

## THE REAL TRADE PAYOFF IN ASIA

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The recent U.S. push to conclude negotiation of the Trans Pacific Partnership (TPP) has obscured *similar talks that do not include the U.S.* for creation of a Regional Comprehensive Economic Partnership ("RCEP") led by the 10 members of the Association of Southeast Asian Nations. ASEAN (Indonesia, Philippines, Malaysia, Thailand, Singapore, Vietnam, Brunei, Myanmar, Laos and Cambodia) has a combined population of 620 million, GDP of over \$2.2 trillion and is the U.S.'s fourth largest export market and fifth largest trading partner. ASEAN is joined in the RCEP talks by China, Japan, Korea, India, Australia and New Zealand, called the 'plus 6' group. Altogether these 16 nations account for 48% of global population, 32% of global GDP and 28% of world merchandise trade.

U.S. emphasis on TPP as the Administration's number one trade priority risks overlooking and underestimating the opportunities created by RCEP.

RCEP negotiations began in 2013 with the goal of completion in 2015. The RCEP FTA would liberalize trade in goods, services and investment; strengthen rules on IPR and competition; enhance economic and technical cooperation; and establish a dispute settlement mechanism. These objectives overlap substantially with TPP plans. Both FTAs would also establish common rules of origin to reduce compliance costs and increase productivity by accumulation of value across several countries.

In a recent conversation in Kuala Lumpur, a senior Malaysian trade official estimated there is an 8 out of 10 chance RCEP will meet its deadline on goods services and investment while the more contentious IPR and competition issues will take more time. The twelve nations now negotiating TPP (U.S., Canada, Mexico, Chile, Peru, Singapore, Malaysia, Vietnam, Japan, Australia, New Zealand and Brunei) have not reached agreement after 19 rounds of talks since 2008. RCEP will hold only its third round in January, 2014 so there could be a long way to go despite Malaysian optimism. Moreover, RCEP will proceed

- (a) by consensus in keeping with the ASEAN style of decision-making ,
- (b) with 'flexibility' on phase-in of new requirements and
- (c) with more emphasis than TPP on economic development, namely in Laos, Cambodia and Myanmar. These features are characteristic of 'the ASEAN WAY' and embedded in the culture of the members and mission of ASEAN.

U.S. trade officials therefore dismiss RCEP as 'not really a trade agreement' with hard and fast deadlines to implement obligations. But this overlooks the longer term opportunities that would be created by eventual consolidation of the two tracks and steps that can be taken now to facilitate and hasten it.

Consider the potential for sale of high tech U.S. products not only to consumers but as capital goods for building industrialized economies from rural ones in Indonesia, the Philippines, Thailand and eventually Myanmar none of which is part of TPP. RCEP will give new market access advantages in those countries to suppliers from Japan, South Korea, India and China at the expense of U.S. firms. RCEP will also increase trade among those four giants who do not yet have FTA's between them.

Consider also the prospect for enormous trade gains for both the U.S. and China through access to each other's markets from consolidation of RCEP AND TPP: for China 2.7 times the gains from RCEP alone and for the United States 2.5 times the gains from TPP.

In this context, the U.S. and others at the TPP table should begin consultations with RCEP on common rules of origin, on avoiding new standards and rules that would complicate eventual consolidation and on other ways to harmonize their competing templates. The U.S. and China should either begin to use their Joint Commission on Commerce and Trade or a new 'third track' to discuss convergences, divergences and a foundation for a truly integrated Asian economy rather than re-litigating trade irritations in JCCT.

In 2012 the U.S. and ASEAN established an Expanded Economic Engagement (E3) initiative to increase trade and investment ties as well as the efficiency and competitiveness of trade flows and supply chains throughout ASEAN. Among other projects, E3 has prompted plans in 2014 for U.S.-ASEAN business leader meetings led by Commerce Secretary Pritzker and meetings with ASEAN finance ministers hosted by Secretary Lew. But E3 cannot substitute for engaging directly with RCEP and with China on an agenda for an Asia-wide regional economy in our mutual interest.

The 21 members of APEC agreed in 2006 to examine the long-term prospects for a Free Trade Area of the Asia-Pacific (FTAAP). TPP and RCEP have since moved to the forefront as more manageable near-term options. But that should not forestall concrete steps to facilitate region-wide integration.

It was originally the proliferation of FTA's among Asian nations *without U.S. participation* that prompted the U.S. drive for a TPP. It would be ironic if the U.S. neglected to use the leverage it has helped create for TPP members to negotiate with RCEP for the completion of a truly Asian marketplace.