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20-9 East Asia Decouples from the United States: Trade War, COVID-19, and East Asia's New Trade Blocs

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ABSTRACT

The deepening US-China trade war and nationalist reactions to the COVID-19 pandemic are reshaping global economic relationships. Alongside these developments, two new megaregional trade agreements, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Regional Comprehensive Economic Partnership (RCEP), will refocus East Asia's economic ties in the region itself. The new accords are moving forward without the United States and India, once seen as critical partners in the CPTPP and RCEP, respectively. Using a computable general equilibrium model, we show that the agreements will raise global national incomes in 2030 by an annual $147 billion and $186 billion, respectively. They will yield especially large benefits for China, Japan, and South Korea and losses for the United States and India. These effects are simulated both in a business-as-before-Trump environment and in the context of a sustained US-China trade war. The effects were simulated before the COVID-19 shock but seem increasingly likely in the wake of the pandemic. Compared with business as before, the trade war generates large global losses rising to $301 billion annually by 2030. The new agreements offset the effects of the trade war globally, but not for the United States and China. The trade war makes RCEP especially valuable because it strengthens East Asian interdependence, raising trade among members by $428 billion and reducing trade among nonmembers by $48 billion. These shifts bring regional ties closer to institutional arrangements proposed in the 1990s and incentivize greater cooperation among China, Japan, and South Korea.

Keywords: RCEP, CPTPP, East Asia, Regional Economic Integration, CGE Modeling
JEL Codes: F13, F14, F15, F5, F6

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1. EAST ASIA'S REGIONAL TURN

The full impact of COVID-19 will not be known for some time but lasting aftershocks are inevitable. The International Monetary Fund already projects that growth in emerging and developing Asia will fall from 5.5 percent in 2019 to 1.0 percent in 2020, and in the United States by nearly twice that much, from 2.3 percent to −5.9 percent (IMF 2020). Meanwhile, the fissure in US-Asia relations opened by the US-China trade war is widening, due to the toxic politics of the pandemic and the doubtful premise that domestic supply chains will be safer than trans-Pacific ones. These shocks will reinforce the effects of a recent agreement by 15 East Asian countries[1] to form the Regional Comprehensive Economic Partnership (RCEP), a huge regional trade bloc with prominent roles for China, Japan, and South Korea. (India abruptly left the negotiations just before their conclusion, for reasons explained below.) By lowering East Asian trade costs, RCEP will accelerate the decoupling of the East Asian and US economies, arguably the most productive regional partnership in economic history.

This paper examines the quantitative dimensions of "economic distancing" in the Asia-Pacific. It uses a computable general equilibrium model to analyze key results of the Trump era: the US-China trade war, RCEP, and the Comprehensive and Progressive Agreement on Trans-Pacific Partnership (CPTPP),[2] a second major accord, concluded in 2018. It does not directly estimate the effects of COVID-19 but does contrast the implications of two long-term trade scenarios—business as before Trump and a sustained US-China trade war—the latter of which has become far more likely because of the pandemic. Despite a history of political tensions in East Asia, these trends will deepen economic integration among China, Japan, and Korea, building on their already substantial production networks. The losers will be the United States and India, in economics as well as strategic influence in the region.

East Asia's role in the global economy is highly significant. Even without India, the members of RCEP have a population of 2.3 billion, a record of remarkable trade-oriented development, a solid portfolio of trade agreements, ample innovative capacity, and a GDP as large as that of the United States or Europe. East Asia is also more dynamic than the West; decoupling from it may well steer the United States onto a historic sidetrack.

Furthermore, while the politics of the pandemic threaten global interdependence, its scientific and economic logic argue for deeper cooperation. Sharing discoveries like the sequencing of the virus and progress on treatments and vaccines will hasten the end of the pandemic. In contrast, barriers to scientific collaboration and to trade in health-critical products lead to life-threatening outcomes (Bown 2020b). International economic linkages will be

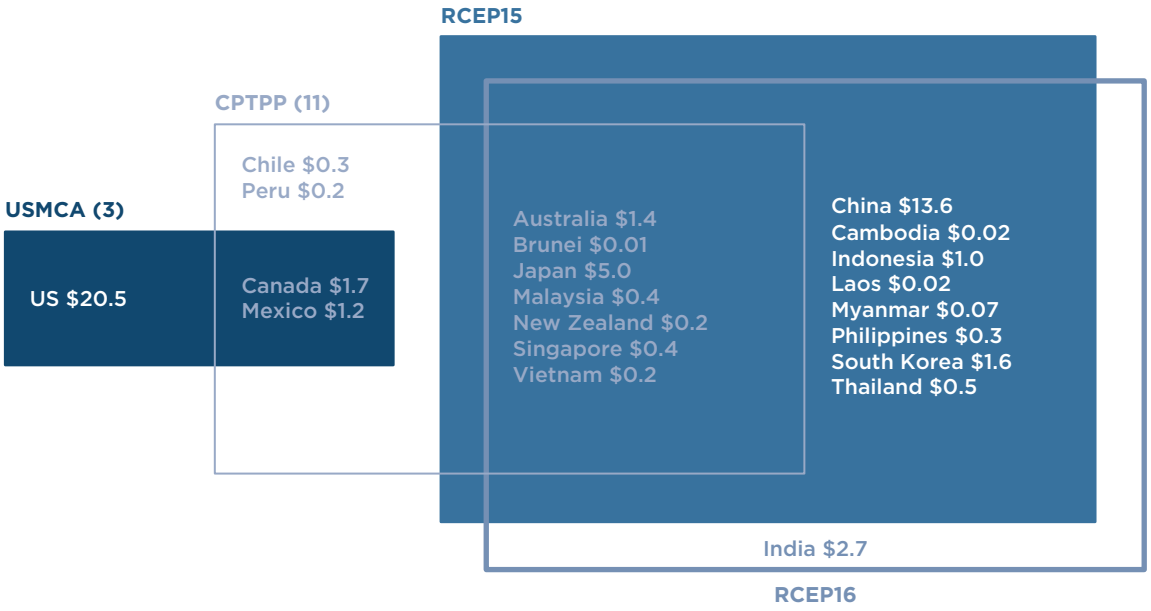
1 The agreement was announced on November 4, 2019 ("Joint Leaders' Statement on the Regional Comprehensive Economic Partnership," November 9, 2019, https://asean.org/joint-leaders-statement-regional-comprehensive-economic-partnership-rcep/). The 15 members of RCEP are Australia, Brunei, Cambodia, China, Indonesia, Japan, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, South Korea, Thailand, and Vietnam.

2 The members of the CPTPP are Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. It is very similar to the Trans-Pacific Partnership, which all 11 countries, plus the United States, had negotiated.

essential in the postcrisis recovery. Trans-Pacific fissures have compromised the world's—and America's—ability to fight the pandemic and to engineer a rapid economic rebound.

It should be emphasized that East Asia's inward-looking agreements were not what the region originally wanted. Most members sought regional frameworks to extend rather than circumscribe their global reach, by working with India in RCEP and with the United States in the predecessor of the CPTPP, the Trans-Pacific Partnership (TPP). Historical tensions in East Asia made such wide relationships politically attractive to many countries. Unfortunately, these goals were defeated by nationalist leaders in India and the United States, leaving the membership of both initiatives predominantly regional (see figure 1).

Figure 1
Regional trade groups involving the United States, Asia, and the Pacific and 2018 GDP
(trillions of US dollars)



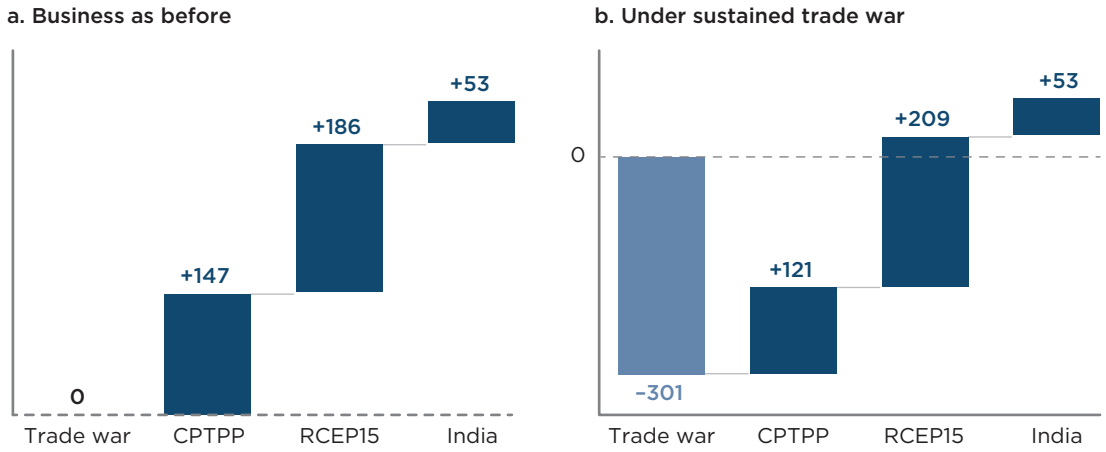
CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership
RCEP = Regional Comprehensive Economic Partnership
USMCA = United States-Mexico-Canada Agreement

Source: World Bank, data.worldbank.org; authors' simulations.

What will be the global significance of the new accords? Figure 2 illustrates their effects on incomes; panel (a) represents the business-as-before scenario, panel (b) the sustained trade war scenario. The latter assumes that US-China trade and investment barriers will remain indefinitely at levels reached under the phase one agreement of January 2020.[3] We add the CPTPP, RCEP15, and RCEP16 agreements in sequence, calculating their respective incremental effects

3 Economic and Trade Agreement Between the Government of the United States and the Government of the People's Republic of China, January 15, 2020, https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/january/economic-and-trade-agreement-between-government-united-states-and-government-peoples-republic-china.

Figure 2
Global income effects of Asia-Pacific trade policies in 2030
(income gains/losses in billions of US dollars)



CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership
RCEP = Regional Comprehensive Economic Partnership

Note: "Business as before" assumes a return to a pre–trade war path; "Sustained trade war" assumes path defined by post–phase one tariffs. Bars show incremental effects of adding each policy to all previous policies. The policy denoted "India" involves adding India to the RCEP15 agreement to form RCEP16.

Source: Authors' simulations.

on income and trade. The *incremental effects* of RCEP16 are the implications of adding India to RCEP, since otherwise this agreement is likely to be very similar to RCEP15 currently agreed.

In later sections of the paper we show that the agreements will matter even more for deeper, structural changes, including shifts in trade patterns and global supply chains. They will also shape East Asia's geopolitics by reorienting its economy toward regional partners. These results emerge from simulations of a large computable general equilibrium (CGE) model of the world economy, like one that we developed and applied in previous studies.[4] The model's methodology is summarized in appendix A.

The analysis is repeated for two contrasting assumptions about the global trade environment. The first anticipates that trade barriers will return to pre-Trump levels within the next decade. The second envisions a sustained trade war and much more limited trans-Pacific relations. This latter scenario anticipates policies that continue to weaken global and US-Chinese economic ties through trade restrictions, controls on foreign investment, and technological nationalism. The disruption caused by COVID-19 is amplifying these trends by sowing distrust and undermining confidence in international supply chains. For example, the McKinsey consultancy argues that "distance" will become much more important because of the high perceived risks of cooperation (Sneader and Singhal 2020).

While lauded by both governments, the US-China phase one truce did not resolve trans-Pacific tensions—indeed, it kept barriers at nearly the highest levels reached in 2018 and 2019. Analysts argue that the agreement is also

4 We have applied this model in studies of the TPP (Petri, Plummer, and Zhai 2012) and its evolution to the CPTPP (Petri et al., forthcoming).

fragile and fraught with implementation problems (Bown 2020a, Cutler and Green 2020).[5] Nor has it stopped the United States or China from resorting to xenophobic reactions to the COVID-19 crisis that are bound to have enduring implications. This paper focuses on effects in the long run, after time has passed for economies to adjust to new barriers and return to normal employment. In that time frame, outcomes will depend on future barriers rather than the transient provisions of phase one, such as mandates for Chinese imports of US products in 2020 and 2021.

With business as before, the CPTPP, RCEP15, and RCEP16 agreements will raise annual global incomes in 2030 by $147 billion, $186 billion, and $53 billion, respectively (see figure 2a).[6] With sustained trade war, however, global incomes in 2030 will be reduced by $301 billion, with the Asian agreements adding $121 billion, $209 billion, and $53 billion, respectively, to that floor (figure 2b). Thus, the agreements together offset *global* losses generated by the trade war, but not the *individual* losses of China and the United States. Figure 2 also suggests that the incremental value of the CPTPP will be reduced by the trade war (from $147 billion to $121 billion) while the value of RCEP15 will be increased (from $186 billion to $209 billion). In other words, the prospects of a trade war raise incentives for concluding RCEP.

Several conclusions emerge:

- RCEP will be economically significant with or without India, and indeed more significant than the CPTPP, with especially important benefits for China, Japan, and Korea.
- RCEP will reorient trade and economic ties away from global linkages toward regionally focused relationships in East Asia.
- India's income will increase by $60 billion annually if it rejoins the agreement and will fall by $6 billion if it does not.
- RCEP will make larger contributions to global and regional welfare in the context of a trade war than under business-as-before assumptions.
- RCEP and the CPTPP together will more than offset global losses due to the US-China trade war, but not the individual losses of China and the United States.

Deteriorating trans-Pacific trade relations, combined with the value of East Asian cooperation in the COVID-19 crisis, lend RCEP special urgency. Yet the final signing of RCEP is uncertain. COVID-19 is slowing Asian decisions, and Japan still wants India to join for geopolitical reasons. However, domestic turmoil makes India's reengagement very unlikely, and the country has ceased to participate in

5 Bown (2020a) underscores that the short-run goals of the agreement are unlikely to be met and the agreement will reinforce the role of the state in the Chinese economy, contrary to the objectives of the negotiations.

6 These and other income changes, defined as incremental annual gains in gross national income due to each agreement, would continue indefinitely at percentage rates similar to those projected for 2030. Gains are measured in constant 2015 dollars.

2020 discussions.[7] The patience of other RCEP members is wearing thin; they have "concluded text-based negotiations for all 20 chapters and essentially all their market access issues; and tasked legal scrubbing by them to commence for signing in 2020."[8] In a trilateral meeting with Japan and South Korea in December 2019, China vigorously courted Japan to make the deal happen, in part by offering additional concessions in services.[9]

2. WHAT THE EAST ASIAN TRADE AGREEMENTS WILL DO

The CPTPP agreement is public but the RCEP text is not yet available.[10] Nevertheless, the topics of its 20 chapters have been released and their content is broadly understood. Early assessments of RCEP provide general insights (Elms 2017), and reports from multiple observers and the press provide more specific detail for comparing RCEP with the CPTPP (Terada 2018; Reinsch, Caporal, and Murray 2019; Sharma 2019; Tobin 2019), as is done in table 1.

Given its larger and more diverse membership, RCEP was never expected to be as rigorous as the CPTPP. While the CPTPP will eliminate tariffs on 96 percent of products that enter intraregional trade, RCEP will likely cover 80–90 percent of these products, and even for these goods tariffs will not be fully eliminated in the transition period. In addition, RCEP is said to include extensive flexibilities for various countries in virtually all chapters of the agreement.

RCEP will also fall short of the CPTPP on behind-the-border barriers. Its intellectual property provisions are said to add little to those that most members have already accepted in the World Trade Organization (WTO) or other agreements. RCEP will not have chapters on labor, the environment, or state-owned enterprises. Its services and investment chapters at least in part follow positive-list approaches to market access, rather than the negative lists used in the CPTPP (Chaisse and Pomfret 2019). While RCEP will include a chapter on electronic commerce, its provisions will not constrain customs duties on electronic transmissions, nor require commitments on cross-border data transfers or data localization restrictions. Provisions on investor-state dispute settlement are expected to be included but will not be implemented until (and if) members approve additional provisions three years after the agreement comes into force.

Nevertheless, RCEP will be a large agreement with meaningful coverage and effects. Significantly, it will offer cumulative, favorable rules of origin for manufacturers participating in regional supply chains. Its market access provisions will set common terms of reference for regulatory policies and extend national and most favored nation treatment into new sectors. Specific mechanisms for consultation, including on trade facilitation and regulatory

7 "India absent from RCEP special negotiating talks in Indonesia," Kyodo News, February 4, 2020, https://english.kyodonews.net/news/2020/02/86cb90803ba0-india-absent-from-rcep-special-negotiating-talks-in-indonesia.html.

8 "Joint Leaders' Statement on the Regional Comprehensive Economic Partnership (RCEP)," November 4, 2019, Bangkok, https://asean.org/storage/2019/11/FINAL-RCEP-Joint-Leaders-Statement-for-3rd-RCEP-Summit.pdf.

9 "Chinese premier holds talks with Japanese prime minister," CCTV, December 26, 2019, http://english.cctv.com/2019/12/26/ARTItItaxo6QSnlkE7Vylvdp191226.shtml.

10 For a review of the chapters in the agreement and progress to date, see https://dfat.gov.au/trade/agreements/negotiations/rcep/Pages/regional-comprehensive-economic-partnership.aspx.

Table 1
Provisions of the CPTPP and RCEP agreements

Major issues	CPTPP chapter(s)	RCEP chapter(s)	CPTPP content	Expected RCEP differences (if any)
National treatment and market access	2	2	Application of national and most favored nation (MFN) treatment, transparent tariffs	
Rules of origin	3, 4	3	Favorable definitions and costing methods for cumulation; de minimis treatment of nonoriginating materials; special provisions for textiles and apparel	
Customs administration and trade facilitation	5	4	Enhanced customs cooperation, trade facilitation, express shipments, administration of customs penalties	
Trade remedies	6	7	Rules for safeguards, temporary protection, antidumping, and countervailing duties	
Sanitary and phytosanitary measures	7	5	Rules for sanitary and phytosanitary measures, equivalence recognition, science and risk analysis, audits, certification, and transparency	
Technical barriers to trade	8	6	Enhanced cooperation on standards for technical regulations, conformity assessment	
Investment	9	10	National treatment, MFN treatment, compensation for expropriation, rules for financial transfers, bar performance requirements, investor-state dispute settlement (ISDS) with improved safeguards for public welfare regulations; phaseout of equity limits in some countries	Instead of negative lists also permits positive lists for exceptions; ISDS provisions will not be activated unless members decide to do so three years after the agreement is signed
Cross-border trade in services	10, 11, 13	8	Disciplines on market restrictions, local presence requirements, regulations, criteria for service providers; special provisions for financial services for offering new products and restricting regulations, for educational services in enhancing offerings, and for telecommunications services on interconnection, roaming	Instead of negative lists also permits positive lists for exceptions
Temporary entry for businesspersons	12	9	Disciplines on regulating temporary entry of businesspersons; country-specific concessions for additional professional services and longer periods of stay	

Table continues

Table 1
Provisions of the CPTPP and RCEP agreements (continued)

Major issues	CPTPP chapter(s)	RCEP chapter(s)	CPTPP content	Expected RCEP differences (if any)
Electronic commerce	14	12	Prohibition of customs duties on electronic transmissions, discriminatory treatment of digital products; legal framework for ecommerce; limited restrictions on cross-border transmission of data and location of computing facilities	No coverage of cross-border data flows and data localization requirements; no moratorium on customs duties on electronic transmissions
Government procurement	15	16	National treatment and nondiscrimination, governance of procurement, expanded range of organizations covered	
Competition and regulatory policy	16, 25, 26	13	Assurance of fairness in competition law, private right of action; enhanced regulatory coherence, transparency, anticorruption measures	
State-owned enterprises (SOEs) and designated monopolies	17		Definition of state-owned enterprises and designated monopolies; limits on noncommercial assistance to SOEs	State-owned enterprises not covered
Intellectual property (IP)	18	11	Commitments to ratify international agreements on intellectual property; suspension of US-promoted provisions for expanded IP protections under TPP	
Labor	19	—	Commitments to implement laws and regulations supporting ILO Declaration on Labor Rights; institutions for review and a Labor Council for monitoring	Not covered
Environment	20	—	Recognition of multilateral environmental agreements; provisions on ship pollution, biodiversity, invasive species, marine fisheries, conservation	Not covered
Cooperation and capacity building	21, 22, 23, 24	14, 15	Institutions for cooperation and capacity building, including especially small and medium-sized enterprises	
Dispute resolution	28	19	Scope of dispute settlement and a panel for unresolved disputes	
Definitions, administration, and institutions	1, 27, 29, 30	1, 17, 18, 20	Establishment of the Trans-Pacific Partnership Commission, security-related exceptions, safeguard measures, taxation; conditions for changes including enlargement	

CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership
RCEP = Regional Comprehensive Economic Partnership

Sources: Authors' interpretation, based on official government sources, Reinsch, Caporal, and Murray (2019), and other sources cited in the text. Blank cells in the last column indicate that no significant differences have been reported so far.

Table 2
Specifications for simulating trade policies

	China-US trade war	CPTPP	RCEP15	RCEP16
Membership/ parties involved	China, United States	Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam	Australia, Brunei, Cambodia, China, Indonesia, Japan, Korea, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, Thailand, and Vietnam	RCEP15 plus India
Launch date	2019	2018	2020	2020
Tariff liberalization	As per phase one US-China agreement of December 2019	As negotiated for TPP agreement	90% eliminated	85% eliminated
Nontariff barrier (NTB) liberalization	China-US NTBs up 10%			
Agricultural liberalization	Most US-China NTBs up 10%	As negotiated for TPP agreement except for suspended provisions	Average of recent ASEAN+1 agreements	75% of average of recent ASEAN+1 agreements
Services liberalization	US-China tech NTBs up 50%			
FDI liberalization	US-China barriers doubled			
Nonpreferential NTB reductions	None	10%	10%	10%

CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership
RCEP = Regional Comprehensive Economic Partnership
ASEAN = Association of Southeast Asian Nations
FDI = foreign direct investment

cooperation, are not yet available, but are likely to offer new channels for facilitating integration. Finally, as is usually the case with Association of Southeast Asian Nations (ASEAN) agreements, the current provisions are bound to be improved and enlarged over time, in part through explicit mechanisms that make changes possible.

The assumptions used to simulate the effects of RCEP are shown in table 2. We cannot yet draw on announced tariff schedules or the negotiated text, and therefore represent the agreement with judgments about how it will compare to the CPTPP based on the information in table 1.

3. HOW THE AGREEMENTS WILL AFFECT NATIONAL INCOMES WITH AND WITHOUT TRADE WAR

The salient effect of RCEP will be to reinforce market-driven economic integration in East Asia, giving rise to still stronger connections among China, Japan, Korea, and Southeast Asia. While many trade agreements already link

RCEP members to each other, RCEP will address crucial areas not yet covered or covered only by "hub-and-spoke" provisions that do not support integrated, multicountry supply chains. With these links, RCEP will encourage further interdependence and help offset distortions introduced by US-China barriers.

Agreements in a business-as-before environment

Consider first the implications of the new agreements on their own, that is, in the benign context of trade barriers that return to pre–trade-war levels. The second column of table 3 shows the effects of the CPTPP (reported in Petri and Plummer 2019), which we assume will continue to be implemented alongside RCEP. The CPTPP is estimated to generate $147 billion in additional income worldwide by 2030, with most countries benefiting except for nonmembers such as China, India, Korea, Thailand, and the United States. The CPTPP is much less lucrative than the TPP agreement that it replaced—for many countries, improved ties with the United States were a key attraction of the TPP. In earlier estimates, we projected $492 billion in global gains under the TPP, including $131 billion for the United States alone (Petri and Plummer 2016).

About one-third of the CPTPP's global benefits (table 3, column 2) will go to Japan, with $46 billion in gains. Other significant winners will include Malaysia, Canada, Mexico, and Vietnam. China will be the most adversely affected, with estimated losses of $10 billion. The losses of the United States will be small ($2 billion), combining the negative effect of weaker access to CPTPP markets with the positive effect of more efficient trade and production relations across CPTPP partners, including some nonpreferential reductions in the group's nontariff barriers.

RCEP15 will add $186 billion to the world economy (table 3, column 3) and 0.2 percent to its members' GDP on a permanent basis. These benefits will go largely to China, Japan, and Korea, with gains of $85 billion, $48 billion, and $23 billion, respectively. Other significant RCEP15 winners will include Indonesia, Malaysia, Thailand, and Vietnam. Among nonmembers, India and Taiwan would lose. Estimates by Ken Itakura and Hiro Lee (2019) for RCEP are not directly comparable to ours, but the two studies produce very similar estimates for the CPTPP, with welfare gains in 2030 no more than 30 percent apart for significantly affected countries.[11]

Three factors explain why China, Japan, and Korea gain so much from the RCEP15 agreement. First, these countries are large: they account for 80 percent of RCEP15's GDP. Second, they are not jointly members of any existing free trade area, and only a small part of their trade is covered by a shallow China-Korea trade agreement (Cheong 2016). A similar, though more extreme, argument is made by Takashi Terada (2018), who calls RCEP a "de facto China-Japan FTA" and expects substantial benefits for Japan. Third, by contrast, trade among other

11 Itakura and Lee (2019) use a novel import structure that has separate sectoral demand functions for intermediate goods and final goods to represent potential differences among supply chains for different activities, but find that this structure has small effects on estimated welfare results.

Table 3
Business as before: Real income effects, 2030
(billions of US dollars, equivalent variations)

		Incremental change			Incremental percent change		
	2030 Income	*CPTPP*	*RCEP15*	*RCEP16*	*CPTPP*	*RCEP15*	*RCEP16*
Americas	**39,569**	**49**	**2**	**–1**	**0.1**	**0.0**	**0.0**
Canada	2,717	22	0	0	0.8	0.0	0.0
Chile	463	3	0	0	0.7	0.0	0.0
Colombia	684	0	0	0	0.0	0.0	0.0
Mexico	2,169	16	0	0	0.7	0.0	0.0
Peru	442	10	0	0	2.2	0.0	0.0
United States	25,754	–2	1	0	0.0	0.0	0.0
Latin America nie	7,341	0	0	0	0.0	0.0	0.0
Asia	**50,659**	**69**	**164**	**52**	**0.1**	**0.3**	**0.1**
Brunei	31	1	0	0	2.6	0.5	–0.1
China	27,839	–10	85	8	0.0	0.3	0.0
Hong Kong	461	1	0	1	0.2	0.1	0.1
India	5,487	–4	–6	60	–0.1	–0.1	1.1
Indonesia	2,192	–1	3	–2	–0.1	0.1	–0.1
Japan	4,924	46	48	–9	0.9	1.0	–0.2
Korea	2,243	–3	23	–2	–0.1	1.0	–0.1
Malaysia	675	21	4	–1	3.1	0.6	–0.2
Philippines	680	0	2	–1	0.0	0.3	–0.1
Singapore	485	13	0	1	2.7	0.0	0.1
Taiwan	776	0	–3	0	0.0	–0.4	0.1
Thailand	812	–5	4	–1	–0.6	0.5	–0.1
Vietnam	497	11	3	–1	2.2	0.5	–0.3
ASEAN nie	283	0	1	0	0.0	0.3	–0.1
Asia nie	3,272	0	0	0	0.0	0.0	0.0
Oceania	**2,854**	**15**	**1**	**3**	**0.5**	**0.0**	**0.1**
Australia	2,590	12	1	3	0.5	0.0	0.1
New Zealand	264	3	1	0	1.1	0.2	0.1

Table continues

Table 3
Business as before: Real income effects, 2030
(billions of US dollars, equivalent variations) (continued)

		Incremental change			Incremental percent change		
	2030 Income	***CPTPP***	***RCEP15***	***RCEP16***	***CPTPP***	***RCEP15***	***RCEP16***
Rest of World	**40,720**	**14**	**19**	**–1**	**0.0**	**0.0**	**0.0**
Africa (Sub-Sahara)	4,068	0	0	1	0.0	0.0	0.0
Europe	23,189	12	13	–1	0.0	0.1	0.0
EMENA	10,001	2	4	–1	0.0	0.0	0.0
Russia	3,371	0	1	0	0.0	0.0	0.0
ROW	90	0	0	0	0.1	0.0	0.0
WORLD	**133,801**	**147**	**186**	**53**	**0.1**	**0.1**	**0.0**
Memorandum							
RCEP15 members	43,516						
Δ RCEP15 members		87	174	–6	0.2	0.4	0.0
Δ Others		60	12	59	0.1	0.0	0.1

ASEAN = Association of Southeast Asian Nations
CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership
EMENA = Europe, Middle East and North Africa
nie = not included elsewhere
RCEP = Regional Comprehensive Economic Partnership
Source: Authors' simulations.

RCEP15 countries is covered by other agreements, such as the ASEAN Free Trade Area (AFTA), accords between ASEAN[12] and other RCEP15 members, and the CPTPP, which counts seven RCEP15 countries among its members.

With RCEP16 (the addition of India), the projected global benefits increase by $53 billion (table 3, column 4). These gains mostly accrue to India and effects on other countries are minor—a small drop for Japan and a small increase for China. This scenario is discussed further in the section below on India's withdrawal.

Implications of the trade war

A sustained US-China trade war will generate powerful headwinds for the global economy, as shown in the second column of table 4. These include large negative effects on China's national income (−$304 billion) and smaller losses for other regions closely connected to the United States or China (including the

12 The ten ASEAN members are Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

Table 4
Sustained trade war: Real income effects, 2030
(billions of US dollars, equivalent variations)

		Incremental change				Incremental percent change			
	2030 Income	*US-China trade war*	*CPTPP*	*RCEP15*	*RCEP16*	*US-China trade war*	*CPTPP*	*RCEP15*	*RCEP16*
Americas	**39,569**	**11**	**40**	**10**	**–1**	**0.0**	**0.1**	**0.0**	**0.0**
Canada	2,717	5	22	0	0	0.2	0.8	0.0	0.0
Chile	463	–1	3	0	0	–0.1	0.7	0.0	0.0
Colombia	684	1	0	0	0	0.1	0	0.0	0.0
Mexico	2,169	21	16	0	0	1.0	0.8	0.0	0.0
Peru	442	1	10	0	0	0.1	2.3	0.0	0.0
United States	25,754	–23	–12	10	0	–0.1	0	0.0	0.0
Latin America nie	7,341	7	0	0	0	0.1	0	0.0	0.0
Asia	**50,659**	**–289**	**53**	**179**	**53**	**–0.6**	**0.1**	**0.4**	**0.1**
Brunei	31	0	1	0	0	–1.1	2.6	0.5	–0.1
China	27,839	–304	–28	100	9	–1.1	–0.1	0.4	0.0
Hong Kong	461	–18	1	1	1	–3.9	0.2	0.3	0.2
India	5,487	10	–3	–6	60	0.2	–0.1	–0.1	1.1
Indonesia	2,192	2	–1	3	–2	0.1	–0.1	0.1	–0.1
Japan	4,924	5	47	46	–9	0.1	0.9	0.9	–0.2
Korea	2,243	5	–3	23	–2	0.2	–0.1	1.0	–0.1
Malaysia	675	3	21	4	–1	0.4	3.1	0.6	–0.2
Philippines	680	2	0	2	–1	0.3	0	0.3	–0.1
Singapore	485	–3	13	0	1	–0.6	2.7	0.0	0.1
Taiwan	776	0	0	–3	0	0.0	0	–0.4	0.1
Thailand	812	4	–4	4	–1	0.5	–0.5	0.5	–0.1
Vietnam	497	3	11	3	–1	0.7	2.2	0.5	–0.3
ASEAN nie	283	1	0	1	0	0.2	0	0.3	–0.1
Asia nie	3,272	2	0	0	0	0.1	0	0.0	0.0
Oceania	**2,854**	**–1**	**15**	**1**	**3**	**0.0**	**0.5**	**0.0**	**0.1**
Australia	2,590	–1	12	1	3	0.0	0.5	0.0	0.1
New Zealand	264	0	3	1	0	0.1	1.1	0.2	0.1

Table continues

Table 4
Sustained trade war: Real income effects, 2030
(billions of US dollars, equivalent variations) (continued)

		Incremental change				Incremental percent change			
	2030 Income	*US-China trade war*	*CPTPP*	*RCEP15*	*RCEP16*	*US-China trade war*	*CPTPP*	*RCEP15*	*RCEP16*
Rest of World	**40,720**	**–21**	**14**	**19**	**–1**	**–0.1**	**0.0**	**0.0**	**0.0**
Africa (Sub-Sahara)	4,068	3	0	0	1	0.1	0.0	0.0	0.0
Europe	23,189	–13	12	13	–1	–0.1	0.0	0.1	0.0
EMENA	10,001	–9	2	5	–1	–0.1	0.0	0.0	0.0
Russia	3,371	–2	0	1	0	0.0	0.0	0.0	0.0
ROW	90	0	0	0	0	0.4	0.1	0.1	0.0
WORLD	**133,801**	**–301**	**121**	**209**	**53**	**–0.2**	**0.1**	**0.2**	**0.0**
Memorandum									
RCEP15 members	43,516								
Δ RCEP15 members		–284	70	187	–5	–0.7	0.2	0.4	0.0
Δ Others		–17	51	22	59	0.0	0.1	0.1	0.1

ASEAN = Association of Southeast Asian Nations
CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership
EMENA = Europe, Middle East and North Africa
nie = not included elsewhere
RCEP = Regional Comprehensive Economic Partnership
Source: Authors' simulations.

United States itself, Hong Kong, Europe, and the Middle East). The simulation also projects small gains for countries that compete with China in US markets (especially Mexico, India, Japan, Korea, and Canada).

These results fall within the (admittedly wide) range of other recent estimates. At one end, our estimate of the global cost of the US-China trade war is $301 billion in 2030, much higher than the $121 billion estimated by Renuka Mahadevan and Anda Nugroho (2019). At the other end, our estimate is only half that of Minghao Li, Edward Balistreri, and Wendong Zhang (2019). These differences reflect modeling assumptions about production (our calculations and those of Li et al. use a heterogeneous-firms specification, which generates greater welfare effects than the Armington approach used by Mahadevan and Nugroho) and about nontariff barriers, which we incorporate in the analysis but others do not. Nevertheless, all of these studies agree on several key takeaways, including the large negative impact of the trade war on both China and the United States; larger welfare losses for China than for the United States; and the fact that these effects are too large to be offset by plausible alternative trade agreements.

The trade war will lead to the appreciation of the dollar and depreciation of the Chinese renminbi against other currencies, due to the bilaterally imbalanced pattern of US-China trade.[13] For the United States, these exchange rate movements will cushion the income effects of reduced trade; efficiency losses from tariffs will be partly offset by gains from "optimal protection," that is, from improvements in the US terms of trade vis-à-vis China and other partners.[14] For China, the falling real exchange rate will depress the terms of trade, and amplify efficiency losses by creating larger income declines.

Agreements in a trade war environment

The trade war will affect how regional policies work, as reported in table 4. It will reduce gains from the CPTPP, in part by amplifying the CPTPP-induced diversion of trade away from the United States; US income losses will expand from −$2 billion (table 3) to −$12 billion (table 4). Income losses for China rise from −$10 billion (table 3) to −$28 billion (table 4). A simple way to see this is to recognize that losing trade to the CPTPP is even costlier for countries already engaged in an unrelated trade war. In contrast, the benefits of RCEP15 will increase under the trade war, also reflecting greater gains in both US (from $1 billion to $10 billion) and Chinese incomes (from $85 billion to $100 billion). In this case, China gains directly as an RCEP member, but in addition both China and the United States benefit from more efficient Asian supply chains, which partly offset the costs of the trade war. The value of adding India to RCEP—concluding RCEP16 instead of RCEP15—is not sensitive to the global environment.

4. HOW THE AGREEMENTS WILL SHAPE TRADE PATTERNS

Trade agreements are sticky; they shape patterns of international trade and thus subsequent institutions and policies. Our simulations also offer clues for the consequences of the trade war, including for the long-term evolution of global interdependence and production systems.

Trade effects of the trade war

The trade war will shift trading relationships away from the US-China link, as shown in table 5. (We show below how these shifts will be mitigated by RCEP15.) If the trade war continues, China's exports to the United States will fall by $723 billion in 2030 from a baseline of $1,006 billion (72 percent), and US exports to China will fall by $193 billion from a baseline of $420 billion (46 percent). These declines result from roughly 20 percent increases in bilateral tariff averages, plus

13 Bilateral trade matters because China and the United States each have product-specific market power in the heterogeneous-firms modeling strategy used in this study. The balance in market power favors the United States, since it can apply tariffs to a larger volume of imports from China.

14 The theory of optimal protection notes that a large country may be able to shift the burden of its tariffs to foreign suppliers and thus increase domestic welfare. The tariffs applied by the United States to Chinese imports—averaging 21 percent—are not far from the high statutory rates that US law authorizes in "noncooperative" circumstances, which some argue broadly reflect optimal tariffs (Broda, Limao, and Weinstein 2008). However, as noted in Flaaen and Pierce (2019), there has been pass-through of tariff costs to US buyers and the related tariffs and retaliation have led to an increase in input costs for US manufacturing.

Table 5
Sustained trade war: Effects on global trade patterns, 2030
(billions of US dollars)

	Importer					
Exporter	*United States*	*China*	*Japan, Korea*	*RCEP other*	*Rest of world*	*World*
United States	0	−193	−26	−22	−154	−396
China	−723	0	34	38	188	−463
Japan, Korea	62	−46	−1	−4	−12	−1
RCEP other	59	−44	−5	−8	−15	−14
Rest of world	223	−143	−12	−22	−168	−123
World	−379	−426	−11	−18	−162	−996

RCEP = Regional Comprehensive Economic Partnership
Note: Shaded cells show decreased trade flows.
Source: Authors' simulations.

a similar increase in nontariff barriers (see table 2). As a result, the US bilateral trade deficit with China will fall by $530 billion, becoming nearly balanced. But this "gain" (from the viewpoint of President Trump) accomplished over a decade will be offset by similar increases in US deficits with other regions, assuming US savings performance does not change.

While the trade war will cause a majority of global trade flows to decline (shown in table 5 by a sea of shaded cells), the estimates also suggest substantial decoupling: US imports will increase from all suppliers other than China, and Chinese exports will increase to all destinations other than the United States. Meanwhile, US exports will fall in all markets that turn toward China and away from the United States. In addition, Chinese imports will fall as shrinking inputs into China's export industries are passed backward through international supply chains.

Appendix table B1 offers additional, country-level detail, showing total US and Chinese exports falling by $10 billion and $9 billion, respectively. Only a few countries will increase their trade: Canada, Malaysia, Mexico, the Philippines, Thailand, and Vietnam (all are competitors of China in US markets), by small amounts totaling less than $50 billion. World trade would thus decline by $996 billion (2.8 percent) and, as production becomes less efficient, world incomes would fall by $301 billion on a permanent basis. About three-quarters of this decline in trade will involve US and Chinese products. As already noted, these estimates are a bit more optimistic than those of Li, Balistreri, and Zhang (2019).

Table 6
Effects of RCEP15 on global trade patterns, 2030
(billions of US dollars)

Exporter		Importer					
		United States	*China*	*Japan, Korea*	*RCEP other*	*Rest of world*	*World*
United States	Business as before	0	3	3	−3	−1	3
	Trade war	0	19	2	−3	−5	12
China	Business as before	19	0	97	54	74	244
	Trade war	31	0	96	53	68	248
Japan, Korea	Business as before	−10	191	51	1	−35	199
	Trade war	−10	178	51	2	−30	191
RCEP other	Business as before	1	31	14	6	6	59
	Trade war	2	30	13	5	7	57
Rest of world	Business as before	−7	11	28	−2	−31	0
	Trade war	−8	13	24	−3	−34	−8
World	Business as before	4	236	193	56	14	504
	Trade war	14	240	186	55	6	500

RCEP = Regional Comprehensive Economic Partnership

Note: Results show incremental effects of RCEP15 given that CPTPP is also implemented. Shaded cells show increased trade flows.

Source: Authors' simulations.

Repairing the damage through East Asian integration

CPTPP and RCEP15 will replace some of the trade destroyed by the US-China trade war and suggest a more central role for East Asian connections in the future. In particular, RCEP15 will build deeper links among Northeast Asia's three largest economies, China, Japan, and South Korea, which already rank among each other's top trade partners. Table 6 reports substantial increases in trade among RCEP15 economies as well as decreases in trade among other economies, in both the business-as-before and trade war environments. Trade *among* RCEP15 economies (the three table 6 regions called China; Japan and Korea; and RCEP other) would increase by $445 billion and $428 billion, depending on the environment, representing about three-quarters of the increase in global trade attributable to RCEP15. The remaining one-quarter increase in global trade would represent growing trade *between* RCEP15 and other economies (in our aggregation, the United States and the rest of the world). Interactions *among* other economies outside RCEP15 would fall by $39 billion to $48 billion, depending on the environment.

These deeper connections in RCEP are likely to incentivize not just collaborative manufacturing but also interconnected innovation systems, enabling inventions in one country to enter production chains in others. In the best case, China, Japan, and Korea will develop greater confidence in supply chains that have become uncertain in the context of the East-West political divide. However, despite the positive effect of the Asian agreements on China's trade, they would not fully offset the disruptive effects of the trade war with the United States.

Growing interdependence among China, Japan, and Korea could well lead to additional formal agreements among them. A shallow Korea-China FTA came into effect in 2015 but has not been followed by second-stage negotiations, as originally planned.[15] Negotiations on a China-Japan-Korea FTA, launched at the same time as RCEP in 2012, have completed 16 rounds, but are still far from their original goal of establishing an agreement that goes well beyond RCEP standards.[16] Political tensions that prevented progress for several years are ebbing, and leaders' summits resumed in Tokyo in 2018 and Chengdu in 2019. In Chengdu, China specifically promoted RCEP and attempted to ease Korea-Japan conflicts that had recently spilled into trade barriers.[17]

Even without a trilateral FTA, China, Japan, and Korea are complementary economies and already trade a great deal with each other. China is the largest trading partner of both Japan and Korea, and they are China's third and fourth largest markets, respectively. Given their technological level, the three economies are also poised for additional, European-style trade in differentiated products, including especially intermediate goods. Moreover, they offer complementary skills and advanced technologies for integrated production networks. With US linkages in doubt, these links provide essential insurance for supply chains that depend on sophisticated inputs.

Characteristics of regional supply chains

As trade relationships intensify in East Asia, they will build on the region's comparative advantages in manufacturing and strengths in organizing multicountry supply chains. Table 7 shows the results of the simulations of RCEP15 for trade at the sectoral level. The simulations account for international supply chain linkages, since these are embedded in the international input-output tables that underlie the model. Exports in advanced manufacturing sectors increase the most, both overall for China, Japan, and Korea, and for these countries' trade within the CJK bloc. For all three countries, two-thirds of new trade attributable to RCEP15 will consist of advanced manufactures, including electrical and electronic equipment, machinery, and vehicles, which all depend extensively on multi-country supply chains. The share of these products is comparable in their intrabloc trade. The scale of these increases, which

15 See, for example, Cheong (2016), who estimates a small effect of the FTA due to its "narrow coverage and tenuous commitments."

16 Xinhua.net, "China, S.Korea, Japan to hold trilateral FTA negotiations in Seoul," November 26, 2019, www.xinhuanet.com/english/2019-11/26/c_138584549.htm.

17 See, for example, Kim (2019).

Table 7
Effects of RCEP15 on China-Japan-Korea (CJK) exports, 2030
(billions of US dollars)

	Change in total exports			Change in exports to CJK		
Category	*China*	*Japan*	*Korea*	*China*	*Japan*	*Korea*
Primary products	5	5	9	3	6	6
Light manufactures	45	21	12	23	25	4
Advanced manufactures	185	58	37	60	93	21
Traded services	7	15	1	5	29	2
Domestic services	7	29	4	5	40	4
Total	248	128	63	96	193	36

Source: Authors' simulations.

affect both the export and import changes of the three countries, reflects the prominent role of multicountry production networks in the newly created trade relationships.

As already noted, the benefits of RCEP15 are greater under the trade war scenario. In effect, greater integration among East Asian economies will partly offset higher barriers between the United States and China. RCEP15 will create strong production networks among China, Japan, and Korea. These trade patterns signal a more regionally focused, China-centered East Asian economy. There will be clear economic benefits for participants, alongside added concerns about China's political clout. The biggest losers are India and the United States, whose regional trade and influence are likely to wane.

5. RCEP'S ROOTS IN EAST ASIAN POLITICS

These projections suggest—and will depend on—gradual realignments in East Asia's political mindset toward closer regional relationships. These realignments echo the region's mixed experience with global initiatives in the past as well as the deteriorating global trade policy environment today. The prospects for global initiatives look increasingly unpromising. The Doha Development Round, launched in 2001, produced only modest successes (the Aid for Trade Initiative of 2005[18] and the Trade Facilitation Agreement of 2013[19]) and no major "single undertaking" agreement since the Uruguay Round in 1995. The outlook has only worsened since the United States, the main architect of the existing multilateral system, has withdrawn its support from the WTO.

18 For details, see www.wto.org/english/tratop_e/devel_e/a4t_e/aid4trade_e.htm.
19 For details, see www.wto.org/english/tratop_e/tradfa_e/tradfa_e.htm.

For better or worse, new frameworks for East Asian economic integration now depend on regional initiatives. RCEP was launched in 2012 in this vein, committed to "a modern, comprehensive, high-quality and mutually beneficial economic partnership…to facilitate the expansion of regional trade and investment and contribute to global economic growth and development."[20] But RCEP has had to navigate historic tensions between members' regional and global priorities. East Asian economic relations were primarily regional until the end of World War II, when political and economic upheaval created global opportunities (Petri 1992). In the next four decades, trade shifted toward global partners. By the early 1990s, however, the region's tremendous growth reversed these trends; regional markets and supply chains attracted increased regional trade. Only China continued to grow globally, but that trend is now also ebbing.

These conflicting regional and global priorities also generated competing visions for Asian cooperation. In 1990, as conditions for regional integration were beginning to turn more favorable, President Mahathir of Malaysia proposed a new, regionally focused institution, the East Asian Economic Group (EAEG). The EAEG's proposed membership was what is now called ASEAN+3, the 10 ASEAN countries plus China, Japan, and South Korea. With the addition of Australia and New Zealand, this is now also the membership of RCEP15. (See figure 1 for the relationship of this grouping to alternative trade agreements.) After nearly three decades of outward-looking experiments, Asian institution building has circled back to a configuration very much like Mahathir's EAEG.

The EAEG gained interest in the wake of the Asian financial crisis, but most ASEAN economies continued to look across the Pacific for stronger partners and geopolitical balance.[21] Meanwhile Australia, backed by the United States and Japan, advanced a trans-Pacific vision by forming the Asia-Pacific Economic Cooperation (APEC) forum in 1989.[22] In the words of US secretary of state James Baker, APEC was meant to prevent "drawing a line down the middle of the Pacific." APEC was not structured to develop trade agreements, but eventually 12 members met on the sidelines to negotiate the Trans-Pacific Partnership.[23]

Could the diverging regional and trans-Pacific visions of economic integration be reconciled? APEC leaders attempted to do so in the 2010 "Yokohama Vision" for a broad, regionwide Free Trade Area of the Asia-Pacific (FTAAP).[24] They optimistically recommended reaching FTAAP through multiple pathways, including the TPP and other Asian and potentially Latin American approaches. As the TPP negotiations progressed, the search for an Asian pathway intensified.

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20 Joint Declaration on the Launch of Negotiations for the Regional Comprehensive Economic Partnership, https://asean.org/wp-content/uploads/2016/10/SEOM-AFPs-Bali-Annex-4-Joint-Declaration-on-the-Launch-of-Negotiations-for-the-RCEP.pdf.

21 In light of these concerns, the EAEG was redefined as the less provocative "East Asian Economic Caucus" at the Fourth ASEAN Summit in 1992. See https://asean.org/?static_post=singapore-declaration-of-1992-singapore-28-january-1992.

22 APEC today has 21 members: Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, Russia, Singapore, Taiwan, Thailand, the United States, and Vietnam.

23 Four TPP members—Brunei, Chile, New Zealand, and Singapore—first negotiated a "P4" agreement in 2005, to serve as a "pathfinder" for a broader APEC FTA. The TPP negotiations emerged from this initiative.

24 2010 Leaders' Declaration, 18th APEC Economic Leaders' Meeting, November 13, Yokohama, www.apec.org/Meeting-Papers/Leaders-Declarations/2010/2010_aelm.

The Asian pathway, however, soon faced the regional-global dilemma: Should it focus narrowly on ASEAN+3, as Mahathir and later China argued? Or should it aim for the broader ASEAN+6 vision (including Australia, India, and New Zealand), as Japan proposed? Including India was especially sensitive: India did not fully share East Asia's traditions of outward orientation, nor was it a member of APEC. Yet Japan and other potential members saw India as an essential counterweight to China. The resulting compromise was RCEP—a framework with ASEAN+6 membership but led by ASEAN rather than the region's larger economies. Despite this compromise, RCEP may now emerge without India—in other words, again close to its East Asian origins.

History suggests that it is difficult to add distant members to an East Asian–centered institution. Both North America and South Asia have proven to be problematic partners—their interests lie elsewhere and can change quickly. In pulling out of megaregional agreements with East Asia, both India and the United States appear to have responded to domestic politics. With tenuous regional ties, external partners cannot offer a permanent solution to balancing China's outsized influence. Instead, regional integration will have to depend on the strength and quality of regional institutions. To the extent that institutions can be built to promote inclusive regional decision making, China itself would be an important beneficiary.

The economic opportunities outlined in our simulations challenge East Asia to develop greater interdependence, including solid regional institutions and trust in joint policies (Park 2017). Much is at stake, since the integration implicit in our results will not happen unless countries trust each other's commitments on trade, investment, and intellectual property. Long-term integration will require substantial investments, and thus experience with predictable, fair regional policies.

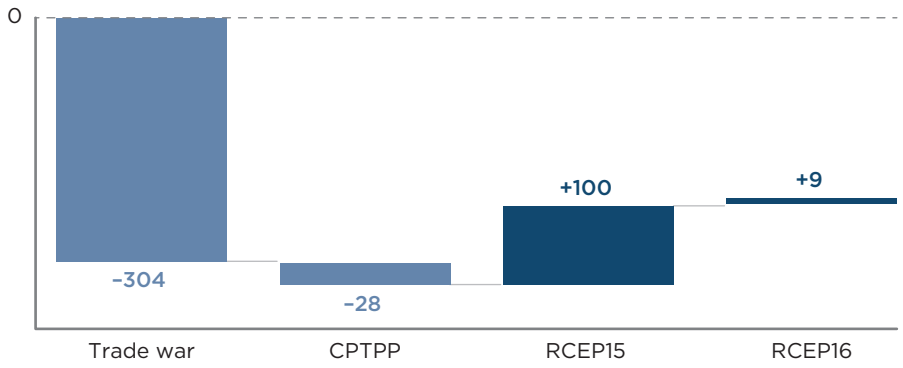
6. CHINA'S GAIN

China is poised to become the largest beneficiary of RCEP15. Its options and associated returns are illustrated in figure 3, similar in format to figure 2 on world benefits. Figure 3 shows the large negative effect of the trade war on China (−$304 billion), as well as smaller losses associated with the CPTPP (−$28 billion).[25] It then shows large benefits from RCEP15 ($100 billion) and smaller gains from RCEP16 (an additional $9 billion if India joins). In either case, RCEP is beneficial to China and, as already noted, its value is greater with a trade war than without it ($100 billion vs. $85 billion, as shown in table 3). Even so, RCEP15 will offset only about one-third of the negative effects of China's trade war with the United States.

The implications of RCEP15 for the structure of the Chinese economy are shown in figure 4, examining how the three trade policy scenarios will change the composition of China's real value added (a disaggregation of its GDP). Portions of each bar above (below) zero measure positive (negative) contributions to

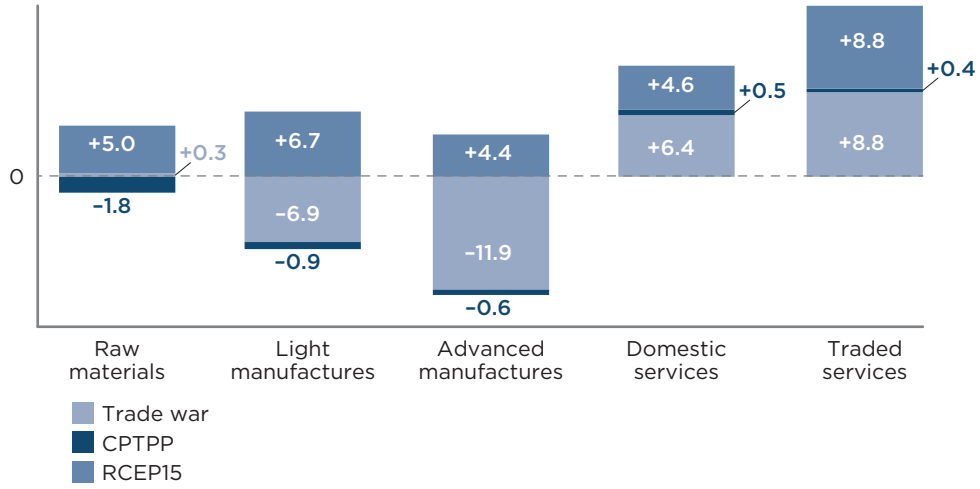
25 The CPTPP affects China adversely because it is excluded from it. As we argue in Petri and Plummer (2019), China would gain substantially from joining the CPTPP, which would offer higher-quality access to some RCEP member countries as well as important partners on the eastern Pacific, including Mexico and Canada.

Figure 3
China: Income effects of trade policies
(income gains/losses in billions of US dollars)



CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership
RCEP = Regional Comprehensive Economic Partnership
Source: Authors' simulations, trade war environment.

Figure 4
China: Sectoral export effects of trade policies
(percent change from baseline)



CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership
RCEP = Regional Comprehensive Economic Partnership
Source: Authors' simulations, trade war environment.

GDP. The figure shows net negative effects for both China's light and advanced manufacturing sectors under the trade war and CPTPP scenarios, especially for advanced manufactures, the larger of the two subsectors. However, RCEP15's contributions are positive for all sectors, helping to lessen the damage inflicted by other policies and especially the trade war. With all policies combined, China's sectoral structure will shift at the margin from manufacturing to services, with the advanced manufacturing sector experiencing the largest declines.

Even more important than economic gains, however, may be the effects of East Asia's regional turn on China's prospects for leadership in the region. The CPTPP and RCEP15 agreements, without the United States and India, remove

powerful balancing influences in determining economic policies in East Asia. The TPP, which has become the CPTPP without the United States, was designed in part to check China's regional influence. The agreement omitted China and focused on building a regional economic bloc committed to open, market-oriented policies. Some proponents felt that it would check China's ambitions by building deeper economic and political connections among a group of dynamic Asia-Pacific economies, while others hoped that China would eventually join the agreement and adopt its rules as well as amplify its benefits.

RCEP similarly sought to limit China's influence. Although it included China, it set modest goals for market liberalization, constraining China's ability to disrupt regional markets. In addition, RCEP gave India a starring role, offsetting China's influence in regional decision making. RCEP would also enable India to pursue its "Look East" policy for strengthening economic connections with Southeast Asia. More generally, the policy sought to make India competitive; it dates back to Prime Minster P. V. Narasimha Rao, who was widely regarded as the father of Indian economic reform in the 1990s.

With the exit of the United States from the CPTPP and India from RCEP, the two agreements will enhance rather than limit China's regional role. The exits reflect similar motives in both countries, including nationalist policies on one hand, and fears of losing ground to China in economic and strategic competition on the other. Ceding the leadership of East Asian trade policy to China will address neither of these concerns.

China has long invested in economic and military links to the region and some fear that it intends regional hegemony. The Belt and Road Initiative (BRI), which covers several RCEP members, has been estimated by the World Bank to offer funding of $144 billion and $304 billion for transport projects alone (World Bank 2019). Overall, China has committed a total of $1.4 trillion to the initiative (Meltzer 2017). The BRI is controversial because of opaque processes and potentially lax lending standards, but it also offers financial support that dwarfs the $113 million "Asian Investment Program" recently unveiled by US secretary of state Mike Pompeo,[26] and even Japan's more substantial infrastructure programs. RCEP offers a framework for solidifying China's regional connections and, in the best case, for investments that amplify RCEP's benefits (Vines 2018).

From the viewpoint of US policy goals, US neglect of East Asia, beyond trade agreements that benefit solely the United States, comes at an unusually bad time. The US-China trade war is forcing the region into deciding between inefficient bilateral "deals" with the United States and meaningful regional integration efforts that cede influence to China. COVID-19 and US initiatives that disrupt global trade governance further incentivize regional solutions to preserve key trading relationships.

In sum, China faces significant economic opportunities in the region but also resistance to its leadership. A 2019 Pew Research Center Poll found that citizens of Japan, Korea, Australia, and the Philippines have majority negative views of China, measured at 85 percent, 63 percent, 57 percent, and 54 percent, respectively (Silver, Devlin, and Huang 2019). These compare to negative views in

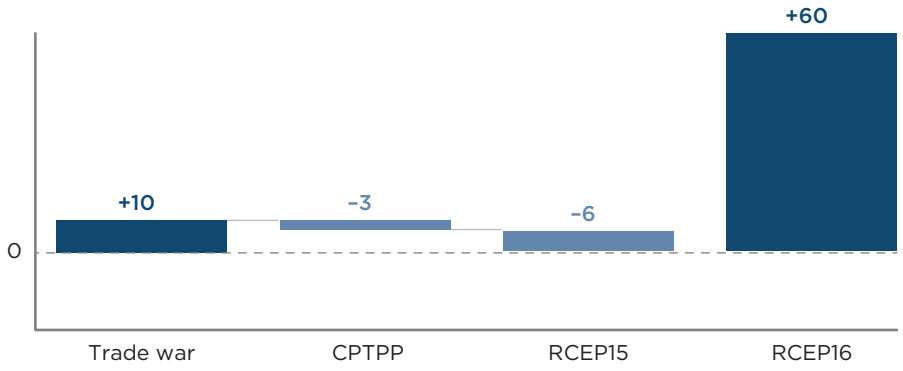
26 This plan was announced by Secretary of State Mike Pompeo on July 30, 2018 as part of the Trump Administrations "Indo-Pacific Economic Vision." See www.scmp.com/news/china/economy/article/2157381/us-competes-chinas-belt-and-road-initiative-new-asian-investment.

the United States and Canada at 60 and 67 percent, respectively. Such resistance is bound to slow efforts to approve RCEP or to implement it effectively. This challenge needs to be resolved in order to achieve the benefits outlined in our analysis.

7. INDIA'S LOSS

India is poised to become the largest loser of recent Asian trade agreements, unless it reverses course on RCEP. Results for India's income in 2030 are shown in figure 5 in the context of the trade war. (The results for adding India to RCEP would be very similar in the context of business as before; see table 3.)

Figure 5
India: Income effects of trade policies
(income gains/losses in billions of US dollars)

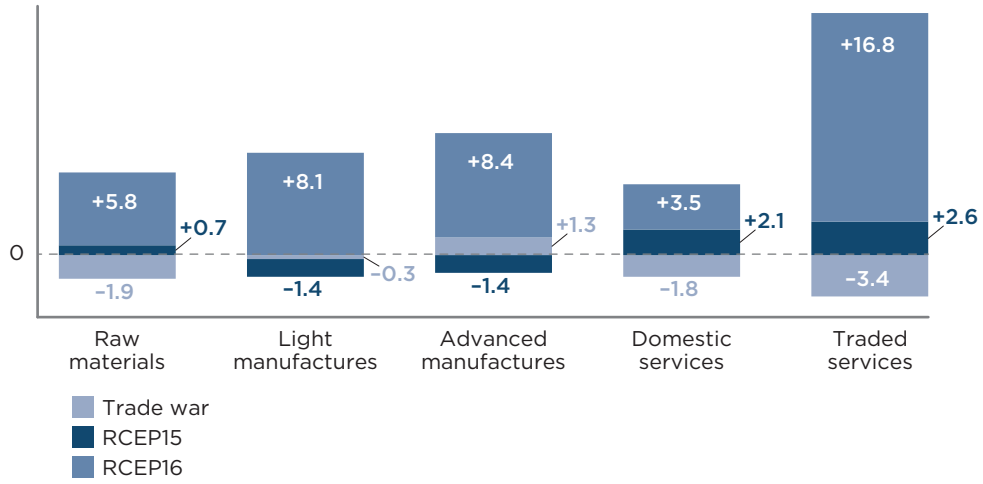


CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership
RCEP = Regional Comprehensive Economic Partnership
Source: Authors' simulations, trade war environment.

The trade war alone would increase India's income by $10 billion (table 4), reflecting trade that India would directly or indirectly capture from China. The CPTPP would then cut into these gains by $3 billion as CPTPP members gain at the expense of nonmembers. An additional $6 billion in losses will result if RCEP15 is formed without India. Finally, India will gain $60 billion on an ongoing basis if it joins RCEP, that is, RCEP16 is implemented instead of RCEP15. Put another way, India's decision involves losing $6 billion outside RCEP or gaining $54 billion in it (table 4). This loss is 1.2 percent of India's projected GDP in 2030 and thereafter, or a little more than twice the US loss from pulling out of the TPP. The remaining RCEP15 economies are $6 billion better off without India, a negligible share of the region's $44 trillion income in 2030.

Aggregate income gains from RCEP16 would be shared by all of India's major economic sectors (figure 6). Export gains would range from approximately 4 percent for (primarily) domestic services to 17 percent for traded services (e.g., in computing, finance, marketing). India's large traded services sector would gain far more than its manufacturing sectors, in line with its often-noted comparative advantage relative to East Asia. The effects on trade would be small under the policies other than RCEP16; the trade war would slightly negatively affect all export sectors except advanced manufacturing, while RCEP15 would have mixed

Figure 6
India: Sectoral export effects of trade policies
(percent change from baseline)



RCEP = Regional Comprehensive Economic Partnership
Source: Authors' simulations, trade war environment.

effects, with some pluses in the service sectors. The theme of the results is that the economy would shift further toward services and away from manufacturing if India were to join RCEP, enhancing its areas of strength in exchange for additional imports of manufactured goods.

If the gains from RCEP are so significant, why did India leave the negotiations? The evidence suggests that India left for relatively short-term reasons: negative current economic trends, domestic political challenges, and the impatience of other members to finalize a deal.[27]

Throughout the negotiations, some observers argued that India's historic flirtation with protectionism made it an unlikely partner for an ambitious trade deal. Protection in India is higher, on average, than among RCEP partners. But since India's external liberalization began in the early 1990s, great progress has been made. Average tariffs have fallen from 29 percent 20 years ago to 6 percent today.[28] As a result, trade as a percentage of GDP has grown from 17 percent in 1991 to 43 percent in 2018, an impressive increase in such a diverse economy.[29] In addition, economic performance improved, catapulting India into the club of rapidly growing emerging economies. From 2015 to 2019, GDP had grown more rapidly in India than in China.[30]

27 Some have suggested that India had tabled a number of additional demands at the last minute, but this is disputed by India, except for the demand to include local data storage requirements, which would go against RCEP's intentions to have free flows of data.

28 Average import-weighted tariffs, https://data.worldbank.org/indicator/TM.TAX.MRCH.WM.AR.ZS?name_desc=false.

29 World Bank, https://data.worldbank.org/indicator/NE.TRD.GNFS.ZS?locations=IN.

30 ADB, *Asian Development Outlook*, various issues.

While India's enthusiasm for outward-oriented development has not matched that of its East Asian neighbors, membership in RCEP would have been consistent with its longer-term strategy.

The proximate reasons for India's departure were political (Choudhury 2019). India's general elections were completed in April–May 2019, but this large democracy has a nearly continuous electoral calendar. Meanwhile, GDP growth decelerated from 7.4 percent in 2018–19 to an estimated 4.5 percent today; prepandemic, the World Bank projected that it would continue in the 5–6 percent range in the near term.[31] The government apparently felt that potential threats to manufacturing employment due to Chinese competition would be politically unacceptable. Indeed, concerns about Chinese competition have been prominent since the start of negotiations but are now exacerbated by concerns that China will shift its exports from the United States to India. India's politically sensitive agriculture sector also feels threatened by products such as spices from Southeast Asia and dairy from New Zealand and Australia. Finally, India has run a bilateral trade deficit with 11 of its 15 RCEP partners and, like the United States today, it is evidently concerned about it. In 2018, India's deficit rose to $74 billion with China, 25 percent of its overall deficit.[32] To mitigate these fears, India has asked for modifications of RCEP, including changing tariff calculations, adding "auto-trigger" protection for import surges, and greater flexibility on tariff concessions (Suneja 2019). Other members were unwilling to accommodate so many changes.

8. CONCLUSIONS

Less than a decade ago, Asia-Pacific megaregionalism through the TPP and RCEP agreements appeared to be reshaping trade governance and energizing a push toward an open and inclusive "Yokohama Vision" of a Free Trade Area of the Asia-Pacific. Since then, the directions of Asian economic integration have dramatically changed, refocusing on narrower, East Asian interdependence. These trends are accelerating in the wake of COVID-19. RCEP without India and the CPTPP without the United States militate against the more ambitious focus on state-of-the-art rules for 21st century commerce. Similar political impulses led India and the United States to back away from this vision, combining populist rhetoric, promotion of sectoral interests, and fear of Chinese competition.

Yet parts of the region continue to move ahead. The TPP economies doubled down on the accord despite the exit of the United States. Although the CPTPP suspended some US-oriented provisions, they remain in the text should the United States change its mind. Likewise, RCEP15 is moving ahead, but with hopes that India can be brought back. There is no reason to expect the United States and India to return quickly—or to stay away permanently. In time, the CPTPP and RCEP are likely to expand and deepen. Several economies have expressed interest in joining the CPTPP, including China, RCEP's largest member. RCEP, meanwhile, may add new rules as its cooperation matures, as is typical

31 World Bank, *Global Economic Prospects: Slow Growth, Policy Challenges*, January 2020, Table 1.1, https://openknowledge.worldbank.org/bitstream/handle/10986/33044/211469-Ch01.pdf.

32 Available at https://wits.worldbank.org/CountryProfile/en/Country/IND/Year/LTST/TradeFlow/EXPIMP.

of ASEAN-centric agreements, and some RCEP economies may also enter the CPTPP. Both agreements will deepen regional economic integration in the Asia-Pacific, enhancing China's regional role.

The CPTPP and RCEP15 are historic initiatives, with substantial overlap in membership and compatible standards that, over time, will encourage countries to upgrade policies and switch to CPTPP-style rules for deeper partnerships. In the meantime, RCEP15 alleviates concerns about trade concentration among richer countries and fosters good policies in new areas of trade. To be sure, wise leadership will be needed to make these agreements work; a new level of cooperation among China, Japan, and other countries in the region will be essential for an integrated, market-oriented regional economy.

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APPENDIX A
THE COMPUTABLE GENERAL EQUILIBRIUM MODEL

We estimate the effects of trade agreements using a computable general equilibrium (CGE) model developed in Petri and Plummer (2016) and Petri, Plummer, and Zhai (2012). The model, underlying data, and results, including prior applications, are described on the website www.asiapacifictrade.org and in Petri, Plummer, and Zhai (2012).

A CGE model, a numerical implementation of general equilibrium theory, uses neoclassical economic assumptions about the motivation of agents in the economy, market structure, consumer preferences, production technology, and market equilibrium conditions. Behavioral equations in CGE models are derived from these assumptions and determine how the agents in an economic system respond to changes in relative prices and incomes.

In addition to behavioral equations, CGE models incorporate various accounting identities that define the budget constraints of each agent as well as total resource constraints. In a CGE model, most of the parameters in behavior equations are elasticities (i.e., they measure the responsiveness of one variable to changes in another) or share parameters, such as the share of consumption demand in aggregate demand. Some of these parameters have known values while others need to be calibrated in the model. The values of key parameters are selected (calibrated) to render the CGE model's output consistent with real-world data for the benchmark year.

A CGE model typically has four agents: firms, consumers, investors, and the government. Firms produce output, which is purchased by consumers, investors, and the government, both at home and abroad. Firms maximize profits and use market prices in deciding how much output to produce and with which inputs. Sector output is represented by a production function, which shows the relationship between inputs and output. We employ a Melitz-style "heterogeneous firms" specification, which assumes monopolistic competition among firms that have different productivity levels along a statistical distribution (Zhai 2008). Production functions also define the substitutability of inputs for each other. In addition, production in a CGE model typically involves a multilevel or nested production process. The use of a nested structure allows for intermediate inputs and for greater flexibility in defining elasticities governing the use of different factors of production.

Consumers in each country are often modelled with reference to a representative household. The representative household maximizes a utility function, which is defined over the consumption of final goods from each industry. Typically, household income, market prices, and elasticities of substitution between final goods in utility functions determine how much of each good is purchased by the representative household. Consumers are endowed with capital, land, labor, and other factors of production. Based on market prices, they supply their factors and receive income in return. Investors receive savings (from consumers and government) and purchase bundles of goods to establish and maintain productive capacity.

Government administers market-related policies, such as taxes, subsidies, and trade tariffs. The specifications of alternative scenarios examined in the study differ mainly in terms of assumption about government trade policy.

These policies enter exogenously into the CGE model. We "close" the model by assuming that the economy's level of net investment is fixed, based on a variety of factors not examined in the study. This in turn requires trade balances to be fixed across scenarios. We also assume that in a distant future year, all economies operate at "normal employment" levels; 2030 is normally the end year of model simulations.

The market-clearing conditions in CGE models determine the prices of all goods and factors. Consumers and firms make optimal decisions based on current price signals, with no role for forward-looking expectations. Scenarios are simulated over a multiyear period, with investment decisions made in one year affecting the capital stocks available in the next year. When an external shock or policy change is introduced in a static CGE model, prices and quantities adjust to clear all markets, and the model produces a new state of general equilibrium. When a policy shock—such as an FTA—is introduced in a dynamic CGE, the new equilibrium captures the time path of both transitional dynamics and final steady state.

APPENDIX B
DETAILED TRADE RESULTS

Table B1 reports total export results for both the business-as-before and trade war environments for each economy. The model is "closed" with the commonly used convention that long-run trade balances depend on saving-investment balances, which remain unchanged across scenarios if these macroeconomic variables are not affected by trade policy. In this case, changes in the value of a country's total exports correspond to changes in the value of its total imports (although export and import quantity changes may differ slightly in real terms).

For any given scenario, trade changes are larger than changes in real income, since only a fraction of projected trade changes result in efficiency effects and hence changes in incomes. For example, table B1 shows that in the trade war scenario, RCEP15 will increase members' exports by $514 billion, while table 4 indicates that their real national incomes would rise by only $187 billion. Thus, trade changes are 2.7 times as large as income changes, a ratio that is similar to those for other countries and scenarios.[33]

33 Although income and trade results are roughly proportional, some countries gain income despite trading less, due to factors such as increased investments and improvements in their terms of trade.

Table B1
All scenarios: Export effects, 2030
(billions of US dollars)

		Incremental effects: With business as before			Incremental effects: With US-China trade war			
	2030 Exports	*CPTPP*	*RCEP15*	*RCEP16*	*Trade war*	*CPTPP*	*RCEP15*	*RCEP16*
Americas	**7,068**	**72**	**0**	**–1**	**–366**	**60**	**8**	**1**
Canada	835	39	–1	0	8	40	–2	0
Chile	147	6	–1	0	–2	6	–1	0
Colombia	120	0	0	0	–1	0	0	0
Mexico	670	23	–2	0	30	25	–2	0
Peru	135	12	0	0	–1	12	0	0
United States	3,906	–10	3	0	–396	–24	12	2
Latin America nie	1,255	1	1	–1	–5	2	0	–1

Table continues

Table B1
All scenarios: Export effects, 2030
(billions of US dollars) (continued)

		Incremental effects: With business as before			Incremental effects: With US-China trade war			
	2030 Exports	*CPTPP*	*RCEP15*	*RCEP16*	*Trade war*	*CPTPP*	*RCEP15*	*RCEP16*
Asia	**12,905**	**172**	**500**	**118**	**–483**	**157**	**495**	**121**
Brunei	16	1	0	0	0	1	0	0
China	4,976	–9	244	12	–463	–27	248	13
Hong Kong	357	1	–2	0	–10	1	–1	0
India	1,360	–3	–6	137	–1	–3	–6	138
Indonesia	446	–3	13	5	–2	–3	12	5
Japan	1,190	97	135	–30	–1	98	128	–29
Korea	1,089	–6	64	–4	–1	–5	63	–4
Malaysia	491	42	11	–1	3	42	11	–2
Philippines	184	0	7	–2	1	0	7	–2
Singapore	470	29	–3	2	–2	29	–3	2
Taiwan	506	0	–8	1	–4	0	–8	1
Thailand	561	–7	26	0	2	–7	26	0
Vietnam	357	31	14	–2	1	31	14	–2
ASEAN nie	93	0	4	0	0	0	4	0
Asia nie	810	1	1	0	–7	1	0	0
Oceania	**673**	**28**	**4**	**6**	**–9**	**28**	**4**	**6**
Australia	589	23	3	5	–8	24	3	5
New Zealand	84	5	1	0	–1	5	1	0
Rest of World	**15,503**	**14**	**0**	**–9**	**–138**	**19**	**–6**	**–7**
Africa (Sub-Sahara)	883	1	1	0	–6	1	1	0
Europe	9,706	8	–4	–5	–77	12	–9	–5
EMENA	4,021	4	2	–3	–47	5	1	–2
Russia	851	1	1	–1	–8	1	1	–1
ROW	43	0	0	0	0	0	0	0

Table continues

Table B1
All scenarios: Export effects, 2030
(billions of US dollars) (continued)

		Incremental effects: With business as before			Incremental effects: With US-China trade war			
	2030 Exports	*CPTPP*	*RCEP15*	*RCEP16*	*Trade war*	*CPTPP*	*RCEP15*	*RCEP16*
WORLD	**36,149**	**287**	**504**	**113**	**–996**	**265**	**500**	**120**
Memorandum								
RCEP15 members	10,545							
Δ RCEP15 members		203	519	–15	–471	186	514	–13
Δ Others		84	–15	128	–525	78	–13	133

ASEAN = Association of Southeast Asian Nations
CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership
EMENA = Europe, Middle East and North Africa
nie = not included elsewhere
RCEP = Regional Comprehensive Economic Partnership
Source: Authors' simulations.

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