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Regional Comprehensive Economic Partnership: Economic Backgrounds of ASEAN and Its Dialogue Partners

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Abstract: *We overview the economic backgrounds of the countries participating in the Regional Comprehensive Economic Partnership (RCEP) negotiations and two Association of Southeast Asian Nations (ASEAN) Dialogue Partners – the United States (US) and the European Union (EU) – to understand their economic relationships before the signing of the RCEP and their economic interests in the RCEP. We discover that the 16 countries participating in RCEP negotiations vary in terms of economic size, income level, growth pattern, share of trade in the economy, and foreign direct investment (FDI) flows. Additionally, both lower- and higher-income ASEAN Member States (AMS) have received a large amount of FDI, in contrast to Japan and the Republic of Korea (henceforth, Korea), which have seen more FDI outflows from their countries than inflows. In terms of bilateral FDI inflows and outflows, as a centre for regional FDI, Singapore attracts FDI from developed countries (including the US and the EU) and reinvests it in India and other AMS. As an FDI hub, Singapore promotes liberalised regional markets to attract advanced country investors. By examining bilateral trade relationships, we find that as the centre of manufacturing in the world, ASEAN and China have participated in international production networks that also include Japan and Korea since 2000. Japan and Korea have maintained competitiveness in intermediate goods in the region's production networks, while China notably exports final products to the US and the EU. Amongst the 16 countries participating in RCEP negotiations, India has not had a significant presence in the production networks. Indeed, India has expanded its bilateral trade deficit with China, which probably caused India to withdraw from RCEP negotiations to protect its manufacturing industry. Simulation results of the impacts of the RCEP, using a computable general equilibrium (CGE) model (Global Trade Analysis Project model), show that the countries participating in RCEP negotiations – particularly the less developed AMS – would gain greatly from lowering services trade costs and investment liberalisation. India would also gain significantly from the RCEP. In contrast, countries not participating in RCEP negotiations (the US and the EU) would experience small negative impacts of the RCEP through trade diversion effects.*

Keywords: RCEP; Bilateral Trade; Bilateral FDI; GTAP Simulation

JEL Classification: F13; F15; F17; F21; F5

[1] The views expressed in this paper are solely those of the authors, and neither represent those of the organizations to which the authors belongs nor the Economic Research Institute for ASEAN and East Asia (ERIA).

1. Introduction

Negotiations for the Regional Comprehensive Economic Partnership (RCEP) were officially launched through a joint declaration by the leaders of the 16 countries participating in RCEP negotiations – the ASEAN Member States (AMS), Australia, China, India, Japan, New Zealand, and the Republic of Korea (henceforth, Korea) – on 20 November 2012. After 8 years, the RCEP agreement was signed by 15 member countries (the countries participating in the RCEP negotiations except India) on 20 November 2020. This paper provides an overview of the economic background of the 16 countries participating in the RCEP negotiations as well as globally significant political and economic entities – the European Union (EU) and the United States (US) – to understand their economic incentives regarding the RCEP. Like the countries participating in the RCEP negotiations, the EU and the US are Dialogue Partners of the Association of Southeast Asian Nations (ASEAN). A free trade agreement (FTA) such as the RCEP is negotiated or concluded not only based on the economic interests of the participating countries but also non-economic interests such as political motivations. However, the literature reveals the importance of economic gains in joining an FTA (e.g. Baier and Bergstrand, 2004). In addition, FTA discussions and negotiations necessarily include the economic effects of such agreements.

We approach the economic background of the selected countries or groups of countries from four dimensions. The first dimension is basic characteristics, such as economic scale (population and gross domestic product (GDP)), economic growth, income level (GDP per capita), trade openness (trade-to-GDP ratio), and foreign direct investment (FDI) intensity (FDI inflows and outflows per GDP unit). This dimension reveals that the economies of the 16 countries participating in RCEP negotiations are different in terms of size, income, growth, share of trade in the economy, and FDI flows. The second dimension is bilateral trade relationships. The bilateral trade flows reveal that ASEAN and China have experienced a continuous increase in intermediate goods trade with each other, Japan, and Korea since 2000, which is a sign of being involved in international production networks (IPNs). The third dimension is bilateral FDI relationships. The bilateral FDI flows reveal that

Singapore, as a regional hub for FDI, receives FDI from advanced countries (e.g. the EU and the US) and reinvests it in India and other AMS. The fourth dimension is the expected economic effects of the RCEP. The economic impacts simulated based on a computable general equilibrium (CGE) model show that countries participating in RCEP negotiations, especially less developed countries, would benefit considerably from the RCEP's agenda of cutting services trade costs and liberalising investment. The countries that did not have FTAs with other countries participating in RCEP negotiations (e.g. no FTAs amongst China–Japan–Korea and China–India) would also gain significantly. In contrast, countries not participating in RCEP negotiations would be negatively affected by the RCEP's trade diversion consequences.

The remainder of this paper is organised as follows. Section 2 provides an overview of the basic economic statistics of the countries participating in RCEP negotiations, the EU, and the US. Section 3 studies the bilateral trade relationships amongst the AMS; the Australia and New Zealand (ANZ) economy; and other selected ASEAN Dialogue Partners (China, India, Japan, Korea, the EU, and the US). Section 4 examines the bilateral FDI relationships of the countries participating in RCEP negotiations, the EU, and the US. Section 5 discusses the economic effects of the RCEP on the countries participating in RCEP negotiations, the EU, and the US based on an exercise using a CGE model. Section 6 concludes.

2. Economic Overview

This section provides an overview of the economic statistics of ASEAN and selected Dialogue Partners. Table 1 shows that the RCEP member countries vary significantly in terms of scale. Amongst the RCEP member countries, China has the largest population (1,407.7 million) and GDP ($14.3 trillion). ASEAN has about half of China's population (660.6 million) and one-fourth of China's GDP ($3,169.9 billion). Amongst the AMS, Indonesia has the largest population (270.6 million) and GDP ($1,119.1 billion), while Brunei Darussalam has the smallest population (0.4 million) and GDP ($13.5 billion). The RCEP represents the emergence of a significant economic area – the RCEP member countries comprise

about 30% of the world's population and GDP. The total GDP of RCEP members is 1.2 times that of the US and 1.6 times that of the EU. If India is included in the RCEP members, the total GDP becomes 1.3 times and 1.8 times larger than the US and the EU, respectively.

Table 1 also shows that the RCEP member countries differ significantly in terms of income level and economic growth rate. According to the World Bank's country classifications by income level, amongst the RCEP member countries, Cambodia, Indonesia, the Lao People's Democratic Republic (Lao PDR), Myanmar, the Philippines, and Viet Nam are classified as 'lower-middle income countries' (World Bank, n.d.). China, Malaysia, and Thailand are classified as 'upper-middle income countries'; and Brunei Darussalam, Japan, Korea, and Singapore are 'high-income countries'. GDP per capita ranges from $1,300 (Myanmar) to $65,600 (Singapore). The RCEP members include many lower middle-income countries, which have been increasing their economies rapidly. All the lower middle-income countries amongst the RCEP members experienced average annual growth rates of more than 5% from 2010 to 2019.

With respect to the relative importance of international trade in ASEAN and its Dialogue Partners, as shown in Table 1, many of the AMS trade-to-GDP ratios are very high. In fact, Brunei Darussalam, Cambodia, Malaysia, Singapore, Thailand, and Viet Nam have trade-to-GDP ratios of more than 100%. Amongst them, Singapore has the highest trade-to-GDP ratio (323.5%), followed by Viet Nam (211.5%). Many AMS have received relatively large amounts of foreign capital. Singapore received inward FDI totalling 22.96% of GDP on average from 2011 to 2019. Singapore also has a large scale of outward FDI, registering 12.7% of GDP on average from 2011 to 2019. These inward and outward FDI figures are much higher than those of the other countries, reflecting Singapore's position as a regional FDI hub and as the main channel for FDI to AMS (AMRO, 2020). Less developed countries also received a relatively large amount of FDI inflows. For example, the inward FDI flow-to-GDP ratios are 12.50% for Cambodia and 5.78% for Viet Nam. The other AMS have also received more FDI than the developed countries of East Asia – Japan and Korea – which both have small FDI inflows but large FDI outflows, especially to AMS.

In this section, we found that the RCEP member countries differ in terms of economic scale, income level, growth trends, share of trade in the economy, and FDI flows. Less developed countries tend to have experienced more rapid economic growth than developed countries. For many AMS, international trade is of great importance to the economy. Further, both lower- and higher-income AMS have received a large amount of FDI, while Japan and Korea had more FDI outflows than inflows. The next section examines the bilateral trade relationships amongst the countries participating in RCEP negotiations, as well as with the US and the EU.

Table 1: Basic Economic Statistics of ASEAN and Selected Dialogue Partners, 2019

Country/ Region	Population (million)	GDP ($ billion)	GDP growth* (%)	GDP per capita ($'000)	Trade-to-GDP ratio (% of GDP)	Net inflow FDI** (% of GDP)	Net outflow FDI (% of GDP)
Brunei	0.4	13.5	0.27	31.1	108.5	2.92	n.a.
Cambodia	16.5	27.1	7.14	1.6	123.6	12.50	0.41
Indonesia	270.6	1,119.1	5.33	4.1	37.4	2.09	0.58
Lao PDR	7.2	18.9	7.18	2.6	n.a.	6.27	n.a.
Malaysia	31.9	365.3	5.12	11.4	123.0	3.34	3.62
Myanmar	54.0	68.7	6.98	1.3	60.7	3.70	n.a.
Philippines	108.1	376.8	6.30	3.5	68.8	2.01	1.31
Singapore	5.7	374.4	3.92	65.6	323.5	22.96	12.74
Thailand	69.6	544.3	3.22	7.8	109.6	1.92	2.52
Viet Nam	96.5	261.9	6.30	2.7	211.5	5.78	0.55
Australia	25.4	1,392.0	2.64	54.9	45.8	3.77	0.48
New Zealand	5.0	212.9	2.99	42.8	54.1	1.02	–0.11
China	1,407.7	14,279.9	7.35	10.1	35.9	2.25	1.11
India	1,366.4	2,870.5	6.46	2.1	39.4	1.71	0.41
Japan	126.3	5,148.8	0.95	40.8	34.8	0.36	3.11
Rep. of Korea	51.7	1,651.4	2.95	31.9	75.8	0.73	2.09
US	328.3	21,433.2	2.27	65.3	26.3	1.79	1.66
EU	447.2	15,689.6	1.52	35.1	95.2	3.49	4.09
ASEAN	660.6	3,169.9	5.01	4.8	n.a.	n.a.	n.a.
ASEAN+5	2,276.7	25,854.9	5.22	11.4	n.a.	n.a.	n.a.
ASEAN+6	3,643.1	28,725.4	5.34	7.9	n.a.	n.a.	n.a.
World	7,683.4	87,555.2	3.03	11.4	n.a.	n.a.	n.a.

ASEAN = Association of Southeast Asian Nations, EU = European Union, FDI = foreign direct investment, GDP = gross domestic product, n.a. = not applicable, US = United States.
Note: ASEAN+5 = ASEAN Member States plus Australia, New Zealand, China, Japan, and the Republic of Korea; ASEAN+6 = ASEAN+5 countries plus India.
* 2010–2019 average.
** 2011–2019 average.
*** 2011–2019 average.
Source: World Bank (2022), World Development Indicators.
https://databank.worldbank.org/source/world-development-indicators (accessed 29 January 2022).

3. Overview of Bilateral Trade in Goods

This section overviews the bilateral trade in goods since 2000 between the countries participating in RCEP negotiations and the ASEAN Dialogue Partners to assess the extent to which each pair of countries depends on each other. To simplify the discussion, we focus on the selected countries – ASEAN, ANZ, China, India, Japan, Korea, the US, and the EU. To avoid redundancy, this section comprises four subsections examining the viewpoints of ASEAN, ANZ, China, and India; and it covers the other countries' points of view. (The appendix includes figures on bilateral trade relationships from the viewpoints of Japan, Korea, the US, and the EU.) In addition to the total bilateral trade in goods amongst the countries under study, this section examines changes in their bilateral trade by different product categories – primary goods, intermediate goods, and final goods – to understand the changes in trade and production networks between the countries. It is important to pay attention to increases in intermediate goods trade, in particular for assessing the development levels of the less developed countries (elaborated below). For that purpose, this overview uses the data set of the Trade Industry Database (TID) constructed by Japan's Research Institute of Economy, Trade and Industry (RIETI). The REITI-TID (RIETI, n.d.) is a database developed by converting the detailed bilateral trade value data of the United Nations (UN) Comtrade Database into a database containing aggregate bilateral trade values by the 3 (or 5) product categories from the production process viewpoint and by 13 (or 14) industries.

Reviewing economic growth in East Asia, participation in global value chains (GVCs) has been a primary way of achieving economic growth for emerging economies. As Baldwin (2016) pointed out, the world economy has experienced significant decreases in trade costs and expanding waves of globalisation since the 1820s. The first wave of globalisation was driven by significant decreases in the cost of transportation with the advent of steam, diesel, gas, and electric engines. Decreases in the cost of moving goods unbundled the places of production and consumption; in other words, a firm could earn profits by producing goods in one country and selling them in another country. Baldwin called this globalisation phase the 'first unbundling'. The first unbundling provided the world with an international market for final goods and raw materials, but not for intermediate parts.

The second wave of globalisation started in the 1990s, brought about by significant decreases in the cost of moving production and management ideas across countries through notable information and communication technology (ICT) improvements. ICT enabled large-scale companies in advanced countries to unbundle their production processes and rearrange the unbundled production units globally. This 'second unbundling' provided emerging countries with opportunities to be involved in the IPNs of multinational companies or to participate in GVCs. In that way, the second unbundling created international markets in intermediate goods. Since participating in GVCs appears in the form of significant increases in intermediate goods trade, looking at how trade in intermediate goods amongst the selected countries evolved helps us understand their competitiveness and positioning in the global production markets in addition to their interdependence.

Another advantage of using the RIETI-TID is that it allows us to sketch the competitiveness of each country by product category by looking at each country's net export position in each category. A surplus in the trade of a product with overseas (net importing) countries indicates that the product produced by the exporting country sells well internationally to the extent that the amount of production of the product is greater than that of the consumption in the importing country. In fact, the value of net exports is one of the competitiveness performance indicators adopted by the Trade Competitiveness Map of the International Trade Centre (ITC, 2014). Although determining a country's competitiveness based on its net export position may be criticised for oversimplification, it is still useful to provide a rough picture of competitiveness by using this indicator.

3.1. Overview of bilateral trade and trade networks

Before looking at each bilateral trade relationship, let us begin with an overview of bilateral trade (exports plus imports) in goods and trade networks amongst ASEAN and its Dialogue Partners. Table 2 shows the bilateral trade in goods of ASEAN and its Dialogue Partners. Amongst the countries participating in RCEP negotiations, ANZ are the most dependent on the other countries participating in RCEP negotiations in trade. The aggregate value of ANZ bilateral trade with other countries participating in RCEP negotiations (R16) accounted for 67% of the total trade values of ANZ (the value with the other RCEP member

countries (R16 less India) accounted for 65%). The second most dependent country is Korea (50%) and the third is Japan along with ASEAN (47%). China is the fifth (32%) and India is the last (28%). India's figure is even less than the value of the US and the EU. We notice that India depends on trade with the US and the EU more than on ASEAN, Australia, New Zealand, China, Japan, or Korea.

Table 2: Bilateral Trade in Goods of ASEAN and Selected Dialogue Partners, 2019

($ billion)

Country/ Region	Trading partner									
	ASN	**ANZ**	**CHN**	**IND**	**JPN**	**ROK**	**US**	**EU**	**R15**	**R16**
ASEAN	n.a.	70.4	507.9	80.9	207.2	135.1	304.2	258.1	920.6	1001.5
	n.a.	3%	24%	4%	10%	6%	14%	12%	43%	47%
ANZ	70.4	n.a.	192.3	14.9	66.0	31.7	43.3	53.0	360.4	375.3
	13%	n.a.	35%	3%	12%	6%	8%	10%	65%	67%
China	507.9	192.3	n.a.	79.5	313.5	261.1	543.6	655.2	1274.8	1354.4
	12%	5%	n.a.	2%	7%	6%	13%	15%	30%	32%
India	80.9	14.9	79.5	n.a.	17.7	21.2	92.1	89.2	214.2	214.2
	11%	2%	11%	n.a.	2%	3%	12%	12%	28%	28%
Japan	207.2	66.0	313.5	17.7	n.a.	71.4	212.5	162.1	658.1	675.7
	14%	5%	22%	1%	n.a.	5%	15%	11%	46%	47%
Rep. of Korea	135.1	31.7	261.1	21.2	71.4	n.a.	135.9	103.9	499.3	520.5
	13%	3%	25%	2%	7%	n.a.	13%	10%	48%	50%
US	304.2	43.3	543.6	92.1	212.5	135.9	n.a.	702.2	1239.5	1331.6
	8%	1%	14%	2%	6%	4%	n.a.	18%	32%	35%
EU	258.1	53.0	655.2	89.2	162.1	103.9	702.2	n.a.	1232.4	1321.7
	6%	1%	15%	2%	4%	2%	16%	n.a.	28%	30%

ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, ASN = ASEAN, CHN = China, EU = European Union, HKG = Hong Kong, IND = India, JPN = Japan, n.a. = not applicable, ROK = Republic of Korea, US = United States, R15 = ASN + ANZ + CHN + JPN + ROK, R16 = R15 + IND.

Note: Lower figures in each cell stand for the corresponding country's share of trade values (exports plus imports). For example, ASEAN's trade with Australia and New Zealand (ANZ) reached $70.4 billion in 2019 – 3% of the total trade value of ASEAN with the world.

Sources: RIETI-TID (n.d.) https://www.rieti.go.jp/en/projects/rieti-tid/ (accessed 21 September 2021) and authors' elaboration.

Next, let us overview trade networks amongst ASEAN and its Dialogue Partners by product category. Figures 1, 2, and 3 map bilateral trade relationships in 2019 amongst the countries under study in primary goods, intermediate goods,

and final goods, respectively. Blue arrows connecting countries stand for trade flows – the starting point of an arrow marks the exporting country and the ending point marks the importing country. The width of an arrow represents its trade volume – a thicker arrow connecting two countries means a larger trade volume between the countries. The thickness of an arrow represents the exact amount of trade in US dollars. Thus, the thickness of an arrow in Figure 1 can be compared with not only other arrows in Figure 1, but also other arrows in Figures 2 or 3.

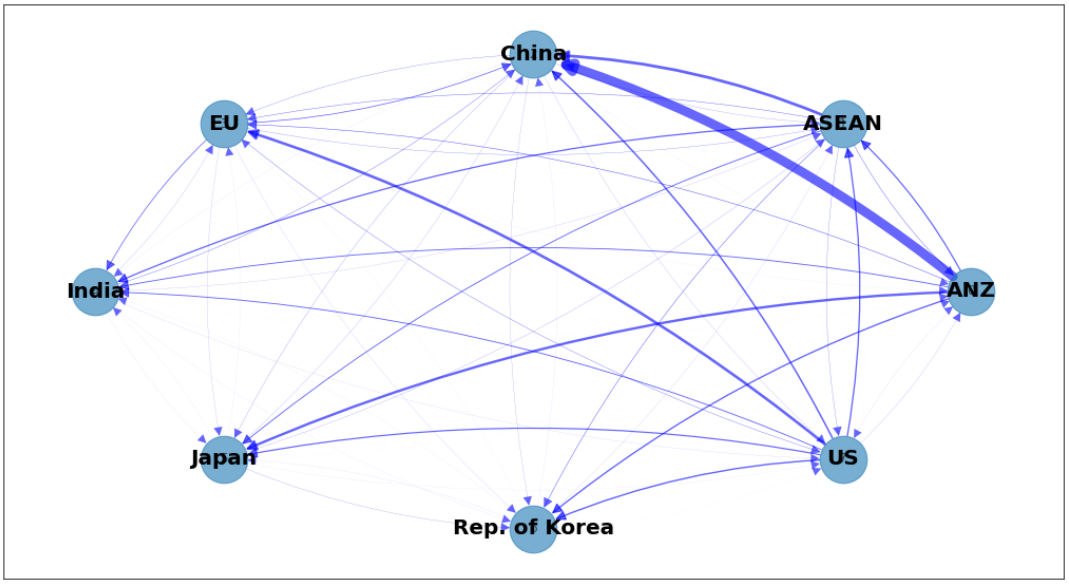
Figure 1 shows trade networks in primary goods amongst the countries. The arrow representing exports from ANZ to China is notably thick. The arrow from ANZ to Japan and the one from ASEAN to China are also relatively wide, but thinner than the arrow from ANZ to China. Other arrows are very thin. These observations indicate that ANZ are significant exporters in primary goods amongst the countries, especially exports to China.

Figure 2 shows the trade networks in intermediate goods. This figure is clearly different to Figure 1. Many wide arrows cross in the figure. Remarkably, the ASEAN–China, China–EU, and EU–US pairs have a reciprocal export–import relationship in intermediate goods – broad arrows flow between these pairs of countries. As mentioned above, deepening IPNs appears in the form of increases in reciprocal intermediate goods trade. These pairs are tightly connected in terms of manufacturing production. Japan and Korea also have thick arrows towards ASEAN and China. However, the arrows towards Japan and Korea from ASEAN and China are not very thick. These findings imply that Japan and Korea are competitive or have comparative advantages over ASEAN and China in intermediate goods. ANZ and India are somewhat separated from IPNs in the region – their intermediate goods trade with other countries is not very active.

Figure 3 shows the trade networks in final goods. Like Figure 2, relatively thick arrows flow across the countries. Amongst them, China is remarkable in the volume of its final goods exports to the EU and the US. Although its trade volume is smaller, ASEAN has a similar structure to China. ASEAN and China export a great deal to the EU and the US, while they do not import much from those countries. ANZ and India are the same as the case of intermediate goods and do not have broad arrows with other countries.

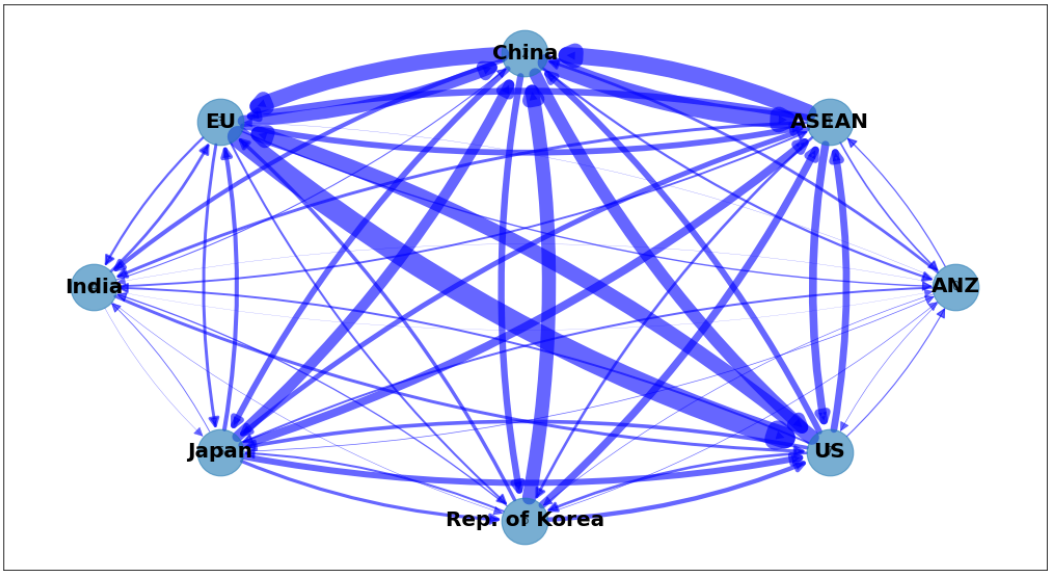
In summary, in trade networks amongst ASEAN and its Dialogue Partners, ANZ are remarkable in exporting primary goods to other countries, especially China. ASEAN and China are similar in terms of their trade structure – they have significant reciprocal intermediate goods trade with other countries and export a great deal of final goods to large markets such as the EU and the US. It should also be noted that ASEAN and China have a close trading relationship in intermediate goods. Japan and Korea have a similar trade structure because they have been integrated in the trade networks by exporting intermediate goods more than importing them. India is somewhat separate from the trade networks. Next, we will see more details of the bilateral trade relationships amongst the countries under study.

Figure 1: Trade Networks in Primary Goods Amongst ASEAN and Its Dialogue Partners, 2019



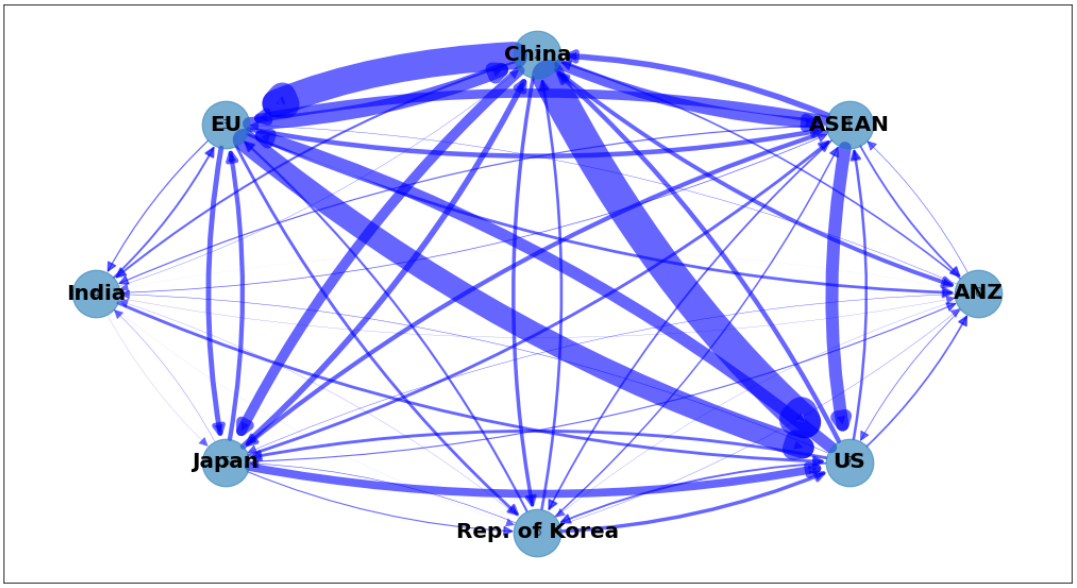
ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, EU = European Union, US = United States.
Sources: RIETI-TID (n.d.) https://www.rieti.go.jp/en/projects/rieti-tid/ (accessed 21 September 2021) and authors' calculations.

Figure 2: Trade Networks in Intermediate Goods Amongst ASEAN and Its Dialogue Partners, 2019



ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, EU = European Union, US = United States.
Sources: RIETI-TID (n.d.) https://www.rieti.go.jp/en/projects/rieti-tid/ (accessed 21 September 2021) and authors' calculations.

Figure 3: Trade Networks in Final Goods Amongst ASEAN and Its Dialogue Partners, 2019



ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, EU = European Union, US = United States.
Sources: RIETI-TID (n.d.) https://www.rieti.go.jp/en/projects/rieti-tid/ (accessed 21 September 2021) and authors' calculations.

3.2. Bilateral trade relationships since 2000 from ASEAN's point of view

From ASEAN's viewpoint, it is salient that the values of exports to and imports from China have drastically increased since 2000 in terms of intermediate goods. Figure 4 shows a radical increase in exports and imports from 2000 to 2019. The export value from ASEAN to China in 2019 was $242 billion, which is 11 times larger than that in 2000 ($22 billion). Until 2010, the US was the largest export destination, while Japan was the largest import source. Since 2010, China has been the largest trading partner both in exports and imports. The import value from China to ASEAN in 2019 was $266 billion, which is 2.5 times larger than that from Japan, the second-largest import source ($108 billion). Looking at changes in ASEAN's import sources, Korea is also notable in terms of the extent of the increase in imports from that country. The import value from Korea increased from $17 billion in 2000 to $87 billion in 2019 – close to the value for Japan ($108 billion), the US ($106 billion), and the EU ($105 billion). Trade with ANZ and India increased steadily in terms of exports and imports, but ASEAN's dependence on those countries was low compared with the other ASEAN Dialogue Partners.

Breaking down the bilateral trade relationships by product category, one finds that ASEAN has deepened IPNs with other selected countries, especially China. We examine the patterns of trade in intermediate goods to discern the expansion of IPNs, as intermediate goods are traded actively inside IPNs. Figure 5 shows that intermediate goods exports from ASEAN to China rose 10 times from $16 billion in 2000 to $160 billion in 2019. Similarly, ASEAN experienced a massive increase in intermediate goods imports from China, rising 16.7 times from $10 billion in 2000 to $167 billion in 2019. It should be noted that the value of ASEAN's net imports (imports less exports) from China was not large (about $25 billion) in 2019. China has also increased its presence in final goods trade – the value of final goods imported from China to ASEAN was about $38 billion in 2019, while that of exports from ASEAN to China was about $16 billion. China is a very important trading partner for ASEAN.

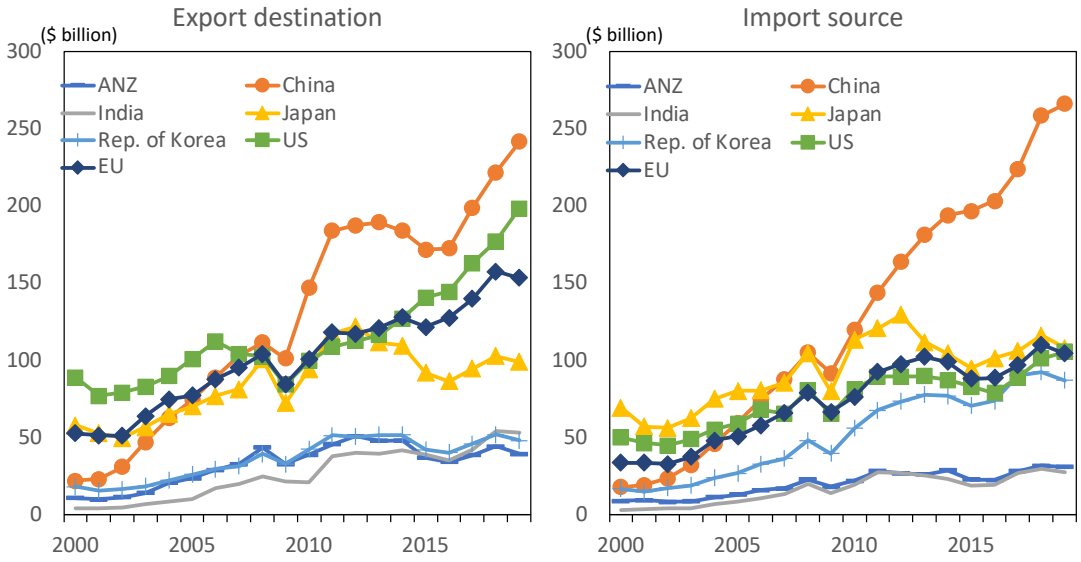
ASEAN has also steadily deepened its production networks with Japan, Korea, the US, and the EU, though less than with China. In 2019, the intermediates import values of Japan and Korea increased to $78 billion (from $49 billion in 2000)

and $72 billion (from $13 billion in 2000), respectively. ASEAN has been a relatively significant net intermediate goods importer from Japan and Korea. Meanwhile, the US and the EU have increased their intermediates exports and imports to and from ASEAN. In 2019, ASEAN's intermediate goods exports and imports to and from the US increased to $76 billion (from $36 billion in 2000) and $68 billion (from $35 billion in 2000), respectively. For the EU, ASEAN's intermediates exports and imports rose to $64 billion in 2019 (from $21 billion in 2000) and $57 billion in 2019 (from $22 billion in 2000), respectively. It should be noted that ASEAN maintained a net importer position against Japan and Korea, which may reflect Japan and Korea's strong competitiveness in intermediate goods compared with ASEAN. This trade characteristic is also seen in the case of China, as discussed in the following subsection.

ASEAN's net exporter position in final goods against the US and the EU is also remarkable. In 2019, the final goods export value from ASEAN to the US was $120 billion, whereas the import value was $25 billion. ASEAN's final goods export value to the EU was $86 billion, while the import value from the EU was $45 billion. This net final goods exporter position of ASEAN is similar to that of China, as shown below.

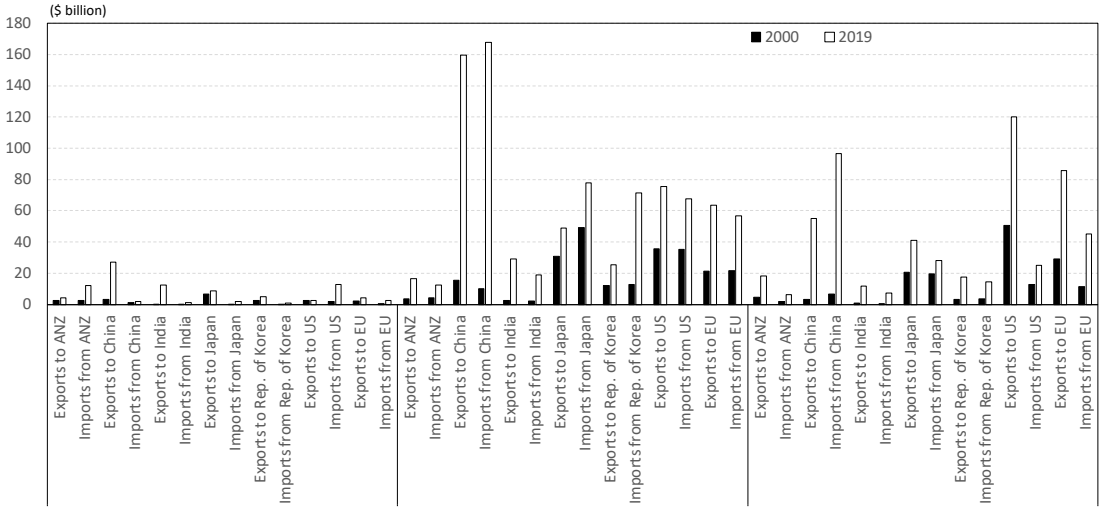
Considering the above findings, ASEAN has developed interdependence and deepened IPNs with not only East Asian countries, but also the US and the EU. In particular, the extent of integration between ASEAN and China is more significant than ever. In the East Asia region, ASEAN is in a net importer position in terms of intermediates vis-à-vis Japan and Korea. Final goods produced in ASEAN are exported to the US and the EU in large magnitude. Meanwhile, ASEAN's interdependence with ANZ and India is not significant compared with its interdependence with the other ASEAN Dialogue Partners.

Figure 4: ASEAN's Bilateral Export Values by Destination and Import Values by Source 2000–2019



ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, EU = European Union, US = United States.
Sources: RIETI-TID (n.d.) https://www.rieti.go.jp/en/projects/rieti-tid/ (accessed 21 September 2021) and authors' calculations.

Figure 5: ASEAN's Trade by Commodity Category and by Trading Partner, 2000–2019



ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, EU = European Union, US = United States.
Sources: RIETI-TID (n.d.) https://www.rieti.go.jp/en/projects/rieti-tid/ (accessed 21 September 2021) and authors' calculations.

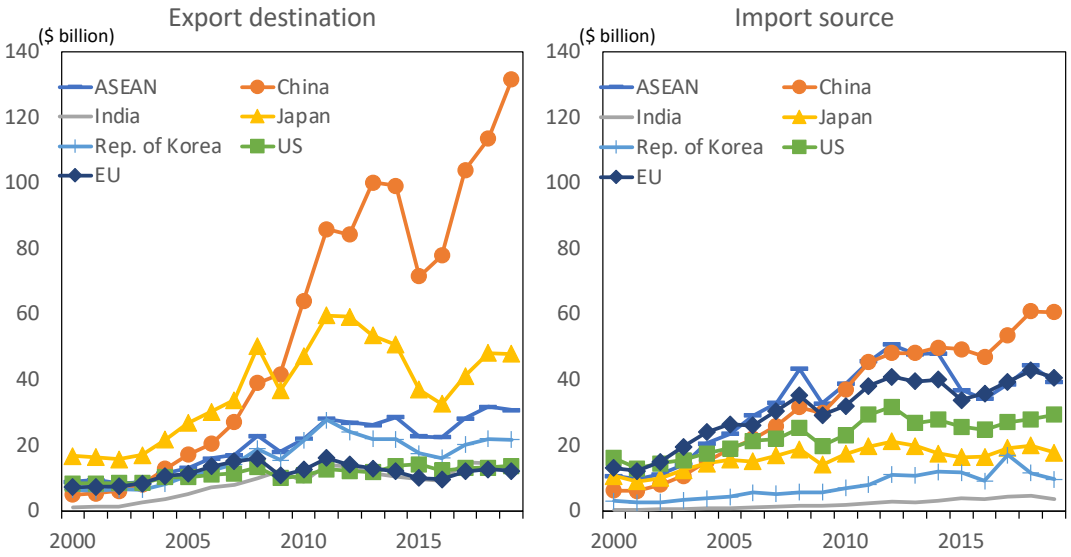
3.3. Bilateral trade relationships since 2000 from ANZ's point of view

ANZ also experienced a rapid increase in exports to China. Figure 6 shows a rise in the export value to China from less than $10 billion in 2000 to almost $140 billion in 2019 – more than three times greater than that of the second-largest economy, Japan. The import value from China in 2000 was also less than $10 billion, increasing to $60 billion in 2019. Thus, in trading with China, ANZ transitioned from an almost balanced position to a significant net exporter position. In trading with Japan, ANZ has retained a net exporter position since 2000. The amount of net export surplus was not as much as China in 2019, but was still larger than the other countries. In contrast to trading with China and Japan, ANZ's exports to India, the US, and the EU remained low from 2000 to 2019. Further, ASEAN's imports from India were also low in 2000 and did not increase during the period. ANZ's trade relationship with India did not deepen through the period from 2000 to 2019.

Figure 7 clearly shows that the primary factor behind the significant rise in exports to China is an exponential increase in primary goods. The primary goods export value in 2019 was about $88 billion – 32 times greater than the corresponding value in 2000 ($3 billion). Increases in ANZ's intermediates goods trade were not evident compared with those of ASEAN.

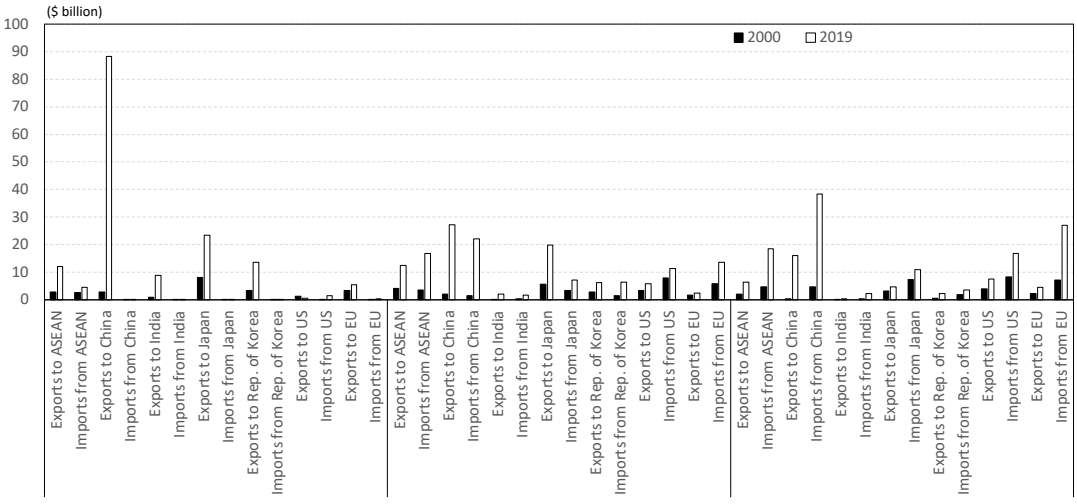
China has become ANZ's most important trading partner, and ANZ has built significant dependence on the Chinese economy. Regarding the industrial structure, ANZ has intensified its dependence on exporting primary goods and buying final goods from other countries, especially China. India, the US, and the EU are relatively far from ANZ in terms of trade dependence.

Figure 6: ANZ's Bilateral Export Values by Destination and Import Values by Source, 2000–2019



ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, EU = European Union, US = United States.
Sources: RIETI-TID (n.d.) https://www.rieti.go.jp/en/projects/rieti-tid/ (accessed 21 September 2021) and authors' calculations.

Figure 7: ANZ's Trade by Commodity Category and by Trading Partner, 2000–2019



ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, EU = European Union, US = United States.
Sources: RIETI-TID (n.d.) https://www.rieti.go.jp/en/projects/rieti-tid/ (accessed 21 September 2021) and authors' calculations.

3.4. Bilateral trade relationships since 2000 from China's point of view

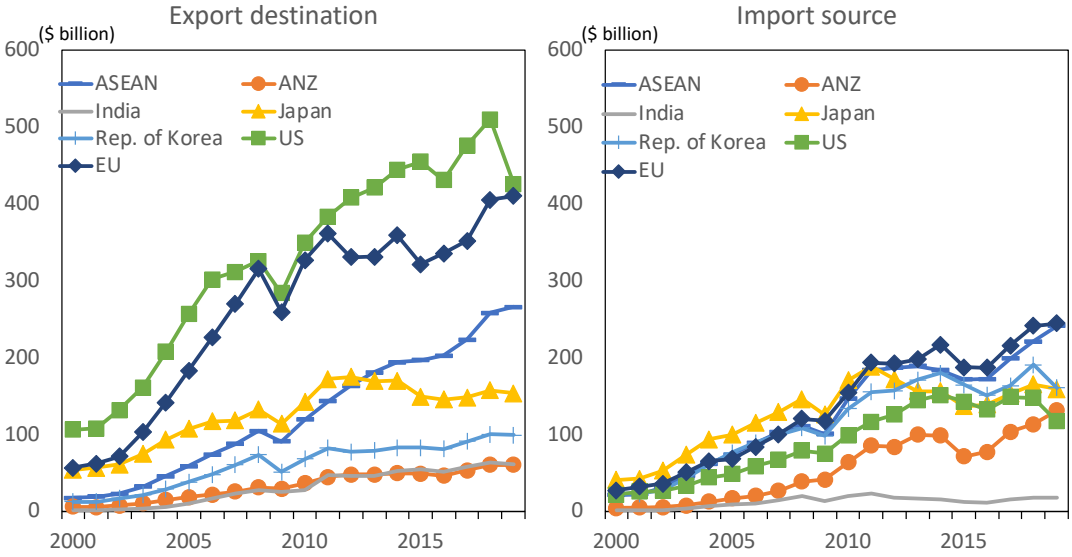
China's three largest export destinations changed in 2013. As shown in Figure 8, before 2013, the top three export destinations were the US, the EU, and Japan. However, the order changed after 2013 – the top two countries are the same, but the third is ASEAN. The top two countries – the US and the EU – are largely different from other countries, such as ASEAN and Japan, in bilateral trade relationships with China. First, exports to the US and the EU significantly exceeded imports from these sources. China's trade surplus vis-à-vis the US in 2019 was about $300 billion, while its trade surplus with the EU was about $150 billion. Meanwhile, the differences between exports and imports for ASEAN and Japan were much smaller than those for the US and the EU. China's trade surplus with ASEAN is about $25 billion, and its deficit with Japan is $5 billion. China has deepened its interdependence with the East Asia economies as well as the US and the EU. India, however, is its exception. China's exports increased slightly to the same level as its exports to ANZ, but we cannot see increases in China's imports from India.

Figure 9 breaks down these bilateral trade relationships by product category. The changes in China's intermediate goods trade are different with East Asian countries on the one hand and with the US and the EU on the other hand. Regarding China's trade with ASEAN, as mentioned above, intermediate goods exports and imports rose significantly from 2000 to 2019, and the magnitude of intermediates trade is much larger than final goods trade, which means that ASEAN and China have been greatly integrated in terms of production networks since 2000. China's trade patterns with Japan and Korea are similar to the pattern with ASEAN, but slightly different. The fact that intermediate goods trade has risen significantly since 2000 and is larger than final goods trade is the same, but intermediate goods exports have been much smaller than intermediate goods imports for these two countries. The continuing intermediate trade deficits with Japan and Korea can be interpreted as Japan and Korea maintaining competitiveness against China in terms of intermediates in production networks in the East Asia region. When it comes to China's trade with the US and the EU, while their intermediate goods trade has risen since 2000, the increases in China's final goods exports to the two regions are much

larger than those of intermediates.

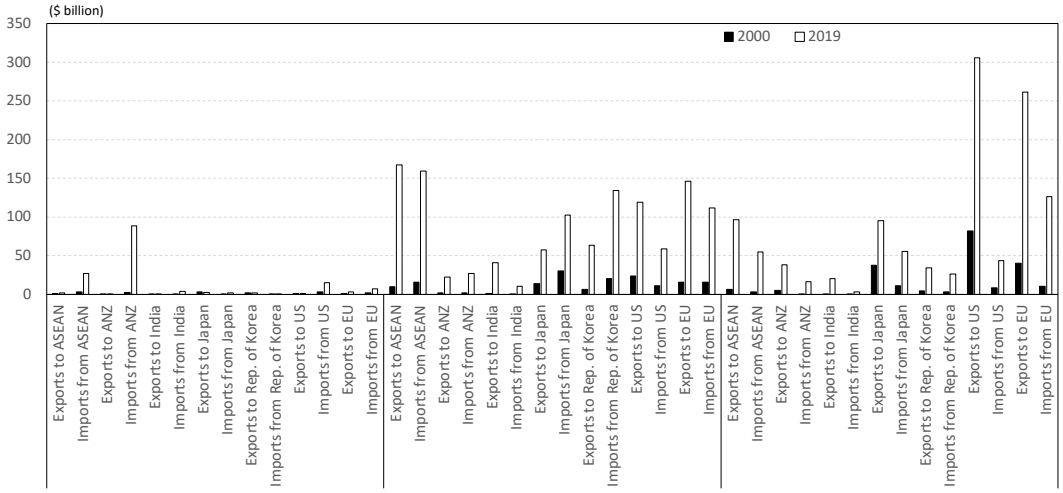
In summary, China has continuously developed IPNs with ASEAN, Japan, and Korea since 2000. Japan and Korea have retained competitiveness in intermediates in the region's production networks, and China exports significant numbers of final goods to the US and the EU. China has integrated its economy into the global economy, but India seems to be an exception as a trading partner. The value of China's trade with India is significantly lower than its trade with other countries and regions. The next subsection examines India's perspective.

Figure 8: China's Bilateral Export Values by Destination and Import Values by Source, 2000–2019



ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, EU = European Union, US = United States.
Sources: RIETI-TID (n.d.) https://www.rieti.go.jp/en/projects/rieti-tid/ (accessed 21 September 2021) and authors' calculations.

Figure 9: China's Trade by Commodity Category and Trading Partner, 2000–2019



ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, EU = European Union, US = United States.
Sources: RIETI-TID (n.d.) https://www.rieti.go.jp/en/projects/rieti-tid/ (accessed 21 September 2021) and authors' calculations.

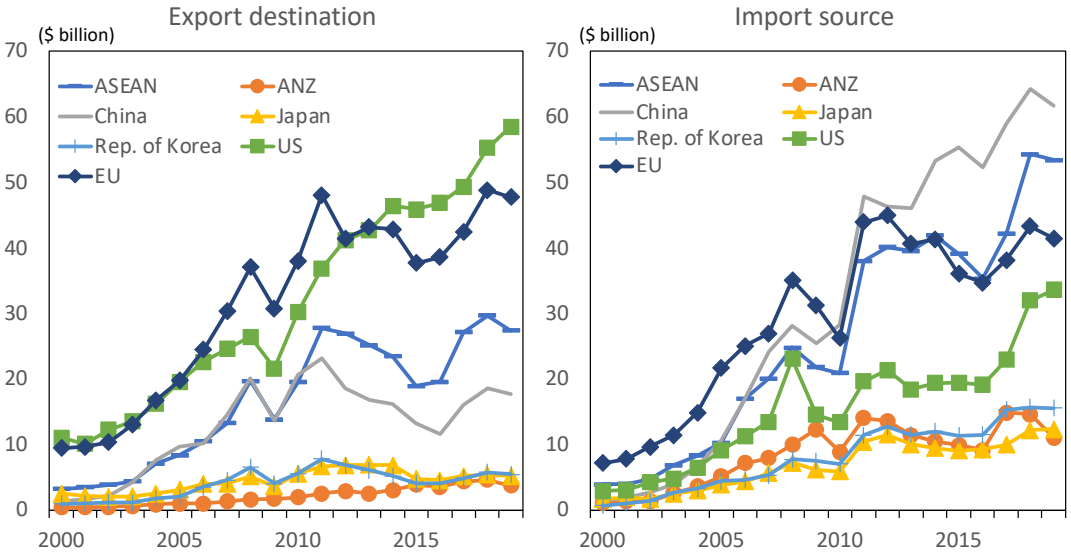
3.5. Bilateral trade relationships since 2000 from India's point of view

Figure 10 shows that India has four significant trading partners. The EU was India's second largest partner for exporting and third largest for importing in 2019. The export value was about $48 billion, while the import value was about $42 billion. The net export value was about $6 billion, which is not very large compared with India's net export value with the US. The US is India's largest export partner and its fourth largest import partner. The US is different from the EU in that the difference between exports and imports is significant. India's exports to the US reached about $58 billion in 2019, whereas its imports from the US were about $33 billion. India's net exports were about $25 billion. ASEAN and China are similarly significant trade partners of India, since India's exports to those countries are lower than its imports. However, the scale of net imports vis-à-vis China is much larger than the level with ASEAN. For ASEAN, India's export value in 2019 was about $27 billion, while its import value was about $53 billion. India's net import value was about $26 billion. India's exports to China totalled about $18 billion in 2019, whereas its imports from China were about $62 billion, resulting in a trade deficit of about $44 billion.

Breaking down India's bilateral trade relationships, as seen in the cases of ASEAN and China, increases in intermediate trade are notable. Indeed, Figure 11 indicates that increases in intermediates trade since 2000 are outstanding compared with increases in final goods trade. Regarding the intermediates trade with the US and the EU, the export value is larger than the import value. Meanwhile, regarding intermediates trade with ASEAN and China, India is a net importer vis-à-vis those two countries. In particular, net imports from China were about $30 billion in 2019, amounting to two-thirds of the total net imports. Japan and Korea are also net import countries from India's viewpoint. Overall, India has steadily developed its production networks with East Asia, the US, and the EU. It should be noted, however, that economic interdependence with India is not significant from the perspectives of the other countries participating in RCEP negotiations. Furthermore, India's competitiveness in intermediates and final goods in the East Asia IPNs has not been strengthened. The US and the EU are exceptions in the sense that India's competitiveness resides in final goods.

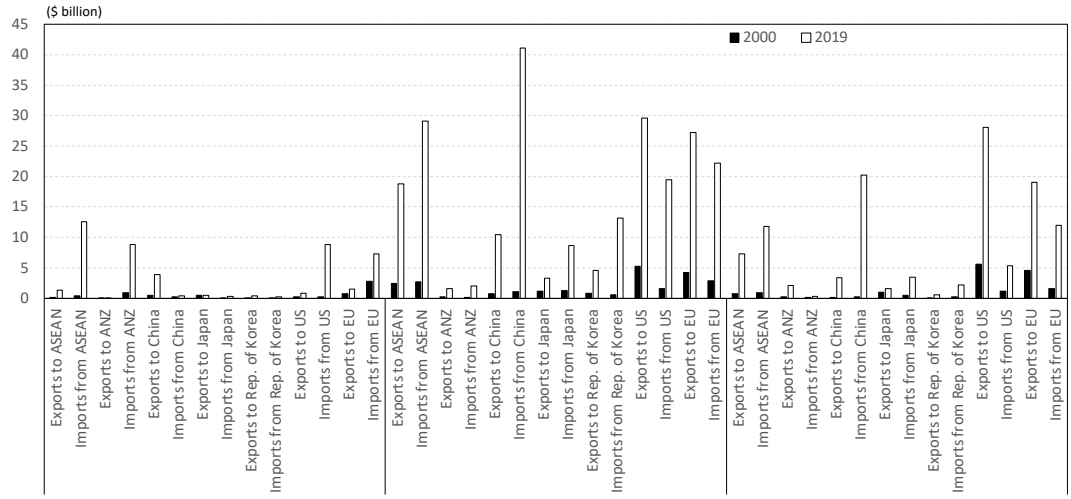
If India is keen on improving the competitiveness of its manufacturing sector, it may be concerned about trading partners like China, which show competitiveness in intermediate goods.

Figure 10: India's Bilateral Export Values by Destination and Import Values by Source, 2000–2019



ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, EU = European Union, US = United States.
Sources: RIETI-TID (n.d.) https://www.rieti.go.jp/en/projects/rieti-tid/ (accessed 21 September 2021) and authors' calculations.

Figure 11: India's Trade by Commodity Category and by Trading Partner, 2000–2019



ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, EU = European Union, US = United States.
Sources: RIETI-TID (n.d.) https://www.rieti.go.jp/en/projects/rieti-tid/ (accessed 21 September 2021) and authors' calculations.

In examining the bilateral trade relationships, we found that the countries participating in RCEP negotiations have continually built IPNs in the East Asia region since 2000. China and ASEAN have grown rapidly by deepening their production networks and participating in GVCs. Japan and Korea, advanced countries in East Asia, have retained their competitiveness in the intermediate goods markets (often capital-intensive goods). China and ASEAN have shown a similar trade structure. On the one hand, these countries have had a trade deficit in intermediate goods with Japan and Korea. On the other hand, they have had a trade surplus with the US and the EU. Furthermore, China and ASEAN have built a reciprocal intermediate goods trade relationship in both exports and imports, which indicates that China and ASEAN have been deeply integrated in terms of IPNs. India has been relatively separate from IPNs in the region. In addition, India's trade deficit with China is significant in terms of both intermediate and final goods, which is likely to be a factor that made India withdraw from the RCEP to protect its manufacturing industry.

4. Overview of Bilateral Foreign Direct Investment

This section overviews the bilateral FDI of ASEAN and its Dialogue Partners. We use a unique FDI data set constructed by Japan's Institute of International Trade and Investment (ITI) (ITI, 2021). The ITI's FDI data set includes bilateral FDI data for world economies, including AMS, by country and industry. The data are collected through each public institution's publications or website responsible for the FDI data. As a caveat, ITI does not make any changes to the original data, such as standardising detailed definitions of FDI. Table 3 reports the cumulative total inward FDI from 2011 to 2019 for ASEAN and its Dialogue Partners. Unless otherwise explicitly noted, the amount of inward FDI in this section stands for the cumulative total from 2011 to 2019. Lower figures in each cell stand for the source country's share of inward FDI. For example, Indonesia received FDI from other AMS for $87 billion from 2011 to 2019, amounting to 53% of the total FDI that Indonesia received from the world. Because of the ITI's coverage limitations, data on Brunei Darussalam, Cambodia, and the EU are not available. Instead of the EU,

here we report some large European countries (i.e. Germany, France, and the United Kingdom) as recipient countries and the whole of Europe as an FDI source region.

Let us first consider the significance of participating in RCEP negotiations for each country in terms of inward FDI. Table 3 shows that AMS, in general, are highly dependent on the other countries participating in RCEP negotiations. As much as 93% of Indonesia's inward FDI came from the other countries participating in RCEP negotiations (see R16 column). Indonesia was the most dependent country on the other countries participating in RCEP negotiations in FDI. Myanmar was the second (84%), Thailand the third (69%), Viet Nam the fourth (67%), and the Lao PDR the fifth (51%). Singapore (13%) was an exception because of its nature as a regional FDI hub, as we saw in section 2. Regarding non-AMS countries participating in RCEP negotiations, New Zealand was highly dependent on inward FDI from the other countries participating in RCEP negotiations (74%). The other countries had 20%–30% of their inward FDI from countries participating in RCEP negotiations – Australia (31%), India (36%), Japan (22%), and Korea (33%). China had 12%, but the figure may be higher considering Hong Kong's role as a gateway for FDI.

Next, we point out several distinctive findings in Table 3. Singapore, as a regional FDI hub, received a large amount of FDI from the US and Europe – the share of inward FDI from the US and Europe averaged 29% and 22%, respectively, from 2011 to 2019. As mentioned above, Singapore is an FDI hub for ASEAN and surrounding countries, accounting for most of the inward FDI of the other AMS. For example, 95% of Indonesia's inward FDI from the other AMS was accounted for by Singapore. The only exception is the Lao PDR. The primary inward FDI source country was Thailand, followed by Viet Nam.[2] It is also worth noting that India received FDI from ASEAN, mostly Singapore, on a large scale (26% of total inward FDI). As Le Thu (forthcoming) points out, Singapore played an active role in the RCEP negotiation process. Considering Singapore's regional FDI hub positioning and its economic gains from making ASEAN an attractive FDI destination, it is natural that Singapore was proactive in establishing more open and

[2] The information regarding an individual AMS's share of another AMS's inward FDI is not reported in Table 3.

attractive regional markets for advanced countries, such as the US and the EU.

Japan, one of the large outward FDI countries, had a prominent presence as an investor in AMS, especially higher-income countries. Japan accounted for 31% of the inward FDI in Indonesia, 18% in Malaysia and the Philippines, and 43% in Thailand. Korea, another large outward FDI country, dominated 28% of the inward FDI of Viet Nam, the largest share as an investor for Viet Nam. These two representative Asian developed countries do not depend significantly on Singapore's FDI hub function. Japan has the third largest share of inward FDI for Singapore, at 6%, significantly smaller than the share of the US or Europe in Singapore's inward FDI. Korea accounted for only 2% of Singapore's inward FDI. Japan's investment in Indonesia ($50.1 billion) was almost the same as that of Singapore ($53.8 billion). Korea invested $54.3 billion in Viet Nam, which was much more than the $15.2 billion it invested in Singapore. In contrast, neither the US nor Europe invested more in AMS than in Singapore.

China, one of the large-scale inward FDI countries, had remarkable features in its investor countries. The US, in general, invested in Asian countries on a large scale. However, the value of its investments were lower than those of other advanced economies such as Japan, Korea, and Europe. The US share of inward FDI in China was 2%, which is less than the share of Japan (4%), Korea (3%), and Europe (6%). When it comes to Hong Kong, the FDI gateway to China, the US accounted for only 1%, which is smaller than Japan's 2% and much less than Europe's 8%. As Solís (2022) mentioned, the political divide between China and the US became prominent after the arrival of former President Donald Trump in 2017. Considering the amount of US investment in China, the US had kept its distance from China before 2017. China has become an important FDI source country for some AMS. China's shares in FDI inflows for the Lao PDR and Myanmar are 31% and 23%, respectively.

In summary, AMS received FDI from East Asia and advanced economies such as the US and Europe. Singapore, as a regional FDI hub, received FDI from advanced countries and reinvested in other ASEAN and neighbouring countries, including India. This FDI hub positioning makes Singapore promote liberalised regional markets to attract investors from advanced countries. Japan and Korea, two

Asian advanced countries, invested in AMS more directly than the US and Europe. The US and Europe tended to invest in AMS through Singapore. The US had kept its distance from China in terms of investment compared with other advanced countries.

Table 3: Bilateral Inward FDI of ASEAN and Selected Dialogue Partners

(cumulative total, 2011–2019, $ billion)

Recipient	Investor										
	ASN	**ANZ**	**CHN**	**HKG**	**IND**	**JPN**	**ROK**	**US**	**EUR**	**R15**	**R16**
Indonesia	87.0	1.3	8.6	6.1	0.3	50.1	4.7	–5.1	14.2	151.8	152.1
	53%	*1%*	*5%*	*4%*	*0%*	*31%*	*3%*	*–3%*	*9%*	*92%*	*93%*
Lao PDR	4.2	0.1	7.2	0.5	0.0	0.1	0.2	0.0	1.1	11.8	11.8
	18%	*0%*	*31%*	*2%*	*0%*	*0%*	*1%*	*0%*	*5%*	*51%*	*51%*
Malaysia	18.7	0.6	4.1	0.3	n.a.	16.6	0.3	4.2	20.0	40.2	40.2
	21%	*1%*	*4%*	*0%*	*n.a.*	*18%*	*0%*	*5%*	*22%*	*44%*	*44%*
Myanmar	26.6	0.1	11.5	3.4	0.6	1.7	1.1	0.3	3.7	41.0	41.5
	54%	*0%*	*23%*	*7%*	*1%*	*3%*	*2%*	*1%*	*7%*	*82%*	*84%*
Philippines	2.7	0.2	0.4	2.0	0.0	2.9	0.5	2.7	3.0	6.6	6.7
	17%	*1%*	*2%*	*12%*	*0%*	*18%*	*3%*	*17%*	*19%*	*41%*	*41%*
Singapore	21.6	5.8	19.4	41.3	2.3	53.8	15.2	265.3	201.6	115.8	118.1
	2%	*1%*	*2%*	*5%*	*0%*	*6%*	*2%*	*29%*	*22%*	*13%*	*13%*
Thailand	10.9	1.7	4.4	8.0	0.2	32.5	2.2	9.4	–2.1	51.7	51.9
	15%	*2%*	*6%*	*11%*	*0%*	*43%*	*3%*	*13%*	*–3%*	*69%*	*69%*
Viet Nam	43.4	2.3	15.6	23.8	0.7	43.5	54.3	3.5	16.6	159.3	160.0
	18%	*1%*	*7%*	*10%*	*0%*	*18%*	*23%*	*1%*	*7%*	*66%*	*67%*
Australia	26.1	0.4	32.2	12.7	0.3	80.8	4.6	110.5	98.7	144.0	144.4
	6%	*0%*	*7%*	*3%*	*0%*	*18%*	*1%*	*24%*	*21%*	*31%*	*31%*
New Zealand	2.2	12.3	0.2	4.7	0.0	1.9	0.0	–3.0	2.9	16.6	16.6
	9%	*53%*	*1%*	*20%*	*0%*	*8%*	*0%*	*–13%*	*13%*	*72%*	*72%*
China	61.6	3.2	n.a.	n.a.	0.5	42.1	35.3	22.7	70.2	142.2	142.8
	5%	*0%*	*n.a.*	*62%*	*0%*	*4%*	*3%*	*2%*	*6%*	*12%*	*12%*
Hong Kong	60.7	n.a.	266.2	n.a.	n.a.	16.2	n.a.	6.8	72.9	343.1	343.1
	6%	*n.a.*	*28%*	*n.a.*	*n.a.*	*2%*	*n.a.*	*1%*	*8%*	*37%*	*37%*
India	84.6	0.6	2.3	3.5	n.a.	24.1	3.7	19.0	75.8	115.2	115.2

	26%	*0%*	*1%*	*1%*	*n.a.*	*8%*	*1%*	*6%*	*24%*	*36%*	*36%*
Japan	18.4	3.0	5.3	8.3	0.1	n.a.	6.5	45.7	47.5	33.2	33.3
	12%	*2%*	*3%*	*5%*	*0%*	*n.a.*	*4%*	*30%*	*31%*	*22%*	*22%*
ROK	11.1	2.3	4.1	5.3	0.5	15.1	n.a.	14.1	37.1	32.7	33.2
	11%	*2%*	*4%*	*5%*	*1%*	*15%*	*n.a.*	*14%*	*37%*	*32%*	*33%*
US	14.7	45.5	40.4	14.3	2.8	297.4	52.2	n.a.	1,511.6	450.1	452.9
	1%	*2%*	*2%*	*1%*	*0%*	*12%*	*2%*	*n.a.*	*60%*	*18%*	*18%*
Germany	2.1	1.7	10.8	4.7	0.6	20.4	4.2	93.5	571.0	39.3	39.9
	0%	*0%*	*2%*	*1%*	*0%*	*3%*	*1%*	*13%*	*80%*	*6%*	*6%*
France	0.9	0.0	1.2	4.2	0.2	7.5	1.9	–5.5	241.8	11.5	11.7
	0%	*0%*	*0%*	*2%*	*0%*	*3%*	*1%*	*–2%*	*97%*	*5%*	*5%*
UK	18.0	11.3	5.2	9.5	2.7	24.8	0.8	277.4	261.3	60.1	62.8
	3%	*2%*	*1%*	*1%*	*0%*	*4%*	*0%*	*40%*	*37%*	*9%*	*9%*

ASN = ASEAN, ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, CHN = China, EUR = Europe, FDI = foreign direct investment, HKG = Hong Kong, IND = India, JPN = Japan, n.a. = not applicable, ROK = Republic of Korea, R15 = ASN + ANZ + CHN + JPN + KOR, R16 = R15 + IND, UK = United Kingdom, US = United States.

Note: Lower figures in each cell stand for the source country's share of inward FDI. For example, Indonesia received $87 billion in FDI from other ASEAN Member States from 2011 to 2019, 53% of its total FDI.

Sources: ITI (2021) and authors' elaboration.

5. Expected Economic Effects of the RCEP

Lastly, we examine the expected economic effects of the RCEP. One of the most important factors for the decision to participate in the RCEP is its expected economic effects. Here, we use Itakura's dynamic Global Trade Analysis Project (GTAP) model simulation results (Itakura, 2019) for the economic effects of the RCEP on the countries participating in RCEP negotiations as well as other countries to comprehend their interests at the macroeconomic level. The dynamic GTAP model is constructed based on CGE modelling and is considered a workhouse model for simulating the economic effects of regional integration. Economic effects are measured by the difference between the cases with and without the RCEP. It should be noted that the simulation included India, which withdrew from the RCEP negotiations at the last moment.

The dynamic GTAP model can simulate changes in the trade and investment environment caused by FTAs through the following mechanism: a reduction in barriers on trade such as tariff reductions would increase trade between FTA members (trade creation effect), under certain circumstances at the cost of trade with non-FTA members (trade diversion effect). Trade expansion increases production, which in turn increases employment and workers' incomes. Increased production is likely to increase investment, while increased income would increase consumption. Through this mechanism, FTAs would promote the economic growth of FTA members, while FTAs are likely to hurt non-FTA members. A similar mechanism is likely to take place in the case of a reduction in service trade costs and investment liberalisation, promoting economic growth through an expansion in service trade and investment.

Before looking at the simulation results, we examine the bilateral trade deals in force before the signing of the RCEP amongst the countries participating in RCEP negotiations. In the above explanation of economic impact channels in the dynamic GTAP model, we separated the world into the countries inside and outside the FTA regions. When we see differences in economic effects amongst the countries participating in RCEP negotiations, we need to examine the existing FTAs amongst these countries. Regarding the countries inside ASEAN, the average zero tariff ratio (percentage of the number of products with zero tariff in the total number

of products) on imports across AMS had already reached 98.6% in 2019 under the ASEAN Trade in Goods Agreement (Suvannaphakdy, 2021).[3] Meanwhile, ASEAN had concluded FTAs with all the non-AMS participating in RCEP negotiations before the RCEP negotiations. Table 4 summarises the bilateral trade deals in force before the RCEP signing amongst the countries participating in RCEP negotiations. We focus on the pairs of countries without FTAs. There are two notable findings. Firstly, there were no FTA relationships amongst China, Japan, and Korea (CJK). Since the RCEP is the first FTA amongst these countries, we expect relatively large economic impacts on CJK through trade creation. The second finding is that India did not have FTAs with Australia, China, and New Zealand. By the same reasoning applied to CJK, we would expect relatively high trade creation effects on India if it were to join the RCEP.

Table 4: Bilateral Trade Deals in Force Before the RCEP Signing Amongst the Countries Participating in RCEP Negotiations

Country/Region	ASEAN	CHN	JPN	ROK	IND	AUS	NZL
ASEAN	n.a.	Yes	Yes	Yes	Yes	Yes	Yes
China	Yes	n.a.	**No**	Yes	**No**	Yes	Yes
Japan	Yes	**No**	n.a.	**No**	Yes	Yes	**No**
Rep. of Korea	Yes	Yes	**No**	n.a.	Yes	Yes	Yes
India	Yes	**No**	Yes	Yes	n.a.	**No**	**No**
Australia	Yes	Yes	Yes	Yes	**No**	n.a.	Yes
New Zealand	Yes	Yes	**No**	Yes	**No**	Yes	n.a.

ASEAN = Association of Southeast Asian Nations, AUS = Australia, CHN = China, IND = India, JPN = Japan, n.a. = not applicable, NZL = New Zealand, RCEP = Regional Comprehensive Economic Partnership, ROK = Republic of Korea.
Sources: Kim (forthcoming) and authors' elaboration.

[3] Suvannaphakdy (2021) also asserted that when splitting the AMS into higher-income countries (ASEAN-6 –Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, and Thailand) and lower-income countries (Cambodia, the Lao PDR, Myanmar, and Viet Nam), even the lower-income countries had reached an average tariff elimination rate of 97.7% in 2019 (the higher-income countries had a rate of 99.3%).

Now, let us examine the results. Itakura (2019) adopted the following three scenarios and examined their economic impacts.

- **Scenario 1: Tariff reduction**
- **Scenario 2: Tariff reduction + service trade cost reduction**
- **Scenario 3: Tariff reduction + service trade cost reduction + investment liberalisation**

The scenario 1 simulation measures the economic effects of only tariff reductions under the RCEP agreement on real GDP. One of the findings is that the AMS will not enjoy large economic gains from tariff reductions. The six Dialogue Partners (the countries participating in RCEP negotiations less the AMS) will have a slightly larger benefit from the tariff reductions than the AMS. As shown in Table 5, scenario 1 leads to a 0.2% higher real GDP for AMS compared with the baseline in 2035, while the corresponding figure for the countries participating in RCEP negotiations as a whole is higher at 0.5%. These results are not surprising because the countries participating in RCEP negotiations comprise the ASEAN+1 FTA countries as seen above. In other words, the tariff schedules between AMS and their Dialogue Partners were already low. Meanwhile, some Dialogue Partners did not have bilateral FTAs (e.g. CJK and China–India), so the effects of tariff reductions through the RCEP are large on the Dialogue Partners.

The results of the economic effects are different when considering the service trade cost reduction. Scenario 2 examines the economic effects of tariff reductions (scenario 1) plus service trade cost reduction. The RCEP agreement stipulates trade facilitation and service liberalisation, which reduce service trade costs. According to the results shown in Table 5, RCEP member countries will gain 1.2% from the RCEP in terms of real GDP in 2035, while the AMS as a group will gain 2.2%. Looking at individual AMS, we find that less developed countries (e.g. Cambodia and the Lao PDR) obtain larger economic gains than the other countries. These results may indicate that service trade costs in many AMS, especially less developed ones, are high.

Furthermore, investment liberalisation gives rise to additional gains, mainly to AMS. Scenario 3 assesses the economic effects of tariff reductions and service trade cost reductions (scenario 2) plus investment liberalisation. Table 5 shows that

the AMS will enjoy 4.7% more real GDP than the baseline, whereas an increase in real GDP for the 16 countries participating in RCEP negotiations as a group is lower at 2.0%. A large benefit that AMS may enjoy from investment liberalisation under the RCEP is due to the presence of high investment barriers in these countries.

Let us examine the economic effects on ASEAN Dialogue Partners countries that are not participating in RCEP negotiations. As seen in Table 5, the RCEP will negatively affect the US economy although to a small extent. All three scenarios indicate that the US suffers trade diversion effects from the RCEP because the US is outside the RCEP. Additionally, a more liberalised scenario makes the US economy suffer more. Scenarios 1, 2, and 3 give rise to a negative impact on US real GDP of –0.1%, –0.1%, and –0.3%, respectively. Itakura's simulation results do not include the EU case, but we may expect similar negative impacts on the EU economy as in the case of the US.

Altogether, tariff reductions alone will not bring about notable gains to the countries participating in RCEP negotiations except non-AMS. However, service trade cost reductions and investment liberalisation will provide large benefits to the countries participating in RCEP negotiations, especially the less developed AMS. It is worth noting that India would have the largest gain from the RCEP amongst the ASEAN Dialogue Partners. Scenario 3 would enable India to gain 3.8% in terms of real GDP growth and $432.8 billion from the baseline case. However, India withdrew from the RCEP. India was the least open economy participating in RCEP negotiations and tried to set conditions to protect its domestic markets, but this was not accepted during the negotiation process (Gaur, 2020). The non-RCEP ASEAN Dialogue Partners will suffer negative economic impacts through trade diversion effects, albeit a small loss.

Table 5: Economic Effects on Real GDP in ASEAN and its Dialogue Partners, 2035

(percentage deviation, $ billion, constant 2011 prices)

Country/ Region	S1	S2	S3	S1	S2	S3
	(%)			($ billion)		
Brunei	0.2	1.0	1.3	0.1	0.4	0.5
Cambodia	3.3	9.8	14.9	2.0	5.8	8.8
Indonesia	−0.02	1.4	2.7	−0.6	42.2	80.3
Lao PDR	0.9	4.4	7.0	0.4	1.8	2.9
Malaysia	0.3	2.0	3.9	2.4	18.4	35.6
Philippines	−0.1	2.2	10.8	−1.2	24.1	120.2
Singapore	0.2	2.1	3.8	1.2	10.8	19.9
Thailand	0.7	4.5	5.4	5.4	32.5	39.1
Viet Nam	0.6	3.9	5.4	3.6	21.9	30.6
RoSEAsia	−0.03	0.2	1.9	−0.1	0.6	6.2
Japan	0.7	1.0	1.0	46.5	70.3	67.8
China	0.2	0.5	0.8	66.8	143.0	252.1
Rep. of Korea	1.0	1.9	1.9	24.5	47.2	46.6
India	1.4	2.7	3.8	153.8	304.2	432.8
Australia	0.0	0.7	2.2	1.3	17.4	59.7
New Zealand	0.7	1.6	5.3	2.2	5.0	16.4
US	−0.1	−0.1	−0.3	−14.6	−30.0	−78.3
ROW	−0.2	−0.4	−1.0	−107.3	−229.4	−560.1
ASEAN	0.2	2.2	4.7	12.9	158.6	344.1
RCEP	0.5	1.2	2.0	307.9	745.7	1219.5
WLD	0.1	0.3	0.3	170.2	452.2	499.1

ASEAN = Association of Southeast Asian Nations, GDP = gross domestic product, RCEP = Regional Comprehensive Economic Partnership, S = scenario, RoSEAsia = Rest of Southeast Asia, US = United States, ROW = Rest of the World, WLD = World.
Source: Itakura (2019: 36)

6. Conclusion

This paper examined the economic background of ASEAN and selected Dialogue Partners in terms of basic statistics, bilateral trade, bilateral FDI, and the expected economic effects of the RCEP. Examining the basic statistics, we found substantial variations amongst countries participating in RCEP negotiations in terms of their economic size, income level, growth rate, trade, and FDI. More developed countries tend to have had slower economic growth than their less developed counterparts. International trade is very important to many AMS. AMS have attracted significant FDI, while Japan and Korea provided much more FDI than they received.

When we examined bilateral trade relationships, we found that the countries participating in RCEP negotiations have been building IPNs in the East Asia region since 2000. China and ASEAN have grown quickly by expanding their production networks and joining GVCs. Japan and Korea, which are developed countries in East Asia, have maintained their competitiveness in the market for intermediate goods. China and ASEAN have similar trade structures. On the one hand, these countries have a trade deficit with Japan and Korea in intermediate goods. On the other hand, they have been able to export more to the US and the EU than they import from them. Further, China and ASEAN have built a relationship in which they both export and import intermediate goods. This shows that China and ASEAN are deeply connected in terms of IPNs. India has not been involved in IPNs in the region. From India's point of view, its trade deficit with China is large, both in terms of intermediate and final goods. This is likely to be one reason India left the RCEP negotiations – to protect its manufacturing industry.

An examination of bilateral FDI data revealed that East Asia and advanced countries like the US and the EU undertook FDI in AMS. As a regional hub for FDI, Singapore received FDI from advanced countries and invested in other ASEAN and nearby countries like India. It also pursued FDI liberalisation policies to attract investment from advanced countries. Japan and Korea, two advanced countries in Asia, invested directly in AMS. Unlike the case for FDI from Japan and Korea, a large portion of FDI from the US and Europe in AMS went through Singapore. Compared with other advanced countries, the US had not invested as much in China.

Based on Itakura's dynamic GDP simulation exercise (Itakura, 2019), the RCEP will not benefit the countries participating in RCEP negotiations significantly, except non-AMS, if tariff cuts alone are considered. However, if one considers lowering the costs of service trade and investment, the RCEP would benefit countries participating in RCEP negotiations, especially less developed AMS. India would benefit the most from the RCEP out of all the Dialogue Partners of ASEAN. However, India withdrew from the RCEP negotiations at the final stage of negotiations. Amongst the countries participating in RCEP negotiations, India is the least open economy. Its attempt to set conditions to protect its domestic markets during the RCEP negotiations was refused. The RCEP would hurt non-RCEP members because of the trade diversion effect, albeit a small loss.

What we found by examining the economic background is that not only the potential economic gains from negotiating regional trade deals but also the current regional integration status are important for the stance of countries participating in negotiations and their final decision on participation in trade deals. Countries that were integrated in GVCs seemed to be more proactive towards the RCEP deals (e.g. Singapore). Less developed countries such as Viet Nam, which had increasingly participated in GVCs, also behaved proactively in the RCEP negotiations and intended to use the RCEP as an opportunity to advance structural reforms (see Lu Thu, forthcoming). Meanwhile, in the case of less integrated countries such as India, their momentum towards trade deals seems rather weak despite potential gains.

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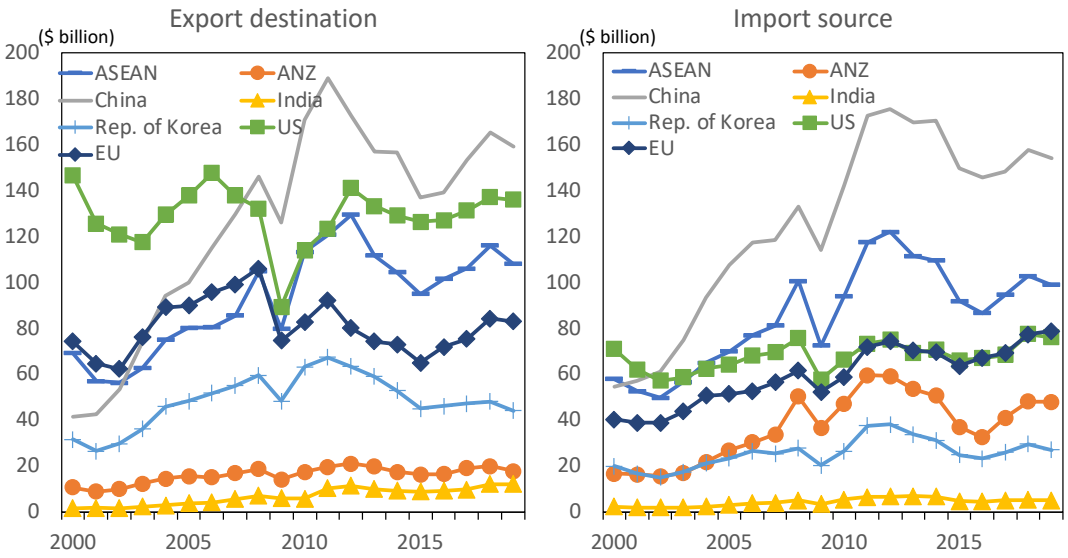
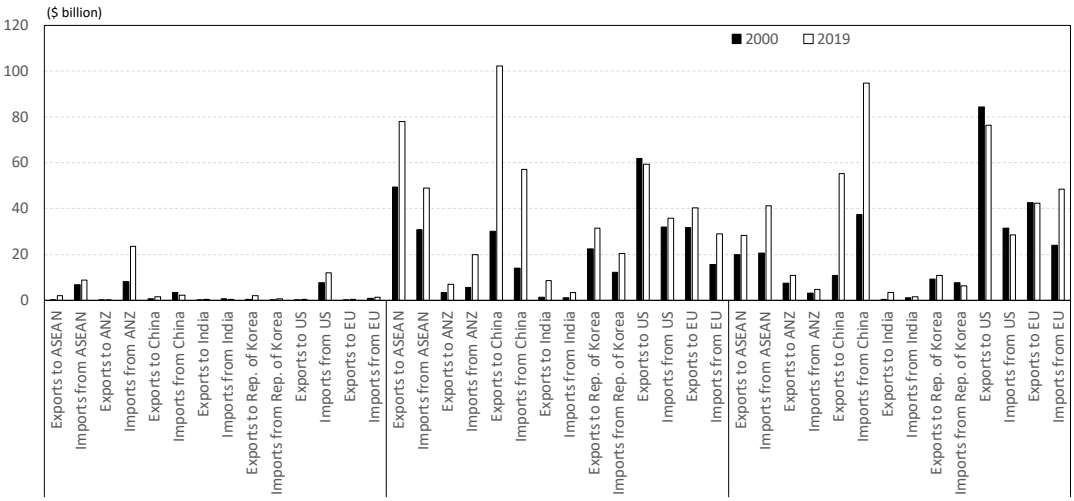
Appendix

Figure A-1: Japan's Bilateral Export Values by Destination and Import Values by Source, 2000–2019



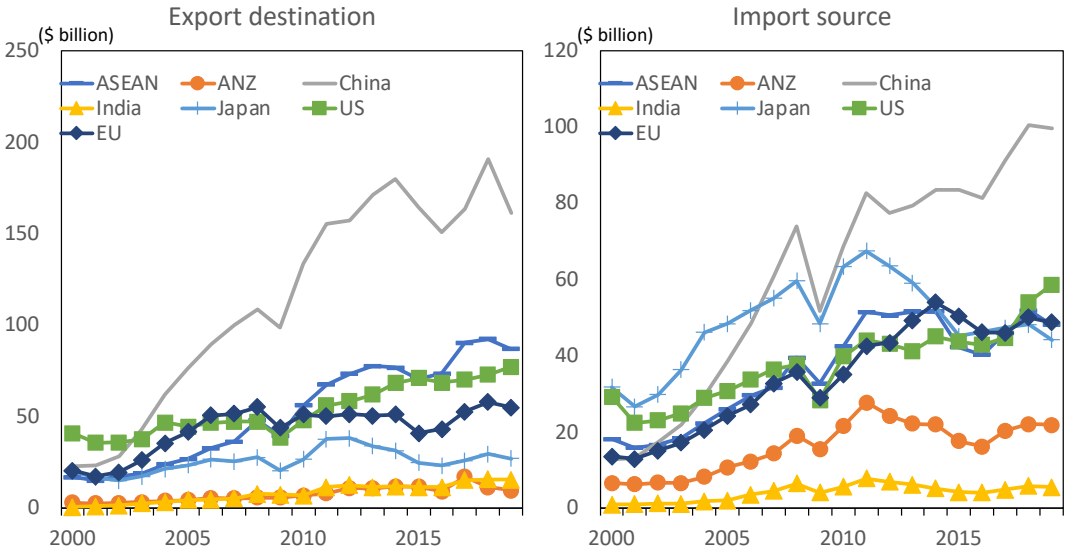
ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, EU = European Union, US = United States.
Sources: RIETI-TID (n.d.) https://www.rieti.go.jp/en/projects/rieti-tid/ (accessed 21 September 2021) and authors' calculations.

Figure A-2: Japan's Trade by Commodity Category and Trading Partner, 2000–2019



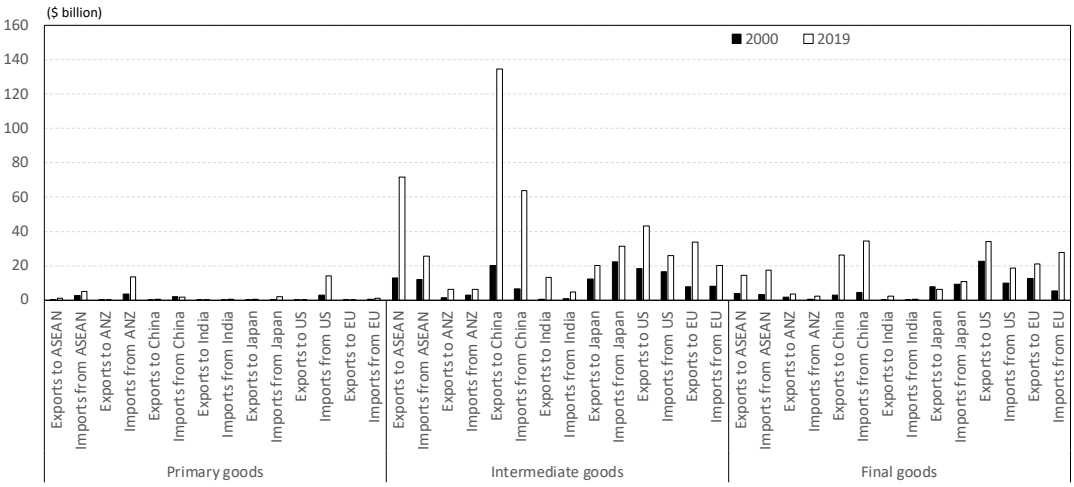
ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, EU = European Union, US = United States.
Sources: RIETI-TID (n.d.) https://www.rieti.go.jp/en/projects/rieti-tid/ (accessed 21 September 2021) and authors' calculations.

Figure A-3: Republic of Korea's Bilateral Export Values by Destination and Import Values by Source, 2000–2019



ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, EU = European Union, US = United States.
Sources: RIETI-TID (n.d.) https://www.rieti.go.jp/en/projects/rieti-tid/ (accessed 21 September 2021) and authors' calculation.

Figure A-4: Republic of Korea's Trade by Commodity Category and Trading Partner, 2000–2019



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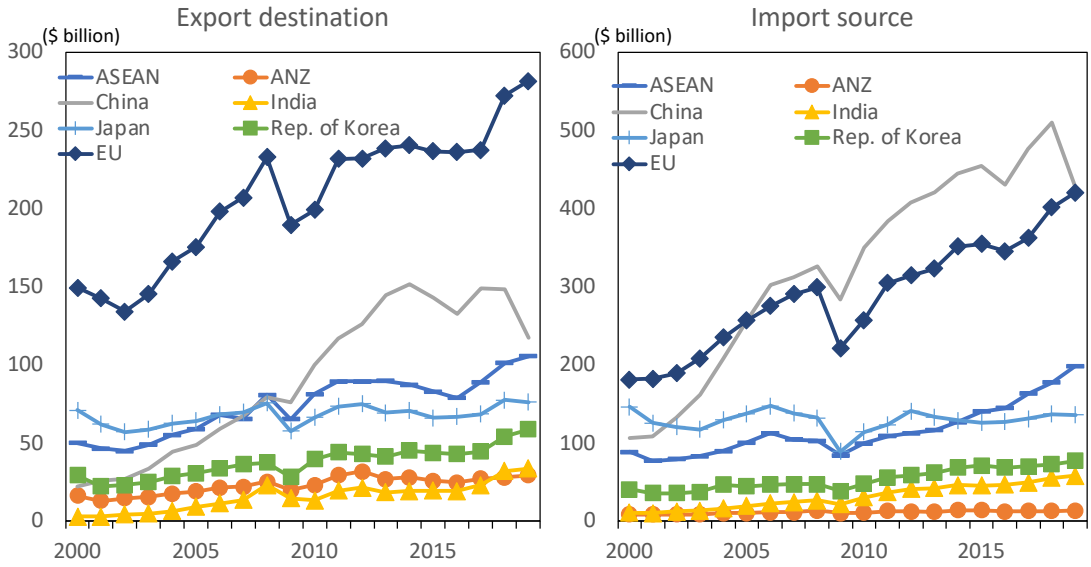
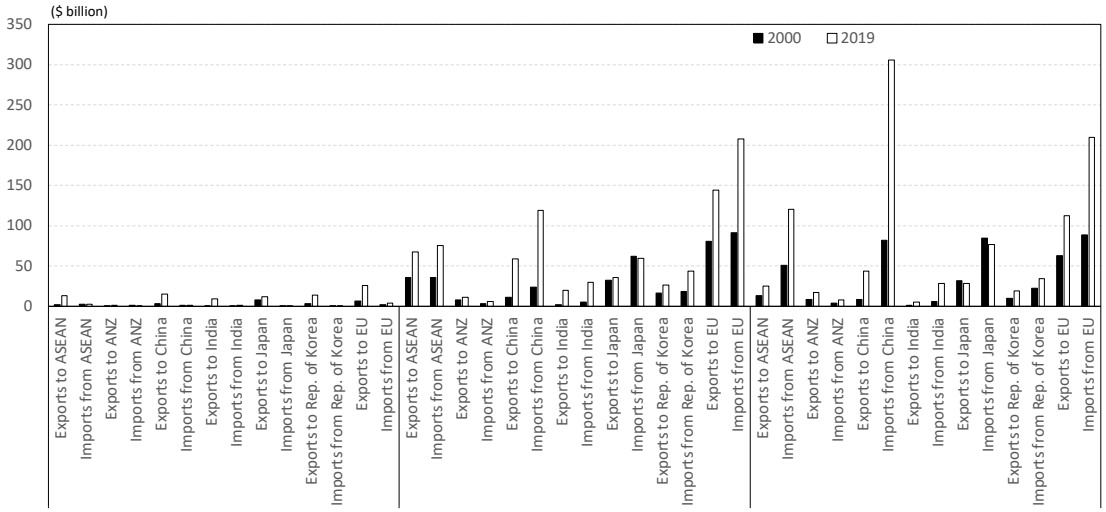
Sources: RIETI-TID (n.d.) https://www.rieti.go.jp/en/projects/rieti-tid/ (accessed 21 September 2021) and authors' calculations.

Figure A-5: US Bilateral Export Values by Destination and Import Values by Source, 2000–2019



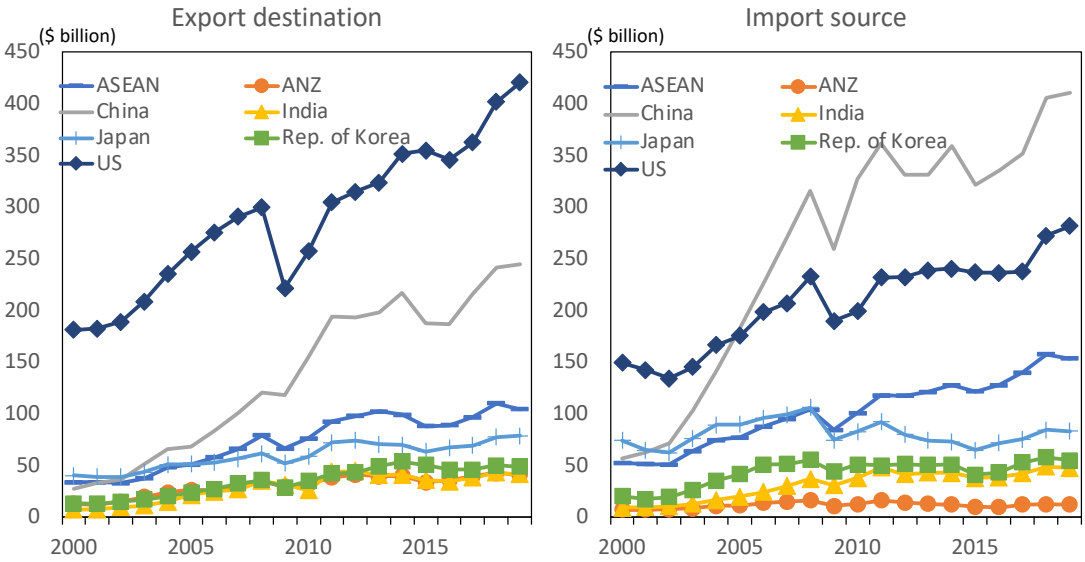
ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, EU = European Union, US = United States.
Sources: RIETI-TID (n.d.) https://www.rieti.go.jp/en/projects/rieti-tid/ (accessed 21 September 2021) and authors' calculations.

Figure A-6: US Trade by Commodity Category and Trading Partner, 2000–2019



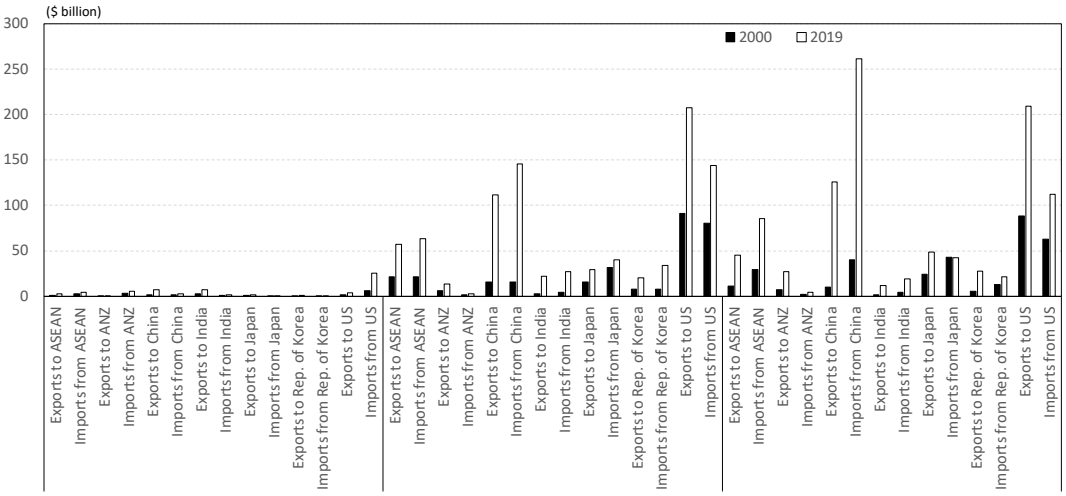
ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, EU = European Union, US = United States.
Sources: RIETI-TID (n.d.) https://www.rieti.go.jp/en/projects/rieti-tid/ (accessed 21 September 2021) and authors' calculations.

Figure A-7: EU Bilateral Export Values by Destination and Import Values by Source, 2000–2019



ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, EU = European Union, US = United States.
Sources: RIETI-TID (n.d.) https://www.rieti.go.jp/en/projects/rieti-tid/ (accessed 21 September 2021) and authors' calculations.

Figure A-8: EU Trade by Commodity Category and Trading Partner, 2000–2019



ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, EU = European Union, US = United States.
Sources: RIETI-TID (n.d.) https://www.rieti.go.jp/en/projects/rieti-tid/ (accessed 21 September 2021) and authors' calculations.

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