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TPP is dead – long live TPP! by Patrick O'Connor

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The Trans-Pacific Partnership trade deal (TPP) is all but dead. By walking away from the hard fought deal, the United States has missed a golden opportunity to continue its leadership on global trade rules and market liberalization. It also sends a strong signal to trading partners and allies alike, that the US commitment to Asia is less iron-clad and likely to be much more transactional under a Trump Presidency. More importantly for the United States if it did reject TPP, apart from losing the potential benefits of the deal, it would find itself increasingly marginalized from efforts to maintain the existing global, rules-based order, or to reshape a new, emerging one.

The region, for its part, should not let itself be held hostage to US populist, domestic politics; short historical memory; false premises of the benefits of market de-liberalization; and a lack of US leadership on this issue. Instead, it should continue to bring TPP to fruition (the only other alternative presently being the less ambitious Regional Comprehensive Economic Partnership agreement – RCEP). Many TPP countries have already pressed ahead with ratification through their own domestic processes, with Japan the first to complete its requirements (remembering that this forms an important part of Prime Minister Abe's Third Arrow). This is in spite of what the US system has signaled about its own probable non-ratification.

The current TPP rules require that for entry into force, all original signatories complete their applicable domestic, legal procedures for ratification. If not all signatories complete this process within two years of signing the agreement (i.e., by February 4, 2018), it shall enter into force 60 days after at least six of the original signatories notify completion of their applicable legal procedures – as long as those six account for at least 85 per cent of the combined gross domestic product of all TPP signatories. That GDP requirement means the agreement will never enter into force unless the United States ratifies it, which looks to be highly unlikely.

Given that impossible entry-into-force hurdle, the other signatories of TPP should forget any concerns they might have over US trade retrenchment. Instead, they should forge ahead to realize the ambition of a high-quality, regional trade agreement with broad membership. This will of course require at least some tinkering, noting the rules listed above, if not wholesale revision.

Such 'tinkering' could see the remaining signatories to the TPP ink a new deal with different requirements to activate the agreement. This would represent the simplest alternative to keeping TPP alive, and avoid the bureaucratic grind that would be involved in starting another set of torturous negotiations. Of course, this overlooks the fact that the existing calculus for each of the deal's signatories regarding the benefits of the agreement (with US involvement) could now be invalid, and be a more difficult sell with their own domestic constituencies. The agreement minus the United States would cause many, if not all, countries to consider the need to renegotiate various elements of the deal. This would be a significant labor, but to let TPP fail would be to waste all of the hard work that has been done, and the goodwill developed, over approximately the past ten years.

This could also provide an opportunity to improve the trade outcomes for the other TPP members. The entry-into-force requirement to have 85% of GDP of the TPP members makes the United States (and Japan) critical to this process – thereby allowing it to hold the other TPP members hostage to its own requirements for the agreement. Even when there was an inkling of hope in the United States for TPP to continue to be a live issue, it was on the basis that the TPP should be reopened to negotiate those elements over which the United States did not get everything it wanted.

Given the tough negotiating position the United States took to achieve many of its preferred outcomes on the TPP deal, there might be elements that were difficult for many of the other parties to adopt. If the deal were to be implemented without the United States, these US-centric elements could potentially be removed, or made more palatable to the remaining members.

Moreover, to increase the benefits of the deal to the parties of the TPP, the current members could consider courting and inviting other large economies to participate, including China, as long as the high ambition of the TPP trade rules was not watered down. The rules clearly allow for others to be included – especially APEC members, of which China is one. Then there are other partners in the region, such as Taiwan, South Korea, and Thailand whose involvement could also build momentum towards a stronger deal. This would of course further complicate negotiations, but could also potentially expand the benefits.

What does walking away from TPP mean for the United States? There are at least three immediately apparent prospects. First, it would undermine its position as the preeminent architect of the rules-based global order for trade over the coming century. Second, it would be left out of a significant and highly-ambitious trade agreement, thus side-lining some of its trade interests should it at some point – following implementation of a new deal – seek to rejoin. Third, it could create space for others, like China, to lead on regional architectural reform. This would decrease relative US soft power and undermine confidence in the United States as a supporter of the international rules-based order, as well as its commitment to the Asia-Pacific.

We have already seen elements of this with the creation of the Chinese-led Asian Infrastructure Investment Bank (AIIB). As the United States resisted reform of international institutions, including Bretton Woods, China – as the rising power and challenger to the current order – has sought to create its own competing order. Many others – including strong supporters of the US, such as Australia, New Zealand, and the UK – recognized that AIIB would be realized whether the United States resisted it or not. Rather than being left outside the tent and unable to influence the AIIB program, they took a pragmatic approach and chose to join, thereby having a part in the potential future international architecture.

The United States should start to act upon instincts that should be well-ingrained in its (pre-Trump) philosophical DNA. TPP should be a natural part of that DNA. To reject this is to reject the United States' manifest destiny as a global force for good and undermine its own key interests, both economically and geo-politically. The US approach also rejects that all partners have a say in how the final deal looks, that all will need to make compromises – including the United States. If we want the world to be democratic, we to have to act democratically in the world. As the self-proclaimed bastion of democratic principles, no country should see that better than the United States.

If countries continue to press on with TPP while the United States stands on the sidelines, the United States will see itself gradually marginalized from the emerging new order. It would then have to determine, on the merits, whether it is in fact better to remain in isolation and glorious self-protection rather than break down the walls the new Administration has suggested it will build around trade.

This is not to say the international partners to the TPP should wash their hands of the United States with regard to the trade deal. On the contrary, they should continue to encourage the United States to cure its historical amnesia about its role as the spearhead of the current global order that has assisted all countries in maintaining global peace and prosperity, see its own interests reflected in TPP, and join in. If it does not, others should carry on with this important endeavor.

Long live the TPP!

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