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Shiro Armstrong

The Australian National University

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Amy King

IN BRIEF

President Donald Trump’s executive order to withdraw the United States from the 12-member Trans-Pacific Partnership (TPP) economic agreement in the Asia Pacific is a strategic turning point in the open economic order.

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It is a blow to furthering reform for some members, a lost opportunity for the United States to write the rules of international commerce, and more worryingly a sign of the United States turning its back on the global economic system it helped create and lead.

Trump and his trade team favour bilateral deals instead of regional agreements. US negotiations with Europe are therefore likely headed for the same fate as the TPP. With major multilateral trade deals at the WTO now too difficult and bilaterals only making slow progress towards freer markets — one of the reasons for the shift towards ambitious regional agreements — all eyes now turn to Asia’s Regional Comprehensive Economic Partnership (RCEP) agreement. It is now the most important initiative on the global trade scene.

The awkwardly named RCEP has received much less attention than the TPP and is shrouded in misconceptions.

It is comprised of the 10 Southeast Asian members of ASEAN as well as Australia, China, India, Japan, New Zealand and South Korea. The first misconception is that RCEP is China-led or China dominated. But China is a spoke and ASEAN is the hub. RCEP was built to consolidate ASEAN’s five separate free trade agreements with China, South Korea, Japan, India and Australia-New Zealand. And the RCEP idea and its guiding principles were crafted not in China, but in Indonesia.

ASEAN centrality has also ensured that RCEP has incorporated Asia’s other large power — Japan — and reflects Japanese preferences as much as those of China. Originally, China wanted to limit core membership of Asian cooperation to ASEAN plus China, Japan and South Korea. Japan wanted a larger membership, involving Australia, New Zealand and India, to help provide a counterweight to China. In the end, ASEAN centrality and the interests of Australia and India in the region meant the broader grouping prevailed.

The fear that the demise of the TPP will lead to China writing the rules of trade and commerce in the Asia Pacific is therefore far-fetched. Allowing China to write the rules would require ASEAN, Australia, Japan and India to all acquiesce to China’s demands.

The second misconception is that RCEP is a low-standard agreement that will not shape commerce to any serious extent within the grouping, let alone beyond it. But that is yet to be determined and completely misreads the potential of the agreement.

The RCEP grouping is already larger than the TPP grouping in purchasing power parity terms — the correct way to compare economic size. The East Asian grouping is also more dynamic, with an average growth rate much higher than the world average.

China, India, Indonesia and many of the developing countries in RCEP still have high barriers to trade and investment. Relatively easy liberalisation will therefore deliver large gains, not only to those countries, but also to the more developed members in RCEP who do business with them.

And an agreement that has those countries commit to liberalisation and reform will be a fillip to global trade growth and openness at a time when it is sorely needed.

We are now at a crossroads for RCEP and whatever agreement that does evolve will have important economic and strategic implications for the Asia-Pacific.



East Asia’s diversity — including in countries’ systems of government — has led to an Asian way of cooperation that requires forging consensus around principles of cooperation. This is not sexy, but the history of Asia’s integration into the WTO and APEC shows that it is effective and can be sustained. This form of cooperation would mean moving towards regulatory harmonisation over time, instead of imposing overly prescriptive and inappropriate rules at the starting line, which was the method adopted by the TPP.

Strategically, how RCEP evolves will determine whether trade becomes a force for cooperation and integration across the wider Asia-Pacific region, or a cause of rivalry and economic fragmentation. The RCEP grouping could decide to pursue an agreement that seeks to extend its economic benefits to the United States and other non-RCEP members. This would help to reduce the perception that RCEP is a China-led bloc designed to erode US economic leadership in Asia, and would be the best way of encouraging the US to maintain its economic commitment to Asia, which was always one of the core goals of the TPP.

RCEP is now the best path towards a Free Trade Area of Asia and the Pacific. With the world trading system under threat it is time for leaders in Asia to step up and push for opening markets and deepening reforms to enhance economic integration, not just with each other but with Europe, the United States and the rest of the world.

Shiro Armstrong is co-director of the Australia-Japan Research Centre at the Crawford School of Public Policy, The Australian National University and Editor of the East Asia Forum. Amy King is a senior lecturer at the Strategic and Defence Studies Centre, The Australian National University.

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2 responses to “East Asia’s economic agreement”

Syed Mahmud Ali says:

I commend the authors for poin

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Richard says:

February 19, 2017 at 11:38 pm

Thanks for clarifying some of the misconceptions of the RCEP that have been out there. Eg, that it is led by China.

Asking that these countries commit to such things as ‘...regulatory reform, breaking down market entry barriers and equal treatment of foreign firms domestically’ is going to be quite a challenge. Most, if not all, of them will have to engage in a lot of reform of their long standing systems to accomplish these kinds of changes. It seems to me that, at best, this will be a very gradual, work in progress that will take years to accomplish.

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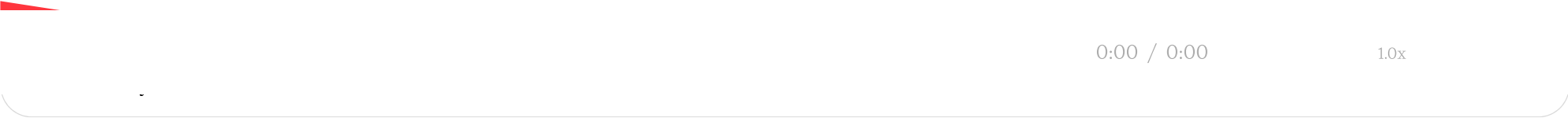
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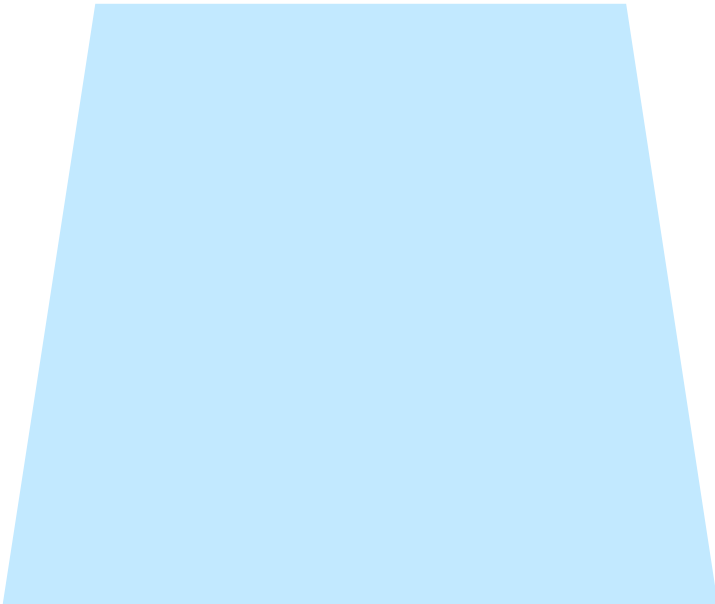
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