

PERSPECTIVE

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RCEP's Strategic Opportunity

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EXECUTIVE SUMMARY

- If completed and ratified, the Regional Comprehensive Economic Partnership (RCEP) will be the largest trade and investment agreement reached since the end of the GATT Uruguay Round.
- It would be a clear example of ASEAN Centrality.
- It would be the most inclusive pathway toward the APEC goal of a Free Trade Area of the Asia-Pacific.
- However, challenges remain. After 19 rounds of negotiations and many missed deadlines, completion and ratification are far from certain.
- The biggest challenge is the differing negotiation positions between key non-ASEAN RCEP parties.

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INTRODUCTION¹

The Regional Comprehensive Economic Partnership (RCEP), now being negotiated between ASEAN and its six existing trade agreement partners², is an opportunity of underappreciated global significance. If the negotiations are successfully concluded and the agreement is ratified and implemented, it will be the largest trade deal in GDP and population terms since the GATT Uruguay Round agreement in 1994 which established the World Trade Organization.

An RCEP agreement would bring together three of the top four and four of the top eight economies globally measured in purchasing power parity terms. It would be the first trade agreement outside of the WTO to bring together China and Japan, China and India and Japan and South Korea. With the US withdrawal from the Trans-Pacific Partnership (TPP) in January 2017, RCEP's comparative size and importance have been boosted significantly.

Table 1: 2016 GDP (in US\$ billion)

	GDP	GDP (PPP)
RCEP	23,758	45,855
US	18,569	18,569
EU	16,400	20,270
TPP-11	10,152	13,242
World	75,642	120,087

Source: World Bank, World Development Indicators, 17 April 2017

If ratified and implemented and its liberalization effects are not too modest, an RCEP agreement would:

- provide a powerful positive counterpoint to the stalling of the WTO's Doha Round that commenced in 2001, the US withdrawal from the TPP (the US accounted for 65% of the collective TPP-12 GDP), and the apparent death of the Trans-Atlantic Trade and Investment Partnership;
- symbolize that Asia is still enthusiastic about trade and open for business, especially in the midst of anti-globalisation sentiments in the West. It would signal the continued shift of the global economic centre of gravity away from the Atlantic and Pacific to East Asia;
- be the most important example of ASEAN Centrality and its benefits for ASEAN member states. RCEP was ASEAN-conceived and initiated and is ASEAN-led. An RCEP agreement would show how ASEAN can positively manage relations

¹ This Perspective has benefitted greatly from a symposium organised by the APEC Studies Centre at ISEAS on 4 August 2017 entitled *RCEP: The Clearest FTAAP Pathway*. We would like to thank all the participants.

² Australia, China, India, Japan, New Zealand and South Korea

between ASEAN member states and major extra-regional powers and provide the best basis for wider Asia-Pacific regional integration and cooperation.

RCEP is expected to bring in the most benefit to the national outputs of ASEAN economies, compared to ASEAN's own integration and ASEAN+1 FTAs. Vietnam, for instance, is estimated to benefit the most with its national income going up by 13.4 percentage points under RCEP, vis-à-vis 12 percentage points under ASEAN plus one trade deals and approximately 3.5 percentage points only under ASEAN cooperation.³

- become the broadest and most advanced of the APEC-identified 'pathways' to a Free Trade Area of the Asia-Pacific (FTAAP). With a completed RCEP, ASEAN could address the main weakness APEC faces as a regional economic integration institution. APEC is not a trade negotiation forum and can only facilitate any future Asia-Pacific free trade talks. ASEAN, as shown by RCEP negotiations, can be an Asia-Pacific trade negotiation forum.

However for the RCEP strategic opportunity to be realized, the RCEP negotiations must end successfully with a ratified agreement that is attractive and open to Asia-Pacific economies that are not part of the current RCEP negotiations. The ongoing RCEP negotiations suggest that an agreement is not guaranteed with many necessary, politically painful decisions yet to be made.

RCEP STATE OF PLAY

The sixteen RCEP participating states have concluded nineteen rounds of negotiation by end of July 2017. The negotiations started in May 2013, following the endorsement of the guiding principles on the side-lines of the East Asia Summit in November 2012. In terms of 2016 figures, the regional trade deal encompasses nearly 50% of the world population, 30% of global income and 30% of global trade. The ten ASEAN members are said to benefit more under RCEP than from their own intra-ASEAN integration efforts and their five existing ASEAN+1 Free Trade Agreements (FTAs).⁴

However, benefits will only result once the parties conclude negotiations and the deal is ratified. More so, benefits will be determined by the content of the agreement and subsequently its effective implementation by all RCEP parties. At this moment, RCEP negotiations appear far from complete. The 2017 deadline for completion of negotiations is likely to be missed, the third missed deadline since 2015.

Negotiators are now tentatively aiming to conclude the deal in 2018, though 'a set of key elements for significant outcomes, envisaged to be achieved by the end of 2017,' have been

³ <http://www.eria.org/ERIA-DP-2013-01.pdf>

⁴ <http://www.eria.org/ERIA-DP-2013-01.pdf>

agreed to recently.⁵ Ramon Lopez, the Philippine Secretary of Trade, after a September meeting of ASEAN trade ministers, concluded that an RCEP agreement “can take many years if the participating countries will not change their position on the matters being discussed”.⁶ If negotiations are completed in 2018 during Singapore’s chairing of ASEAN, ratification likely would take at least a year, and RCEP implementation likely to begin no earlier than 2020.

This late-stage uncertainty reflects the difficulties in negotiating the mega-regional RCEP deal. The RCEP economies come from different starting points. The wealthiest RCEP economy in per capita GNI terms is 48 times wealthier than the poorest. The differences are most pronounced between the less developed ASEAN members and India and the advanced economies of Australia, Japan, New Zealand, Singapore and South Korea. (See Annex 1 for more details.)

RCEP parties also have protectionist outlooks for certain economic sectors, particularly agriculture and services. For the agriculture sector, protecting employment is crucial for many of these countries. And for services sector liberalization, foreign ownership and movement of labour have been sticking points for several trade agreements concluded in the region. Moreover, the largest RCEP members do not have FTAs with each other (India-China, Japan-China and Japan-Korea) and their bilateral issues weigh heavily on RCEP negotiations. Japan and China are the two largest RCEP economies in GDP terms, with India third and South Korea fourth largest respectively.

Given this situation, RCEP negotiation indeed is not a ‘walk in the park’. Complications further ensue as RCEP is a comprehensive deal that covers trade in goods and services, investment liberalization, competition policy, intellectual property rights, small- and medium-scale enterprises (SMEs) and economic and technical cooperation. In 2017, the scope has been expanded to include e-commerce, and government procurement, which are included in the TPP that incorporates seven RCEP members.

Although RCEP negotiation are confidential with limited information available in the public domain, six points divined from the available information underline that a successful RCEP conclusion is far from certain:

1. Although participating countries have concluded negotiation of chapters on SMEs, competition policy and economic and technical cooperation, the bulk of the agreement, including negotiations on market access, remain incomplete. We are far from a complete text;
2. For merchandise goods, the parties are still working on the coverage. They are expected to settle somewhere in between 80 to 92% of all goods. Almost all participating countries are pushing for a single-tier tariff reduction system. However, India has proposed to eliminate tariffs on 80% of its manufactured goods

⁵ <http://pib.nic.in/newsite/PrintRelease.aspx?relid=169289>

⁶ Cited in <http://bworldonline.com/asean-members-broad-outlines-rcep-negotiating-stance-trade-dept/>

and has requested for additional flexibility to raise or reduce the common concession by 8 percentage points. India's cautious approach derives from its significant trade deficit of US\$50 billion with China. For China specifically, India is said to be offering 72% coverage over 20 years.⁷ In addition, some countries are proposing new elements, including environmental and cultural considerations, for determining the rules-of-origin for certain products;

3. RCEP negotiations have hit a roadblock as India, a major services exporter, has demanded greater services sector liberalization, particularly for movement of professionals. Market access in services sector is a contentious issue for most of the RCEP parties as the sector is heterogeneous and intangible in nature. It is also spread across several regulatory authorities in national economies. Moreover, opening up of labour market in the face of increasing anti-globalization sentiment is not an option for the majority of the RCEP members;
4. The discussion over the investment chapter is dragging due to disagreement over the investor-state dispute settlement (ISDS) mechanism where private sector actors can file lawsuits against the state. It has been reported that there are currently 50 lawsuits worth US\$31 billion at international arbitration tribunals against the governments participating in RCEP negotiations.⁸ Countries like India, Indonesia and Australia want to reconsider the ISDS mechanism before RCEP strengthens the rights of investors;
5. There are murmurings that the e-commerce chapter is unlikely to see any major breakthrough in region-wide norms and rules. While the advanced countries, such as Japan, Australia and New Zealand that are party to the TPP, want a detailed e-commerce chapter covering free flow of data, exemption of duties on digital products, regional commitment over consumer protection, etc., others prefer a more measured approach. The latter group would like to settle for less ambitious commitments, dealing with simple issues like standards for e-documentation, e-payment and e-signatures.⁹ Most likely, the text of the chapter will be broad and general to account for the yawning development gap between negotiating parties;
6. With regard to government procurement, which the countries jointly agreed to include as a chapter in the 19th round of negotiation, there is disagreement over commitments to liberalize this large market. There is some noise that a number of countries, including Japan, South Korea and New Zealand, are pushing for market access and equal treatment for foreign and local firms, while others are resisting the move and agreeing only for exchange of information and increased transparency

⁷ <http://www.livemint.com/Politics/8X13ma2MORxILgImfDrc6N/RCEP-meeting-in-September-likely-to-discuss-Indias-proposal.html>

⁸ <https://www.tni.org/en/publication/the-hidden-costs-of-rcep-and-corporate-trade-deals-in-asia>

⁹ <https://www.eff.org/deeplinks/2017/08/e-commerce-rcep-chapter-have-big-techs-demands-fizzled>

amongst members.¹⁰ Some of the possible reasons for this difference are use of different terminology for government-supported entities across negotiating parties and national policies to safeguard the sector for domestic participants, especially SMEs. Only four advanced economy RCEP parties (Japan, South Korea, Singapore and New Zealand) have acceded to the WTO Agreement on Government Procurement.

FTAAP PATHWAY

In 2010, the APEC leaders adopted a ‘pathways’ approach to their shared goal of a future FTAAP open to all APEC members.¹¹ APEC leaders identified the ongoing TPP-12 negotiations and discussions between ASEAN and its six trade agreement partners that led to the RCEP negotiations in 2013 as two of the potential pathways. In 2016, APEC leaders accepted a *Collective Strategic Study on Issues Related to the Realization of the FTAAP* commissioned in 2014 when China was chair of APEC.¹² FTAAP remains a long-term aspiration.

Until January 30 2017 when the US officially withdrew, the TPP looked like the most promising pathway as it was signed, had a larger collective GDP than RCEP, was Trans-Pacific in nature, and included the largest and third largest economies in the world. The TPP agreement signed in 2016 is broader and deeper than what is being negotiated at RCEP and “specifies that the TPP is open to accession by members of the Asia-Pacific Economic Cooperation Forum and other States or separate customs territories as agreed by the Parties, again after completing applicable legal procedures in each Party.”¹³

US withdrawal though now makes the RCEP negotiations the most inclusive pathway. The RCEP collective GDP now dwarfs that of the TPP-11 economies. The withdrawal of the US has led to calls from some of the TPP-11 countries to renegotiate parts of the agreements, and complicated the ratification process for the nine remaining parties that have not yet ratified the 2016 agreement. The US withdrawal will likely make the TPP agreement, even if it is ratified, a less attractive pathway for regional countries, particularly large ones like China and India. India and China have expressed the view that the TPP agreement is too ambitious for either to join at their current level of development. RCEP, given the predominance of lower and middle income parties, is less ambitious and more sensitive to these concerns.

The expansion of RCEP membership in the future now becomes a crucial, possibly essential, condition for APEC’s realization of an FTAAP, and one that is in the purview of ASEAN not APEC. The RCEP framework document, signed in 2011, includes an open accession clause, stating that the agreement enables “participation of any of the ASEAN

¹⁰ <http://www.thehindubusinessline.com/economy/rcep-talks-india-stands-firm-on-market-access-in-govt-contracts-rejects-binding-commitments/article9799171.ece>

¹¹ https://www.apec.org/Meeting-Papers/Leaders-Declarations/2010/2010_aelm/pathways-to-ftaap

¹² Appendix 5 in http://publications.apec.org/publication-detail.php?pub_id=1788

¹³ <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2015/october/summary-trans-pacific-partnership>

FTA partners should they not be ready to participate at the outset as well as any other external economic partners”. It does not say anything specific about FTAAP. Expansion of RCEP membership, taking into account FTAAP goals, remains a tricky matter. On one hand, the level of ambition of ASEAN and the other six RCEP partners for RCEP to be the platform for a wider regional agreement and the RCEP conditions for future members will help determine how far the RCEP pathway leads to an FTAAP. The other hand is if and how the US chooses to re-enter Asia-Pacific regional integration negotiations.

Many in ASEAN circles saw the TPP as an APEC-inspired alternative that would divide ASEAN and undercut RCEP.¹⁴ Ironically, RCEP, if completed and ratified, would be the clearest example of ASEAN centrality and unity and, now, the most inclusive pathway for APEC’s goal for a Free Trade Area of the Asia-Pacific.

¹⁴ <http://www.eastasiaforum.org/2012/11/28/will-rcep-compete-with-the-tpp/>

ANNEX 1
Table 2: Development Indicators

	GNI per capita!	Infant mortality per 1000 births!	Rural population % share!	Ease of doing business rank@	Corruption perception rank#	Global competitiveness rank\$
Australia	54,420	3.0	10	15	13	22
Singapore	51,880	2.1	0	2	7	2
N. Zealand	39,070	4.7	14	1	1	13
Brunei	38,520	8.6	22	72	N.A.	58
Japan	38,000	2.0	6	34	20	8
S. Korea	27,600	2.9	17	5	52	26
Malaysia	9,850	6.0	25	23	55	25
China	8,260	9.2	43	78	79	28
Thailand	5,640	10.5	48	46	101	34
Philippines	3,580	22.2	56	99	101	57
Indonesia	3,400	22.8	46	91	90	41
Laos	2,150	50.7	60	139	123	93
Vietnam	2,050	17.3	66	82	113	60
India	1,680	37.9	46	130	79	39
Myanmar	1,190	39.5	65	170	136	NA
Cambodia	1,140	24.6	79	131	156	89

!Source: Source: World Bank, World Development Indicators, 17 April 2017

@ Source: World Bank, Doing Business Report, 2017

Source: Transparency International, Corruption Perceptions Index, 2016

\$ Source: World Economic Forum, Global Competitiveness Report 2016-2017, 2016

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