

THE NEW TRANS-PACIFIC PARTNERSHIP (TPP): THE POWER SHIFTING ARENA AFTER US WITHDRAWAL

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Abstract

Just ten days after his inauguration as U.S. president, Donald J. Trump withdrew the U.S. from Trans-Pacific Partnership (TPP) on January 30, 2017, a “superregional” trade pact consisting of twelve nations covering most of Asia and approximately 40% of world trade. One year later, the remaining eleven TPP members got together under Japan’s leadership to “put that deal into effect without the United States”. This paper attempts to analyze the Japan’s leadership as a middle power in the CPTPP and how as a new trade bloc in the region, Asia-Pacific economies will move ahead with deepening trade and investment integration leaving U.S. behind the door.

Keywords: *Comprehensive and Progressive Agreement for Trans-Pacific Partnership, Japan’s leadership, FTA*

Abstrak

Sepuluh hari pasca inagurasinya menjadi presiden AS, Donald J Trump menarik keanggotaan AS di Trans-Pacific Partnership (TPP) pada 30 January 2017, paka perdagangan ‘superregional’ yang mencakup dua belas negara-negara besar di Asia dan setidaknya 40% dari perdagangan dunia. Satu tahun kemudian, sebelas anggota TPP yang tersisa berkumpul di bawah kepemimpinan Jepang untuk "memberlakukan perjanjian itu tanpa Amerika Serikat". Makalah ini mencoba menganalisis kepemimpinan Jepang sebagai kekuatan menengah di CPTPP dan bagaimana sebagai blok perdagangan baru di kawasan ini, ekonomi Asia-Pasifik akan bergerak maju dengan memperdalam integrasi perdagangan dan investasi yang meninggalkan AS di belakang pintu.

Kata kunci : *Comprehensive and Progressive Agreement for Trans-Pacific Partnership, Japan’s leadership, FTA*

INTRODUCTION

Just ten days after his inauguration as U.S. president, Donald J. Trump withdrew the U.S. from Trans-Pacific Partnership (TPP) on January 30, 2017, a “superregional” trade pact consisting of twelve nations covering most of Asia and approximately 40% of world trade. Trump has made what he calls as ‘America First’ policy and terminated an arduous nearly eight years effort by the Obama Administration to create the world’s largest free trade zone (Baker 2017). Trump’s step to exit U.S. from the mega regional trade agreement has been what it’s called as ‘serious mistake’ for the country position in the pacific region (Bernama 2018). Notably since the deal was seen as a tool by the U.S. to contain China’s growing economic power in the Asia-Pacific region. A key element of Obama’s ‘Pivot to Asia’, a strategy that sought to strengthen alliances in Asia and signal U.S. commitment to the region (South China Morning Post 2019). This is proven when one year after Trump’s announcement to withdraw, the remaining eleven TPP members got together under Japan’s leadership to “put that deal into effect without the United States”.

Thus on January 2018, under Japan’s leadership, the remaining eleven countries agreed on a revised TPP, now called the “Comprehensive and Progressive Agreement for Trans-Pacific Partnership” or CPTPP. The CPTPP or also known as TPP-11, is now a trade agreement of the eleven countries (Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam) that combined economies represented 13.4 percent global gross domestic product, making the CPTPP the third largest free-trade area in the world by GDP after the North American Free Trade Agreement (NAFTA) and European Single Market (Torrey 2018). The deal, which formally signed in Chile on March 8, 2018

incorporates most of the previous TPP provision by reference, but eliminated 22 provisions which the U.S. favored in the first place, and lowered the threshold for enactment so the participation of the U.S. is not required (Dwyer 2018).

As the CPTPP entered into force on December 30, 2018, the agreement will significantly impact trade among it’s ratifying parties. The anticipated impact of the CPTPP, whose 11 parties are home to half a billion people and 14 percent of the global economy, will be immense, as slashed tariffs encourage significant shifts in global supply chains. Moreover, the CPTPP’s high-standard provisions on the emerging regional economic integration such as digital economy, investment, financial services, labor, and the environment will establish incentives to integrate Asia-Pacific as powerful region (White & Case 2019). The CPTPP, like its predecessor TPP, is touted as a “next-generation” trade agreement, building on the core structure of the World Trade Organization (WTO) Agreements and existing bilateral FTAs was designed to be an open and inclusive agreement in the Asia-Pacific and the first in history of mega trade deal without U.S. membership’s. This paper attempts to analyze Japan as the emerging middle power in the CPTPP as a new trade bloc in the region while in the meantime, Asia-Pacific economies will move ahead with deepening trade and investment integration leaving U.S. behind the door.

METHODOLOGY/THEORY

This article is a descriptive type of research which applies deductive logic, by using the theory to guide research analysis and points out several arguments from the case. In this research, the theory that is used is Middle Power Theory. Giovanni Botero, a mayor of Milan in the 15th century, defined a “middle

power” as an actor with sufficient strength and authority to stand on its own without the need for help from others (Jordaan 2003). Since then, the concept of middle powers has been consistently mentioned in the field of international relations (Wight 1978). The “grading” of state actors first became a subject of diplomatic debates at the peace settlement of the Napoleonic Wars in 1815. It was then that a class of middle powers was formally recognized, among them the states of Germany (Wight 1978).

Middle powers are states that are neither great nor small in terms of international power, capacity and influence, and demonstrate a propensity to promote cohesion and stability in the world system (Jordaan 2003). According to Cooper, Higgott and Nossal, middle powers are recognisable by their foreign policy behaviour (A. F. Cooper 1993). Middle-power foreign policy is not determined by the constitutive features of middle-power states, or by their positions in the world system, although these features do shape their internationalism, however. It is instead, a product of contextually located deliberate action. Attempts at identifying middle powers focus on at least one, but more usually a combination, of the following characteristics: considerations of state capacity, position in the world order, the normative composition of the middle-power state–societal complex, domestic class interests, and the role and influence of foreign policy-makers. Despite similar ontologies, the theoretical preferences of authors become more apparent when considering the explanatory weight given to the aforementioned constitutive features of middle powers (Jordaan 2003).

There are basically three IR theories to better understand the concept of Middle Power. *First*, Neo-Liberalism. Hidayatullah argues, that it is suitable to use Neo-Liberalism

than ‘just’ Liberalism (Hidayatullah 2017). On one hand, Liberalism believes that establishing institutions would sustain cooperation and prevent interstate conflicts (Mingst 2003). Meanwhile, Neo-Liberalism believes that institutions might support cooperation, but does not guarantee its sustainability unless there is mutual benefit for each member states (Mingst 2003). Conclusively besides building an institution for cooperation, a middle power also needs to promote agreeable norms to be followed among its member states (S. Guzzini 2013). *Second*, Realism. The background of using Realism instead of Neo-Realism is because Neo-Realism is more suitable for analyzing great powers not middle power. Realism believes that the international system runs based on distribution of power without absolute authority in an anarchic condition (S. Guzzini 2013). Consequently, states need to utilize hard power resources to fulfill national interest and ensure their survival (Mingst 2003). This idea is relevant to middle power’s tendency to conduct unique foreign policies, due to not being the strongest state in the international system. *Third*, Constructivism. According to Nye, soft power is an ability to reach certain goals by influencing the choices (Patience 2014). Therefore, middle powers could conduct their role in regional or international institutions effectively when there is a set of norms accepted by its member states (Bezglasnyy 2013). By having international credibility, the middle power will also take actions on behalf of its regional interests in global forums (Nolte 2010).

According to Hidayatullah, ‘middle power’ is not merely a categorical concept, but consists of variables and indicators which enable states to practically determine their foreign policy strategies based on their prominent power resources; whether hard power, diplomatic behavior or soft power (Hidayatullah 2017). In brief, middle powers

are states with self-sufficient hard power resources, attractive soft power and important regional role. Hidayatullah differentiates middle powers' various regional and multilateral roles as Enforcers, Assemblers and Advocators:

Table 1. Middle Power Roles Based on Their Resources

Approach (middle power resources)	Regional or multilateral role	Middle Power's Nature in relation to its region
Realism (hard power)	Enforcer	Fear, able to enforce policy, lack of trust, smaller powers dependent to middle power
Neo-liberalism (diplomatic behavior)	Assembler	Trust, long term mutual consultation, institutionalized cooperation, no veto, lack of force, non-interference
Constructivism (soft power)	Advocator	Issue-based coalition, ad hoc, beyond regional diplomacy, short term influence, needs to be frequently renewed through agreements and protocols

This article argues to put Japan as the advocator based on Nurhidayatullah's middle power's classification on the table. According to Constructivism, middle power Advocators are states which possess unique foreign policy identity by choosing certain international issues based on their expertise (Bishop 1998). An Advocator would invite other states to collectively support international causes by carrying out leadership on ad hoc coalition-

building to exchange ideas and values (S. H. Lee 2015). Those values are based from the Advocator's foreign policies or regionally accepted norms among the Advocator's neighboring states (Bezglasnyy 2013). In order to establish leadership on multilateral forums, an Advocator needs to promote the importance of discussion on specific issues such as like-minded states' previous successful policies. Since coalition-building among middle powers in multilateral forums are ad hoc, the effects of those forums need to be further sustained through signing or ratifying agreements and protocols, as well as organizing annual meetings (Hidayatullah 2017).

RESULT AND DISCUSSION

Significance of CPTPP

Trade nowadays is conducted predominantly within global value chains (GVCs) in a world in which tariffs have been substantially reduced (Ravenhill 2016). Twenty first century trade negotiations are expected to focus not on discussions of market access but on measures to remove behind-the border barriers to the efficient management of supply chains (Ravenhill 2016). The justification for the TPP rested mainly on the role it might play in trade facilitation: the setting of commonly agreed standards that go beyond tariffs to include rules of origin, customs cooperation, technical barriers to trade, investment, intellectual property, competition policies, government procurement and issues relating to the environment and labour (World Bank 2016). The CPTPP inherits the contents of the original TPP. The original TPP was characterized as having a high level of trade liberalization and included new rules in services trade, investment, e-commerce, government procurement, state-owned enterprises, intellectual property, labour and environment (Comprehensive and Progressive

Agreement for Trans-Pacific Partnership 2018).

In the CPTPP, market access such as tariff elimination and services trade liberalization remain as in the original TPP, and most of the original TPP's rules remain except for 22 suspended items. The CPTPP consists of the following seven articles: "Preamble," "Article 1: Incorporation of the Trans-Pacific Partnership Agreement," "Article 2: Suspension of the Application of Certain Provisions," "Article 3: Entry into Force," "Article 4: Withdrawal," "Article 5: Accession," "Article 6: Review of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership," and "Article 7: Authentic Texts," followed by "Annex" (Comprehensive and Progressive Agreement for Trans-Pacific Partnership 2018).

In view of the structural changes since the global financial crisis starting from 2008, the CPTPP has accelerated Asia Pacific economic integration. Furthermore, this economic integration has progressed through interaction. The CPTPP and Asia Pacific economic integration were a great impetus to promote a freer trade system in the world economy. The impact of the entry into force of the CPTPP is significant, although CPTPP became smaller compared to the original TPP. The CPTPP will promote trade liberalisation and rule-making in the Asia-Pacific region and it will be a template for future Mega-FTAs. Finally, the CPTPP will boost AEC deepening and RCEP negotiations as the original TPP strongly promoted AEC, the RCEP and the Japan-EU EPA. The CPTPP will boost them again. With the entry into force of the CPTPP, new members will be welcomed and the expansion of the CPTPP with new members will further increase its impact. Currently, Thailand, Indonesia, the Philippines, Korea, Taiwan, Colombia, the United Kingdom, and many more asia-pacific countries have been

considering CPTPP as strategic trade deal and have announced their participation and interest in it. In January 2019, the first Commission meeting of the CPTPP was held in Japan, and the procedures of "accession" were discussed.

Japan's role in shaping Asia Pacific's economy

For the past century, Japan has been at the centre of industrialization across Asia. In Southeast Asia, as the late Benedict Anderson explains, it eventually became "the single most important external investor in the region, both as extractor of natural resources (timber, oil and so on) and in industrial and infrastructural development".

Japan, having fought deflation for more than two decades after the Asian Financial Crisis, has repeatedly pursued government interventions in the hope of revitalizing its economy. Prime Minister Shinzo Abe's three-pronged approach, dubbed "Abenomics" was launched in 2013, combines fiscal expansion, monetary easing, and structural reform. Its immediate goal is to boost domestic demand and gross domestic product (GDP) growth while raising inflation to 2 percent. Abe's structural policies aim to improve the country's prospects by increasing competition, reforming labor markets, and expanding trade partnerships.

Economically, as the third-largest economy in the world, Japan is making a strategic compromise. While some key sectors will take a hit; agricultural, forestry and fisheries output is expected to lose US \$1.3 billion (White & Case 2019). Overall, it may not become a big problem since researchers have predicted that \$71 billion boost once the CPTPP is fully implemented (White & Case 2019).

Of the CPTPP members, Japan has existing Economic Partnership Agreements (EPAs) with the ASEAN countries (Brunei

Darussalam, Malaysia, Singapore and Vietnam), Australia, Chile, Mexico and Peru—all but Canada and New Zealand.

Japan's TPP pivot from 12 to 11

Trump's decision to formally withdraw from the TPP on January 23, 2017 shocked Japan, which had ratified the agreement on January 20, as he compelled Japan to make a drastic shift in its foreign and trade policy. The TPP was critical for Abe, who returned to power in December 2012, since it was part of economic policies dubbed "Abenomics" to combat deflation and revitalize the Japanese economy. Trade policies such as the TPP were incorporated into structural reforms or the third arrow of Abenomics, aiming to revitalize private investment (Takashi 2015).

Following the United States' withdrawal from the TPP in January 2017, Japan drove the process forward to salvage the deal. It would not have done so were the political and economic benefits not significant. Politically, Japan's role in realizing the CPTPP positions it as a regional leader, particularly vis-à-vis China. The CPTPP serves to set a floor for the anticipated US-Japan FTA negotiations, and could also give Japan leverage in the midst of other ongoing negotiations, including those for the Regional Comprehensive Economic Partnership (RCEP), a free-trade agreement between Association of Southeast Asian Nations (ASEAN) countries and Australia, China, India, Japan, New Zealand and South Korea. Japan's mission is to incorporate India through RCEP into the trade liberalization of Asia (Funabashi 2018).

The CPTPP helps Japan contain a rising China. Recently, Chinese President Xi Jinping signaled that China would become the new leader of free trade (Jiantao 2017). The statement has triggered an extreme concern in Japan that the leadership vacuum in the Asia-

Pacific free trade bloc created after the United States' "America First" policy might be filled by the Chinese economy as the feedback. In turn, the vacuum filled by China would threaten Japan's future political and economic role in the Asia-Pacific. By setting the CPTPP, Japan can contain Chinese economic and trade expansion in the Asia-Pacific by utilizing the "strategic multilateralism" of the CPTPP. More specifically, medium-sized countries in the CPTPP can cooperate and increase their voices as even China finds it necessary to reflect their own interests in the economy of the Asia-Pacific.

The CPTPP, therefore, will be a cornerstone on which Japan can establish its economic and diplomatic power in the Asia-Pacific. Within the status quo, Japan is trying to improve its growth prospects. However, it would be impossible unless Japan attracts more foreign direct investment (FDI) to its market as well. With combined GDP of \$10 trillion of the CPTPP members, Japan can attempt to double its FDI stock by 2020, which has been the goal of the Abe administration. It will ultimately lead Japan to bring in "new employment opportunities, foreign talents, and innovation." Thus, for both its long-term domestic growth and international political clout, it would be critical for Japan to maintain its leading role in the CPTPP.

Japan: Emerging Middle Power of the CPTPP

Pacific region serves as the transport corridor for energy, imports and exports for many of the world's leading trading nations, including Japan. Stretching from East Africa through the Indian Ocean, the South China Sea and the Pacific Ocean, the region is the central hub for global economic growth, innovation and potential security challenges today and the years ahead.

After World War II Japan has stepped down from the stage of global politics and accepted that two documents would be the pillars of its foreign policy: its post-war Constitution (particularly the ‘pacifist clause’, Article 9) and the US-Japan security treaty called Self Defence Force (SDF) (Soeya 2013). Both have fundamentally changed on how Japan’s freedom of action in international security and limited Japan’s foreign policy options to those as a middle power. This diplomatic style allowed Japan to focus on post-war economic recovery, which eventually proved to be the key to the nation’s rise as a global economic power. But even as Japan achieved economic strength it maintained a restrained posture in dealing with political and security issues, and concentrated instead on cultivating economic and cultural relations with Asia and the world.

Japan’s economic input to the modernisation programs of the Park Chung-hee regime from the mid-1960s was significant in South Korea’s eventual economic success (Soeya 2013). Japan’s official development assistance and foreign direct investment in Southeast Asia helped to accelerate the economic integration of the region. And Japan’s full-scale support for the ambitious open-door and reform policies of Deng Xiaoping from the end of the 1970s was not insignificant in the eventual rise of China. In short, Japan played a critical role in constructing the foundations of the Asian century (Soeya 2013).

Japan’s place among the middle powers can be questioned. It is the third-largest economy in the world, its Self-Defense Forces are both powerful and work synergistically within the Japan-U.S. security alliance, and Japan is a technological and cultural superpower with global reach and influence. Critics of Japan as a middle power would argue that the current efforts to revise Article 9 of the

Constitution so that the SDF is legally recognized as a military is strong evidence that Japan’s political leaders reject the ideal of the nation as a middle power. Despite these traits and criticisms, Japan continues to behave and invest in its future as a middle power by advocating for the strengthening of international laws, through the maintenance of an SDF that constitutionally and arguably ideologically eschews the use of force to achieve foreign policy objectives. This inclination for nonmilitary solutions to foreign policy challenges in concert with a demonstrated track record of promoting development through overseas economic aid clearly places Japan in the family of middle powers based on behavior and power capabilities.

Japan is up to the task as evidenced by its leadership in pushing forward the CPTPP after the U.S. withdrawal from the TPP and the signing of the Japan-EU economic partnership agreement. Tokyo can and should continue this track record of multilateralism by forging a middle power coalition for the Indo-Pacific region to secure its national interests that are increasingly in line with other middle powers.

CONCLUSION

This article thus concludes that Japan has managed to become a major middle power of the Asia Pacific given its multilateral role as a leader and advocator of the CPTPP. As it is rare for Japan to lead in multilateral negotiations, the absence of the United States from the TPP has given Japan more ‘space’ to exercise leadership in securing mega-regional trade deals as part of its foreign policy objectives. Japan took the opportunity to lay down ‘rules of the road’ in concert with the remaining TPP partners instead of being on the receiving end of external pressure from the United States, as it had been in the original negotiations. This way, Japan was able to take

the lead instead of being on the defensive. If successful, the economic gains of both the CPTPP and RCEP will be significant. But their real value is providing the frameworks to uphold the liberal international order and realize a free and open Indo-Pacific region. Rule-making, rule of law, multilateralism and international cooperation are vital elements to support those two visions, facilitate market access, and conversely counteract market-distorting trade practices and state capitalism.

Therefore, for Japan to play its part, hop, step and jump — Japan-EU EPA, CPTPP and RCEP — it is without America. For now, Japan's independent international leadership is an unprecedented postwar development with potential to shape the entire regional alignment not only in East Asia, but more importantly in the Asia Pacific.

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