US Interest in the Regional Cooperative Economic Partnership:

It's All About the Trans-Pacific Partnership

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The Regional Cooperative Economic Partnership (RCEP)

Meeting in Phnom Penh at the November 2012 East Asian Summit, the Association of Southeast Asian Nations (ASEAN) announced its decision to move forward with negotiations aimed at establishing the Regional Comprehensive Economic Partnership (RCEP). The RCEP is a proposed multilateral free trade agreement (FTA) among the 10 countries that make up ASEAN (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam) and New Zealand, Australia, South Korea, Japan, China and India. The trade bloc formed by this agreement would be quite significant. The prospective member states contain almost half the world's population, and are responsible for the production of more than 28% of world GDP. Understandably, however, the RCEP has been overshadowed in US political circles by discussions of the Trans-Pacific Partnership (TPP). The TPP is an even larger multinational FTA (in terms of share of world GDP) to which the United States is a negotiating partner. Japan's recent application to join the TPP negotiations has only increased the focus on the TPP in the US, while dampening interest in the RCEP.

Despite the current lack of attention, there are good reasons to believe that the significance of the RCEP will, in the coming months, begin to be debated more in Washington. Indeed, if the TPP negotiations are successful and the US is able ratify the agreement, the decision at the summit in Phnom Penh to pursue what might be viewed as a rival trading bloc may prove to have been crucial to that result. To see why this is true, and to understand how the two trade deals will likely interact within US politics, it is helpful to begin by comparing agreements.

RCEP versus TPP

There is considerable overlap in membership between the RCEP and the TPP. Seven of the 16 countries involved in the RCEP negotiations are also partners to the TPP talks. The relative impact on global trade of the two potential pacts is also comparable, with the TPP encompassing economies with a combined GDP of slightly more than $26 trillion and the RCEP countries weighing in just shy of $20 trillion. Nevertheless, the RCEP and the TPP differ in some important ways. The TPP, for example, aims to be an ambitious, comprehensive, and high-quality "21st Century" FTA, addressing head-on issues such as protection of intellectual property rights and the limits on state-owned enterprises. The RCEP takes a much more gradual approach to trade liberalization *(Table 1)*.

To many observers, however, the most significant difference between the RCEP and the TPP involves not the different standards likely to be imposed by the agreements, but which country is likely to dominate within each pact. While the US did not initiate the TPP, once it announced back in 2009 that it would be joining the negotiations it became by far the largest economy among the negotiating partners. Indeed, even with the proposed addition of Japan to the pact, the US economy is larger than the combined total of the remaining TPP participants. Since China occupies a similar if slightly less overwhelming position in the RCEP, this has naturally led to the conclusion that these agreements are a proxy for the increasingly competitive relationship between the US and China.

TABLE 1

GDP of countries in ASEAN, RCEP & TPP

Country	2011 GDP (billion $)
Indonesia	846.8
Thailand	345.7
Malaysia	287.9
Singapore	239.7
Philippines	224.8
Vietnam	123.6
Myanmar (Burma)	54.4
Brunei	16.4
Cambodia	12.8
Laos	8.3
Total:	2,160.4
Additional countries in RCEP	
China	7,318.5
India	1,872.8
Japan	5,867.1
South Korea	1,116.3
Australia	1,379.4
New Zealand	159.7
Total:	17,713.8
Total for RCEP:	19,874.2
Countries in TPP	
US	14,991.3
Japan	5,867.1
Canada	1,736.1
Australia	1,379.4
Mexico	1,153.3
Malaysia	287.9
Chile	248.6
Singapore	239.7
Peru	176.9
New Zealand	159.7
Vietnam	123.6
Brunei	16.4
Total:	26,380.0

Source: World Bank & Global Finance magazine

How the US & China Understand RCEP & TPP

There are clear indications that China's government views US involvement in the TPP as part of an overall plan by the Obama administration (the "pivot" towards Asia) aimed at containing China's growth and

Photo: Gobierno de Chile

TPP leaders at the APEC Summit in Japan, 2010

influence in Asia and the world. The *New York Times* quoted a senior Chinese official as saying, in reference to the TPP, that "the US is trying to rewrite global trade rules behind our backs." But does the US government have the same hostility towards RCEP?

One could argue that, from the US perspective, the RCEP might not represent that much of a change to the *status quo*. Although the RCEP is a major potential FTA, China already has a free trade agreement with ASEAN. Moreover, the US has not indicated any hostility towards negotiations that are ongoing between China, Japan and South Korea directed at securing a trilateral FTA among those three nations. More generally, the TPP and the RCEP could exist side by side, with members who are parties to both having to adhere to the stricter standards expected to emerge from the TPP negotiations when trading with each other.

Still, at the moment it is difficult to state with any certainty the US government's attitude about the RCEP. The *New York Times* dubbed the RCEP as "a rival to the trade initiatives of the Obama administration". For political reasons, this may, in the end, be exactly how TPP proponents choose to portray the RCEP.

Trade Rhetoric versus Trade Reality in the US

Determining a "US position" towards particular trade deals is often a challenging endeavor. As even the most casual observer of US politics knows, the US has a divided government, and so does not speak with one voice, particularly on trade issues. The division is both institutional and political. Under the US Constitution, power over trade is shared. According to Article I of the Constitution, "Commerce" is to be regulated by Congress, and not the president. The president, nonetheless, operates as the nation's chief negotiator with other countries.

Layered on top of this institutional split is a political divide. Currently, the Democratic Party controls the executive branch, and the Republican Party controls one-half of the legislative branch (with the power to stymie action in the other half if it so desires by using a process known as the "filibuster"). Moreover, on any particular trade issue, there might not only be inter-branch and inter-party divisions, but also intra-branch and intra-party distinctions. For example, in the early 1990s, President Bill Clinton, a Democrat, was much more supportive of the North American Free Trade Agreement (NAFTA) than were his fellow party members in the legislature.

As an additional complication, the US public and their political leaders do not share a common understanding of trade issues. The disconnect between the public and their elected officials also means that leaders have to tread very carefully and creatively when it comes to discussing US trade goals and positions.

FTAs & US Public Opinion: It's All About China

Americans tend to be inattentive to the specifics of trade deals. For example, a Pew study undertaken in October of 2011, as Congress was approving FTAs with South Korea, Columbia, and Panama, found that almost three-quarters of those surveyed had followed news stories about the passage of the agreements either "not too closely" or "not at all closely". This lack of interest, however, does not prevent Americans from having an opinion about FTAs in general. A United Technologies/National Journal Poll, also taken in October of 2011, found that a plurality of respondents opposed the three trade agreements just passed by Congress. A *Wall Street Journal* survey taken a month earlier indicated that 69% agreed with the statement "free trade agreements...cost the US jobs" *(Table 2)*.

Why do Americans, who show little interest in the details of trade agreements, still oppose those agreements? The answer is not complicated. Free trade and the benefits of comparative advantage often seem counterintuitive. After all, Americans hear over and over again that, for the past 30 years, the US trade deficit has exploded while manufacturing employment has declined by nearly 50%. It is only natural that they would draw a correlation between these two figures. This is why US politicians rarely promote the benefits of FTAs, particularly during political campaigns. Republicans, who are generally favorable towards FTAs, know the issue is difficult to sell to

TABLE 2

"Did you follow…Congress passing new trade agreements with South Korea, Columbia and Panama very closely, fairly closely, not too closely or not at all closely?"

(%)

Very closely	Fairly closely	Not too closely	Not at all closely	Don't know/ Refused
10	17	25	48	2

Source: Pew Research Center, Pew Weekly News Interest Poll, October 2011

"Congress has now passed free trade agreements with South Korea, Columbia and Panama. Do you support or oppose these trade agreements?"

(%)

	Support	Oppose	Unsure
Oct. 13-16, 2011	44	41	15

Source: United Technologies/National Journal Congressional Connection Poll conducted by Princeton Survey Research Associates International Oct. 13-16, 2011. N=1,007 adults nationwide. Margin of error + 3.7.

voters; Democrats fear that championing FTAs will cost them the backing of organized labor. Perhaps the best example of this can be found in the controversy that erupted between Barack Obama and Hilary Clinton in 2008, as they both sought the Democratic Party's nomination for president. In a debate between the two candidates held in February of that year in Cleveland, Ohio, one of the moderators, the late Tim Russert, asked both candidates to explain their views on NAFTA. Clinton and Obama gave similar responses, indicating that they both would "renegotiate NAFTA". Within days, stories began to circulate that both campaigns had reached out to Canadian government officials offering assurances that what they were saying about NAFTA during the campaign was more rhetoric than reality. This caused quite a stir over the next week or so, with the Clinton and Obama campaigns issuing accusations at each other, and with the Canadian Embassy in the US issuing denials that any such communication had occurred.

One of the reasons that this story had such an impact was that the substance was entirely plausible. It made sense for a presidential candidate, particularly one seeking the nomination of the Democratic Party, which relies heavily on political donations from trade unions, to criticize NAFTA. It was also reasonable to expect a candidate who hopes to actually govern the US one day to realize that reopening the agreement would be dangerous to the US economy. The popular argument is that NAFTA cost manufacturing jobs in Ohio. But as David Leonhardt, an economics writer for the *New York Times*, pointed out after the debate, manufacturing employment in Ohio actually grew in the years immediately following the approval of NAFTA; overall, Ohio benefits from NAFTA. Ohio is one of the top 10 exporting states in the US, with almost 50% of those exports going to NAFTA trading partners Canada and Mexico.

In fact, one would think that trade would be a winning issue not only in Ohio, but overall in US politics. After all, the top 10 exporting states in the US include not only the politically crucial presidential "swing states" of Ohio and Florida, but also the top two electoral prizes in the US, California and Texas. A US presidential candidate who captured the electoral votes of the top 10 exporting states in the US would be only 25 electoral votes shy of claiming the presidency! *(Table 3)*

FTAs, nevertheless, remain unpopular in the US. When one drills down into the polling, however, one does find some interesting nuances. In 2010, Pew asked Americans who, according to the same survey, were generally skeptical of FTAs such as NAFTA and groups like the World Trade Organization, whether they thought increased trade with certain countries would be good or bad for the US. Seven countries plus the European Union were included in the survey. Somewhat surprisingly, trade skepticism was noticeably reduced, with respondents favoring increased trade with every country in the survey except China. It is not a huge leap to conclude that quite a bit of current US dissatisfaction with trade is focused on China. In fact, given that Americans pay little attention to the details of foreign trade, it would not be at all surprising if many in the US "blamed" FTAs for the huge increase in imports to the US from China, notwithstanding the fact that the US does not have an FTA with China *(Table 4)*.

TABLE 3

Top exporting states & electoral votes

States	2011 (billion $)	Electoral votes
Texas	249.8	38
California	159.3	55
New York	82.8	29
Florida	64.7	29
Washington	64.6	12
Illinois	64.5	20
Louisiana	55.1	8
Michigan	50.8	16
Ohio	46.4	18
Pennsylvania	41	20

Source: Industry Week

TABLE 4

Support for increased trade

Increased trade with following would be: (%)

	Good for US	Bad for US	Don't know
Canada	76	14	9
Japan	60	30	10
EU countries	58	28	14
India	55	32	12
Brazil	53	31	17
Mexico	52	37	11
South Korea	45	41	14
China	45	46	9

Skepticism about impact of FTAs

Free trade agreements like NAFTA, policies of WTO: (%)

	Good for US	Bad for US	Don't know
October 2010	35	44	21

Source: Pew Research Center Nov. 4-7, 2010 Omnibus survey; Nov. 4-7, 2010 Post-election survey

Importance of Trade Promotion Authority

Given how the US public views FTAs, the probability of a successful conclusion of the TPP negotiations remains low. This is why the emergence of the RCEP, a potentially rival FTA which includes China, may be so important. Selling the TPP as a way to counter China, rather than as a freestanding FTA, may be a more effective way for US politicians to gain the political traction they will desperately need. The truth is that gaining approval for the TPP will be even more difficult than it might at first seem. Unlike the recent FTAs between the US and South Korea, Columbia, and Panama, the TPP is being negotiated by a presidential administration that lacks trade promotion authority.

Any trade agreements negotiated by a US presidential administration have to be implemented through legislation passed by Congress. Given how controversial trade agreements are in the US, this is never an easy task. The fact that the president, when negotiating trade agreements, is in reality representing the will of 100 senators and 435 House members adds uncertainly to the US position.

Beginning in 1974, just prior to the start of the Tokyo Round on the General Agreement on Tariffs and Trade (GATT), Congress voted to give to the president what has become known as Trade Promotion Authority (TPA) but is often referred to in US politics as "fast-track" authority. The law requires the president to fulfill certain requirements when negotiating trade agreements, including notifying Congress 90 days before commencing trade negotiations with any country, and 90 days before signing any FTA. If the president abides by these requirements, Congress is required to report the implementing legislation out of committee quickly, followed by limited debate on the floor of each house during which amendments may not be offered. Approval of the legislation requires only a simple majority vote.

Anyone familiar with the normal lawmaking process in the US knows that these expedited procedures are a tremendous advantage to any proposed agreement and make it much easier for a president to negotiate with trade partners, since they have some assurance that what has been agreed upon will not be changed by Congress and must receive a simple up or down majority vote.

Will Fast Track Be Renewed?

There is universal agreement in the US that President Obama will need TPA to successfully steer the TPP through Congress. In fact, he has been following the TPA requirements, for example by notifying Congress 90 days before entering into formal TPP negotiations with Japan. It is unclear, however, whether he will have it anytime soon. Although the provisions for TPA have remained part of US law since their inception in 1974, the president's authorization to use TPA must periodically be extended or renewed. The last time TPA was renewed was in 2002. Using this authority, President George W. Bush was able to negotiate FTAs with South Korea, Columbia, and Panama.This renewal, however, expired on July 1, 2007.

The most recent attempt to grant TPA to President Obama was made in September 2011, when Republican Senator Mitch McConnell offered a TPA amendment on the floor of the Senate. The amendment was only able to secure 55 votes, a majority, but not the 60 votes that were required to pass the measure. There is an important lesson within this vote. For most controversial bills (and TPA is controversial), at least 60 votes are required for passage in the Senate. This is because without those 60 votes any member of the Senate can stall consideration of the matter by using what is known as the filibuster, or taking advantage of the lack of any limitations on the length of debates on the floor of the Senate. The filibuster has become so common that the Senate leadership now often formally requires a 60-vote threshold. This was the case for the McConnell TPA amendment back in 2011. What makes this extraordinary vote such a challenge to obtain is that TPA renewals are seldom stand-alone bills. Congress, when granting a renewal of TPA, also instructs the president about trade objectives. In the past, the requirement that the president pursue certain universal labor standards has been a sticking point. These labor standards, along with intellectual property requirements, particularly as they relate to the Internet, will likely be an issue in any granting of TPA related to the TPP. These side issues must be resolved in a way that allows for the support of 60 Senators and the majority of House members.

An additional complication, when TPA is considered in the context of approving the TPP, will be the addition of Japan to the trading bloc. US automakers and the United Autoworkers Union are very nervous about losing the tariffs that are applied to Japanese automobiles imported into the US. Without a doubt, these concerns will be part of any upcoming debate in Congress about renewing TPA.

Conclusion

According to a study by Peter A. Petri, Michael G. Plummer and Fan Zhai, the TPP, with Japan as a member, will by 2025 increase US income by $76 billion per year. The stakes are therefore quite high for the Obama administration and those of both political parties in Congress who favor the TPP. Difficult battles lie ahead, considering that the Obama administration has yet to even secure TPA. Without these TPP negotiations, it is doubtful that there would be much interest in the RCEP in the US. Given the realities of US trade politics, and the importance of the TPP, however, it will probably be necessary — indeed crucial — for the RCEP to be portrayed as a rival agreement that will give Beijing the upper hand in trade relations in Asia. The hope will be that, even those who are nervous or reluctant to support the TPP will be motivated to compromise when faced with an alternative regional trade arrangement that includes China, but not the US. JS

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