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What's the real deal? A look inside RCEP

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A collective sigh of relief mixed with trepidation can almost be heard over computer screens as the Regional Comprehensive Economic Partnership (RCEP) Agreement was signed on November 15, 2020. In light of the COVID-19 pandemic, organizers in Hanoi had no choice but to digitalize the signing ceremony of what some experts herald as a landmark economic agreement and what others see as an important building block in the realization of China's geopolitical ambitions.

Stronger regional economic integration

The RCEP Agreement brings together the 10 ASEAN countries Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam with Australia, China, Japan, Republic of Korea, and New Zealand. The signatories account for approximately 30 percent of the world's GDP and population. The Agreement's coverage is staggering in size as, once ratified, it is expected to improve market access and establish common rules among countries at various stages of economic development and with competing political systems.

The RCEP reinforces tariff reduction trends and more importantly, lessens non-tariff barriers by introducing common rules of origin. The harmonization of information requirements and local content standards will reduce transaction costs for trading with multiple countries in the region and will create a more stable environment for trade. Uniform rules (e.g. one certificate of origin for trade in the region) can also increase flexibility and efficiency in regional supply chains. This in turn can make the region more attractive to further supply chain diversification (i.e. multi-shoring) and to outside investment for multinational companies. Reduced tariffs increase the value of operating within the region while the common rules of origin facilitate access to suppliers and markets. Bureaucracy reduction measures are likely to benefit the region's small and medium enterprises. However, for most parts of the Agreement, changes will only unfold gradually as the 20-year implementation period is remarkably long.

Each country will incur different benefits from the Agreement. However, Northeast Asia could benefit more than the other signatories since the bilateral relationships between China-Japan and Japan-South Korea were previously not subject to free trade agreements. On the other hand, the RCEP mainly consolidates the existing free trade agreements between the ASEAN and its partners.

The RCEP will also expedite Northeast Asian economic integration. The China-South Korea-Japan free trade agreement has been languishing in the last few years but Japan's Ministry of Foreign Affairs has expressed activating the trilateral agreement after RCEP's conclusion.¹ China also seems to be keen on increased integration with Japan and South Korea as Xi Jinping promised to speed up negotiations on the China-South Korea-Japan free trade agreement.²

Although RCEP fosters stronger regional trade integration and makes the region more attractive to investors, the Agreement's accommodative stance makes it pliable to political sensitivities. "Sensitive" sectors such as agriculture are glaringly omitted from the agreement and progress on services trade liberalization and intellectual property rules is negligible. Furthermore, little is mentioned on subsidies or state-owned enterprises; most likely a sign of how far China is willing to grant interference into domestic economic policy tools.

Trade ambitions and the digital environment – the CPTTP advantage

The RCEP is less ambitious compared to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The CPTPP requires its signatories to follow laws regulating acceptable minimum wages, work hours and occupational health and safety. It also holds signatory countries to enforcing their domestic environmental laws and builds a foundation to jointly address environmental issues that impact trade such as minimizing damage to the ozone layer, reducing ship pollution, combating illegal trade in wildlife, overfishing, and illegal fishing. These high-quality pledges for labor and environmental protection are legally binding, although they can be problematic for some signatory countries. Meanwhile, nothing is said about labor and environmental standards in the RCEP Agreement.

When it comes to digital trade, both agreements have similar provisions on paperless trading, electronic authentication and signature, personal information and online consumer protection, and cybersecurity. However, the RCEP and CPTPP deviate on provisions covering data flows and source codes. In particular, the CPTPP largely prohibits data localization and customs duties on electronic transmissions. These provisions ensure the free flow of data and that data centres cannot be required to be placed only within one member's borders. The RCEP builds on the CPTPP's provisions on data flows but gives signatories exemptions by citing "legitimate public policy" and national security. This means that RCEP countries can still require firms to locate data centres within their borders as long as

this demand is justified by self-judged, legitimate public policy³ and security issues⁴. In short, any reason can be considered legitimate as long as the member country says so.

The CPTPP also does not require firms to transfer or give access to their source codes as a precondition to market access. The RCEP does not contain such provision. Hence, theoretically, RCEP countries can require such transfer or access as a requirement for market access.

The RCEP's provisions on e-commerce are built on the CPTPP's framework on digital trade, but the RCEP's accommodative bent allows its signatories a wide leeway to adopt restrictive measures to data flows should they be inclined to do so. Countries are legally able to maintain stricter data control. RCEP's e-commerce chapter can be an indicator of what future digital trade deals will look like since the exemptions built into the data flow provisions highlights what China is willing to abide by.

The real RCEP: ASEAN-led, China-dominant

Although the RCEP is an ASEAN-led initiative, China is its most dominant member. The RCEP is an economic and geopolitical win for China. China's participation in its first ever multilateral trade deal does not only increase members' potential economic benefits but it also hastens and deepens Chinese economic integration. The deal is now largely seen as a building block of Pax Sinica, further tethering the region into a China-led global order. Such concerns prompted India to withdraw from the deal citing growing trade deficits with China and its inability to protect weak sectors.

Contrary to its goals to liberalize trade, the RCEP will not strengthen multilateralism. The RCEP is reminiscent of an older version of trading blocs where intensified integration within the region is matched by the exclusion of non-members. A fragmented and anachronistic multilateral system should be a concern for Asian economies which have prospered from trading in global markets governed by common rules.

Japan has in practice assumed trade leadership in the Asia-Pacific but China's participation in the RCEP and its keen interest in joining the CPTPP provides a worrying alternative in the reshaping of the regional order. Value partners, especially the United States should renew its commitment towards multilateralism and lead the reform of rickety trade institutions. An important step would be to rejoin the CPTPP and build upon its provisions on data flows, the digital economy, and technology transfers to update old-fashioned WTO rules.

Asia-Pacific's stability and prosperity are in the interest of the United States. The United States must take up its responsibility to compel China to adhere to global rules and norms instead of aggressively limiting its inevitable economic and technological ascent. The U.S.' role of international enforcer will be strengthened if it recommits to its allies and rebuilds its support for multilateral institutions. RCEP signals that states do not primarily look west for international economic cooperation. Renewed U.S. engagement in the Asia-Pacific will strengthen a rules-based regional order as most ASEAN member states and other RCEP signatories such as Japan, Australia, New Zealand and South Korea are geopolitically closer to like-minded partners in the West than China.

While the economic effects of RCEP for non-participants such as the United States or the European Union are modest, opportunity costs and long-term geopolitical implications are significant. The multilateral trade system will wither away if the United States continues to renounce its leading role. As the world struggles with the economic consequences of the COVID-19 pandemic, renewed dedication to the multilateral system and its corresponding institutions will ensure that a path towards recovery is open and accessible for all.

¹<https://news.yahoo.com/facing-us-trade-uncertainty-china-seeks-closer-ties-075755330--finance.html?guccounter=1>

²<http://english.mofcom.gov.cn/article/newsrelease/counseloroffice/westernasiaandaficareport/202011/20201103014055.shtml>

³ RCEP Article 12.14.3 (a)

⁴ RCEP Article 12.14.3 (b)

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