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Challenges in Negotiating the Regional Comprehensive Economic Partnership Agreement

By Sanchita Basu Das

EXECUTIVE SUMMARY

- The Regional Comprehensive Economic Partnership (RCEP) is an ambitious initiative to enhance economic integration and cooperation amongst the ten ASEAN member states and the group's Free Trade Agreement (FTA) partners of Australia, China, India, Japan, South Korea and New Zealand. If successfully concluded, RCEP as a grouping has the potential to generate a GDP of US\$26.2 trillion (representing 32 per cent of global GDP) by 2015.
- RCEP concluded its first round of negotiations and has finalised the scoping papers for its working groups. The negotiations are led by Indonesia and are based on a set of guiding principles endorsed in 2012. The second round of the RCEP negotiations is to be held on 24-27 September 2013 in Brisbane.
- RCEP negotiations are expected to meet many economic and political obstacles. Being a regional economic integration arrangement among developing countries, RCEP is the first of its kind and has no precedence to emulate. Realizing the benefits and expected outcomes will depend on addressing several challenges during the negotiation phase.

- Challenges include managing different relational dynamics among its sixteen members; historical conflicts and unsettled territorial disputes between China, Japan and Korea; significant development gaps among RCEP members that may prevent countries from pursuing aggressive trade liberalisation policies; lack of commonality across ASEAN+1 FTAs and varying domestic policies; the lack of domestic support; and concurrent regional integration agendas which could put pressure on a country's scarce resources of personnel and budget.
 - Despite the challenges, the ongoing RCEP negotiations showcase the member countries' interest to deepen economic integration. ASEAN will benefit from pursuing its 'open regionalism' policy, addressing the "noodle bowl" effect of ASEAN+1 FTAs, and harnessing its role in developing a wider Asia-Pacific regional architecture.
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INTRODUCTION

The Regional Comprehensive Economic Partnership (RCEP) is an ambitious initiative to enhance economic integration and cooperation amongst the ten ASEAN member states and the group's Free Trade Agreement (FTA) partners of Australia, China, India, Japan, South Korea and New Zealand. If successfully concluded, RCEP as a grouping has the potential to generate a GDP of US\$26.2 trillion (representing 32 per cent of global GDP) by 2015. It would also create the world's largest trading bloc and have major implications for Asian countries and the world economy as a whole. In particular, the partnership is expected to be a powerful vehicle for widening global production networks and reducing the inefficiencies of heterogeneous Asian trade agreements.

Negotiations among the 16 parties began in early 2013 and are scheduled to conclude by the end of 2015. Led by Indonesia, negotiations are based on principles aimed at achieving a comprehensive trade agreement among members.¹ The core of the negotiating agenda covers trade in goods and services, investment, economic and technical cooperation and dispute settlement. It aims for significant improvements over the existing ASEAN+1 FTAs and is expected to give due consideration to the different levels of development among the members. Brunei Darussalam hosted the first round of the RCEP talks held on 9-13 May. This included the RCEP-Trade Negotiating Committee (TNC) meeting and the meeting of the three Working Groups, namely trade in goods (RCEP-WGTIG), trade in services (RCEP WGTIS) and investment (RCEP-WGI). The first round finalised the scoping papers for these three groups. The second round of the RCEP negotiations has been scheduled for 24-27 September 2013 to be held in Brisbane, Australia. ASEAN, Japan and Korea are expected to come up with non-papers² on intellectual property rights and competition policy, economic and technical cooperation, and dispute settlement respectively before the second TNC meeting wherein these issues will be discussed³.

The road ahead will not be smooth and is expected to be fraught with many economic and political obstacles. Being a regional economic integration arrangement among developing countries, RCEP is the first of its kind and has no precedence to emulate. Realizing the benefits and expected outcomes will depend on addressing several challenges during the negotiation phase. The following section outlines pertinent challenges that are likely to surface during negotiations.

¹ *Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership* (<http://www.meti.go.jp/press/2012/11/20121120003/20121120003-4.pdf>; accessed on 1 August 2013).

² *In international relations, a non-paper is a proposed agreement or negotiating text circulated informally among delegations for discussion without committing the originating delegation's country to the contents. It has no identified source, title, or attribution and no standing in the relationship involved.*

³ <http://eepcindia.org/memcirculars/memcircular-0465-110713.pdf> (accessed on 1 August 2013).

CHALLENGES FOR RCEP NEGOTIATIONS

First, RCEP involves three different sets of dynamics among its sixteen members: between ASEAN members, between ASEAN and FTA partners, and amongst the six FTA partners. While the ten members of ASEAN have pledged to work on economic integration since the 1990s, ASEAN and its member countries have been working with the FTA partners since 2000. It is the six FTA partners that may not have existing comprehensive trade agreement with one another (Table 1). In addition, political factors such as historical conflicts and unsettled territorial disputes will continue to underline the difficulties of negotiations among the three Northeast Asian partners. Although India has been viewed as a rising economic power, its position in multi-party trade negotiations remains rather conservative. It has been branded a hardliner with a 'defensive strategy'⁴.

Table 1: Status of FTAs between RCEP Members

	ASEAN	Australia	N. Zealand	China	India	Japan	Korea
Australia	S/E	--	S/E	S	N	N	N
N. Zealand	S/E	S/E	--	S/E	N	P	N
China	S/E	S	S/E	--	P	N	N
India	S/E	N	N	P	--	S/E	S/E
Japan	S/E	N	P	N	S/E	--	P
Korea, Rep.	S/E	N	N	N	S/E	P	--

S – Signed, S/E – Signed and in Effect, N – Negotiation Launched, P – Proposed and Under Study

Source: Author's compilation; Asia Regional Integration Centre (ARIC), ADB.

The second challenge for RCEP is the differences in development stages (Table 2) not only in terms of income but also in terms of human resource, infrastructure, regulations and governance. This creates differences in interest among the negotiating partners. The flexibility clause built into the RCEP framework can help break deadlocks and protect disparate national interests, but it can also limit change or curtail greater liberalisation.

⁴ Preeti Ramdasi, 'An Overview of India's Trade Strategy', *IDDRI Sciences Po*, No 01/2010 March.

Table 2: Varying Levels of Development

Low Income Economies (US\$1,025 or less)	Lower Middle-Income Economies (US\$1,026- US\$4,035)	Upper Middle Income Economies (US\$4,036- US\$12,475)	High Income Economies (US\$12,476 and more)
Cambodia and Myanmar	Indonesia, India, Laos, Philippines, Vietnam	China, Malaysia, Thailand	Australia, Brunei, Japan, Korea, Rep., New Zealand, Singapore

Note: Economies are divided among income groups according to 2011 gross national income (GNI) per capita.

Source: Author's compilation from World Bank (country classification data).

Moreover, most of the RCEP members are developing economies with different market structures (Table 3) and sectoral sensitivities. Most ASEAN member countries and South Korea are more open economies with growth dependent on exports and foreign direct investment; on the other hand, China, India and Indonesia have large domestic markets to fuel their economy. Agriculture is a sensitive sector for all, excepting Singapore and Brunei. Apart from the services sector which contributes substantially to the countries' GDP, manufacturing is also an important economic driver of growth for ASEAN, China and South Korea. On the other hand, India, Australia, New Zealand, and Japan are largely services-oriented economies. While there are some degrees of complementarity, there is competition too, which easily leads to protectionism.⁵ This will prevent the RCEP partners from pursuing aggressive trade liberalization policies.

⁵ For example, China's automobile industry is relatively less developed and therefore more vulnerable compared to those in Japan and Korea. China's government would therefore try to protect its automobile industry.

Table 3: Macro-economic Structure of RCEP Economies, 2011/ 2012

	GDP (US\$ trillion)	Population (million)	Share of Agriculture (% of GDP)	Share of Manufacturing (% of GDP)	Share of Services (% of GDP)	Merchandise Trade (% of GDP)	Net FDI Inflows (% of GDP)
ASEAN-6	1.9	459.9	8.4	43.4	48.2	129.9	6.6
CLMV	0.2	169.4	31.8	29.9	38.5	95.3	4.6
Australia	1.4	22	4.0	27.3	68.8	37.1	4.8
China	7.3	1349	10.0	45.3	44.6	49.7	3.8
India	1.8	1220	17.4	26.1	56.5	40.9	1.7
Japan	5.9	127	1.1	26.3	72.2	28.5	0.0
Korea	1.1	49	2.7	39.8	57.5	96.9	0.4
New Zealand	0.16	4.3	4.7	24.0	71.3	46.2	2.6

Note: ASEAN-6 includes Indonesia, Malaysia, Philippines, Brunei, Thailand and Singapore; CLMV represents Cambodia, Myanmar, Laos and Vietnam. The sectoral shares and the ratio of trade to GDP are simple averages of ASEAN-6 and CLMV countries.

Source: author's compilation; World Development Indicators, World Bank; CIA Fact Book.

Third, the existing five ASEAN+1 vary considerably from each other.⁶ They are not only signed at different points in time but also differ in terms of the way of negotiation and economic coverage. For example, there are at least twenty-two different rules of origin (ROOs)—which determine the country of origin of products and in turn their eligibility for preferential treatment in international trade—among ASEAN+1 FTAs. The investment and services agreement have also yet to be negotiated and implemented for some of these agreements. While RCEP aims to improve coverage of the region-wide FTA (and may include issues like government procurement, environment and labour standards), the lack of commonality across FTAs as well as variations in the domestic policies of the countries involved may prove to be difficult to harmonize and consolidate under RCEP.

Fourth, policymakers perceive RCEP as a means for consolidating the current FTAs. However, the overarching concern should be on the modality and eventual quality of the agreement. Pursuing harmonisation, consensus and flexibility may result

⁶ Sanchita Basu Das, 'Moving ASEAN+1 FTAs towards an effective RCEP', *ISEAS Perspective* 2013/29, 10 May 2013.

in a 'lowest common denominator' scenario. This goes against RCEP's aim of being a "modern, comprehensive, high-quality and mutually beneficial FTA". As a result, negotiators are looking at different options to avoid significant damage. For example, in the case of tariffs, one option being discussed is to have a common list of tariff reduction across all sixteen RCEP members. The other option is to have one list for ASEAN members and individual lists for the other countries.

Fifth, RCEP has yet to garner vital domestic support (i.e., governments may encounter opposition in their own countries). The private sector often complains about the lack of information and the lack of consultation on FTAs. There are surveys which show very low utilisation rate by businesses for the existing FTAs.⁷ RCEP was announced at a time when the private sector was still struggling to understand other agendas like the ASEAN Economic Community (AEC) 2015 and the bilateral FTAs. The negotiations should draw from the experience of the ASEAN-China FTA that came into force in 2010⁸: the FTA-type of engagement is still viewed as a threat by the private sector.

Finally, in parallel to RCEP, member countries are also participating in other regional integration agendas such as AEC, the Trans-Pacific Partnership (TPP), the China-Japan-Korea Trilateral Free Trade Agreement (CJK FTA) and bilateral arrangements with the European Union. This adds pressure on human capital, budget and other country resources. The emergence of the US-led TPP—involving twelve countries—deserves special mention. While seven of the RCEP members (Singapore, Brunei, Malaysia, Vietnam, Australia, New Zealand and Japan) are currently negotiating to join TPP, Korea has already expressed interest to strengthen its ties with the Asia-Pacific countries. Moreover, Korea has already signed FTAs with most of the TPP members, including the US.

In contrast, China—with its huge market and economic potential—has demonstrated a passive attitude in joining the TPP talks. While this could imply that China is more actively involved in RCEP discussions, it cannot remain outside of TPP forever. According to a Reuters report, China is studying the possibility of joining the TPP negotiations.⁹ This may render the RCEP negotiations more complicated. Although both RCEP and TPP have similar objectives, they differ in terms of agreed issues and

7 In a survey of 841 export-oriented firms by the Asian Development Bank Institute, it was found that Chinese firms have a relatively higher usage rate at 45 per cent, while Japanese and Korean firms are at 29 and 21 per cent respectively. Among the ASEAN countries, fewer firms make use of the FTAs – Thailand (25 per cent), the Philippines (20 per cent) and Singapore (17 per cent).

8 The ASEAN-China FTA raised apprehension in the Indonesian private sector that the entry of cheaper Chinese products would undermine domestic manufacturing. Indonesian industries had submitted a request to delay the implementation of tariff reductions on some 228 items including iron and steel, textiles, machinery, electronics, chemicals and furniture.

9 Reuters quoted a statement by an China's commerce official, "We will analyse the pros and cons as well as the possibility of joining the TPP, based on careful research and according to principles of equality and mutual benefit". China to study possibility of joining U.S.-led trade talks, Reuters, 30 May 2013 (<http://www.reuters.com/article/2013/05/30/us-trade-asiapacific-china-idUSBRE94TOX420130530>; accessed on 3 August 2013).

depth of the agreement. It is believed that RCEP commitment makes it more accessible to developing countries. In contrast, in the event of China joining TPP, the high standards of the agreement may demand more resources from China at the cost of the RCEP negotiations.

CONCLUSION

Given the significant differences in economic structure and development stage between the sixteen countries as well as political-economic considerations, the RCEP negotiations are not going to go smoothly. On a positive note, the ongoing RCEP negotiations showcase the member countries' interest to deepen their economic integration by using FTAs as a policy tool and, in the process, achieve sustainable economic growth and development. The RCEP, if well-designed and implemented, will expand the intra-regional trade volume in the Asian region.

For ASEAN, RCEP will serve its belief in 'open regionalism'. It should be noted that five out of the top ten trading partners of ASEAN (China, Japan, Korea, India and Australia) are participating in RCEP negotiations, and together with New Zealand, account for almost 60 per cent of the region's total trade (Table 4).

Table 4: ASEAN Trade Relations with RCEP Partners, US\$ billion

Country/ Region	Exports	Imports	Total Trade
ASEAN	327 (26)	271 (24)	598 (25)
Australia	37 (3)	22 (2)	59 (2.5)
China	128 (10)	152 (13)	280 (12)
India	43 (3.4)	26 (2.2)	68 (3)
Japan	145 (12)	128 (11)	273 (11)
Korea	54 (4.4)	70 (6)	124 (5.2)
New Zealand	4.5 (0.4)	3.7 (0.3)	8.2 (0.3)
Total trade among RCEP members	738.5 (59.2)	672.7 (58.5)	1410 (59)

Source: Author's compilation; ASEAN Secretariat Statistics Publication.

RCEP is also expected to address the “noodle or spaghetti bowl” effect of ASEAN+1 FTAs. According to several trade economists, trade liberalization under multiple overlapping FTAs can cause problems as the same commodity can be subject to different tariffs, tariff reduction timelines and ROOs for obtaining preferences. This can raise transaction costs for businesses.

Last, and the most important, RCEP is expected to further entrench ASEAN Centrality¹⁰, which assumes that ASEAN—instead of the bigger economies like those of China, Japan, the US or India—should take the lead in developing a wider Asia-Pacific regional architecture. The sharing of common vision and end goals, combined with agreement on practical strategies will be needed among the sixteen member countries if a win-win situation for all is to be created.

Sanchita Basu Das is an ISEAS Fellow and Lead Researcher (Economic Affairs) at the ASEAN Studies Centre, ISEAS, Singapore.

10 Sanchita Basu Das, 'RCEP: Going Beyond ASEAN+1 FTAs', ISEAS Perspective 2012/4, 17 August 2012.

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Institute of Southeast Asian Studies
30, Heng Mui Keng Terrace
Pasir Panjang, Singapore 119614
Main Tel: (65) 6778 0955
Main Fax: (65) 6778 1735

Homepage: www.iseas.edu.sg

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