



Passive Observer: the U.S. and Asia's New Trade Pact

Sean Randolph – December 4, 2020

Last month fifteen nations signed the Regional Comprehensive Economic Partnership (RCEP), a trade agreement linking the Asia-Pacific region's leading economies. Enabled by the Association of Southeast Asian Nations (ASEAN) and promoted by China, it embraces all of Southeast Asia (Thailand, Vietnam, Myanmar, Laos, Cambodia, Malaysia, Singapore, Indonesia, Brunei and the Philippines), China, and US allies Australia, New Zealand, South Korea and Japan. The United States was nowhere to be seen.

RCEP is less comprehensive than a full free trade agreement but is significant for the size of the region it covers and the scale and dynamism of the economies that it includes. More important for the United States is China's participation, which more deeply integrates China's economy with its neighbors in Northeast Asia, Southeast Asia, and Australasia. China is already the top trading partner for most of these countries, and with RCEP its role and influence will only grow.

Reducing barriers to trade is a net good and reaching agreement among diverse economies on such a scale is an achievement – the negotiation took eight years. It also demonstrates that large scale trade and investment agreements are far from dead - they're just happening without the United States. That should be a concern. As China's role and influence in the region strengthens and intra-Asian trade grows with it, the competitive position of the U.S. will be under pressure. The consolidation of a China-centric Asia-Pacific system may also accelerate the global trend already underway toward regional trading blocs: in Asia, the Western Hemisphere and Europe. While such blocs have their advantages, a regionally fragmented global economy is much less desirable than one that is open and plays by the same rules.

The Trump administration's first major act after taking office in 2017 was to withdraw from the Trans-Pacific Partnership (TPP), an agreement linking 12 regional economies whose negotiation had been led by the United States. There was much to like about

the TPP, which in addition to lowering trade and investment barriers also ensured the free cross-border movement of data (important to Silicon Valley), and set high standards for both environmental and intellectual property protection. It also served to strengthen U.S. economic leadership, embed U.S. standards and market values more deeply in the regional and global economies, and constrain or potentially influence Chinese policies.

That opportunity was squandered when the U.S. withdrew but the remaining economies, led by Canada and Japan, were not deterred and signed a modified agreement – the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) - without the United States. Weaker without the U.S. than with it, the CPTPP nonetheless affirmed the TPP's core principles and opened markets. It also demonstrated something important – that rest of the world is ready and able to reach international agreements that advance their interests, even if the United States isn't.

The challenge for the U.S. doesn't stop with RCEP. China's president Xi Jinping has said China would "favorably consider" joining the CPTPP as well. Today the United States has no broad trade agreement with Asia or with Europe (having dropped not just the TPP but also negotiations with Europe for TTIP (the Trans-Atlantic Trade and Investment Partnership). The abdication of global leadership in the last four years has reduced the competitiveness of U.S. companies (which now trade on less favorable terms) and has weakened U.S. influence. With more immediate priorities as well as processes to work through with both its internal constituencies and Republicans, the Biden administration is unlikely to jump into new trade agreements quickly. It should signal early, however, the renewed openness of the United States to multilateral and other trade agreements. When the CPTPP was adopted by eleven Asia-Pacific economies a door for the U.S. was left open. One early trade step the new administration should consider is to take that opportunity and initiate the process to join.

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