

# Chapter 3

## Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP): Implications for the Asia-Pacific Region



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### 3.1 Introduction

On March 8, 2018, the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) trade agreement was signed by 11 Pacific Rim countries in Santiago, Chile, after the withdrawal of the United States from the original Trans-Pacific Partnership (TPP). These 11 countries include Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam (Global Affairs Canada, 2018a). This trade deal is significant because it creates one of the world's largest trading blocs spanning over four continents, accounting for 13.5% of world's gross domestic product (Global Affairs Canada, 2018a). This free trade agreement is designed not only to eliminate tariffs and lower most trade barriers in these 11 Pacific Rim countries, but also addresses a number of emerging trade issues in the new economy of the twenty-first century (Department of Foreign Affairs and Trade, 2020). While the CPTPP has been agreed to in principle by all 11 signatories, only seven countries have implemented this agreement because it requires parliamentary ratification by the respective governments.

The election victory of Donald Trump as US president signals a fundamental shift in US trade policy and a sudden return to protectionism. On January 23, 2017, four days after his inauguration, President Donald Trump signed an executive order to formally withdraw the United States from the TPP trade agreement that the previous Obama Administration signed with 11 other countries (USTR, 2015).

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The US withdrawal posed a dilemma for the remaining signatories. The original TPP required ratification by at least six participating members with at least 85% of the combined GDP in the trade bloc for it to proceed (USTR, 2015). Because of this condition, the implementation of TPP depended largely on the participation of the United States which alone accounted for approximately 62% of the total GDP of TPP members. It should be noted that the combined GDP of the United States (62.1%), Japan (16.4%), and Canada (6.4%) alone constituted 85% of the GDP requirement. Thus, there was no way that TPP could survive without the United States because it did not satisfy the 85% requirement. Even if the remaining signatories, Australia, Chile, and Peru decided to ratify the TPP, their small share of the group's GDP implied that TPP could not have been implemented.

Given the US withdrawal from TPP, there was a speculation that TPP was practically dead. Some member countries scrambled to salvage the trade deal after the United States pulled out of TPP. Japanese Prime Minister Shinzo Abe tried to persuade US President Trump to change his mind on TPP (New York Times, 2017), but failed at the end. Several other countries such as Australia, New Zealand, and Singapore still wanted to retain the TPP without the United States (Reuters, 2017).

To save the TPP from collapse, the remaining 11 signatories agreed to negotiate a revised version of the TPP. They finally concluded the CPTPP in a modified form. On December 30, 2018, the CPTPP entered into force among the first six countries (Australia, Canada, Japan, Mexico, New Zealand, and Singapore), which ratified the agreement (Global Affairs Canada, 2020). On January 14, 2019, the CPTPP came into effect in Vietnam after ratification.

Although there is an extensive literature on the original TPP (Kelsey, 2019; Lim et al., 2012; Nottage, 2016; Petri & Plummer, 2016; Wilson, 2015), only a few studies have focused on the CPTPP, including several studies regarding trade issues of the CPTPP (e.g., Li et al., 2020; Upreti, 2018; Wang, 2019; Wu, 2020). Upreti (2018), for example, examined the importance of intellectual property in the newly formed CPTPP. Wu (2020) explored the divergent positions of member countries of the Association of South East Asian Nations (ASEAN) in joining the CPTPP. Khan et al. (2018) developed an empirical model to estimate the impact of CPTPP on Pakistan and argued that Pakistan would suffer from this trade agreement due to trade diversion of textile and apparel products as a result of the CPTPP. Using the CPTPP as one of the examples, Wang (2019) argued that there is a content convergence of free trade agreements around the world, especially in areas of regulatory disciplines and dispute settlement. More recently, Li et al. (2020) developed a simulation model to compare the potential effects on trade, GDP, and employment if China and the United States were to join the CPTPP.

The world economy is facing a series of unprecedented developments, including the US–China trade war, a worldwide pandemic, and a looming global recession. Compounding these challenges are geopolitical issues such as the perceived Chinese expansionism, China–India military conflicts, and the militarization of the South China Sea. While the CPTPP is a free trade agreement for the Pacific Rim, it is also a foreign policy alliance with geopolitical considerations.

The purpose of this study is to analyze CPTPP in relation to the original US-led TPP and to examine implications of CPTPP for the Asia-Pacific region from both economic and geopolitical perspectives. This chapter begins with an overview of the CPTPP in the context of the World Trade Organization (WTO) and the broad trend of mega regional trade agreements.<sup>1</sup> The next section discusses the economic impact of the CPTPP on member countries. An analysis of the geopolitical implications of the CPTPP is then presented. It is followed by a discussion of the implications for the Asia-Pacific region. Four possible scenarios are then presented for the future of CPTPP. The final section concludes with a summary.

## 3.2 An Overview of the CPTPP

The origin of TPP can be traced back to a 2005 free trade agreement. In 2005, the regional free trade proposal was initially started by four small Pacific Rim countries—New Zealand, Singapore, Brunei, and Chile. These four countries successfully negotiated a preferential trade agreement (PTA) called the Trans-Pacific Strategic Economic Partnership Agreement, commonly known as the “Pacific 4” or P4 (Elms & Lim, 2012). The P4 agreement consisted of 20 chapters on market access and trade rules. This trade agreement came into effect in 2006, with an accession clause to allow other countries to join at a later date (Lewis, 2011). For the P4 countries, their attempt to liberalize goods and services was not effective in captivating world attention because they were small countries with limited global economic significance.

In September 2008, the US government under President Obama announced its intention of joining the P4 agreement (Lewis, 2011). The US announcement was greeted enthusiastically by both Australia and Peru which also expressed their strong interest in joining the trade talks. Recognizing the potential benefits of a free trade agreement, Vietnam wanted to participate as an observer (Elms & Lim, 2012). In November 2010, Vietnam officially changed its status from an observer to a formal member. Malaysia also joined in the negotiations in 2010. In essence, the TPP membership was extended to include five new countries: the United States, Australia, Malaysia, Vietnam, and Peru. After Japan signaled its intention to join the TPP in 2011, both Mexico and Canada also wanted to join the trade negotiations in late 2012 for fear of being left out of this trading bloc in the Pacific Rim (Fergusson et al., 2013; Hidalgo, 2016).

Unlike a multilateral trade agreement where all countries agree to the same rules, this plurilateral agreement allows non-reciprocity among member countries.<sup>2</sup> This

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<sup>1</sup>A mega regional agreement refers to a trade agreement between countries of different regions which accounts for a large share of the world’s trade and investment.

<sup>2</sup>A multilateral agreement refers to a trade agreement among all WTO member countries. A plurilateral agreement refers to a trade agreement between a group of countries which choose to agree to specific new trade rules.

means that the proposed agreement permits country X to offer concessions that benefit country Y in exchange for other concessions from country Z (Hamanaka, 2010). As a result of the pluralistic nature of this proposed trade agreement, some elements of the agreement apply to specific member countries only, though most elements apply to most countries. An example of the plurilateral agreement is the Canada–New Zealand side agreement which allows Canada to grant market access to New Zealand wine and distilled spirit products in exchange for Canadian exports of Canadian whisky to New Zealand (New Zealand Ministry of Foreign Affairs and Trade, 2018).

The first round of TPP negotiation took place in Melbourne, Australia, in 2010. An agreement was finally reached after 19 rounds of negotiations over a period of 5 years. It should be noted that these 12 TPP member countries are hugely diverse in terms of political structure and economic development. While the United States, Canada, Australia, New Zealand, and Japan are developed nations with high per capita income, Malaysia, Vietnam, Peru, and Mexico are developing nations with relatively low per capita income. Of particular interest is that Vietnam is a communist country without a democratic tradition.

The TPP was expected to promote the liberalization of trade in goods and services in the trading bloc and strengthen economic integration in the Pacific Rim. China did not ask to join the TPP given the requirements to reform China's state-owned enterprises and labor obligations. Other countries and regions expressed interest in joining the TPP include South Korea, Thailand, Philippines, Cambodia, India, Columbia, Laos, and Taiwan.

After the United States exit, Japan took a leadership role to revive the TPP. After several rounds of negotiations, the remaining signatories were able to preserve the mega free trade agreement without the United States. The renegotiated trade agreement among the remaining 11 countries were renamed CPTPP. All CPTPP nations are current members of the Asia-Pacific Economic Cooperation (APEC) and the World Trade Organization (WTO).

Table 3.1 shows the pre-existing bilateral and trilateral free trade agreements (FTAs) among CPTPP countries.<sup>3</sup> It is interesting to note that many CPTPP countries already have multiple FTAs among themselves such as the Canada–Peru FTA and Canada–Chile FTA (Wu, 2002). As shown in Table 3.1, both Japan and Singapore have FTAs with eight CPTPP countries. Similarly, Malaysia has seven FTAs with CPTPP countries, while Vietnam has six FTAs with other members. This suggests that these economies are well connected to one another through the existing free trade agreements (Williams, 2013). The economies of Canada and Mexico are already well integrated through one of the world's most comprehensive FTAs, the North American Free Trade Agreement (NAFTA) which started in 1994 (Wu & Longley, 1991a, 1991b). NAFTA was subsequently superseded by the United States–Mexico–Canada Agreement (USMCA). Overall, the data suggests that most

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<sup>3</sup>A bilateral agreement refers to a trade agreement between two countries. A trilateral agreement refers to a trade agreement among three countries.

**Table 3.1** Existing free trade agreements among CPTPP member countries

Country	Australia	Brunei	Canada	Chile	Japan	Malaysia	Mexico	New Zealand	Peru	Singapore	Vietnam
Australia		X		X	X	X		X		X	X
Brunei	X				X	X		X		X	X
Canada				X			X		X		
Chile	X		X		X	X	X		X	X	
Japan	X	X		X	X	X	X	X	X	X	
Malaysia	X	X		X	X			X		X	X
Mexico			X	X	X				X		X
New Zealand	X	X		X	X	X				X	X
Peru			X	X	X		X			X	
Singapore	X	X		X	X	X		X	X		X
Vietnam	X			X	X	X		X		X	

Sources: Data compiled from New Zealand Ministry of Foreign Affairs and Trade, Global Affairs Canada, Australian Department of Foreign Affairs and Trade, Japan Ministry of Economy, Trade and Industry (METI), Singapore Ministry of Foreign Affairs, and World Trade Organization (WTO) (2021). Regional Trade Agreements Database

CPTPP countries are already integrated into the economies of the trade bloc and that most CPTPP countries already have a framework in place for the reduction of trade and investment barriers.

The information in Table 3.2 summarizes some salient features of CPTPP member countries. Together, the 11 members of CPTPP account for 12.8% of world GDP and 6.6% of world population. In terms of market size, CPTPP members range from countries with small populations (Brunei, New Zealand, and Singapore) to some large countries (Japan, Mexico, Vietnam). Similarly, the CPTPP comprises some economically affluent economies (Australia, Canada, New Zealand, and Singapore) as well as some middle to low income countries (Vietnam, Peru, and Mexico).

The catalyst for the TPP stems from the failure of the World Trade Organization (WTO) and its predecessor, the General Agreement on Tariffs and Trade (GATT) in progressing multilateral free trade (Petri et al., 2011). For over seven decades now, the international trade framework has been governed by the GATT since its creation in 1947, and subsequently fine-tuned by the WTO after 1995. However, the efforts of both organizations in liberalizing global trade and investment environments have been marred by a series of failures (Hufbauer & Cimino-Isaacs, 2015). It should be acknowledged that the GATT managed to reduce tariffs and non-tariff barriers

**Table 3.2** Demographic and economic indicators of CPTPP members countries

Country	2019 Total Population (000)	2019 GDP per capita (US\$)	2019 FDI Inflows (million US\$)	2019 Total GDP (billion US\$) <sup>a</sup>
Australia	25,363	54,907	36,156	1,392.7
Brunei <sup>b</sup>	433	31,087	275	13.5
Canada	37,589	46,195	50,332	1,736.4
Chile <sup>b</sup>	18,952	14,896	11,437	282.3
Japan	126,264	40,247	14,552	5,081.8
Malaysia	31,949	11,415	7,650	364.7
Mexico	127,575	9,863	32,921	1,258.3
New Zealand <sup>b</sup>	4,917	42,084	5,427	206.9
Peru	32,510	6,978	8,892	226.8
Singapore <sup>b</sup>	5,703	65,233	92,081	372.1
Vietnam	96,462	2,715	16,120	261.9
Total CPTPP members	507,717		275,843	11,197.4
Total World	7,673,533		1,539,880	87,751.5
CPTPP share of the World (%)	6.6		17.9	12.8

Sources: Compiled from World Bank national accounts data; United Nations Conference on Trade and Development (UNCTAD, 2020), *World Investment Report 2020*; World Bank (2016), *World Development Indicators*, Table 4

<sup>a</sup>GDP at market price (Gross domestic product) is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products

<sup>b</sup>Denotes the four founding members of the original TPP

which plagued the world trading system in the 1960s to 1980s. However, since 1995 when the WTO was formed, progress in multilateral trade and investment liberalization has slowed to a grinding halt (Wilson, 2015; Paul, 2015). This may be due to the fact that the rapid pace of globalization has increased the complexities of world trade and investment environments. The WTO, which is still largely guided by the principles of the GATT, is not equipped to deal effectively with emerging trade and investment issues such as tax evasion, transfer pricing, corporate corruption, and bribery which were not relevant 70 years ago. The ineffectiveness of the WTO in liberalizing trade and investment is vividly illustrated by the fact that the Doha Round of trade negotiations which started in 2001 were supposed to last for only 3 years but instead continued for 12 years with few outcomes (Hufbauer & Cimino-Isaacs, 2015).

Given the complexities of multilateral trade negotiations and the slow progress in freeing-up world trade under the WTO, a number of pro-free trade nations started to explore the possibility of preferential trade agreements above and beyond the scope of WTO (Capling & Ravenhill, 2011). As a result, since the mid-1990s the global economy has witnessed a rapid rise in the number of bilateral and plurilateral free trade agreements. It is estimated that more than 600 FTAs had been notified to the WTO by 2015 (Hufbauer & Cimino-Isaacs, 2015). More recently, a new trend has emerged where countries are exploring mega regional FTAs involving multiple countries which together account for a large share of the global economy (Wilson, 2015). Unlike most traditional and historical FTAs, mega regional FTAs extend beyond regional borders and are not solely focused on tariff reductions. Rather, they tend to be broader in scope in addressing trade and new investment issues related to the realities of global commerce in the twenty-first century (Cernat, 2013).

This is a major paradigm shift in the global trading system. Some countries have decided to change their negotiating priorities from the WTO, given the deadlock in the multilateral trade negotiations. Also, the traditional approach to FTAs is no longer sufficient to deal with new emerging trade issues in the new global economy. Hence, Asia-Pacific countries consider CPTPP as a complement to WTO negotiations, and use it to cover emerging trade and investment issues in the region.

### 3.3 The Economic Impact of the CPTPP

The CPTPP is designed to reduce tariffs and non-tariff trade measures and eliminate discriminatory barriers on foreign investment, customs procedures, licensing requirements, and technical standards. It is worthwhile to consider two points. First, all CPTPP countries are members of the WTO. Second, most of the CPTPP countries have bilateral and multilateral FTAs among themselves. As a result of membership in the WTO and FTAs, these member countries have already had low tariffs among themselves even prior to the CPTPP. By 2014, the average intra-CPTPP tariff rates have dropped to only 2.7% (World Bank, 2016). Nevertheless, there is still room for member countries to benefit from trade liberalization, particularly for

those countries that have no bilateral FTAs with other members prior to CPTPP. For example, Vietnam's average applied tariff rate was 10.6%, while Japan's tariffs on fresh/chilled and frozen beef were 38.5% prior to CPTPP (Global Affairs Canada, 2018b). Canada, for example, is able to gain preferential access to new FTA partners such as Japan and Vietnam under the CPTPP.

While non-tariff trade barriers vary from country to country in the new trade bloc, there are generally more trade restrictions in Asia than in North America. Under the CPTPP, a number of non-tariff trade barriers such as divergent regulatory standards, indirect subsidies, and product labelling requirements are removed, ensuring a greater market access within the trade bloc.

The CPTPP agreement is a trade agreement that covers digital trade, intellectual property rights, state-owned enterprises, regulatory coherence as well as investment and government procurement policies (Global Affairs Canada, 2018a). A comparison of it with the TPP reveals that two-thirds of the CPTPP provisions are identical to the TPP (Goodman, 2018). However, 22 provisions from the original TPP agreement were suspended or modified in the new CPTPP as they were no longer priorities of remaining members (Goodman, 2018). Table 3.3 presents key differences between CPTPP and TPP. For example, in the modified version, CPTPP countries agreed to remove certain controversial TPP provisions such as the investor-state dispute settlement mechanism (ISDS) which granted investors the right to use dispute settlement proceedings against a country's government (Global Affairs Canada, 2018a). Given the resistance to the extension of intellectual property rights to 70 years in the TPP, member countries agreed to reduce the term to 50 years under the CPTPP (Global Affairs Canada, 2018a). Despite these changes, the provisions

**Table 3.3** Key differences between CPTPP and TPP

Topics	Chapter	Key Differences
Customs Administration and Trade Facilitation	5	Member countries agree not to assess customs duties on express shipments below a fixed amount as set under the CPTPP
Investment	9	The CPTPP narrows the scope of the investor-state dispute settlement (ISDS) mechanism
Financial Services	11	The CPTPP suspends the minimum standard of treatment related to the financial services
Government Procurement	15	Commitment to ensure compliance to international labor rights in government procurement process is suspended under the CPTPP
Intellectual Property	18	The CPTPP suspends the provision to extend the terms of protection for copyright to 70 years.
Environment	20	Measures to combat trade on endangered species of wild flora and fauna are no longer required under the CPTPP

*Sources:* Derived from the New Zealand Ministry of Foreign Affairs and Trade (2020). *CPTPP vs TPP*; Department of Foreign Affairs and Trade (DFAT) (2015). *Trans-Pacific Partnership Agreement*. Canberra: Government of Australia



**Table 3.4** Impact of the CPTPP on GDP growth and export growth over baseline projections by 2030 (base year: 2016)

Country	GDP Growth (%)	Export Growth (%)
Australia	0.5	4.4
Canada	1.7	1.5
Brunei	1.9	1.7
Chile	0.1	0.7
Japan	1.0	1.9
Malaysia	1.3	4.6
Mexico	0.8	1.6
New Zealand	0.5	6.4
Peru	1.1	1.8
Singapore	0.8	3.8
Vietnam	3.5	5.0
All CPTPP members	0.4	2.8

Sources: Data are derived from Ferrantino, M. J., Maliszewska, M., Taran, S. 2019. *Actual and Potential Trade Agreements in the Asia-Pacific: Estimated Effects*. Washington, D.C.: World Bank Group

on intellectual property rights in the CPTPP still offer the most advanced standard to protect innovators in a free trade agreement.

All 11 member countries are expected to achieve economic gains from the CPTPP. As shown in Table 3.4, CPTPP will increase the GDP of a member country from a low of 0.1% in Chile to a high of 3.5% in Vietnam by 2030 (Ferrantino et al., 2019).

Table 3.4 reveals that the combined GDP will rise by 0.4% for all CPTPP countries, resulting in an increase of US\$74 billion (Ferrantino et al., 2019). Most of the GDP increases will come from increased access to selected Asia-Pacific markets from exports. The country with the largest gains in GDP is Vietnam due to its growing manufacturing sector and strong supply chain systems. In contrast, the impacts on GDP in Chile, Australia, and New Zealand are relatively small, with increases of 0.1%, 0.5%, and 0.5%, respectively. It is reasonable to expect that the economic gains to Chile are relatively small because the country has minimal involvement in the supply chains. Table 3.4 also shows major export increases in several countries: New Zealand (6.4%), Vietnam (5.0%), Malaysia (4.6%), and Australia (4.4%).

In this free trade bloc, Japan is the largest trade and investment country, accounting for 45% of the total GDP of CPTPP members. Japan is not only a huge market of 126 million affluent consumers, it is also a source of foreign investment funds for the Asia-Pacific region. For CPTPP members, Japan is the largest export market. The increased access to the Japanese market is therefore extremely beneficial to small economies such as New Zealand, Vietnam, and Malaysia.

### 3.4 The Geopolitical Implications of the CPTPP

The last three decades have brought a dramatic change in international economic order which is characterized by a gradual shift of global economic activities from Europe to Asia. The United States has come to realize the economic importance of the Asia-Pacific region to the US economy over the next few decades. For policy makers in the United States, a large extent of the success of US security policy depends on a stable and prosperous Asia. The Obama Administration publicly declared a “pivot to Asia” strategy, marking a major shift in US foreign policy focus from Europe to Asia (Capling & Ravenhill, 2011; Fergusson et al., 2013). The US efforts have included deepening its economic relationships with Asian countries and strengthening US alliances in the region to balance the rising economic and political influence of China. In a speech on April 6, 2015, the US Secretary of Defense Ash Carter highlighted the importance of passing of the TPP in relation to US strategic interests in Asia:

“... TPP also makes strong strategic sense, and it is probably one of the most important parts of the rebalance ..... but in terms of our rebalance in the broadest sense, passing TPP is as important to me as another aircraft carrier.” (U.S. Department of Defense, 2015)

The TPP played an important role in advancing US foreign policy and security objectives. With respect to international power politics, a shift in power could lead to incentives and disincentives for creating international agreements (Hamanaka, 2010). For a declining power, it may use regional agreements to contain the rising powers when it is still strong enough to establish a favorable agreement (Johnston & Ross, 1999; Hurrell, 1995). In the context of power dynamics, both the United States and Japan are considered as declining powers whereas China is generally viewed as a rising power.

Previous research suggests that US foreign policy goals and trade relations between the United States and the rest of the world are intertwined (Bove et al., 2014) and that trade and economic growth can contribute to stability and security (Dorussen, 2006; Jinjarak, 2009). Thus, US motivations for CPTPP is likely to be driven by foreign policy and security considerations rather than commercial considerations (Capling & Ravenhill, 2011).

It is clear that the TPP was part of the broad US “rebalancing” to Asia Policy (Du, 2015). There was a widely held view that the TPP was a US-led free trade agreement with the primary objective to contain China’s rapid economic rise (Song & Yuan, 2012). The US presence in the Asia-Pacific region through the TPP perhaps had greater political significance compared to its economic significance. Some studies suggest that Asian-based FTAs are driven mainly by US foreign policy objectives rather than economic ones (Aggarwal & Govella, 2013; Aggarwal & Urata, 2006; Desker, 2004; Postigo, 2016). The TPP was supposed to bind several strategic allies, such as Vietnam, Japan, Malaysia, New Zealand, Singapore, and Australia together to act as a safeguard against the economic and military rise of China in the region. Hence, the TPP would have reshaped the economic integration in the Asia-Pacific, thereby reducing China’s economic and political influences in the region,

The TPP would have allowed the United States to write the trade rules for the Asia-Pacific region. In fact, US President Obama has argued that “China will write the rules for Asia” if there was no TPP (Seib, 2015). The United States insisted that any other country that wanted to join the TPP would be unlikely to change key elements of the TPP that were already agreed upon by the 12 founding members. The US insistence meant that new entrants such as China or South Korea would have to accept the existing rules and terms of the TPP agreement should they decide to join in the future.

Although China is a latecomer in joining the WTO, the country has benefited significantly from its accession to WTO since 2001. As part of the WTO commitments, China agreed to open its domestic market to foreign imports and reduced its tariffs on foreign goods in exchange for increased access to global markets (Agarwal & Wu, 2004; Paul, 2016). The market reforms and trade liberalization have transformed China from a minor player in international commerce to the world’s largest trading nation in less than two decades. To further benefit from the global economy, China has adopted a multi-track trade policy. On the one hand, China is cautious and pragmatic in multilateral trade negotiations under the WTO, keeping a relatively low profile and avoiding any controversial trade demands and proposals. On the other hand, China is actively pursuing its own free trade agenda with other Asian countries. The primary focus of China’s trade policy is on bilateral and regional free trade agreements such as China–South Korea FTA, China–Japan–South Korea FTA, China–ASEAN FTA, and the Regional Comprehensive Economic Partnership.

China was concerned that it could be exposed to negative consequences of trade diversion in favor of TPP members. In 2011, China decided to launch an alternative free trade proposal known as the Regional Comprehensive Economic Partnership (RCEP) (Solis & Katada, 2015). The RCEP is a regional FTA consisting of 10 ASEAN countries plus China, Japan, South Korea, Australia, New Zealand, and India (Devadason, 2014). In November 2019, India decided to withdraw from RCEP negotiations for fear of Chinese imports that may flood the Indian market under the FTA. After 8 years of continuing negotiations, RCEP was finally signed by 15 signatories in November 2020. Table 3.5 summarizes the intricate web of trade agreements involving Asia-Pacific nations. It is interesting to note that the China-led RCEP is a more inclusive trade agreement compared to CPTPP by including all ASEAN members plus Australia, Japan, and New Zealand from the CPTPP and South Korea. It is also noteworthy that the RCEP does not include Canada, Chile, Peru, and Mexico, all members of CPTPP.

When the original P4 agreement was signed in 2005, China did not pay much attention to it because this FTA involved four small economies in the Asia-Pacific. However, China was increasingly interested in TPP after the United States announced its decision to join negotiations for an expanded TPP agreement. In May 2013, China expressed some interest in joining the TPP. In theory, TPP did not exclude any country such as China. In reality, China was deliberately excluded from participation because of specific restrictions imposed on state-owned enterprises (SOEs). Also, the United States announced in November 2013 that TPP would not

**Table 3.5** Major free trade groupings of the Asia-Pacific nations

ASEAN-10 members	CPTPP-11 members	RCEP-15 members
Cambodia		Cambodia
Indonesia		Indonesia
Laos		Laos
Myanmar		Myanmar
Philippines		Philippines
Thailand		Thailand
Brunei	Brunei	Brunei
Malaysia	Malaysia	Malaysia
Singapore	Singapore	Singapore
Vietnam	Vietnam	Vietnam
	Australia	Australia
	Japan	Japan
	New Zealand	New Zealand
	Canada	
	Chile	
	Peru	
	Mexico	
		South Korea
		China

*Source:* Compiled by the authors based on data from the World Trade Organization (WTO), and Regional Trade Agreements Database

be able to accept any new members until the TPP negotiations were completed (Du, 2015).

Given China's extensive trade and investment linkages in Asia (Bu & Wu, 2022), it is surprising that China was not a participating member of the TPP. For the United States, the TPP was part of the broad United States "rebalancing" to Asia Policy (Du, 2015). There was a widely held view that the TPP was a US-led free trade agreement that was designed to contain China's economic rise. Under the CPTPP, Chinese-made products are placed at a competitive disadvantaged position when they are subject to discriminatory treatment in the CPTPP markets.

After the implementation of CPTPP, some of the production could be shifted away from China to other Asia-Pacific countries such as Vietnam and Malaysia. Under the CPTPP, Vietnamese and Malaysian products can easily enter other CPTPP markets duty free. Under these circumstances, some Chinese exports to CPTPP markets could be displaced by CPTPP member countries.

A major challenge for China is whether to join the CPTPP given the changing international environment. But the CPTPP agreement poses a policy dilemma for China. If China decides to join the CPTPP in the future, it must agree to the stringent conditions and standards that were already imposed by the CPTPP. Even if other countries are willing to include China's participation in the CPTPP, they are

likely to oppose any attempts by China to renegotiate the terms and conditions of this agreement.

### **3.5 Implications for the Asia-Pacific Region**

The Asia-Pacific region is one of the most dynamic regions in the global economy. The growing interdependence in Asia-Pacific economies is a catalyst for deeper economic integration in this diverse region. The CPTPP represents a significant development for deeper cooperation and trade liberalization.

The Asia-Pacific countries benefit both directly and indirectly from the CPTPP. These countries benefit directly by increasing production efficiency in this regional market and by gaining access to a huge market of over 507 million consumers. The Asia-Pacific emerging economies also benefit indirectly through accelerated industrialization from a mega regional FTA. There are several implications of the CPTPP for the Asia-Pacific.

#### ***3.5.1 Economic Benefits***

In terms of trade liberalization, the CPTPP is a more advanced free trade agreement than the RCEP. Although RCEP was signed by more countries, actual economic benefits are not as substantial as the CPTPP for three reasons. First, CPTPP reduces tariffs on more goods than RCEP. Second, unlike RCEP, the CPTPP provides specific provisions on SOEs, e-commerce, and government procurement. For example, the CPTPP restricts government financial assistance to SOEs and prohibits non-market SOE business practices for the purpose of international trade. The CPTPP also requires all member countries to disclose operation information on their SOEs to other member countries. Third, the CPTPP is estimated to increase combined GDP by 0.4% for all member countries by 2030 (Table 3.4), while the RCEP is estimated to increase GDP for their members by 0.2% only (Japan Times, 2020). From the perspectives of Asia-Pacific countries, economic benefits from the CPTPP would be even more substantial should the United States rejoins the CPTPP in the future.

#### ***3.5.2 Standardization***

The CPTPP establishes a set of common rules on trade and investment in the Asia-Pacific. In addition to tariff reductions, the CPTPP facilitates standardization in customs procedures, licensing requirements, government procurement, as well as import and export documentation among member countries. Also, the CPTPP

requires all signatories to commit to a high standard comprehensive agreement covering a range of sensitive issues such as cross-border data flows, state-owned enterprises, labor standards, and environmental protection. Under the CPTPP, the standardization of trade rules is likely to reduce non-tariff trade barriers and block unfair business practices in the Asia-Pacific.

### ***3.5.3 Supply Chain Relocations***

One of the economic implications for Asia is the restructuring of manufacturing and supply chains in the region under the CPTPP. China is no longer a low-cost producing country when labor costs are increasing rapidly. Hence, some manufacturers are expected to move their production away from China to other Asian countries with lower costs of production. Several ASEAN countries, such as Vietnam and Malaysia are expected to gain from a shift in supply chains under the CPTPP. For example, Vietnam and Malaysia are expected to increase exports by 5.0% and 4.6%, respectively, by 2030 under the CPTPP (see Table 3.4).

### ***3.5.4 Anti-corruption and Transparency***

The CPTPP has a separate chapter dedicated to transparency and anti-corruption (Global Affairs Canada, 2018a). Bribery and corruption are considered as criminal and unfair business practices, thereby undermining the integrity of international trade and investment. Under the CPTPP, transparency and anti-corruption provisions require all member countries to introduce measures in order to prevent and combat bribery and corruption in international trade. As nepotism and unfair business deals are prevalent in many Asian countries (CIGS, 2020), the CPTPP is expected to promote transparency and mitigate unfair business practices in the region.

### ***3.5.5 Geo-economic Considerations***

Although China is the largest market in the region, some of the Asian countries are suspicious of China's ambitions for regional domination given their historical tensions with China. For example, Japan and Vietnam have territorial disputes with China, a situation that is compounded by China's recent assertiveness in foreign policy. Also, Australia has recently faced a series of trade retaliations from China even after the signing of the China–Australia FTA and the RCEP. From a geo-economic perspective, these Asia-Pacific countries prefer to choose a separate FTA in order to lessen their overdependence on the Chinese market.

### 3.6 The Future of CPTPP

A key question is the future of this Pacific Rim trade bloc. Any expansion of CPTPP will depend on the trade policy objectives of each member country. This trade agreement has already encountered resistance in a number of countries where it is seen as a threat by local workers afraid of losing their jobs through offshore outsourcing (Petri et al., 2014). In New Zealand and Australia, for example, there is vigorous debate on specific elements of CPTPP which are seen as not being in the national interests. In Australia, for instance, the small economic benefits of GDP growth (0.5%) and export growth (4.4%) from CPTPP continue to raise questions about its relevance of this free trade agreement. Similarly, the economic benefits for Chile are also minimal (Table 3.4). In recent years, the world has also experienced a rise in protectionism and anti-globalization as evidenced by the Brexit and the US withdrawal from the TPP. There are four possible scenarios that could emerge with respect to the future of CPTPP.

#### 3.6.1 *Scenario 1: Retention of Current Membership*

In this scenario, we assume that all 11 member countries want to remain in the trade bloc. Under the CPTPP, these countries accepted the original TPP agreement as a template and amended certain parts that were US specific in the agreement. From their perspective, there is no need to make any more changes in the agreement. In essence, they created a de facto TPP11 after the US exit. Mexico was the first country to ratify the CPTPP. By July 2020, only seven of the 11 countries have approved the agreement after completing their legislative requirements in their respective jurisdictions. However, four remaining signatories (Brunei, Chile, Malaysia, and Peru) still have not yet ratified the trade agreement, due largely to legislative requirements and domestic politics. It is expected that these four remaining countries would eventually approve the agreement, given national priorities in these countries have shifted toward domestic matters (e.g., health and economic recovery) with foreign trade policy receiving little attention in the wake of COVID-19 pandemic. If these 11 member countries remain in this trade bloc, then the economic benefits of the CPTPP would be only one-third as large as those expected from the 12-member original TPP agreement (Petri & Plummer, 2016).

#### 3.6.2 *Scenario 2: Expansion of Membership in CPTPP*

The CPTPP has an open access clause to allow other countries to join if they can meet certain liberalization conditions. This leaves the door open for other countries to join the CPTPP. Several Asian countries such as Cambodia, South Korea, India,

and Thailand have expressed interest in joining the CPTPP. This is the best-case scenario for non-member countries that are enthusiastically embracing the CPTPP.

Of particular interest is that the UK has announced its interest in joining the CPTPP on June 17, 2020 (Reuters, 2021). This is the first time that a European country has indicated its intention in joining the CPTPP. The British are keen to pursue the CPTPP as an option to gain access to the growing Asian market in the post-Brexit environment. The UK is possibly the most prominent contender to join the CPTPP compared to some of the other countries which have indicated their interests from a political and legislative standpoint. Britain's entry to the CPTPP can also attract other European countries to follow the same path to join this mega trade agreement. India would boost the consumer base of CPTPP considerably but given the complex political and legislative systems where decisions are made in India, it is unlikely that India will be a member of the CPTPP any time soon. If the UK and other countries come into the CPTPP, the economic benefits are expected to be much greater than those of an existing one due to new members in an expanded trade bloc.

### ***3.6.3 Scenario 3: US Renegotiation of CPTPP***

The election victory of Joe Biden to the US presidency opens the door for the United States to rejoin the CPTPP. This scenario is based on two assumptions: (i) the United States may change its position at a later date after considering the US geopolitical interests; (ii) the new Biden Administration shifts its focus to trade issues after the pandemic is under control in the United States.

Although the Trump Administration opposed the TPP, it is possible that President Biden might be willing to accept a modified CPTPP, especially if the United States could get some more concessions in the future. The history of past US presidents suggests that they can become enthusiastic champions of trade agreements as soon as they are in the White House, even though they have expressed strong anti-trade views during the presidential election (Shribman, 2016). Furthermore, in the United States, a large constituency of business leaders support free trade agreements because they want to expand their markets outside of the United States (Margalit, 2011).

The Biden Administration may also argue that it desires better trade deals for the United States. During the Trump Administration, the United States actually threatened to withdraw from NAFTA unless the United States was able to renegotiate a better agreement. As a result, the United States forced Canada and Mexico to renegotiate NAFTA and subsequently concluded the United States–Mexico–Canada Agreement (USMCA) as a replacement for NAFTA. A new US Administration may employ the same anti-trade rhetoric as part of negotiating tactics to force trading partners to give more concessions.

It is possible that the Biden Administration is willing to reconsider CPTPP. If so, the United States is likely to demand reactivation of suspended provisions in the agreement. If the US returns to the CPTPP, the economic gains for the United States and member countries would be substantial, especially for Vietnam and Malaysia



(Petri & Plummer, 2016). While the possibility of renegotiating CPTPP may not be a top priority for the new US Administration, we should not rule out this possible scenario. More importantly, the United States might want to use the CPTPP to reduce China's economic and political influence in the Asia-Pacific region.

### **3.6.4 Scenario 4: China's Participation**

In theory, China could join the CPTPP if all current members agree to its participation. However, this is not a scenario that some countries such as Japan and Vietnam want to see from a geopolitical perspective. Currently, there are escalating tensions between China and several Asia-Pacific countries, due largely to China's increasingly aggressive foreign policy stance as well as trade and territorial disputes in the region. Thus, it is reasonable to assume that some member countries such as Japan and Vietnam would oppose China's joining of the CPTPP as they do not want China to rewrite the trade rules.

Although China has recently expressed an interest in joining the CPTPP (National Post, 2020), many provisions in this trade agreement conflict with China's current economic structures and business practices. To join the CPTPP, China would have to undertake substantial domestic reforms in its economic structures, including transparency, anti-corruption measures, state-owned enterprises, intellectual property rights, and labor unions. There are no indications that China is prepared to undertake unprecedented domestic reforms in order to join the CPTPP.

If China is able to initiate CPTPP negotiations, it would demand some changes in the agreement. For example, China is concerned with restrictions on state-owned enterprises and rules on intellectual property rights imposed by the TPP (Devadason, 2014). China does not want stringent rules on patent as well as labor and environmental standards. Should China decide to resurrect the mega regional agreement, it is likely to rewrite certain provisions which are in conflict with its own domestic laws. However, it is unlikely that current members are willing to change CPTPP requirements to accommodate China's demands.

In the short term, the two most likely scenarios are the second and third scenarios because the United States may want to re-establish American leadership in the Asia-Pacific region by returning to the CPTPP. From the perspective of current members, the best-case scenario is the return of the United States to the CPTPP. The US decision to rejoin the CPTPP may attract even more countries to seek accession in order to gain access to the huge US market.

## **3.7 Discussions**

The CPTPP allows harmonization of international trade rules across Asia-Pacific member countries. To bridge the differences in rules and standards across CPTPP jurisdictions, participating countries have agreed to a common standard which will

be observed by all members. The harmonization of trade and investment rules beyond WTO is overdue in order to address trade and investment issues in a technology and knowledge-driven globalized world.

The economic gains for the United States from the CPTPP are not significant because the United States already has FTAs with six CPTPP members, including Canada and Mexico as part of USMCA. For this reason, we contend that the main motivating factor for the United States to reconsider CPTPP is to consolidate its military and political influence in the Asia-Pacific region in pursuit of its foreign policy and regional strategic objectives (Capling, 2008). Establishing common trade and investment interests with a number of key allies in the Asia-Pacific region through the CPTPP is also likely to reinforce military and defense ties and provide the United States with a legitimate presence in the region.

Since cooperation through trade and investment can contribute to its foreign policy objectives, the United States may consider the economic benefits arising out of CPTPP to be of a lesser consideration in pursuing the CPTPP. From a political and foreign policy perspective, the CPTPP may allow the United States to strengthen its engagement in the Asia-Pacific region and demonstrate its economic and political leadership in a rapidly changing global environment. As part of a broader Asia strategy, the United States may still want to use the CPTPP as a key element of rebalancing strategy to counter China's growing economic and political influences (Solis & Katada, 2015).

### 3.8 Conclusions

The CPTPP is a comprehensive free trade agreement which goes well beyond the WTO framework for liberalizing trade and investment in an increasingly technology and knowledge-based global economy (Rychen & Zimmermann, 2008). Although the United States is absent from the CPTPP, the trade and investment rules on state-owned enterprises and e-commerce still remain in the CPTPP agreement. In essence, the United States still benefits from the CPTPP since these established rules will enhance US economic interests even without participation. In addition, several Asian countries such as Japan would be able to use CPTPP to counterbalance China's rising economic and political powers by forming regional allies in the Asia-Pacific region.

The contributions of this chapter are three-fold. First, it focuses on a newly formed CPTPP that is not yet well understood in terms of its implications for the Asia-Pacific region. Second, it presents an argument that the rationale for US participation in the original TPP was based on geopolitical grounds rather than economic reasons. Third, this study presents four different future scenarios of the CPTPP with special attention to the potential actions by China and the United States.

The Asia-Pacific region has witnessed a proliferation of free trade agreements in recent years (Solis & Katada, 2015). Given the stalemated multilateral trade negotiations under the WTO, Asia-Pacific countries have increasingly turned to an

alternative approach of promoting trade liberalization through bilateral and multi-lateral free trade agreements. All CPTPP countries are APEC members from four different continents: North America, South America, Oceania, and Asia. The CPTPP links these economies with a set of common rules and regulations, and all share common interests in market access. The Covid-19 pandemic has caused the world a global public health crisis and widespread damages to the global economy. In the midst of the global pandemic, there are some questions about the nature of international trade and the future of globalization. Given the uncertain economic future and the global recession, there are more reasons for non-member Asia-Pacific countries to explore the benefits of joining the CPTPP. However, the COVID-19 pandemic has also resulted in most nations becoming more inward-looking, with businesses rethinking their international sourcing strategies and the de-risking of supply chains. In this respect, the wave of de-globalization from COVID-19 poses a great risk for the CPTPP.

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