



CHAPTER 1

RCEP and East Asian Regional Integration

Fukunari Kimura
Shandre Thangavelu
Dionisius Narjoko

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Introduction

The Regional Comprehensive Economic Partnership (RCEP) came into force on 1 January 2022. It was completed on 15 November 2020, comprising the 10 Member States of the Association of Southeast Asian Nations (ASEAN) and five countries in the region with which ASEAN has existing free trade agreements (FTAs) – Australia, China, Japan, the Republic of Korea (henceforth, Korea), and New Zealand. RCEP came into effect following its ratification by six ASEAN Member States – Brunei, Cambodia, the Lao People's Democratic Republic (Lao PDR), Thailand, Singapore, and Viet Nam; and four non-ASEAN member countries – Australia, China, Japan, and New Zealand. Korea joined on 1 February 2022 and Malaysia will join on 18 March 2022.

RCEP is the largest global trading bloc, consisting of nearly 30% of the world population, with a total gross domestic product (GDP) of 30% of global GDP in 2019, and nearly 28% of global trade. It sets an important agenda for global trade and investment in terms of opening large domestic markets, leveraging large infrastructure and technologies, and creating dynamic regional and global value chain (GVC) activities.

RCEP provides an important framework for addressing issues related to rising protectionism due to globalisation and the coronavirus disease (COVID-19) pandemic shock. Recent evidence from Rodrik (2021) has shown rising protectionism due to globalisation and the distributional effects of global trade in the pre-COVID-19 period. The rising popularity of protectionist policies is in line with previous periods of protectionism – based on globalisation benefiting the rich and wealthy, but harming the middle class (Rodrik, 2021). However, the study highlighted three key differential factors for the current intensity of the popularity of protectionist policies: (i) trade, (ii) immigration and refugees (movement of people), and (iii) financial globalisation (economic and pandemic shocks).

The COVID-19 pandemic shock has had a devastating impact on regional and global economic growth, and is expected to generate social, economic, and political transformation (Kimura et al., 2020). Recent World Bank studies (2021; 2022) have highlighted the uneven impacts of the COVID-19 pandemic shock within and between countries. The inequality within countries has widened due to the severe impact of the pandemic shock on the jobs and incomes of vulnerable populations (unskilled workers, low-income households, and informal workers) and the disruptive impact on the education of young people (especially in developing and less developed countries). The effects of pandemic within the countries are concentrated on labour-intensive which

require movement of people industries such as tourism, garment and textiles, hotel and restaurant, and informal sectors. The inequality within countries is also expected to be exacerbated by digital transformation of the domestic economies. The inequality between countries has also widened due to the differential impacts of the pandemic shock, as a result of stable fiscal resources, better healthcare infrastructure, and firm institutional policy responses to pandemic policies (e.g. vaccinations and greater support for businesses in developed rather than developing countries).

Recent studies by Kimura (2019; 2021) have highlighted the importance of the rules-based international trading order as an essential condition for effective and efficient functioning of international production networks (IPNs) in East Asia. The production processes in the global production value chains are located overseas, requiring close coordination of the movement of intermediate goods and services. This necessitates a rules-based trading system that allows for stable and dynamic GVC activities in the region. However, the rules-based trading system has become weaker over the past decade due to the United States (US)–China trade war and the weakness of the World Trade Organization (WTO) in supporting the current global trading system, amplified by the crisis of the WTO Appellate Body (Kimura, 2021).

Trade and openness are key strategies to create investment and employment, reduce poverty and income inequality, and generate structural transformation in the domestic economy and the region (Pangestu, 2022). Trade and GVCs are critical for a sustainable and inclusive post-pandemic recovery in terms of poverty reduction and for creating a stable and resilient recovery process in terms of a digital and green transformation of regional trade (World Bank and WTO, 2022). In addition, mega FTAs such as RCEP and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) are crucial to mitigate and manage the uncertainties and policy risks of market exchange in investment and trade in view of rising anti-globalisation and weakening of the global trading system (Kimura, 2021). Multilateral agreements such as RCEP have several important roles: (i) liberalising trade and investment in the region; (ii) responding to new global issues and challenges, (iii) expanding and maintaining the resilience of IPNs, (iv) building a coalition of 'middle powers' to support free trade, and (v) supporting and maintaining the integrity of the rules-based trading system (Kimura, 2021).

Importance of RCEP as a Framework for Regional and Global Integration

RCEP is an important framework for global trade and regionalism, given the current context of uncertainty and inward-looking policies in response to the COVID-19 pandemic and the US–China trade war. The impact of RCEP is expected to provide market access and expand the global production value chain activities in the region. Recent studies have highlighted the positive impact of RCEP on the GDP, investment, and welfare of RCEP member countries and the positive impact on ASEAN Member States (Itakura, 2022; Park, Petri, and Plummer, 2021; Park, 2022). Itakura (2022) highlighted the positive impact on GDP, with strong trade and investment facilitation in RCEP member countries undertaking deep domestic structural transformation under RCEP commitments.

Key features of RCEP could strengthen the integration of the East Asian region. RCEP is based on the following key elements of regional integration: (i) rules-based trade and investment, (ii) market access, (iii) economic cooperation, (iv) ASEAN centrality, and (v) the flexibility and responsiveness offered by its status as a 'living' agreement. These elements are important for the recovery of East Asia and ASEAN in the post-pandemic period and for moving the region to the next stage of inclusive and sustainable growth in regionalism and GVCs.

RCEP provides a clear rules-based trading framework for trade in goods, services, and investment. However, this framework is weaker than that of the CPTPP in some aspects of regional integration, especially dispute settlement and the digital trade framework. The strength of RCEP is in building the institutional framework under economic cooperation (Chapter 15). RCEP provides differential treatment and support for ASEAN least developed countries (LDCs) to develop stable integration strategies to fully implement RCEP commitments. Given that RCEP has 15 members at diverse stages of development (developed, developing, and least developed countries), this important feature allows for broader regional and trade integration across countries at different stages of growth and develops a dynamic and forward-looking trade integration framework. This is an important differential feature compared with the CPTPP, whose more stringent rules-based trading framework sets higher trade and regional integration standards that narrow the number of countries that can meet such high standards of trade integration. This feature of differential treatment for LDCs is in line with the WTO framework of greater global and regional trading under the WTO special and differential treatment provisions.

¹ https://www.wto.org/english/tratop_e/devel_e/dev_special_differential_provisions_e.htm

Under the economic cooperation framework, RCEP will be able to address several key issues critical to the pandemic recovery at the aggregate and sectoral levels, such as coordinated regional vaccination rollouts; a protocol for the movement of people for industries that are labour-intensive and dependent on the movement of people; and support for universal healthcare and education in the region. The economic cooperation framework will also allow RCEP to focus on issues that support the structural transformation of member countries to improve their domestic capacity for greater trade and investment integration in terms of skills development, soft and hard infrastructure enhancement, and increased participation of small and medium-sized enterprises (SMEs) in GVC activities.

Another key feature of RCEP is the 'living' agreement framework under the institutional provision (Chapter 18) to develop key and forward-looking integration institutions for the region. The institutional provisions under RCEP provide the 'living' agreement framework – setting up annual RCEP ministerial meetings, the RCEP Joint Committee, and four committees to address and review issues related to (i) trade in goods, (ii) trade in services and investment, (iii) sustainable growth, and (iv) the business environment. Under the institutional provision, the RCEP Joint Committee will meet within 1 year after the agreement enters into force, and the RCEP Secretariat will coordinate all meetings thereafter. As a 'living' agreement, the RCEP Joint Committee will be able to create a wider regional integration agenda to address key contemporary issues such as the environment and climate change, skills development, green transformation, and developing digital and smart urban centres.

ASEAN centrality, as highlighted by the RCEP framework, is critical for the post-pandemic recovery and structural transformation of the region. The institutional provision under RCEP has a similar institutional framework to ASEAN, with the support of the ASEAN Secretariat. Therefore, we can expect strong coordination between the ASEAN and RCEP secretariats, which will reinforce the roles of ASEAN and ASEAN centrality in the RCEP integration process. The role and centrality of ASEAN are important in driving stronger and broader regional integration and in addressing the emerging challenges from the pandemic shock as well as protectionist policies in response to globalisation.

Structure of the Book

The significance of RCEP in global trade is not matched by a good understanding of how it differs from other trade agreements, i.e. ASEAN+1 FTAs, bilateral FTAs amongst RCEP members, or special treatment for developing countries (e.g. Generalized System of Preferences (GSP)). In addition, RCEP introduced several new features in the agreement, such as differential tariff concessions, co-equal sharing² and a single regional rule of origin³, and a transition from the positive list to the negative list in services liberalisation, which likely create new dynamics in the implementation and potential impact of the agreement in the region.

As this Economic Research Institute for ASEAN and East Asia (ERIA) research project aims to address the structure of RCEP in terms of the complexity of the RCEP commitments modalities and mechanism, it explores the various elements of the agreement and discusses the key potential implications to the integration process in the region. For example, it will carefully examine the commitments and compare them with those of other agreements, including the CPTPP. The project underlines some key features of the agreement and analyses how these could strengthen regional integration. The impact of businesses, behind-the-border issues, and the domestic capacity of the respective RCEP member countries will also be discussed, in addition to a formal assessment of the potential benefits of RCEP. Finally, this study also attempts to address emerging issues – especially with respect to the COVID-19 pandemic recovery.

In this first book, the study reports the key social, economic, and political dimensions of RCEP framework – from the initial conceptualisation of the ASEAN+6 framework to detailed trade negotiations. The book also undertakes recursive computable general equilibrium (CGE) analysis to identify the impact of RCEP. Furthermore, the book also reviews the services commitments; comparative analysis of RCEP with the ASEAN+1 framework and the CPTPP; the emergence of a regional architecture from RCEP; the role of RCEP in IPNs and the China, Japan, Korea (CJK) effects;⁴ and the role of RCEP in the pandemic and post-pandemic recovery.

² Co-equal sharing rule in rules of origin (RoO) of free trade agreement allows exporters to use more than one rule to fulfil the RoO requirement of the respective bilateral and multilateral FTA (see Thangavelu et al., 2021).

³ RCEP includes an agreement for a single RoO framework that could be applied across the agreement's 15 member countries. A single RoO framework for the 15 member countries could have an accelerating and enhancing impact on GVCs in the region.

⁴ The RCEP agreement provides the first free trade and investment arrangement for China, Japan, and Korea (CJK), which is expected to have a significant impact on regional and global production value-chain activities in the region.

Summary of Chapters

The motivation for and historical overview of RCEP, including the negotiation process and the outcomes expected from the RCEP agreement in building strong regional integration, are covered by Chapter 2: **'The Story of RCEP: History, Negotiations and Structure, and Future Directions'** by Aladdin D. Rillo, Anna Maria Rosario D. Robeniol, and Salvador M. Buban. The chapter discusses and evaluates the motivation for ASEAN+6⁵ after the Asian financial crisis, the dynamics of the RCEP negotiations from 2012–2020, lasted for 8 years with the launch of RCEP negotiations in 2012, and the future direction of the RCEP agreement.

A comparative analysis of RCEP with ASEAN+1 FTAs and the CPTPP is undertaken by Innwon Park in Chapter 3: **'Comparison Between RCEP and Other FTAs'**. This chapter evaluates the desirability of RCEP by comparing it with other mega-lateral regional trade agreements (RTAs). Evaluating the member-specific characteristics that determine the scale effects of RTAs, the chapter finds that RCEP will generate significantly larger gains compared with the CPTPP. The chapter reveals that RCEP will generate greater gains than the CPTPP, regardless of the model adopted and its specifications. Additionally, RCEP, as the only trade bloc connecting CJK (China–Japan and Japan–Korea), is more desirable for CJK than for ASEAN, Australia, and New Zealand. Moreover, the estimated gains for ASEAN increase remarkably as the model considers the effect of the diagonal rules of origin cumulation scheme on bilateral trade costs. Considering the sequence of implementing the RTAs – the CPTPP followed by RCEP – the study finds that the former will generate greater gains for dual members, but marginal gains RCEP-only members. This observation strongly supports the action plan for RCEP members to upgrade their liberalisation packages in line with those of the CPTPP as soon as possible.

The impact of RCEP on services liberalisation is explored in Chapter 4: **'RCEP Services Liberalisation: Key Features and Implications'** by Ramonette B. Serafica and Intan M. Ramli. This paper reviews the key features of the trade in services chapter of the RCEP agreement and examines the implications for services liberalisation and the challenges in the implementation of the services agreement. RCEP is the latest and largest preferential trade agreement to recognise the increasing significance of services, as the RCEP member economies account for a fifth of global services trade. It is home to globally competitive suppliers of distributive services (transportation, communication, wholesale, and retail trade); producer services (financial, insurance, engineering, law, and business services); social services (health and education); and personal services (hotel and accommodation, and entertainment). Thus, there is significant room to improve the services sectors and

⁵ ASEAN+ 6 includes ASEAN multilateral FTAs with ASEAN + China FTA, ASEAN+ Korea FTA, ASEAN + Japan FTA, ASEAN, Australia, and New Zealand FTA, and ASEAN – India FTA.

the competitiveness of economies more widely by increasing services trade amongst RCEP members, through the four modes of supply. However, the priorities of individual members in RCEP will differ given their respective economic development requirements.

The trade in services chapter of the RCEP agreement establishes the rules for the progressive liberalisation of trade in the region. It ensures market access and non-discriminatory treatment in sectors identified by the respective members and sets out regulatory disciplines to mitigate barriers to competition. However, the effective implementation of the services agreement requires strengthening of regulatory frameworks to ensure compliance, amongst other things, while supplying to new markets entails improving the capacities of the private sector and removing policy and other barriers. For some RCEP members, the transition to a negative list is the next step to full implementation.

An impact analysis of RCEP using the recursive dynamic CGE model is undertaken by Ken Itakura in Chapter 5: **'Impact of RCEP: A Global CGE Simulation.'** The objective of this chapter is to estimate the potential economic effects of RCEP by using a recursively dynamic CGE model which incorporates the global supply chain structure, also referred as GVCs. The chapter carefully examines the existing strand of literature employing the CGE model to quantify the economic effects of large FTAs in Asia, such as RCEP, and contributes to the existing literature in two ways. Firstly, the chapter incorporates the tariff reduction schedules for RCEP as well as for other existing FTAs such as the CPTPP. Secondly, the chapter accounts for the structure of global supply chains in the CGE model to consider the importance of trade in intermediate goods and services. The CGE simulations show that RCEP member countries experience positive impact on their output, export, and investment from the RCEP agreement.

The dynamic CGE analysis highlights the positive impact of RCEP on the GDP of all RCEP members throughout the 2030s, particularly for the scenario with deeper trade and investment facilitation and addressing behind-the-border issues (S4: tariff reduction, services liberalisation, logistical improvements, and investment facilitation). There are significant positive gains for Cambodia, the Lao PDR, Myanmar, and Viet Nam (CLMV) given their young populations and GVC effects from the CJK (China, Japan, and Korea). This is significant for Cambodia and Viet Nam, which are at a critical stage in the shift to the next stage of growth in regional and global GVCs. For example, ASEAN LDCs such as Cambodia are positioning themselves towards a higher GVC activities and emerging as an important focal point for regional and GVC activities in ASEAN and East Asia.

The impact of RCEP and IPNs is examined by Mitsuyo Ando, Fukunari Kimura, and Kenta Yamanouchi in Chapter 6: **'RCEP and International Production Networks.'** The chapter examines the possible impact of RCEP on the international division of labour and GVC activities in the region. It reviews two kinds of international division of labour – IPNs and digital-related services trade – and discusses the potential role of RCEP. The chapter highlights signs of the emergence of new types of international division of labour created by digital technology. It discusses the importance of services trade from a broad trade perspective, as digital technology generates digitalised services which are either newly created or detached from traditional industries through the servicification of some activities. Although conventional services are mostly immobile in nature, digitalised services can be highly mobile via the internet, regardless of domestic or cross-border movements. Digitalising services is often provided in modes 1 and 3 of services trade. Although such international transactions are still in their infancy, they are likely to be one of the major forms of international division of labour in the next decade.

In terms of liberalisation and international rule-making, the chapter highlights that the RCEP agreement needs to revise and upgrade its contents to serve dynamic international division of labour in East Asia. Together with the system of data-related policies, services trade liberalisation, particularly for digitalised and digitalising services, must be promoted in the framework of RTAs such as RCEP. In that sense, the accession of India to RCEP would play an important role. The chapter also suggests that the RCEP Joint Committee could consider upgrading RCEP by taking advantage of the 'living' nature of the agreement.

Issues and policies related to the pandemic and post-pandemic recovery are discussed by Shandre M. Thangavelu, Shujiro Urata, and Dionisius Narjoko in Chapter 7: **'COVID-19 and RCEP: Pandemic Recovery in East Asia.'** The chapter examines the impact of RCEP on the pandemic recovery of the East Asian countries and highlights that the recovery will not be even across East Asia. It underlines the importance of RCEP in addressing border and behind-the-border issues arising from pandemic shocks. The influence of RCEP in mitigating the negative impact of the US–China trade war and the pandemic shock is discussed in this chapter. It also provides policy discussions for RCEP to induce structural transformation for sustainable and inclusive growth in the region. The chapter emphasises the importance of economic cooperation amongst the 15 RCEP member countries to address key contingency issues such as mass vaccinations and health infrastructure, protocols for the movement of people, and trade capacity building for ASEAN LDCs. RCEP as a 'living' agreement will be able to create a wider regional integration agenda to address key contemporary issues such as the environment and climate change, skills development, green transformation, and developing digital and smart urban centres. ASEAN centrality, as highlighted by the RCEP framework, is critical for the post-pandemic recovery and structural transformation of the region.

A country case study of the impact of RCEP on ASEAN LDCs is examined by Shandre

Mugan Thangavelu, Vutha Hing, Ea Hai Khov, Bunroth Khong, and Tith Seychanly in Chapter 8: **'Potential Impact of RCEP and Structural Transformation of Cambodia.'** The chapter analyses the impact of RCEP on the Cambodian economy in terms of trade, output growth, and employment. This is done through quantitative (structural gravity model estimations and simulation) and qualitative analysis – a trade policy evaluation in terms of exports, output, and structural transformation of the economy in the global and regional value chain. The results indicate a positive impact of RCEP on the Cambodian economy. The Cambodian economy will experience larger positive impact on the domestic economy with deeper trade and investment facilitation and domestic reforms. The results highlight the importance of RCEP for the pandemic and post-pandemic recovery and structural transformation of the Cambodian economy.

The chapter also provides key policy recommendations to maximise the benefits of RCEP for inclusive and sustainable growth in Cambodia: (i) the need to increase the competitiveness and linkages of Special Economic Zones to GVC activities to attract multinational activities in these industries; (ii) the need to improve and increase GVC linkages such as logistics service linkages, infrastructure, and increased domestic SME participation in regional GVC activities, as logistics service linkages are critical for the movement of intermediate goods in higher value-added activities; (iii) the importance of technical and vocational skills development that complements and increases the adoption of new technologies in higher value-added industries – to provide strong human capital and a semi-skilled and skilled labour force that drives higher value-added activities, which is critical for Cambodia at this stage of development; (iv) the need to align domestic service industries supporting manufacturing activities with CJK GVC activities, as logistics and transportation activities are expected to increase with the GVC activities driven by CJK; and (v) the need to reform traditional trade in services such as tourism, logistics, aviation, financial, and medical tourism, as trade in services relies heavily on the movement of people (mode 4) to remain competitive in the region, and the transformation to a 'new' normal in the post-pandemic era will reduce activities in traditional services trade.

The implications of RCEP for regional architecture are examined by Shiro Armstrong and Peter Drysdale in Chapter 9: **'The Implications of RCEP for Asian Regional Architecture.'** The chapter highlights the importance of RCEP in the context of the growing political divide between the US and China, rising global protectionism, a trade war between the US and China, and the added protectionist pressures arising from the COVID-19 pandemic that have put the global trade regime under extreme pressure. It highlights that RCEP is not simply another free trade and investment arrangement, as it incorporates a cooperation agenda which is an essential element in building capacity for economic reform and mutually reinforcing regional development in Southeast Asia.

A narrow concept of the cooperation agenda is the provision of capacity building to help the less developed RCEP members to implement commitments of the RCEP agreement. A broader concept involves experience sharing, economic and political cooperation, and the creation of a framework for extending rules and membership. Its cooperation agenda has a political and security pay-off that will assist in ameliorating regional tensions and managing relations with bigger powers, like China, Japan, and perhaps eventually India (on economic and geopolitical issues such as China's Belt and Road Initiative (BRI) for investment in connectivity and geo-strategic territorial issues).

RCEP facilitates collective leadership, ASEAN centrality, and strengthening the ASEAN institutional ecosystem and its dealings with those outside it, like the US and Europe – in staking out Asia's interest and claims to ownership in and support of the global public good of an open international economy.

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