Insight

The Details of the RCEP Trade Deal

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Executive Summary

- The Regional Comprehensive Economic Partnership (RCEP) trade agreement, signed on November 15, is the largest of its kind, covering about 30 percent of the world's real gross domestic product.
- RCEP will increase trade and income for the Asia-Pacific region while having essentially no impact on the United States.
- RCEP signals to the rest of the world that it does not need to wait for the United States to lead economic cooperation and international trade.

Introduction

On November 15, 2020, all members of the Association of Southeast Asian Nations (ASEAN) and five regional trading partners signed the Regional Comprehensive Economic Partnership (RCEP) trade agreement. The five regional trading partners in the agreement are China, Japan, South Korea, Australia, and New Zealand. The 15 countries of RCEP combine for almost $25 trillion in real gross domestic product (GDP), or about 30 percent of the world's total GDP. This makes RCEP the largest trade agreement in the world. It does not include, however, the world's largest economy, the United States.

The United States faces a substantial opportunity cost by foregoing such a trade agreement: Had it joined a similar free trade agreement, the United States would have realized about $131 billion in increased real income per year (where real income is the collective income of citizens in a country, adjusted for inflation).[1] RCEP also marks a missed opportunity for the United States to increase its influence in one of the world's fastest growing economic regions.

Provisions of RCEP

RCEP contains the usual provisions of trade agreements. It will reduce at least 92 percent of tariffs amongst participating members.[2] It will simplify and standardize customs procedures between participating nations. RCEP will also simplify the rules of origin laws between countries. Laws governing rules of origin restrict where items can come from in the supply chain, so simplifying these provisions will facilitate the development of regional supply chains and trade networks by reducing the amount of regulation restricting where companies can procure materials and products.

RCEP does not contain any provisions on environmental regulations and does not build on any intellectual property agreements already in place.

The Economic Opportunity Cost of RCEP for the United States

The United States originally led the negotiations for the Trans-Pacific Partnership (TPP) trade agreement. Other countries in the agreement were Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. TPP would have been the largest trade agreement ever, covering 40 percent of the world's economy.[3] TPP followed the traditional rationale of any trade agreement: Members should maximize economic activity in the sectors in which they are most efficient. Members would have benefited from their increased trade access to U.S. markets, while the United States would have benefitted from cheaper goods. Before the agreement could be finalized, in 2017 the United States withdrew its signature and TPP never went into effect. The other countries that were slated to sign TPP instead pressed on with the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) without the United States.

TPP was projected to increase U.S. real income by $131 billion per year starting in 2030 and cost China about $18 billion per year in real income.[4] RCEP reverses this dynamic. RCEP is projected to increase real income for the United States only $1 billion per year, while China will increase its real income by about $85 billion a year.[5]

Reduced Role of the United States in International Trade

RCEP is projected to increase global real income by $186 billion per year.[6] RCEP will run concurrently with CPTPP, which is projected to increase global real income by $147 billion per year. This agreement therefore shows that countries can reap economic benefits by entering regional free trade agreements without including the United States. In addition, while RCEP is not led by a particular country, it will allow the largest economies of China and Japan to shape regional trade to their advantage. The integration and prioritization that will result could in turn reduce the growth of U.S. exports to the region, as countries will shift their trade to competitors of the United States.

As of now, the economies of RCEP have similar comparative advantages and therefore similar roles in the global economy. Without the United States to diversify the markets in the agreement, these economies will have to balance competition among themselves. But North and Southeast Asia are dynamic and increasingly more influential in global trade as their economies grow and advance. Because these countries are already growing in size and influence, RCEP's influence on global trade will only increase as well, at the expense of the United States' influence.

Conclusion

RCEP integrates a region of both developing and developed economies on an unprecedented scale. It also provides a framework for further trade cooperation in the region. All of this happens without including the largest economy in the world and the de facto leader of international trade, the United States. The United States is not only missing out on the increased economic activity that RCEP will bring, but it is also squandering an opportunity to lead and shape economic growth in an increasingly influential part of the world.

[1] https://www.piie.com/publications/working-papers/going-it-alone-asia-pacific-regional-trade-agreements-without-united

[2] https://www.mti.gov.sg/-/media/MTI/Newsroom/Press-Releases/2020/11/Press-Release-on-the-Regional-Comprehensive-Economic-Partnership-Signing.pdf

[3] https://www.cfr.org/backgrounder/what-trans-pacific-partnership-tpp

[4] Ibid

[5] Ibid

[6] Ibid