

THE RCEP: WHERE ARE WE AT WITH THE ASIA-PACIFIC MEGA TRADE DEAL?

Luca Sartorelli

The Regional Comprehensive Economic Partnership (RCEP) is regarded as the biggest free trade agreement (FTA) ever signed. This mega deal involves fifteen countries of the Asia-Pacific region: the ASEAN group – from where the pact officially originated – plus Australia, New Zealand, China, South Korea and Japan. The treaty is expected to bring substantial advantages for ‘Factory Asia’, particularly for complex global value chains (GVCs) – that is to say, for those goods and activities having more than one national border crossing in their production processes. As shown below, seven of the signatories are also part of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), another mega Asia-Pacific free trade treaty in place since 2018, and one that could soon be joined by the UK.



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ASIA-PACIFIC REGIONAL TRADE GROUPS

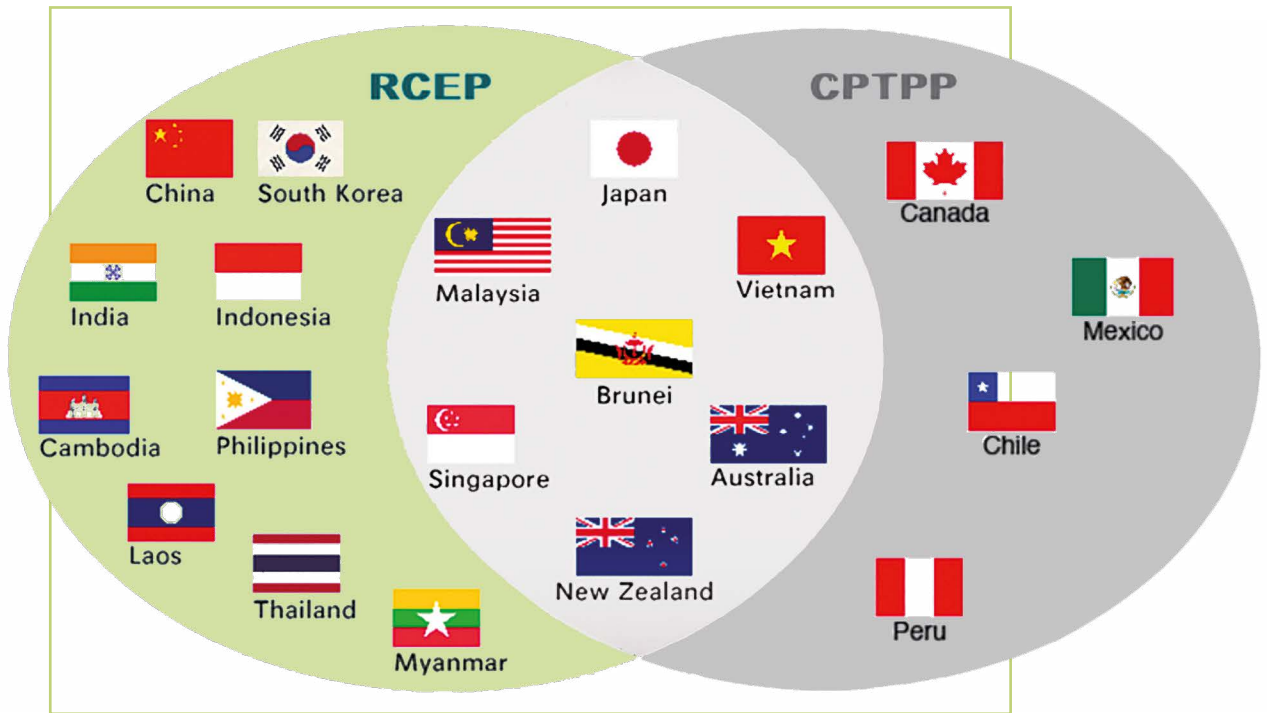
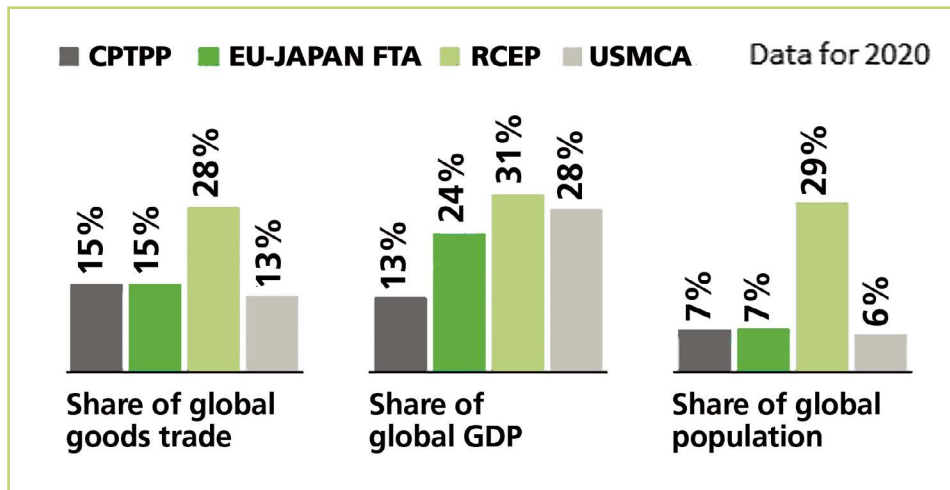


Diagram elaborated by the *Hanoi Times* (Ambassador Tran Duc Mau, RCEP: Regional free trade pact with profound impacts on the world, *Hanoi Times*, 25 November 2020) [↗](#)

In this article we will provide a quick update on the most recent developments in relation to the RCEP, discussing some of the challenges and implications for global trends and for the European Union (and Italy).

The idea of a regional FTA between the ASEAN group and its neighbouring economies was officially introduced at the 19th ASEAN Summit, held in Bali, Indonesia, in 2011. After a relatively short but complex negotiation process, and not without difficulty, the RCEP was established on 15 November 2020.



Source: Congressional Research Service, August 2021.

As the economic indicators above clearly highlight, the RCEP numbers on trade, global GDP and population overwhelm those of the major existing FTAs, including the USMCA, between the USA, Mexico and Canada, the EU-Japan FTA of 2019, and the above-mentioned CPTPP.

The extent and reach of the RCEP is impressive. The deal applies to 28% of global trade, with a comprehensive GDP of around 26.3 trillion, having a direct impact on 30% of the world population.¹ However, the agreement was originally designed to be much larger, as India, the sixth-largest world economy, with a population that exceeds 1.3 billion, was an active part of the initial negotiations.

¹ Among other sources: Australian Government, Department of Foreign Affairs and Trade, Regional Comprehensive Economic Partnership, no date ↗; Finanzgruppe, The RCEP: A challenge for Europe too, 23 February 2021 ↗.

Recent shifts towards protectionist policies and anti-globalization measures have led some of the largest economies and their allies to focus inwards, looking at such extended interregional FTAs with hostility. However, there is some evidence that, in the long run, simplification of rules, rather than protectionism, benefits producers of all sizes. Particularly for small enterprises, which comprise the vast

THE RCEP IN BRIEF

- 1 It incorporates 15 countries, among them 6 of the biggest Asia-Pacific economies for the first time
- 2 It applies to 28% of global trade, with a total GDP of 26.3 trillion, and a direct impact on 30% of the world population
- 3 It focuses on trade in goods and service liberalization
- 4 **It does not include environmental or labour rights and standards, or SOE regulations**
- 5 It aims at reducing or eliminating customs duties on originating goods by approximately 92%
- 6 It allows regional content accumulation between the RCEP members, so producers can source inputs from the RCEP country that offers the best conditions
- 7 It will improve market access, with tariffs and quotas eliminated in over 65% of goods traded
- 8 It includes special measures to include SMEs in the GVCs

majority of the Italian corporate landscape, going through complex and changing regulations and tariffs as they seek to hit the international market with their products can be a challenge. This contrasts with the experience of multinational firms, which often possess solid sets of tools and resources for approaching the global market. Moreover, with the rise of GVCs in Asia, and with products and components crossing national borders multiple times during production processes before reaching the final consumer, trade costs are at risk of increasing and finding burdens at each crossing. Therefore, a multi-country FTA such as the RCEP, which introduces simplified and uniform trade rules and regulations, can substantially reduce the cost of moving goods, resulting in a concrete advantage for producers at any level of the value chain. As the WTO recently reiterated, many products of the modern world are already 'made in the world',² for instance in the telecoms and automotive sectors, and the lack of standards and coherence in custom and trade regulations can represent an obstacle for economic growth in both import and export countries, and even in third-party countries. Moreover, unlike other treaties, the RCEP does not leave SMEs behind, as it includes specific spaces and platforms for dialogue to help small businesses to understand the advantages of the deal, reducing paperwork and easing their access to GVCs. This can of course also represent an opportunity for European companies, which already enjoy bilateral agreements between the EU and major RCEP economies such as Japan, Singapore, South Korea and Vietnam, and the region is one of the most promising markets for EU products, but also for imports. With the RCEP in place, European companies can benefit from a more transparent and business-friendly environment. Moreover, the lack of ambition of the RCEP regarding environmental and labour standards can be seen as providing an opportunity for EU legislators to advocate for better legislation and regulatory cooperation, as they can share the EU experience with existing treaties in the region.

² WTO, Technological innovation, supply chain trade, and workers in a globalized world, 2019 ↗.



RCEP challenges

But what are the biggest challenges for the RCEP? Two major issues have shaken the foundations of the global market in the last five years: the increased tensions between China and the USA and the above-mentioned wave of protectionism, particularly of the USA and its allies; and the COVID-19 pandemic. Both factors have had consequences for the RCEP.

The political crisis that hit India after 2008, and the internal turmoil that preceded the conclusion of the negotiations, which finally led Modi's government to walk out of the RCEP only one year before the actual signing, is a clear example of how commercial treaties of this kind are often hostages of internal and global politics and are used by political parties as instruments for electoral gains. The

Indian incident has some similarities with the decision of the Trump administration to withdraw from the Trans-Pacific Partnership (TPP), as it was then, in early 2017, claiming the risk of job losses and reduced trading power and, incredibly, conditions that favoured China (even though the TPP did not include the latter country).³ In fact, we cannot avoid speculating that the withdrawal of India from the RCEP and of the USA from the TPP are part of a bigger strategy, pushed by American interests, with the objective of containing Chinese influence in a fight for supremacy in the global market arena.

³ 'The TPP is [a] horrible deal. It is a deal that is going to lead to nothing but trouble. It's a deal that was designed for China to come in, as they always do, through the back door and totally take advantage of everyone' – Donald Trump (Charlotte Alter, Transcript: Read the Full Text of the Fourth Republican Debate in Milwaukee, TIME, 11 November 2015 [↗](#)).

Coming to the second point, the COVID-19 pandemic has resulted in unexpected disruption of parliamentary work and political processes. This delay has substantially affected the timing of the RCEP's ratification in most of the signatory countries and the deal is unlikely to become law before 2022.

RCEP rules state that the agreement can officially enter into force sixty days after at least six of the ten ASEAN countries and three non-ASEAN member states have signed the ratification.

RCEP STATUS				
	Signed	Ratified	Nearly Ratified	
RATIFIED OR NEARLY RATIFIED: 5				
BRUNEI	✓	X	✓	ASEAN MEMBERS
CAMBODIA	✓	X	✓	
INDONESIA	✓	X		
LAOS	✓	X		
MALAYSIA	✓	X		
MYANMAR	✓	X		
PHILIPPINES	✓	X		
SINGAPORE	✓	APR-21		
THAILAND	✓	FEB-21 *		
VIETNAM	✓	X	✓	
RATIFIED OR NEARLY RATIFIED: 3				
AUSTRALIA	✓	X		Non-ASEAN
CHINA	✓	MAR-21		
INDIA	X	X		
JAPAN	✓	JUN-21		
NEW ZEALAND	✓	X		
SOUTH KOREA	✓	X	✓	
TOTAL	15	4	4	

* not yet submitted to the ASEAN Secretariat.

Source: Elaboration by the author.

If we look at the table above, we see that to date only four countries have concluded the ratification process: China and Japan from the non-ASEAN group, and Singapore and Thailand from the ASEAN group. Beijing officially ratified the agreement in early March 2021 during the National People's Congress, as announced by Minister of Commerce Wang Wentao. Confirming its efficiency and its vocation for international trade, the island city-state Singapore became the first ASEAN country to complete the process, as announced by its Minister of Trade and Industry on 9 April 2021. The Thai Parliament was technically the quickest, ratifying the treaty in February 2021, and its Minister of Commerce announced the establishment of an RCEP facility to provide information and educate entrepreneurs on the advantages of the agreement for Thai industry and investors. However, Bangkok has yet to submit its ratification to the ASEAN Secretariat, as some of the new regulations linked to the treaty need further approvals, so Thailand's accession is technically still pending. In the case of

⁴ *The Japan Times*, Japan ratifies massive free trade deal involving China, South Korea and ASEAN, 25 June 2021 ↗.

Japan, the RCEP represents a milestone as it is the first FTA with China, its number one trade partner, lifting its GDP of around 2.7%.⁴ Tokyo concluded the process in June 2021.

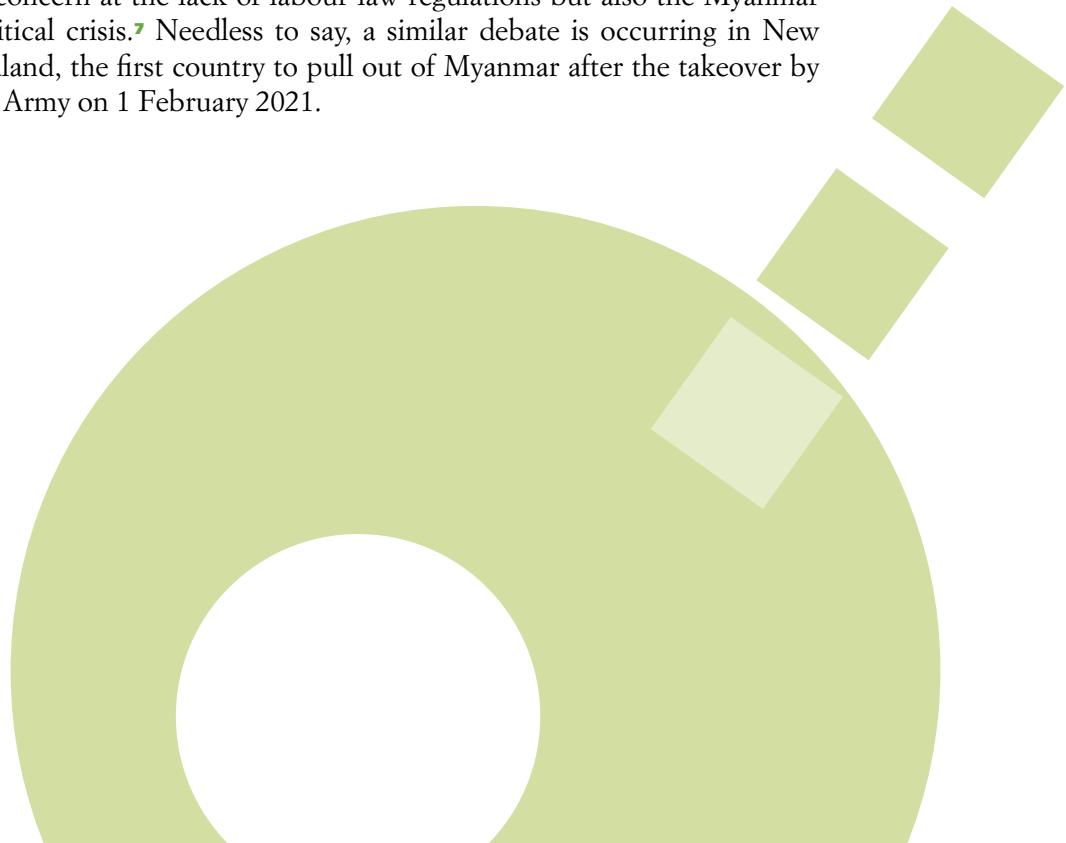
The stragglers and the reluctants

As highlighted by many observers, while some delay in the ratification process in the ASEAN group has been due to the COVID pandemic, the additional lack of progress has come as a surprise.⁵ For instance, Vietnam, a signatory of several trade agreements such as the CPTPP but also bilateral deals with South Korea, Japan and the EU, did not proceed with the RCEP until early September, when the Deputy Minister of Trade declared that the deal would be approved by the end of 2021. Malacañang Palace is expected to speed up the process in the coming months, even if some opposition is expected in the Philippine Senate,⁶ while Cambodia is likely to follow suit without surprises. The situation for Malaysia and Indonesia is not clear, as the work of their respective parliaments has been seriously disrupted by the third wave of the pandemic. The most reluctant signatory seems by now to be Australia, but this has little to do with the COVID-19 pandemic and more with an increasingly pro-USA parliament, now discussing the 'changing international political climate'. To this we need to add some serious objections from the Council of Trade Unions; these objections reflect its concern at the lack of labour law regulations but also the Myanmar political crisis.⁷ Needless to say, a similar debate is occurring in New Zealand, the first country to pull out of Myanmar after the takeover by the Army on 1 February 2021.

⁵ *Economist Intelligence*, RCEP unlikely to become effective until 2022, 4 August 2021 ↗.

⁶ *Bernie Cahiles-Magkilat*, Malacanang ratifies RCEP, Senate for concurrence, Manila Bulletin, 19 September 2021 ↗.

⁷ *WGeoff Wade*, The Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), Parliament of Australia, 14 September 2021 ↗.



To conclude: although two of the largest economies, the USA and India, seem to be focusing inwards, treaties such as the RCEP still represent the future of global trade as they have the potential to be a game changer and boost post-pandemic recovery.

Despite the challenges presented by the COVID-19 pandemic, the overall ratification process of the RCEP is proceeding well. As we can see in the RCEP Status table above, three of the non-ASEAN members have already ratified or nearly ratified the RCEP, while among the ASEAN member states, five have concluded or are about to conclude the process. This means that even if Australia and New Zealand finally decide to pull out, India does not renegotiate its membership, and countries like Myanmar remain in limbo, the RCEP will still be close to reaching nine signatories, the minimum number required for the treaty to enter into force.

Despite the difficulties and delays of some of its members, the deal is a crucial step for the integration of the Asian regional market, and its implementation will strengthen and grow interregional GVCs. Moreover, the ongoing reduction of non-tariff barriers and simplification of the overall regional regulations for traders

⁸ European Parliament, *Short overview of the Regional Comprehensive Economic Partnership (RCEP)*, 10 February 2021 .

will help to create a more attractive and transparent business ecosystem, including for European firms and investors. Lower trading costs, including transaction fees and custom duties, make life easier for those European companies that export to and import from RCEP countries.⁸

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