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RCEP: Unlocking barriers to regional economic integration

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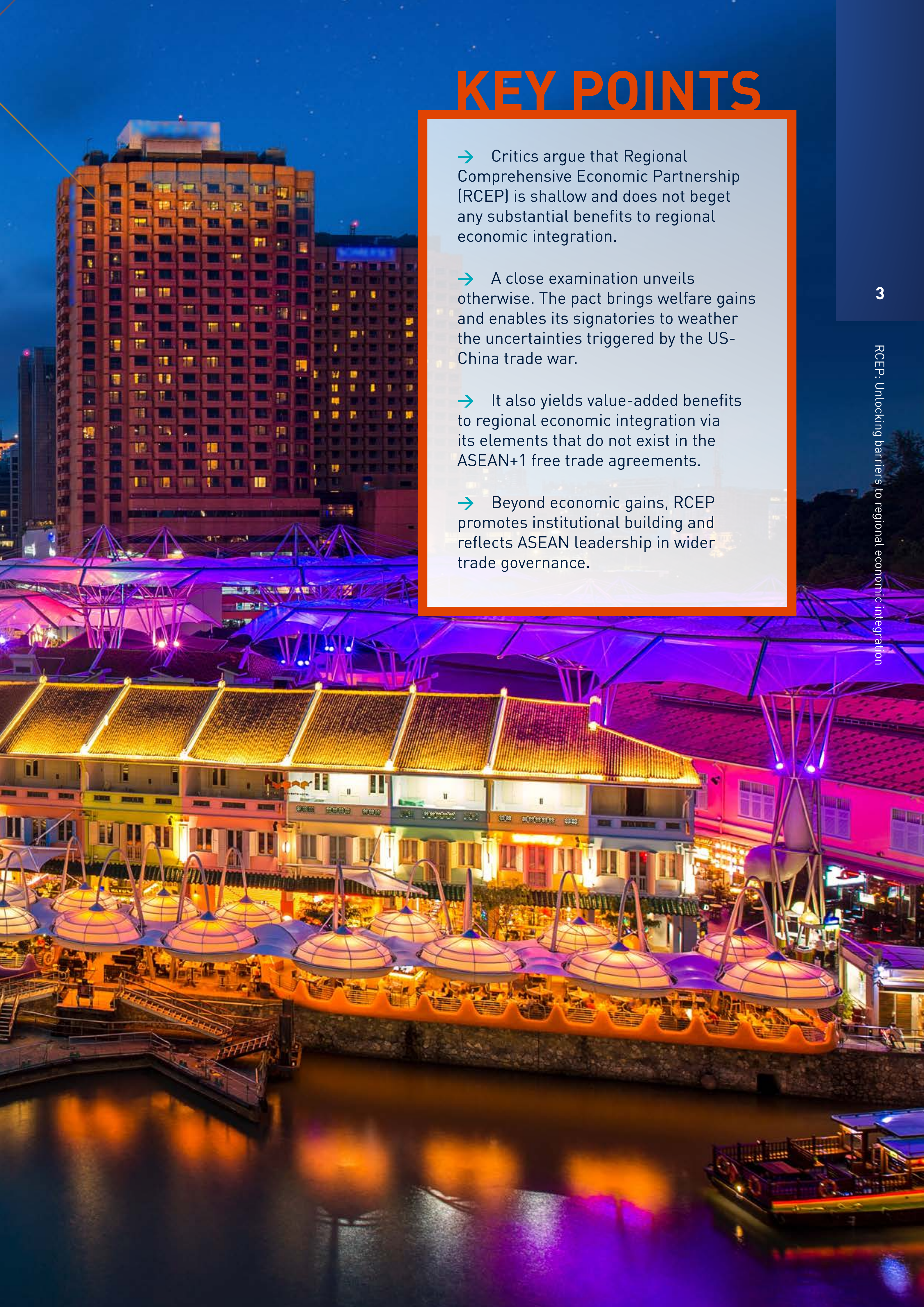

KEY POINTS

→ Critics argue that Regional Comprehensive Economic Partnership (RCEP) is shallow and does not beget any substantial benefits to regional economic integration.

→ A close examination unveils otherwise. The pact brings welfare gains and enables its signatories to weather the uncertainties triggered by the US-China trade war.

→ It also yields value-added benefits to regional economic integration via its elements that do not exist in the ASEAN+1 free trade agreements.

→ Beyond economic gains, RCEP promotes institutional building and reflects ASEAN leadership in wider trade governance.

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15th November 2020 marked the signing of the Regional Comprehensive Economic Partnership (RCEP) by ten members of the Association of Southeast Asian Nations (ASEAN) together with Australia, China, Japan, New Zealand, and South Korea. It consolidates the ASEAN+1 free trade agreements (FTAs) into a single deal to "establish a modern, comprehensive, high-quality, and mutually beneficial economic partnership" that progressively liberalises "trade in goods . . . trade in services [and fosters] a liberal, facilitative, and competitive investment environment in the region."[1] The contract awaits ratification by at least six ASEAN and three non-ASEAN participants and will enter into force sixty days after the ninth member notifies the ASEAN Secretariat of its ratification completion.

With a combined market of 2.3 billion people (covering 30 percent of the world's population) and GDP of US$ 26.3 trillion (accounting for 30 percent of the global output), RCEP is currently the world's largest FTA.[2] Nevertheless, its public reception has not always been positive. Critics contend that the arrangement is shallow in terms its tariff cuts and lacks rules governing the modern economy. Their remarks partly stem from comparing RCEP with the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), another mega FTA usually dubbed a "21st century trade deal." Unlike the CPTPP, RCEP does not have clauses concerning environmental standards, labour standards, and state-owned enterprises. Its intellectual property and e-commerce chapters constitute less depth. Concerning digital data governance, in contrast with CPTPP, the RCEP framework does not prohibit parties from requiring their counterparts to reveal source codes. Consequently, some observers cast doubt upon the effects of RCEP on regional economic integration.[3]

RCEP has made a significant contribution to the regional trade architecture

Despite the criticisms, evidence reveals that RCEP yields actual value-added benefits for its members, as well as international trade governance. First, economic analyses predict that the arrangement will add to global GDP by US$186 billion annually until 2030. The likely bigger beneficiaries are states with large economies and no prior FTAs among themselves. For example, Japan does not have FTAs with China, South Korea, and New Zealand. Thanks to RCEP, Tokyo's tax-free exports to Beijing and Seoul are predicted to jump from 8 to 86 percent and 19 to 92 percent respectively.[4] Also, this bloc is estimated to raise the real incomes of China, Japan, and South Korea by US$ 85, US$ 48, and US$ 23 billion.[5]

Second, as the US-China dynamic under the Biden administration will continue to be confrontational, the agreement will cushion members from great power competition.

RCEP enables its signatories to leverage intra-bloc ties to weather through the uncertainties caused by the US-China trade war.

Illustratively, the effects of this grouping were assessed in two scenarios: (1) normal business-as-usual, and (2) sustained US-China trade war whereby both powers continue stretching barriers against each other's goods. The benefits of RCEP on its participants is projected to be larger during the prolonged trade war. For instance, intra-bloc trade is predicted to soar by US $445 billion in the trade war case compared to US$ 428 billion during normal times. Also, RCEP economies will witness their real income rise by US$ 187 billion during the trade war as opposed to US$ 174 billion in the business-as-usual environment.[6]

Third, the agreement encompasses several elements that were not included in the current ASEAN+1 FTAs, indicating its value-added contributions to international trade governance. For instance, unlike the latter, RCEP contains a Government Procurement chapter. Also, the Sanitary and Phytosanitary Measures chapter improves upon the ASEAN+1 deals in terms of equivalence recognition, emergency measures, and transparency. With regard to investment liberalisation, all RCEP parties use a "negative list" approach which opens all sectors, except those on the list to foreign investors. Moreover, the Investment chapter does not have a performance requirement, entailing greater liberalisation than that offered by ASEAN+1 FTAs.

Fourth, by adopting one rule of origin (ROO) for all goods trade, the pact generates "Made in RCEP" products. The single ROO permits enterprises to source supplies from multiple countries and export their goods to multiple markets, facilitating the deepening of international value chains. Apparel is a case in point. Producers in this industry acquire, among others, fabrics, buttons, zippers as well as sewers and after-sale services personnel located in different locations. With RCEP, these players can obtain these elements more easily.

Even though the pact's 40-percent regional value content is low, it should be noted that this threshold is good for regional businesses. In other words, the firms can have up to 60 percent of their products value-added from non-RCEP economies and sell their finished goods duty-free within the bloc. This hence boosts these players competitiveness and participation in the global supply chains.

Fifth, the creation of an RCEP Secretariat promotes institutional building, which will help strengthen and expand the grouping in the future. The text contains a plan to establish a body responsible for providing secretariat and technical support to various committees and subcommittees of the framework.[7]

While the details are being determined, the creation of this mechanism makes RCEP stronger institutionally than regular FTAs. For instance, the entity helps monitor the implementation of the agreement. One problem after trade bargaining is concluded is disconnected institutional memory. The officials from each participating country involved in the talks tend to be dispersed or replaced by new groups of public authorities as part of bureaucracy rotations. The newcomers may not fully understand the agreement and rationales behind it, lessening their ability to monitor the implementation. Time and other resources are required to train these individuals. Thus, establishing the Secretariat is a better policy as doing so not only retains the officers with institutional memory useful for the monitoring task but also saves the resources used to build the newcomer officers' capacities.

The Secretariat also aids in expansion. Mandated to give technical support, it assists future membership applications. For example, it can inform prospective parties of accession procedures, advise them on document requirements before entering into talks with the existing members, and arrange negotiation meetings.

Finally, RCEP reflects ASEAN leadership and influence in shaping regional trade architectures. Despite common misunderstandings, the initiative is ASEAN-led. The notion of ASEAN Centrality has undergirded RCEP since its inception. In the 2000s, China and Japan each unveiled their plans for advancing regional trade governance. Taking advantage of the Sino-Japanese contestation, the organisation invoked the Centrality principle by counter-proposing its own framework in August 2011. The initiative improved upon the existing ASEAN+1 FTAs and eventually became RCEP.[8]

Also, ASEAN Centrality is ingrained in RCEP negotiations. According to the Agreement's guiding principles and objectives, the talks "will recognise ASEAN Centrality in the emerging regional economic architecture."[9]

The establishment of RCEP puts ASEAN at the heart of the Indo-Pacific governance amidst major power competition.

In short, the grouping showcases that it will implement the ASEAN Outlook on the Indo-Pacific which strives to foster and maintain rules-based regional architectures, deepen economic cooperation, and augment ASEAN-led mechanisms.[10]

RCEP yields real value-added benefits to its parties and regional economic integration. Its gains are in both economic and non-economic realms. Therefore, despite its criticisms, RCEP should be more appreciated as another key vehicle contributing to international trade governance.

Endnotes

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The Perth USAsia Centre located at The University of Western Australia is a non-partisan, not-for-profit institution strengthening relationships and strategic thinking between Australia, the Indo-Pacific and the USA. The Centre is a leading think tank focusing on geopolitical issues, policy development and building a strategic affairs community across government, business and academia. Since the Centre's inception in 2013, we have collaborated with over forty partners to convene more than four hundred programs across sixteen cities in eight countries, engaging a world-class community of over 10,000 strategic thinkers and policy leaders.

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