

CPTPP & EU: a Challenge by Middle Powers To Build a New Free Trade Framework

By Hideichi Okada

Starting with this issue, I will be responsible for the Publisher's Note. As with Masakazu Toyoda, I sincerely ask for your continued support.

Today, rules-based free trade, multilateral cooperation, and the WTO system are facing significant challenges. President Donald Trump's trade policy – sometimes referred to as the “Turnberry system” – is an attempt to maximize US interests through bilateral trade negotiations using reciprocal tariffs as leverage. Meanwhile, we find the trade practice of economic coercion by weaponizing international economic interdependence.

Looking back, the WTO system has been facing difficulties since the impasse of the Doha Round or Doha Development Agenda. One area that continued to function effectively was the dispute settlement mechanism. However, even this has been significantly weakened under President Trump, as the United States has, since 2017, refused to proceed with the appointment of new members to the Appellate Body, the final adjudicatory stage of the dispute settlement process.

Amid the deadlock in the Doha Round negotiations, free trade agreements (FTAs) played a major role in expanding the free trade order. Since around 2000, numerous bilateral and regional FTAs have been concluded. Among multilateral FTAs, the Trans-Pacific Partnership (TPP) drew attention for both the broad membership and the high level of ambition embodied in its commitments.

The TPP was built upon the P4 Agreement concluded in 2006 among Singapore, New Zealand, Chile, and Brunei. At the APEC Trade Ministers' Meeting in Lima, Peru, in 2008, trade ministers from Japan, the US, Australia, and Singapore gathered together. During that meeting, US Trade Representative Susan Schwab asked Japan's Minister of Economy, Trade and Industry Toshihiro Nikai, “We would like to expand the P4 and establish a framework called the TPP. The United States and Australia will participate. Would Japan also consider joining?”

TPP negotiations proved extremely difficult due to the large number of participating countries, the diversity of their levels of economic development and trade structures, and the highly ambitious nature of the proposed commitments. Although agreement was eventually reached, the US withdrew from the TPP under President Trump, along with its withdrawal from the Paris Agreement and other international arrangements. Subsequently, through the efforts of Japan and others, the agreement was reconstituted without the US as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), with 11 Pacific Rim countries participating.

Now, we are facing the growing prevalence of power-based policies, such as tariff negotiations that disregard international rules and economic coercion that weaponizes international interdependence. Rising geopolitical risks stemming from conflicts in Ukraine and the Middle East are increasing the uncertainty of international trade. Cross-border supply chains built within the free trade system are now being significantly disrupted.

As existing frameworks begin to waver and the international trade environment becomes increasingly unstable, efforts are underway among group of countries to create new frameworks that enable efficient economic activity. One such effort is the use of FTA frameworks.

Major regional FTAs involving numerous countries include the CPTPP, the Regional Comprehensive Economic Partnership (RCEP), the European Union, and Mercosur. The CPTPP is gradually evolving beyond the trans-Pacific region framework as the United Kingdom has joined, and interest from European and other countries continues to grow.

The EU has concluded FTAs with many countries, including Canada and Japan. More recently, it has reached agreements with India, the Mercosur nations, and Mexico.

Particularly noteworthy is the exploration of potential cooperation between the CPTPP and the EU. Following a ministerial-level dialogue in Melbourne in November last year, Track 1.5 meetings were subsequently held in Paris in December and in Tokyo in May this year. The participating countries would collectively cover a large portion of the world's major trading nations with a market of 1.5 billion people.

Could this not be viewed as a trade-focused version of the idea proposed by Canadian Prime Minister Mark Carney in his speech at the World Economic Forum in Davos this January – the cooperation among middle powers to create a third path with impact?

The removal of trade barriers and the establishment of a predictable, rules-based trade system are the foundation of cross-border economic activity. As the free trade system faces serious challenges, a coalition of middle powers may ultimately play a pivotal role in shaping a new international trade order. **JS**

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