



# Why the U.S. Could Be the Big Loser in the Huge RCEP Trade Deal Between China and 14 Other Countries



Representatives of signatory countries are pictured on screen during the signing ceremony for the Regional Comprehensive Economic Partnership (RCEP) trade pact at the ASEAN summit that is being held online in Hanoi on Nov. 15, 2020. Nhac Nguyn—AFP/Getty Images

BY AMY GUNIA  
READ NEXT

NOVEMBER 17, 2020 6:06 AM EST



## Why Trump's Trade Deal Won't End Trade Wars

When 15 nations across the Asia-Pacific region inked the largest regional free trade agreement ever on Nov. 15, there were no handshakes or state dinners—but the significance of the deal was no less dramatic for it.

The Regional Comprehensive Economic Partnership (RCEP), signed via videoconference due to COVID-19 travel restrictions, brings together countries that comprise some 2.2 billion people and 30% of the world's economic output.

The signatories are Australia, China, Japan, South Korea and New Zealand and the 10 members of the Association of Southeast Asian Nations (ASEAN.) The pact is meant to reduce trade barriers and make it easier for the regional neighbors to do business—and the biggest winners and losers are already clear.

Experts say the deal—while more symbolic than substantive—is a clear marker of both China's power and waning American influence in the Asia-Pacific region. Even U.S. treaty allies like Japan, South Korea and Australia moved to strike a bargain with China in the absence of an alternative, observers note.

**Read More:** *This Is How Joe Biden Might Start Fixing America's Relationship With China*

The signing of the RCEP also indicates that it may be more difficult than previously thought for a Biden Administration to reverse course on four years of President Donald Trump's "America First" withdrawal from multilateralism.

"The trade pact more closely ties the economic fortunes of the signatory countries to that of China and will over time pull these countries deeper into the economic and political orbit of China," says Eswar Prasad, a professor of economics and trade policy at Cornell University and the former head of the International Monetary Fund's China Division.

Here's what to know about it.

#### READ NEXT



#### Why Trump's Trade Deal Won't End Trade Wars

RCEP will lower or eliminate tariffs on various goods and services, although the scope of the agreement—essentially an extension of free trade under existing frameworks—is limited.

One of the biggest benefits, experts say, relates to the pact's so-called rules of origin, which make it easier for companies to set up supply chains spanning multiple countries.

Deborah Elms, the founder of the Asian Trade Centre, says it will be much easier to manufacture and sell goods in the region once RCEP comes into force. "Firms can just build and sell across the region with just one certificate of origin paper and no more juggling different forms and rules," she says.

That means that it will be harder for companies from the U.S., and other countries that aren't party to the RCEP, to compete in Asia. "Companies in Asia will have lower tariffs to pay, may get better access at customs, have improved market access for services and significantly better investment opportunities," says Elms.

The full list of RCEP signatories is: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam, Australia, China, Japan, New Zealand and South Korea.

India was initially meant to sign on, as well. But, fearing a deluge of cheap imports, it withdrew from negotiations in late 2019. That caused concern among some parties to the agreement that China, the world's second largest economy, would have outsized influence.

## Why is the RCEP important?

It's one of the largest trade pacts ever signed, with its member nations representing just under a third of the world's population and economic output.

### READ NEXT



... also marks the first multilateral trade deal for China, the first bilateral trade reduction arrangement between Japan and China, and the first time China, and South Korea have been in a single free-trade agreement.

The RCEP will add almost \$200 billion to the global economy and 0.2% per year

to the GDP of its members, according to estimates by academics Peter A. Petri and Michael G. Plummer, writing for the Peterson Institute for International Economics.

Plummer, director of Johns Hopkins University's School of Advanced International Studies campus in Bologna, Italy, says the agreement is important because it will inspire investor confidence.

The RCEP's formalization comes as the Asia-Pacific region, which has largely been able to keep the pandemic under control, seeks to recover economically. Although experts caution that the agreement will take time to implement, it may still help boost Asian economies.

"RCEP underscores the high priority that the region places on opening up international markets and deepening economic integration, at a very challenging time for the global trading system," says Plummer.

## What does the RCEP mean for the U.S. and China?

To understand what the RCEP means for the United States, it's important to look at the big trade deal that got away: the Trans-Pacific Partnership (TPP).

The TPP was part of the Obama Administration's "pivot" to Asia, and was intended to counter China's rise by improving economic cooperation with regional allies. The TPP included a raft of environmental, human rights, intellectual property and labor regulations that stood to bolster U.S. competitiveness. The authors of the deal hoped that if enough of China's other major trade partners signed on, China would be forced to join as well—and comply with the new standards.

### READ NEXT



But Trump made quitting the TPP a campaign issue in 2016, painting it as **Why Trump's Trade Deal Won't End Trade Wars** or free trade deal that would ship U.S. manufacturing jobs overseas. He withdrew from it on his first full day in office in 2017. The agreement morphed into the Comprehensive and Progressive Agreement for Trans-Pacific

Partnership (CPTPP), which 11 nations—including Japan, Canada and Australia—have signed. But, without the heft of the U.S. in the mix, China has not signed on.

The RCEP, unlike the TPP does not include detailed provisions related to environmental and labor standards.

“The U.S. now has even less leverage to pressure China into modifying its trading and economic practices to bring them more in line with U.S. standards on labor, the environment, intellectual property rights protection, and other issues related to free trade,” says Cornell’s Prasad.

The U.S. Chamber of Commerce said in a statement on Monday that it is concerned that the U.S. is being left behind as economic integration accelerates across the Asia-Pacific region—pointing out that the region is forecast by the IMF to regain an average growth rate of over 5% in 2021. “U.S. exporters, workers, and farmers need access to these lucrative markets if they are to share in this dramatic growth,” the U.S. business group said.

China is already a major trade partner for most Asian economies, and its clout is set to grow under RCEP.

This may make it difficult for the U.S. to come back from Trump’s “America First” foreign policy. The swift about-face on the TPP, which undermined trust in the United States as a trading partner, may also make re-engagement in the region more difficult.

“Even if I was able to get a win-win outcome under this U.S. president, how do I know that it will remain under the next one? If the U.S. can so easily cancel

READ NEXT



### Why Trump's Trade Deal Won't End Trade Wars

President-elect Joe Biden has been noncommittal about whether he will seek to join the updated TPP. But, experts say, the RCEP might force the next administration to re-engage in the region.

Speaking on Monday, Biden said that the U.S. needs to work with its allies to set global trading rules to counter China's growing influence.

"We make up 25% ... of the economy in the world," Biden said of the U.S. "We need to be aligned with the other democracies, another 25% or more so that we can set the rules of the road instead of having China and others dictate outcomes because they are the only game in town."

Plummer says that he hopes the RCEP will act as an incentive for the U.S. to rebuild its ties. "Otherwise China's influence is going to rise significantly" he says, "and the U.S. risks falling behind in the world's most economically promising region."

---

## Get The Brief.

Sign up to receive the top stories you need to know right now.

**SIGN UP NOW**

You can unsubscribe at any time. By signing up you are agreeing to our Terms of Use and Privacy Policy. This site is protected by reCAPTCHA and the Google Privacy Policy and Terms of Service apply.

---

**WRITE TO AMY GUNIA AT [AMY.GUNIA@TIME.COM](mailto:AMY.GUNIA@TIME.COM).**

## SHARE THIS STORY

**READ NEXT**



**Why Trump's Trade Deal Won't End Trade Wars**