, in absolute terms, are Japan, Republic of Korea, and Taiwan, along with their Southeast Asian partners. TPP16 would boost benefits three-fold because such an agreement would apply high-quality disciplines and rules to trade and investment among those three advanced economies in Asia which currently do not have an FTA with each other, and as a result, new value chains will be created in the Asia-Pacific region. Especially, Taiwan has few agreements with other economies (only with New Zealand and Singapore among the TPP16 countries) and would benefit disproportionately with income gains of 7.8% of GDP, the largest percentage gain for any economy (Petri et al. 2017). In sum, for the benefits of TPP11 to expand, either the return of the United States or the accession of other countries is indispensable. A new study by Petri and Plummer (2019) shows that if China were to join TPP11 (TPP11+China), these gains would be much greater, quadrupling to \$632 billion, or a quarter more than TPP12. In the case of "TPP16 +China", in which China joins TPP16, benefits are estimated at \$ 1,225 billion, tripling those of TPP16.

To analyze economic effects in more details, it should be taken into account that TPP countries are already connected by a myriad of bilateral and plurilateral FTAs and that liberalization among the TPP participating countries has already progressed to an advanced stage (See Table 3 for existing FTA networks within the TPP11 region). In this respect, it is important to assess the

magnitude of the “add-ons” or “extras” included in the TPP11 agreement, compared to the liberalization measures contained in the existing bilateral and plurilateral FTAs. In other words, whether there have been substantial improvements in TPP11 regarding market access and other trading rules, compared to those of the individual FTAs.

**Table 3: Existing FTA networks among TPP11 participating countries**

	Australia	Brunei	Canada	Chile	Japan	Malaysia	Mexico	New Zealand	Peru	Singapore	Viet Nam
Australia		P		B	B	P,B		P,B	B	P,B	P
Brunei	P			P	P,B	P		P		P	P
Canada				P			P,B		B		
Chile	B	P	B		B	B	P,B	P	P,B		B
Japan	B	P,B		B		P,B	B		B	P,B	P,B
Malaysia	B	P		B	P,B			P,B		P	P
Mexico			P	P,B	B			P	P,B		
New Zealand	P,B	P		P		P,B				P,B	P
Peru	B		P	P,B	B		B			B	
Singapore	B	P		P	P,B	P		P,B	B		P
Viet Nam	P	P		B	P,B	P		P		P	

Notes: P=Plurilateral : FTA among more than 2 member countries  
 B=Bilateral FTA  
 : to be filled when TPP11 goes into effect.

Source: Elaboration by the author based on national sources.

### C. Potential Benefits to the Three Latin American Countries

The estimates by Petri et al. (2017) and Petri and Plummer (2019) suggest that impacts of the TPP on the three Latin American countries will vary as the TPP membership is expanded. According to the income gain estimates for 2030 (based on the 2015 constant dollar), the impacts of TPP12 and TPP11 on Chile are relatively small, 0.9% and 0.7% of GDP, respectively. But when China is included in TPP11, the impact will rise to 2.1%. In the case of “TPP16 +China” variant, the percentage goes up to 2.5%. Gains expected for Chile, a country that has signed FTAs with all the TPP participating countries, also expands substantially when China is included. In the case of Mexico, the corresponding figures are 1.0%, 0.7%, 2.2%, and 3.4%. For Mexico that has FTAs in effect only with Japan, Chile, and Peru among TPP11 participating countries, expected income gains from the TPP increase as the TPP membership expands; TPP11 opens for Mexico new market access to six countries (Australia, Brunei, Malaysia, New Zealand, Singapore, and Vietnam). Mexico’s gains are even greater when China joins the TPP11. Compared with the two countries, the impact on Peru is even greater, 2.6%, 2.2%, 3.2% and 3.9%. Peru's expected income gains increase as the TPP membership expands. TPP11 should improve market access to the countries with which Peru has not yet signed bilateral FTAs, (i.e., Brunei, New Zealand, Malaysia and Vietnam), new market access to these countries will generate enough gains to boost the Peruvian economy. It is rather surprising that the expected income gains in Colombia are zero, regardless of the type of agreement (TPP12, TPP11, TPP16, TPP16+China).

While aggregate global income gains may be modest in relative terms compared to those for

some Asian countries, TPP11 is likely to provide important economic stimulus in certain sectors of the three Latin American economies. The greatest advantage of joining the TPP11 to these countries is improved access to the Japanese market for agricultural products. In addition, automobiles, business services, machinery and equipment, textiles and apparel, and leather products are expected to benefit from the TPP11 (CEPAL 2016, El Mercurio 2018). Under TPP11, the Japanese markets for products such as meat, citrus fruits, dairy products, food preparations, and fish will open significantly, providing substantial gains to the three Latin American countries. TPP11 should also help to reduce non-tariff barriers to trade among its members, especially trade in services and government procurement.<sup>18</sup> These often arise from discrepancies between countries' technical standards in areas such as safety, health or environmental protections, or sanitary and phytosanitary (SPS) measures (CEPAL 2016). The cumulation of origin should encourage the diversification of and addition of value to exports of Latin American TPP signatory countries.<sup>19</sup>

## 1. Chile

Chile has in effect FTAs with all the TPP members, and therefore, it might be expected that TPP11 has little to offer. However, the “add-ons” to the bilateral agreements are not insignificant. Since all the tariff concessions agreed in TPP12 are preserved in TPP11, there should be substantial gains in market access, especially with Japan,<sup>20</sup> Malaysia, and Vietnam in Asia, and Canada and Mexico in the Americas. For example, Chile gained market access for 1,603 (mainly agricultural) products that are excluded from tariff cuts in its bilateral FTAs with these five countries, whose exports amounted to about \$1.4 billion in 2014. Chile's access was improved compared with its bilateral FTAs with Japan, Malaysia, and Vietnam for 1,523 products; exports of these products to the three countries exceeded \$1.3 billion in the same year (DIRECON, 2016). Also, under TPP11, Chile will have access to public procurement markets of three countries (Malaysia, Peru, and Vietnam) with which it already has bilateral FTAs that do not address this issue (CEPAL 2016).

According to the Chilean Pork Producers Association (ASPROCER), market access to Japan will be improved by Japan's introduction of gate-price (i.e., standard prices for importation). Chile exported \$147 million of pork to the TPP11 countries (out of which \$116 million were destined to Japan). In contrast, the signing of TPP11 does not significantly change the panorama for the fruit industry, as tariff reductions are already included in the bilateral FTA with Japan, except oranges and table grapes, whose high tariffs under the bilateral agreement were to be reduced over a 10-year period. Also, market access of Chilean wines to Malaysia, agricultural products to

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<sup>18</sup> Under TPP11, Chile, Mexico, and Peru have greater access in public procurement than under bilateral FTAs: Australia granted access to public procurement markets at the federal level to all TPP partners and provided only five countries (the three Latin American countries, Canada and Japan) with access to public procurement markets at the subnational level. Under TPP11, Canada and Japan have also added more entities to the list covered by commitments on the openness of public procurement markets, compared with existing bilateral FTAs with Chile, Mexico and Peru (CEPAL 2016).

<sup>19</sup> According to Article 5.3 of TPP 11, each party of TPP11 is required to respond promptly and appropriately, under the “Advanced Rulings” system, when an exporter/Importer inquires in advance about the rules of origin.

<sup>20</sup> In the case of Japan, 1,027 items, which were excluded in the Japan-Chile EPA, are now included in the TPP11, would greatly improve to facilitate entry into this Asian market. With the TPP11, only 236 items are still excluded from complete tariff elimination (El Mercurio 2018).

Vietnam, or pork and dairy products to Canada will be improved. With the growing purchasing power of Vietnamese and Malaysian consumers, Chilean wine exports are expected to grow. In the case of wines, because of the Japan-EU EPA, Chile may lose some price advantages that it has enjoyed in the Japanese market up to now. Chile exported \$380 million worth of wine to the TPP11 area (El Mercurio 2018). It is not of minor importance that the rules of origin in TPP11 should allow member countries to import inputs of agricultural production and to reexport a final product without losing tariff preference.

However, not all industries will enjoy better market prospects. The Chilean Dairy Producers Association (EXPORLAC) is concerned that the competition with Australia, Canada, and New Zealand will intensify. Chile exported \$206 million worth of dairy products to 37 different markets in 2017, 24% of which were directed to TPP11 countries, including Peru and Mexico. Brunei and Malaysia do not yet have approved the phytosanitary codes. In the case of Japan, with an introduction of a quota system, cheese exports might increase (El Mercurio 2018).

## **2. Mexico**

Mexico is no stranger to free trade deals, having signed such accords with 46 countries, including Japan. But TPP11 represents an important opportunity for the country to establish trade relations with new governments since the existing deals are mostly with countries in the Western Hemisphere and Europe. TPP11 would open six new markets in the Asia-Pacific region and allow Mexico to boost exports of food items such as pork, avocados, tomatoes, and tropical fruits.<sup>21</sup> After the entry into force of TPP 11, tariffs will be eliminated for some products for which a tariff quota system has been applied under the Mexico-Japan EPA. Tariffs on Mexican bluefin tuna, which was not subject to tariff reduction in the EPA, will be eliminated in 5 or 10 years. Market access to Japan on pork, beef, orange juice, honey, agape syrup, chicken eggs will be improved. Besides, Mexico will have access to six new public procurement markets in the Asia-Pacific region. The combined GDP of the six countries amounts to \$27,600 billion, little explored markets so far by Mexican enterprises.

More importantly, TPP11 would allow Mexican enterprises to participate more actively in dynamic value-chain networks that have prospered in Asia, not only in manufacturing but also commodity or services sectors. The TPP11 stipulations of rules of origin and the system of “cumulation” should boost Mexico’s supply chains of the automotive and electronics sectors. Mexican authorities have consistently called for diversification of the export sector and foreign direct investment (FDI) from countries other than the United States. TPP11 would allow Mexico to diversify its economic and trade structure, which is heavily reliant on the neighboring country: The United States represented more than 80% of Mexico's exports and 46% of its imports in 2017. Tariffs on passenger cars from Mexico are immediately abolished in Australia, whereas in Vietnam and Malaysia, they are to be eliminated in the thirteenth year after TPP11 gets into force. Tariffs on automobile parts will be abolished immediately after TPP enters effect, while they will be eliminated in the eleventh year.

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<sup>21</sup> With respect to Mexico’s major agricultural and fishery products, tariffs will be reduced/eliminated for 1) avocados in Malaysia and Vietnam, 2) bluefin tunas in Vietnam, beef in Vietnam, and tequila in Malaysia Vietnam, and Australia.

In the case of the automotive sector, in which extensive supply chain networks have been constructed in North America, the outcomes of NAFTA renegotiations (now USMCA) will be of great importance for TPP11 as well. Stricter rules of origin under the USMCA agreement on automobiles and their parts would force Japanese automotive companies to accommodate their strategies, in conjunction with the rules of origin already stipulated in TPP11. For a vehicle to be considered of origin, the TPP12's rules require a level of regional value content (RVC) that is lower than the level required by NAFTA, but higher than the level required by most other U.S. trade agreements (Signoret and Bloodgood 2016) (the USMCA will be discussed in more detail in Chapter IV).

Mexico's strategic value of TPP11 as leverage in NAFTA renegotiation is clear: the Mexican government considers having other trading partners to fall back on has given more leverage in renegotiating NAFTA and other mega deals. The hope has been to challenge the U.S. assumption that Mexico would not be able to maintain its economy without NAFTA and thus be submissive to its demands. On the import side, TPP11 should not create great difficulties for Mexico; tariffs on some products imported to Mexico (including various agricultural and clothing products) will be phased out over a period of up to 16 years, while others will remain at levels of up to 47.5% (used vehicles) and in other cases will not be reduced (for example, sugar) (CEPAL 2016).

### **3. Peru**

Peru has concluded FTAs with 53 countries, and the participation in the TPP process is part of the country's liberalization package. In fact, 94% of Peru's overseas trade is already covered by FTAs. Once the TPP11 enters into force, Peru will have gained preferential access for its products in four new markets (Brunei, Malaysia, New Zealand, and Vietnam), whose combined GDP amounts to almost \$750 billion. Peru will also have access to public procurement opportunities in these four new markets. It should be noted that Peru has recently signed a bilateral FTA with Australia in February 2018. In addition, in those markets where Peru has in place six bilateral FTAs (Canada, Japan, Mexico, Chile, Singapore, and Australia), additional benefits can be expected.

Peru's trade with Japan has a great potential to grow. The number of products excluded from tariff cuts in the Japanese market is reduced from 1,062 under their bilateral agreement to only 29 under TPP11. This wider trade opening raises liberalization rate of the Japanese market for Peru from the bilateral rate of 88% to 98%. In addition, Peruvian authorities consider that TPP11 offers significant growth potential for its non-traditional exports, especially food, industry, and fisheries, to the markets of the four countries with which Peru has not signed bilateral agreements (Macera 2018, MINCETUR 2015). Tariffs on squid (frozen and others), frozen vegetables, fresh bananas will be gradually eliminated. The restrictions for the temporary entry of Peruvian professionals and technicians into these markets will also be eliminated. Besides, TPP11 is expected to promote the internationalization of Peruvian SMEs, since "cumulative" rules of origin can be utilized among participating countries. While SMEs' capacity for generating value added in their own country are limited, they can accumulate regional contents of intermediate goods and parts and components imported from TPP participating countries and use preferential tariffs.

TPP12 was going to provide better access to the U.S. market for Vietnam and Malaysia that would have competed directly with Peru in textiles and clothing. With the U.S. withdrawal, this concern is lessened for now. On the imports from the other ten countries, Peru should not have major problems because most of their imports from the other members are already duty-free (or are in the process of becoming so) due to existing bilateral FTAs. Peru will also eliminate tariffs on some products during a period of up to 16 years (for example, certain poultry and pork preparations) (CEPAL 2016).

When TPP11 gets into force, Peru will establish an FTA relationship with four new trading partners in Southeast Asia and Oceania and have closer ties with consumption and investment trends in the Asia-Pacific region. Peru aims at consolidating its position as a “gateway” for Asian countries to Latin American markets by strengthening relations with trading and investment partners in the Asia-Pacific region by way of participating in TPP11 (Young 2015). The Peruvian government's view is that TPP11 will provide opportunities to improve trade rules that had not been incorporated into existing bilateral FTAs (Montoya 2015). Many of these improvements are related to non-tariff measures, and various types of regulations are targeted, particularly, SPS measures aimed at enhancing consumer protection and quarantine inspection and certification capabilities (Montoya 2015).

## **B. Political Implications**

The TPP without the United States is unlikely to diminish its political importance for several reasons. First, as mentioned earlier, the greatest underlying geostrategic benefit of TPP11 has been its potential to discourage harmful trading practices and “managed trade” policies by building a 21st-century rules-based trading system. Second, in the view of A. Sarukhan (former Mexican ambassador to the United States), “TPP11 might create incentives to eventually engage with China, and for China itself to reform its “state-capitalism” practices (IAD 2018b). It is true that with the U.S. exclusion, some TPP participating countries now are free of the anti-Chinese bias embedded in the original TPP (Medina 2017). Third, because of its transpacific nature, TPP11 can consolidate not only the coalition of the free trade advocating countries in the Americas but also the relationship of these countries with the Asia-Pacific counterparts. Fourth, it will continue to create synergies with and among the four Pacific Alliance nations and others such as Mercosur countries that have begun to engage themselves in cooperative efforts with the Pacific Alliance. In sum, TPP11 has a new and important role to play in filling the geopolitical vacuum in the Americas, caused by the retreat of US global leadership. China’s recent persuasion of its socialist trade liberalism is not enough, at least for now, to fulfill this gap left by the Trump administration.

Although the large trade deficit of the United States with China has often been cited as the main cause of the current trade tensions, according to the U.S. authorities, competition for technological supremacy between the two countries is a more relevant factor (USTR 2018, Akita 2018). In their view, the country’s technological supremacy is threatened by China’s unfair practices. As indicated earlier, expected income gains from the TPP agreement are expected to increase in accordance with the expansion of its membership, especially if China joins it. But to join the TPP, China would have to undertake unprecedented reforms and manage complex

political challenges to bring many policies into compliance with global norms, as in SOEs related rules, IPR protection and patent enforcement, foreign investors from the requirement to take on local partners, and the easing restrictions on electronic commerce and on cross-border data transfers, among others (Petri and Plummer 2019). The European Union and Japan share most of these concerns expressed by the United States; accordingly, these three countries are calling for the rules of the WTO to be updated on issues such as industrial subsidies, the regulation of SOEs and forced technology transfer practices (CEPAL 2018a). According to Bergsten (2018a), China should join this US-EU-Japan initiative to reform the rules of the WTO, in a plurilateral and thus less charged political context.

Both Japan and the EU have pushed for an early entry in force of the EPA, before March 2019, when the United Kingdom leaves the EU. The Japanese government would like to have both agreements in force during 2019 when Japan chairs the G20 deliberations. These efforts, in turn, should facilitate the Japanese government to accelerate discussion on the importance of multilateral trading system with President Trump of the United States and Xi Jinping Jintao of China. In the Japanese government point of view, TPP11 and the Japan-EU EPA will encourage the United States to reconsider its return to TPP12, and at the same time, can increase the possibility of a successful conclusion of both the trilateral FTA among Japan, China, and the Republic of Korea as well as the RCEP process.

There are at least seven countries that have expressed interest in joining TPP11, at one point of time or another. The Republic of Korea, pressured by the United States to renegotiate the bilateral FTA already in force, had tried to use TPP11 as a tool to increase the country's leverage for this negotiation.<sup>22</sup> Thailand seeks membership in TPP11 to enhance the competitiveness of their entrepreneurs against its neighboring countries, although joining TPP11 would intensify competition from Vietnam in several industries. Besides, the Thai authorities see that TPP11 is much less rigid on pharmaceutical patents, a sticking point for Thailand in the original TPP12. Japan has agreed to support Thailand's TPP membership, while pledging to help accelerate RCEP negotiations so that RCEP talks can be concluded by the end of 2019. The two countries also agreed to revise the Japan-Thailand Economic Partnership Agreement (JTEPA) to promote in-depth cooperation; JTEPA focuses largely on import tariff cuts, and the Thai authorities would look to overhaul the 10-year pact to cover greater cooperation on innovation, artificial intelligence and digital development between the two countries (Bangkok Post 2018).

The Indonesian government, which has a series of conflicts with China on the South-China Sea issue, also has expressed interest in joining TPP11 but does not see it as an immediate priority for the economy. Indonesia in April 2018 drew up a development strategy called "Making Indonesia 4.0" for upgrading five manufacturing sectors (food and beverage, textile and clothing,

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<sup>22</sup> President Trump signed a revised FTA with the Republic of Korea on September 24, 2018, cementing the first bilateral FTA of his administration and sending a signal that the United States could soon win similar agreements with other trading partners. The revised US-Korea FTA will expand annual auto export quota of each U.S. automaker from 25,000 to 50,000 vehicles that are only required to meet U.S. safety regulations instead of Korean ones. The revised deal will allow the United States to continue imposing a 25% tariff on Korean trucks until 2041. The revised FTA does not address rules of origin for autos and parts. Both sides agreed not to pursue new agricultural liberalization. The amended FTA does not include a side letter on "currency issues", like the one signed by TPP countries in November 2015 and included in Chapter 33 of the USMCA (Schott and Jung 2018).

automotive, chemicals and electronics) in the hope of making the country one of the world ten largest economies. Indonesia faces fierce competition from its neighboring countries in these industries and joining TPP11 would at least level the playing field against its regional rivals. Indonesia is a strong supporter of RCEP, and the government sees its prompt concretion as the country's top priority. The Philippines<sup>23</sup> wants to catch up to Vietnam which has concluded eight FTAs including one with the EU. These ASEAN countries do not want to be left out of the global value chain networks developed in the Asia-Pacific region, where Vietnam is emerging as one of the chain hubs.

Taiwan is hoping to join TPP11 as soon as possible and believes it can conform to the deal's standards and market access commitments. There has been a report that Taiwan has asked Japanese Prime Minister Abe for the endorsement of its membership to TPP11 (Ting-Fang 2018). The Taiwanese authorities see that TPP11 would mitigate the effects of China's protracted trade row with the United States as well as China's efforts to contain Taiwan's international presence. Furthermore, TPP11 does not get in the way of exploring means to participate in the US-led "Free and Open Indo-Pacific Strategy", in which the U.S. government has repeatedly acknowledged that Taiwan has a critical role (Asia Times 2018). Despite that Japan welcomes Taiwan's willingness to join, this move might irritate Beijing and prejudice Japan's recently improving diplomatic relations with China.

In Latin America, Colombia, one of the four Pacific Alliance members, which was unable to participate in the negotiations on TPP12, has officially requested accession to TPP11 on June 15, 2018. Colombia was the first to formally notify New Zealand, as depositary of the TPP, of its interest in joining once TPP11 enters into force. While APEC (Asia-Pacific Economic Cooperation) membership is not required, all countries involved in TPP11 are APEC members; though it has applied for APEC membership, Colombia has not yet been admitted. Another important reason for Colombia to join TPP11 is that the member countries of Pacific Alliance are currently negotiating an FTA with other four TPP11 participating countries (Australia, Canada, New Zealand, and Singapore) (Portafolio 2018). The President Duque is reported to have abandoned the idea of joining the TPP, at least for now, putting priority on finalizing a bilateral EPA with Japan. It remains to be seen whether a successful conclusion of Japan-Colombia EPA might eventually lead to the latter country's joining TPP11.

The UK's announcement in July 2018 that it was formally considering joining the TPP11 was in some ways unsurprising because International Trade Secretary Liam Fox had been championing the chance to join since he came into office. Australian Prime Minister Malcolm Turnbull (then) welcomed the UK's interest. New Zealand officials have also been supportive of the United Kingdom joining the deal. With the world's fifth-largest economy included, TPP11's market size will be substantially enlarged, thereby enhancing its attractiveness. Strengthening UK's existing relationship with the Asia-Pacific countries might be a key element of delivering the country's first independent trade policy for over 40 years as it leaves the EU. TPP11 members

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<sup>23</sup> The Philippines would likely consider joining the TPP if the United States decides to renew its membership. In the testimony at the Senate Committee on Appropriations, USTR's Robert Lighthizer hinted that the United States would see the Philippines as a next candidate for a bilateral FTA after Japan (King 2018).

accounted for £82 billion of UK trade in 2016, more than the Netherlands, France or China. (Government of the United Kingdom 2018). However, there are several obstacles to the United Kingdom coming on board, including its inability to negotiate trade deals with any countries until after it formally leaves the EU in March 2019.<sup>24</sup> In February 2019, the Japan-EU EPA entered into force, and if the United Kingdom withdraws from the European Union without a formal agreement, the EU agreement involving Japan and the United Kingdom is expected to expire in two months.

#### **IV. Implications of the United States-Mexico-Canada Agreement (USMCA) for Japan**

The negotiation of the USMCA has ended with sighs of relief over the fact that it could have been much worse; a complete breakdown of the trilateral FTA or a bilateral FTA between the United States and Mexico without Canada would have meant significant impediments to continued development of supply chain networks between the three countries. In J. Schott's (2018) view, "the pact succeeds in partially updating the 25-year-old NAFTA by imposing new obligations for environmental policies and labor practices, curbing state-owned enterprises, and fostering digital trade", thereby "improving incrementally upon the high standard rule-making developed in the TPP" which the three countries signed onto during the Barack Obama administration. The incorporation of environment and labor issues in USMCA should earn support from the Democratic Party in the new Congress. The deal is expected to take effect on January 1, 2020 but requires the approval of all three governments (Wasson and Leonard 2018).

The text of USMCA includes major adjustments in several key sectors of the countries' trade relationships. The agreement sets new rules for automobile production, intended to stimulate the production of cars and trucks in countries that pay higher wages. It retains a tribunal for resolving trade disputes that the United States had sought to eliminate.<sup>25</sup> Furthermore, the new deal contains a provision known as a "sunset clause" proposed by the Trump administration, which provides for an automatic termination after a fixed period unless the agreement is explicitly extended by the Parties.<sup>26</sup> The USMCA also includes a "currency manipulation" chapter,<sup>27</sup> despite that it is unlikely to affect Mexico or Canada since neither has been a currency manipulator (Bergsten 2018b). But the "currency chapter" in the USMCA could become an important precedent for later deals with other countries, including a bilateral FTA between the United States

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<sup>24</sup> The United Kingdom can agree to renegotiate the existing EU agreement with extra-EU member countries after the exist. However, work has been delayed due to the turbulence of British politics. Countries and regions that have signed an agreement to continue with the existing agreement with the United Kingdom are limited to countries such as Switzerland and Chile for now.

<sup>25</sup> The dispute settlement mechanism stipulated in NAFTA's Chapter 19 for anti-dumping measures is maintained. The ISDS mechanism between the United States and Canada is eliminated, while its scope is reduced between the United States and Mexico.

<sup>26</sup> Although the United States was initially seeking a five-year sunset clause, the USMCA extends the period to a 16-year term, with a review required within the first six years of the agreement that could lead to a renewal for another 16-year term.

<sup>27</sup> In the Trade Promotion Authority (TPA) legislation in 2014–2015, U.S. Congress mandated "avoidance of manipulating exchange rates" as a principal U.S. negotiating objective in future trade agreements and passed separate legislation requiring "enhanced engagement" with any country that violated those precepts and action against it. The Obama administration negotiated a side agreement on currency to the TPP (Bergsten 2018b).

and Japan.

It is of great importance that Article 32.10 of USMCA obligates each signatory to notify the text of an FTA with a “nonmarket” economy for at least 30 days before signature to allow for review and assessment of the impact on the North American pact. Sarukhan (IAD 2018a) states that “Given the lack of a common North American footprint which the TPP would have provided towards China, it [USMCA] could have relevant diplomatic and geopolitical implications for both US neighbors.” Though Mexico has had no interest in talking a possible FTA with China directly to date, both Mexico and Canada are moving forward with TPP11 and “that could spell trouble for the new USMCA if China asks to negotiate accession to the Asia-Pacific pact” (Schott 2018).

The revamped NAFTA sets stricter standards for tariff-free auto exports, which all have serious implications for Japanese and other foreign automakers operating in Mexico. The new agreement stipulates that vehicles must consist of 75% North American content by around 2023 to qualify for zero tariffs, up from 62.5% in NAFTA, forcing automakers to source fewer parts for an “Assembled in Mexico” (or Canada) car from non-NAFTA countries. Besides, there will be additional obligations of rules of origin to be met for “Core Parts” (i.e., engines, engine parts, vehicle bodies, gear boxes, drive axles, shock absorbers, lithium-ion batteries and steering wheels) for use in passenger vehicles and light trucks: North American Content requirement for these parts will rise to 73% (net cost method) or 85% (transaction method) by 2023<sup>28</sup> (Inns 2018). These changes will likely force companies that locally source much of the content of Mexican-made cars to switch suppliers.

The new agreement also mandates that an escalating percentage of parts for any tariff-free vehicle — topping out at 40% in 2023 — must come from a so-called “high wage” factory. The new agreement says those factories must pay a minimum of \$16 an hour in average salaries for production workers. That is approximately triple the average wage currently paid in Mexican factories, and the Trump administration hopes that this provision will force automakers to shift suppliers from Mexico to Canada or the United States. Just as an example, Nissan's Sentra sedans, which are assembled in Mexico principally for the US market, include just 15% to 20% American and Canadian content, with 40% to 55% originating from Mexico, according to data from the U.S. National Highway Traffic Safety Administration (Tanaka 2018).

In side letters to the revised NAFTA, the United States granted tariff exemptions to 2.6 million imported passenger vehicles a year from each of those countries. This threshold is slightly more vehicles than Mexico exported to the United States in 2017 and nearly 1 million more than Canada has exported (Tankersley 2018). Mexico is projected to reach this quota as early as 2021 if production continues to expand at its current pace. The USMCA sets a quota for auto parts of \$ 32.4 billion for Canada and \$108 billion for Mexico, respectively. It is of great concern that the quota system will force companies to be more cautious about investing in Canada and Mexico.<sup>29</sup>

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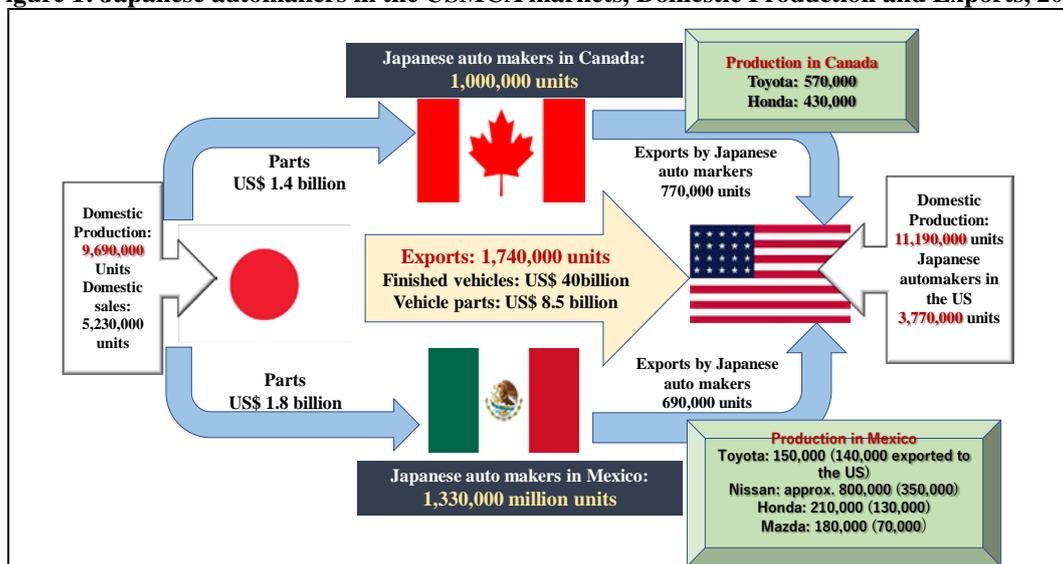
<sup>28</sup> Depending on which method is used to calculate the North American content, in 2020, these parts will need to have 66% (net cost method) or 76% (transaction method) North American content to qualify as “originating”. Thereafter the content requirement will rise incrementally to 75% (net cost method) or 85% (transaction method) North American content in 2023 (Inns 2018).

<sup>29</sup> The Japanese authorities and the business sectors are concerned that the United States will try to introduce quotas

The quota system also favors US automakers by including an exemption for light trucks — the main segment exported from Mexico by General Motors and Fiat Chrysler Automobiles. Nissan Motor and Honda Motor Company, by contrast, export mostly passenger cars (Tanaka 2018). Producers of passenger cars must either comply with the new rules or forgo the USMCA tariff preference, or simply pay the low most favored nation (MFN) tariff of 2.5% instead of overhauling their supply chains.<sup>30</sup> “[The latter] will likely be their choice, since in that case they can use components from any country. But truck producers do not have that easy escape route: The U.S. MFN tariff on trucks is 25%” (Schott 2018). In practice, the new rules will be costly for consumers and could well have negative effects for both workers and the auto industry because of the increased costs involved (Elliott 2018, Schott 2018).

With the United States and Canada reaching a deal on a revamped NAFTA in late September 2018, Japanese and other automakers are likely to revise their strategies toward the region. The USMCA sets new restrictions on cross-border auto exports, but — to the relief of many in the Japanese auto industry — does not impose tariffs on these exports. Japanese automakers have invested heavily in Canadian and Mexican production. They exported a total of about 1.5 million vehicles from those two countries to the United States in 2017, accounting for roughly 20% of their sales in the United States (Tanaka 2018) (Figure 1). Nissan Motor and Germany's Daimler together spent roughly \$1 billion on a Mexican plant that began operation in late 2017. Toyota announced in 2018 a 1.4 billion Canadian dollar (\$1.09 billion) investment in Canadian plants and intends to make new models there.

**Figure 1: Japanese automakers in the USMCA markets, Domestic Production and Exports, 2017**



Notes: Export values are calculated using the exchange rate of 110 yen=1US\$  
 Source: prepared by the author based on the Nihon Keizai Shimbun, [jidousha rittukoku semaru kiki], “Coming Threat to Japan’s Automobile Empire”, September 16, 2018, and [nihonsha, hokubei senryaku nerikaeshi], “Reworking of the North American Strategy of the Japanese Auto Industry”, October 2, 2018.

for automobiles in the TAG negotiations.

<sup>30</sup> If the costs of meeting the USMCA's rules of origin exceed the WTO's Most-Favored-Nation (MFN) tariffs (which for the U.S., is about 2.5% for vehicles and parts), Mexican firms could simply sidestep USMCA qualification, and export to the U.S. under MFN tariff rates. This option may be particularly attractive if the U.S. imposes section 232 tariffs under the U.S. Trade Expansion Act on other countries on national security reasons, while exempting Canada and Mexico up to a maximum quota of 2.6 million vehicles a year.

The revamped NAFTA has raised concerns in Japan about the potential impact on negotiations with the United States toward a bilateral “Trade Agreement in Goods” (TAG). Some warn that Washington could take a harder line, including demanding that Japan and Europe accept similar quotas on auto exports. Japanese automakers will need to figure out how to adjust their production structure in the United States, a vital market, to the satisfaction of U.S. government insistence on shrinking trade deficits. This task is increasingly trickier by shifting U.S. market conditions; though U.S. new-car sales hit a record of about 17 million units in 2017, some analysts say the market has peaked (Tanaka 2018).

## V. New Waves of Regional Integration in Latin America

The first Summit meeting between the Pacific Alliance and Mercosur was held on July 24, 2018, on the sidelines of the 13th Summit of the Pacific Alliance, in the Mexican resort city of Puerto Vallarta. The presidents of Colombia, Peru, Mexico, Chile, Brazil, and Uruguay attended the meeting<sup>31</sup> and signed a letter of intent to start working toward establishing a regional FTA. The leaders of both organizations renewed the agreement they reached in Buenos Aires in April of 2017, signing an “Action Plan” with a series of concrete actions that are going to be addressed in the coming months in areas such as technical barriers to trade, regional value chain, rules of origin, trade facilitation, regulatory cooperation, SMEs, trade in services, e-commerce, among others. In these areas, concrete measures have been taken, guided by the “Roadmap Pacific Alliance and Mercosur” agreed upon in May 2016.<sup>32</sup>

Talks on possible convergence of trade rules between the two parties started in 2014 under the leadership of Chile’s Ex-President Michelle Bachelet. Intra-zonal trade of the Pacific Alliance is quite limited, a reason for which deeper integration with Mercosur becomes increasingly necessary and urgent for the Pacific Alliance countries not only to expand the regional market and participate in GVCs and RVCs but also act as a “gateway” to and from the Asia-Pacific region. Most importantly, this type of cooperation will provide a boost to weakening support and respect for the rules-based multilateral trading system and to a reversal of recent moves towards power-based trade relations.

The negotiations between Mercosur and Mexico involve the two largest Latin American economies (Brazil and Mexico), which, however, trade very little among themselves up to now, incommensurate with their respective market size. In fact, from the perspective of the Latin American FTAs network, lack of an FTA between Mercosur and Mexico is said to be a major “missing link.”<sup>33</sup> An agreement of Mercosur with Mexico would be an important milestone on

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<sup>31</sup> From Argentina and Paraguay, Deputy Foreign Minister Daniel Raimondi, and Deputy Foreign Minister, Federico González attended the summit meeting.

<sup>32</sup> The Roadmap identifies the following six as priority areas: 1) Regional Value Chains / Cumulation of Origin; 2) Trade Facilitation / Single Windows for Foreign Trade; 3) Customs Cooperation; 4) Trade Promotion and SMEs; 5) Non-Tariff Barriers; and 6) Facilitation of Trade in Services. Working Groups are set up and are implementing specific projects in each area.

<sup>33</sup> This is true except for the Economic Complementation Agreement No.55 (ECA55) which lays the groundwork for free trade in the automotive sector between Mexico and MERCOSUR.

the path towards an integrated regional economic space. In addition, this will help Mexico reduce its high trade dependence on the United States. Similarly, with a successful conclusion of the negotiations between Mercosur and the EU, a common body of norms and commitments accepted by all members of Mercosur and the Pacific Alliance would be created, which could be later incorporated, with the appropriate adjustments, to a later agreement between both groups.

After the abrupt turn of the U.S. trade policy, both the Pacific Alliance and Mercosur have intensified their FTA agenda with extra-regional partners. In June 2017, the Pacific Alliance admitted four “Observer” countries (i.e., Australia, Canada, New Zealand, and Singapore) as its first “Associated Member States” candidates: Just to be reminded that these four countries are also participating in TPP11 and that the signatory countries of the Pacific Alliance are also participating in TPP11, except for Colombia that also has officially expressed interest in joining TPP11. Later, the Pacific Alliance started negotiations on a trade deal with these four “candidate” countries.<sup>34</sup> This process, currently underway, marks a significant milestone for the Alliance, since it constitutes the first FTA negotiation with non-original signatory countries.

The process mentioned above has meant another milestone for the convergence of trade and investment rules in Latin America: it puts in practice a kind of “multilateralization” process for the Alliance’s trade disciplines and rules with countries outside the Latin American region. A third significant milestone is the successful conclusion, in April 2018, of the negotiations of a new FTA between Mexico and the EU, which will replace the current agreement, which dates from 1997 (CEPAL 2018b). Chile has been engaging in a similar renegotiation exercise with the EU since late 2017. Both parties want to modernize the existing agreement by updating issues such as the facilitation of customs procedures, trade in services, investment, competition, rules of origin, and IPRs. Meantime, Ecuador has officially expressed interest in joining the Alliance. The Republic of Korea is applying for an “Associate Member” status to the Alliance.

The full agenda of trade negotiations in which Mercosur is immersed marks a remarkable turn from its traditional policy. Its four original members have intensified efforts to conclude the long-standing negotiations for the signing of an Association Agreement with the EU but have not yet reached an agreement. Areas that have not reached an agreement are reported to include beef, sugar, automobiles and auto parts.<sup>35</sup> The current economic situation of Argentina and the results of Brazil’s presidential election in October have had the EU authorities to adopt a “wait and see” stance toward this FTA negotiation.

In parallel to the negotiations with the EU, Mercosur recently started negotiations with the European Free Trade Association (EFTA), in June 2017, and with Canada, in March 2018. These

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<sup>34</sup> There have been six rounds of negotiations: the 1<sup>st</sup> in Cali, Colombia (October 23-27, 2017); 2<sup>nd</sup> in Gold Coast, Australia (January 29-February 2, 2018); 3<sup>rd</sup> in Santiago, Chile (March 3-9, 2018); 4<sup>th</sup> in Ottawa, Canada (May 12-18, 2018); 5<sup>th</sup> in Mexico City, Mexico (July 7-14, 2018); and 6<sup>th</sup> in Oakland, New Zealand (September 22-28). The 7<sup>th</sup> round meeting, scheduled for November 15-25, in Lima, Peru was cancelled.

<sup>35</sup> In January 2018, the EU side suggested raising the beef import quota from 70,000 tons to 97,000 tons, but the Mercosur side is asking for a quota of 130,000 tons. Mercosur is dissatisfied with the tariff quota on sugar’s exports of 150,000 tons per year, with the imposition of a tariff of 98 euros per ton. Regarding the grace period for the liberalization of autos and auto parts imports of Mercosur from the EU, it is reported that Mercosur is requesting to extend it from 10 years to 15 years (JETRO 2018).

two negotiations are reportedly going relatively well and might be finalized by the end of 2019. The negotiations with Singapore and the Republic of Korea have started in June 2018 and September 2018, respectively. At the same time, efforts toward strengthening bilateral relations among the Member States of both the Pacific Alliance and Mercosur, on a bilateral basis, are moving forward: Bilateral FTA talks, for example, between Colombia and Brazil, Peru and Brazil, Argentina and Mexico, Chile and Argentina, Chile and Brazil, and Chile and Uruguay, are underway. These efforts between blocks and on a bilateral basis will contribute to creating a more solid intra-regional market and a more connected market with the extra-regional ones.

Japan has been discussing an EPA with Mercosur since September 2015, when Keidanren (Japan Business Federation) and the National Confederation of Industry (CNI) of Brazil prepared the joint report (CNI and Keidanren 2015) on a roadmap for a Brazil-Japan EPA. Against this backdrop, the Japanese-Argentine Joint Business Cooperation Committee (the Japan Chamber of Commerce and Industry and the Argentine Chamber of Commerce and Services) and the Japan-Brazil Business Council (Keidanren and the Brazilian National Confederation of Industry) issued joint reports in May and July 2018, respectively, calling for launching negotiations on an EPA between Japan and Mercosur. Uruguay, a country supportive of a Japan-Mercosur EPA, signed the Japan-Uruguay Investment Agreement in January 2015. The Paraguayan government has also been supportive of Japan-Mercosur EPA; in April 2016, Vice Cancellor remarked that if a Mercosur member country refuses to negotiate with a specific country rather than Mercosur as a group, Paraguay would propose a change of Mercosur Resolution 32/00 so that a bilateral negotiation will be possible. The Mercosur countries are reported to be ready for negotiating bilaterally with Japan, if the negotiation as a group is not possible. This bilateral modality might accommodate the posture of Bolsonaro administration, which favors bilateral deals over the plurilateral ones.

The updated version of this joint report (CNI and Keidanren 2018) made available to their joint meetings in 2018, outlines issues and matters that should be included in the EPA based on factors including the current state of economic relations between Japan and Mercosur, as well as business issues faced by the private sector. Both Japan and Brazil share the view that with the concern over the global rise of anti-globalism and protectionism, the Japan-Mercosur EPA will contribute to the formation and strengthening of free and open economic areas in the Americas, and when concluded, will have profound significance on the world trading system. As established in these joint reports, to further develop inter-regional trade and investment and other forms of economic exchange, Japan and the Mercosur countries must fully comply with WTO rules. At the same time, to ensure that the EPA achieves comprehensive and high-level liberalization and rule-making, it must cover at least 13 negotiation areas.<sup>36</sup> Strong leadership from both Japan and Mercosur countries is needed to conclude a Japan-Mercosur EPA in the near future.

Japan should make full use of the synergy arising from strengthened relations between the Pacific Alliance and Mercosur by deepening and streamlining the EPAs with Pacific Alliance

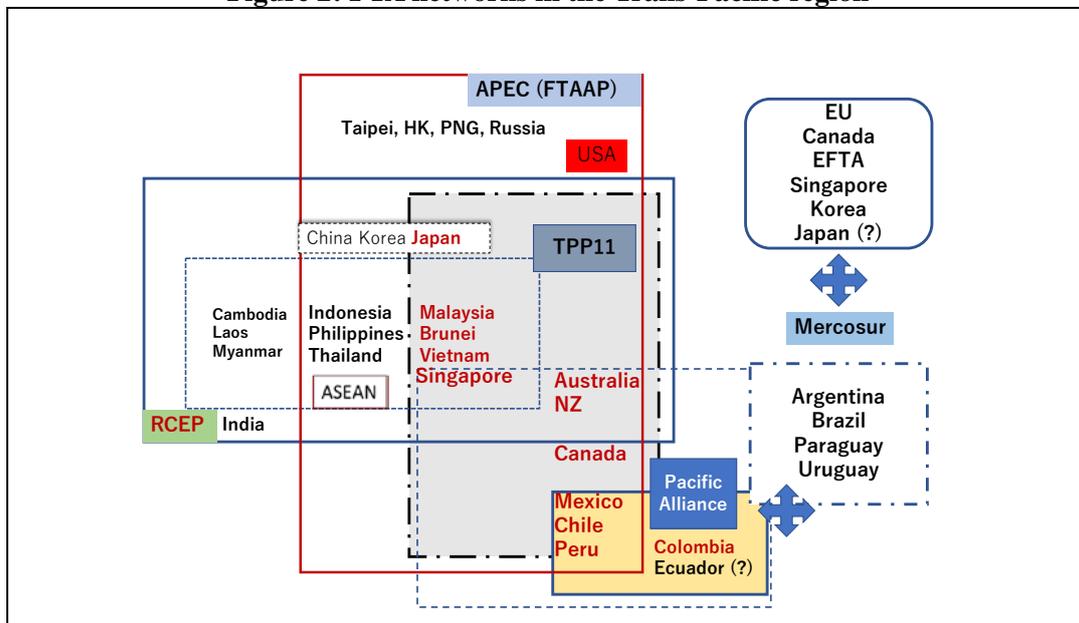
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<sup>36</sup> Negotiation areas recommended to be included by both parties Trade in Goods, Investment and Services, Rules of Origin, Trade Facilitation and Customs Procedures, Technical Barriers to Trade and Sanitary and Phytosanitary Measures, Trade Remedies, Intellectual Property Rights, Movement of Natural Persons, E-Commerce, Government Procurement, Business Environment, and Dispute Settlement (Keidanren 2018).

member countries. This need becomes evident when one takes into account that Chile, Mexico, and Peru are also TPP participating countries, while Colombia is likely to join TPP11. The question is then, whether Japan will try to strengthen the relationship on an *individual* basis with the Alliance countries within the framework of TPP11, or as a group, for example, by Japan becoming an “Associate-member State” of the Alliance. In the case of the latter, the four bilateral EPAs (including one in negotiation with Colombia) are likely to be adjusted in order that they will be eventually collapsed into a single EPA. This, in turn, might require further negotiations, which go beyond the commitments made in TPP11.

Although three TPP 11 countries from Latin America (Chile, Mexico and Peru) basically share the views of Japan on TPP11, in the current situation where TPP11 participating countries and other countries/regions are engaged in other FTA negotiations —Australia, Canada, New Zealand, and Singapore are involved in FTA negotiations with the Pacific Alliance from February 2018—, these seven countries, together with Colombia, are negotiating an FTA, whose geographic coverage is similar to that of TPP11 (see Figure 2). As a result, there seems to emerge a duplication process between the TPP11 membership and the expansion of the Pacific Alliance in progress. TPP11 should continue to create synergies with and among the four Pacific Alliance nations and others that are engaging in the group. The government of Japan should make efforts for both schemes to be complementary and mutually reinforcing. Emerging crisscrossing of transpacific FTAs (a spaghetti bowl phenomenon) might eventually pose a challenge for the TPP11 participating countries.

**Figure 2: FTA networks in the Trans-Pacific region**



Source: Elaboration by the author based on official sources.

The member countries of the Pacific Alliance and Mercosur have recently given clear signals to accelerate and deepen the convergence process. Some even have expressed interest in exploring the possibility of initiating negotiations for an FTA between the two groups, in stark contrast to a

more modest idea of initiating the discussions on convergence. Despite this greater political support, the negotiation of a "block by block" agreement is unlikely until other processes of equal importance, in which some members of both groups are immersed, come to a concretion. This has been the case of the USMCA's approval, of the negotiations between Mercosur and Mexico, and those carried out by Mercosur with the EU and other extra-regional countries. Since the tariff rates and trade and investment rules differ greatly between the Pacific Alliance and Mercosur, it might be advisable to proceed with those areas of common interests that can be agreed upon without major difficulties, and to seek later the convergence of rules over the medium to long-term, without aiming at creating a "Customs Union" or even "Free Trade Area."

## **VI. Concluding Remarks**

The Abe administration has put TPP11 and Japan-EU EPA as one of the most important economic diplomacy projects, forming an important component of the "Abenomics". The entry in force of both mega agreements that portray a prototype of the 21st century FTA of "golden standards" will send the world a strong message that Asia-Pacific, Europe, and Latin America will continue practicing a leading model of free trade regime. TPP11 has a potential to serve as a breakwater of the protectionist tides and as a safeguard against the preference for bilateral FTAs of the Trump administration, in addition to becoming prototype of FTAs in the Asia-Pacific region and elsewhere. The potential significance of TPP11 is even greater in the context of the intensifying trade tensions between the United States and China.

Although the U.S. withdrawal was a major setback for TPP12, TPP11 has a large potential to grow, in both economic and political terms. The decision by the United States to withdraw does not lessen the importance of the agreement, which has been recrafted to drop some of the original demands made by U.S. negotiators. The U.S. decision to withdraw from TPP12, however, changed the dynamics of the trade pact, thrusting Japan into a leadership role. Although Japan is well positioned to take a leadership role, no one country in the Asia-Pacific can do this alone. Collective leadership will be required from those that have a large stake in the global open trade regime. Japan is key, and other open economies such as Australia, Canada, New Zealand, and Singapore in the Asia Pacific, as well as Chile, Colombia, Mexico, and Peru in Latin America, will be important partners in these endeavors.

The entry into force of TPP provisions, even without the United States, would be an important development in the evolution and strengthening of international trade disciplines and rules. TPP11 parties are expected to benefit from commitments providing for tariff reductions, cumulative rules of origin and support for GVCs, facilitation of cross-border digital trade, SOEs, investment liberalization and protection of IPRs and other provisions that go beyond those in existing agreements. Provisions on environment and labor are also included. The horizontal rules that allow trade to prosper are also added. By way of addressing the "Horizontal" issues, Japan should elaborate on concrete actions and activities for Cooperation and Capacity Building (Chapter 21); Competitiveness and Business Facilitation (Chapter 22); Development (Chapter 23), and Small and Medium-Sized Enterprises (Chapter 24), in close collaboration with Latin American member countries. A special feature of TPP11 is that the TPP incorporates, from the outset, development

dimensions into trade negotiations. Provisions provided in these chapters should be taken full advantage of, in order to promote the development of Latin American GVCs and RVCs and the quality infrastructure building.

TPP11 will contribute to the productive and export diversification processes in Chile, Mexico, and Peru, and Colombia when the country becomes a member. Although market-access benefits for those countries might not be as great as those expected for some Asian countries, the opening of markets under TPP11 would open new opportunities especially for their agricultural and agro-industry exports to countries with high purchasing power, such as Australia, Canada, Japan and Singapore, or with high economic and demographic growth, such as Malaysia and Vietnam. Furthermore, allowing the cumulation of origin between Chile, Mexico and Peru and with other TPP partners would promote GVCs and RVCs, especially for their SMEs. In any case, industrial, technological and innovation policies are needed to take advantage of these opportunities that TPP11 might offer. The experience of the countries of the region with a myriad of FTAs suggests that the trade liberalization schedules included in TPP11 alone would be insufficient to deepen the productive and export diversification processes of these countries. The “horizontal” commitments in the agreement should facilitate these processes.

The political significance of TPP 11 for Latin America is that even without the United States, Asia-Pacific countries can work together to preserve the multilateral trading system and open a new era in international economic relations. The entry into force of TPP11 is meaningful to the Latin American region where many economies have worked hard to streamline trade and investment policies over the last 25 years. TPP11 is a reassurance of free trade regime and multilateral trade liberalization, of which countries of the Latin American region have been faithful followers. TPP11 will open to Latin American countries new venues and ways not only to construct strategic relations with the Asia-Pacific countries, but to rewrite integration strategies within the proper region. Countries in the region should support TPP11 or RCEP initiatives to promote productive diversification, GVCs and RVCs, infrastructure development, as well as democracy, national security, and other issues.

The accession clause of TPP11 does not suffer changes from TPP12; the clause allows any state or customs territory to accede to the Agreement, subject to the terms and conditions agreed between the applicant state and the Parties. There are no “geographical” limits with respect to its membership. Admittedly, with the U.S. withdrawal, the attractiveness of TPP as a “Free Trade Area” is substantially diminished. For the TPP11’s benefits to expand, either the return of the United States or accession of other countries is highly desirable. Under the present circumstance in which the U.S. return is most unlikely, the United Kingdom joining TPP11 will undoubtedly boost its market size and therefore its attractiveness. New accession of countries deeply embedded in Asian value-chains like the Republic of Korea, Taiwan, Indonesia, and Thailand in Asia will further enhance its commercial and geostrategic value. Gains would be much greater, should China decide to join TPP11. TPP11 offers a great potential to expand Asian GVCs and RVCs to get Latin American counterparts engaged not only in Mexico’s manufacturing but also in commodity and services sectors as in the case of Chile, Colombia, and Peru. These value-chains networks can be also connected with the RVCs in the Mercosur economies.

Since some 20 provisions that U.S. negotiators fought hard to achieve in TPP12 are for now suspended, TPP11 may generate even stronger incentives for others to join. Indonesia, the Republic of Korea, Taiwan, Thailand, and the United Kingdom all expressed interest in membership following the conclusion of the negotiations. At one stage, even China expressed interest. China's membership, though controversial, would generate especially large benefits for all. Bergsten (2018a) and Petri and Plummer (2019) argue that China should indicate an interest in joining TPP11, which would induce the United States to rejoin the TPP agreement and provide another venue to open markets and establish new rules for the Asia-Pacific countries. Also, some of the EU Member States that have concluded bilateral FTAs with Asia-Pacific economies could also be potential partners of TPP11. As the number of member countries increases, economic and geostrategic benefits can be expanded accordingly.

In the medium term, TPP11 could lay the foundation for a Free Trade Area of the Asia-Pacific (FTAAP) among the 21 economies of the Asia-Pacific Economic Cooperation (APEC) forum. While TPP11 could set the momentum towards establishing FTAAP, a gradual convergence process in trading rules between TPP11 and other mega economic integration projects currently under negotiation such as RCEP might be encouraged. The fact that seven RCEP participants (Australia, Brunei, Japan, Malaysia, New Zealand, Singapore, and Vietnam) are also parties to TPP11, may facilitate this convergence. In any case, any convergence between these two projects would be highly complex, as the diverging views of Japan, on the one hand, and China and India, on the other, on the regulation of trade and investment would have to be reconciled.

China has dramatically increased its commercial presence in Latin America in recent years, and as a side-effect of President Trump's "America First" policy, it is expected that China will become more aggressive to fill the vacuum left by the United States. Chinese companies are ready to undertake new projects in Latin America. U.S.'s inward-looking strategy will have an important political effect that could alter the power balance between the United States and China, or Russia, in Latin America (Rocco y Comini 2018). Japan should be prepared to fill, to its possible extent, the vacuum left by the United States, and counterbalance Chinese influence. If this happens, Japan will be obliged to decide how to go about strengthening its relations with the Pacific Alliance, either individually or as a group, and with Mercosur.

The negotiations undertaken between the Pacific Alliance and Mercosur in recent years respond to a natural interest of both parties to strengthen trade and investment relations with relevant regional partners, especially in a global context of great uncertainty and growing protectionism. The protectionist trends became evident in some quarters of the world that have given renewed impetus to the agenda of intra- and extra-regional negotiations of both groups and provided a rationale to also boost the process of convergence; having a more integrated regional economic space would strengthen the attractiveness and bargaining power of both groups towards developed countries, Asian emerging economies and other extra-regional partners (CEPAL 2018b). Mercosur's closer relations with the Pacific Alliance and an EPA between Japan and Mercosur will be an additional, important signal for the preservation of world open trade regimes. A successful conclusion of the negotiations of Mercosur with the EU, EFTA, the Pacific Alliance, and several Asian countries (Korea, Singapore and possibly with Japan) has a potential to provide a common body of trade norms and commitments that can be eventually acceptable to all Latin

American countries.

When it enters into force, TPP11 would also have important implications for the future of regional economic integration processes in Latin America and the Caribbean. The three Latin American Parties to the agreement are also members of the Pacific Alliance, while another member of the Alliance, Colombia, has expressed interest in joining TPP11. On the other hand, four Associate member-candidate countries have started FTA negotiations with the Pacific Alliance. As the membership of the Alliance expands, there will be two similar, overlapping transpacific mega agreements in progress. In this regard, a hypothetical scenario in which the Pacific Alliance is in effect subsumed by TPP11, and vice versa, could make it difficult for the Alliance to proceed with the convergence process with Mercosur. Japan's efforts to strengthen relations with the Alliance and Mercosur should be pursued in such a way to contribute to this convergence. The entry into effect of TPP11 means just a beginning of its implementation and administration process. It remains to be seen how the TPP11 will evolve in Latin America in the years to come.

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