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Mammoth Asia trade deal seen as little threat to US companies, for now

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U.S. companies should not be concerned at being left out of the largest trade deal in history, but the creation of the Asia-focused Regional Comprehensive Economic Partnership points to longer-term challenges for the U.S. after President Donald Trump eschewed closer ties with the fastest-growing region in the world.

China and 14 other Asia-Pacific nations with a combined $26.2 trillion in annual GDP signed the Regional Comprehensive Economic Partnership, or RCEP, on Nov. 15. India, the world's fifth-largest economy, pulled out of negotiations in November 2019.

While some analysts see the deal as an effort by Beijing to commandeer control over trade rules in Asia, it was led by the 10-member ASEAN, which does not include China, and "mostly consolidates existing deals in the region," according to Simon Lester, associate director of the Cato Institute's Stiefel Center for Trade Policy Studies.

"To some extent, it may simplify things for companies who operate in the region, but it is not likely to have a major economic impact," Lester said in an interview.

Trans-Pacific Partnership dilemma

However, the creation of RCEP is a reminder that the U.S. has no seat at the table when it comes to Asian trade after President Donald Trump pulled out of the Trans-Pacific Partnership, or TPP, soon after his inauguration in January 2017. The remaining TPP signatories, including Canada, Mexico and Chile, went ahead with a trade agreement called the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, which came into effect in December 2019. China did not join that deal.

President-elect Joe Biden, who was part of the Obama administration that signed TPP in 2016, has said he would try to renegotiate the TPP but has not committed to rejoining. Biden declined to answer questions on RCEP during a Nov. 16 speech in Wilmington, Del., citing rules of negotiation under the sitting president.

Whether RCEP means a shift in the regional dynamic in favor of China, with which the U.S. has been at loggerheads on trade for much of the past four years, depends on the U.S. response, according to Bill Reinsch, senior adviser at the Center for Strategic and International Studies.

"If the U.S. continues to ignore or bully the countries there, the influence pendulum will swing toward China," Reinsch said. "If Joe Biden has a credible plan to restore the U.S. presence and influence in the region, then the pendulum could swing back our way."

Asian middle class

At stake is a regional economy in Asia that will represent 66% of the global middle-class population by 2030, according to the Organisation for Economic Co-operation and Development. The U.S. Chamber of Commerce, a lobbying group of American companies, said the U.S. is "being left behind" as the "vital" Asia-Pacific region intensifies its economic integration.

"It seems ironic that China is now in a similar deal and we're out again," Doug Barry, a spokesperson for the U.S.-China Business Council, said in an interview. "Given that the region will be an engine of future world growth, sitting on the sidelines is not a good place to be. It's hard to wield influence if you don't have a seat at the larger table."

Some are optimistic that RCEP could require member nations to adopt a shared playbook of trading practices that could lead to a further opening of China's domestic market with positive knock-on effects for U.S. companies. But that will only come with improved trade relations between the U.S. and its Asian counterparts.

"Asia is a very different place than it was five years ago, and countries, minus India and the U.S., have coalesced around two important regional trade agreements," Barry said. "The Biden administration must recognize this changed reality. This will require focus and a lot of hard work."