

**ERIA Discussion Paper Series****No. 454****The Implications of the Regional Comprehensive  
Economic Partnership (RCEP) for  
Asian Regional Architecture<sup>1</sup>**

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October 2022

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**Abstract:** *East Asia's Regional Comprehensive Economic Partnership (RCEP) came into force in 2022 as the world's largest free trade agreement. RCEP was concluded, signed and brought into force in the face of major international uncertainty and is a significant boost to the global trading system. RCEP brings Australia, China, Japan, South Korea and New Zealand into the same agreement with the ten member ASEAN group at its centre. It keeps markets open and updates trade and investment rules in East Asia, a major centre of global economic activity, at a time of rising protectionism when the WTO itself is under threat. The agreement builds on ASEAN's free trade agreements and strengthens ASEAN centrality. One of the pillars of RCEP is an economic cooperation agenda which has its antecedents in ASEAN's approach to bringing along its least developed members and builds on the experience of capacity building in APEC and technical cooperation under the ASEAN Australia-New Zealand Free Trade Agreement. There is an opportunity to create a framework that facilitates deeper economic cooperation that involves experience-sharing, extending RCEP's rules and membership at the same time as strengthening political cooperation. The paper suggests some areas that might be best suited to cooperation — that is confidence and trust building instead of or before negotiation — and discusses how non-members such as India may be engaged and the membership expanded. Options such as multilateralising provisions and becoming a platform for policy convergence and coordinating unilateral reforms are canvassed.*

**Keywords:** Regional Comprehensive Economic Partnership; Economic Cooperation; Asian Economic Integration

**JEL Classification:** F13; F15; F55

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<sup>1</sup> The authors wish to thank the participants of an Economic Research Institute for ASEAN and East Asia (ERIA) roundtable held on 25 January 2022 that discussed a draft of this chapter. Many of the main ideas in the chapter were set out in an earlier paper that the authors wrote (Drysdale and Armstrong, 2021).

## **1. A New Era for East Asia's Economy**

East Asia's Regional Comprehensive Economic Partnership (RCEP) agreement came into force on 1 January 2022 as the world's largest regional economic agreement in terms of its coverage of gross domestic product (GDP), population, and trade. a from a pandemic-induced recession. The conclusion of RCEP would have been important to the global economy at any time but that it was even more so in the context of the growing political divide between the United States and China, rising global protectionism, a trade war between the United States and China and the added protectionist pressures arising from the COVID-19 pandemic that have put the global trade regime under extreme pressure.

The agreement consolidated the free trade agreements (FTAs) of the 10-member Association of Southeast Asian Nations (ASEAN) with Australia, China, Japan, the Republic of Korea, and New Zealand. India walked away from the agreement on the eve of the conclusion of negotiations in November 2019. That 11 of its 15 members ratified RCEP by the end of 2021 – while managing the devastating waves of COVID-19-related health crises and economic shocks – demonstrates the commitment to the agreement. Indonesia, Malaysia, Myanmar and the Philippines were unable to ratify RCEP before the end of 2021, but Myanmar is the only member where there is still uncertainty around ratification in early 2022 due to political instability.

RCEP was negotiated in parallel to the Trans-Pacific Partnership (TPP) agreement and has been compared with that agreement since both negotiations began. The TPP was thought to have higher standards than RCEP given the US-led push for stronger intellectual property protections, stricter rules on state-owned enterprises (SOEs), and other rules more suited to developed economies. After President Donald Trump withdrew the US from the TPP in 2017, the remaining members<sup>2</sup> salvaged the agreement in the form of the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP) in the hope that the US might join at a later date. The CPTPP includes exemptions from the stricter rules for many countries, although

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<sup>2</sup> The eleven members of CPTPP are: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.

it retains measures on SOEs as well as labour and environmental standards that are not included in RCEP. RCEP is liberalising for its members and committed them to new rules where none existed before. Some provisions go further than the TPP. RCEP includes phase-in liberalisation with built-in support for less-developed members, an economic cooperation agenda, and an institutional base in ASEAN. The simplified rules of origin (ROOs) in RCEP — a single ROO — is a critical innovation and will help facilitate the growth of regional supply chains and deepen economic integration in East Asia. RCEP is often and incorrectly said to be China-led or -centred. ASEAN, however, is central to the agreement – which had its genesis in Indonesia – and its leadership brought the agreement towards its conclusion. Indeed, the economic cooperation agenda builds on and extends ASEAN processes, which may go well beyond countries implementing the agreement to expand cooperation to new areas where principles of cooperation and interaction can be built and consensus forged.

RCEP brings the three large North-East Asian economies (that is, China, Japan, and South Korea) into a binding regional trade agreement for the first time.<sup>3</sup> With ASEAN acting as the hub, new liberalisation and trade rules will help govern and deepen China–Japan and Japan–South Korea economic relationships. The three North-East Asian economies were brought together in an agreement through the consolidation — and to an extent multilateralisation — of their ASEAN+1 FTAs.

## **2. ASEAN Origins and Centrality**

When ASEAN initiated RCEP, its core ambition was to protect and extend the centrality of ASEAN in Asia Pacific economic and political cooperation. Today, ASEAN remains central to broader regional cooperation and institution building in the region, and its economic integration will underpin its centrality in Asian affairs. RCEP will entrench the institutional precedence of ASEAN in the management of economic and political security interests with the region’s neighbours. Originally conceived for security purposes, ASEAN helps its member states manage relations with its big power neighbours, the United States, Japan and China. Better connecting existing regional economic and political cooperation arrangements will help ASEAN

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<sup>3</sup> Except for the China–Korea FTA.

and its partners navigate and manage present and future challenges to regional prosperity (Drysdale, Narjoko, Sta Maria, 2020).

Some regional cooperation arrangements, such as Asia-Pacific Economic Cooperation (APEC) process or the various ASEAN plus frameworks, are not hardwired institutionally into ASEAN, but they were born of the same parentage and are genetically inseparable from the principles and practices that sustain ASEAN's success economically and politically (Drysdale, 2017). They are also tightly aligned with multilateral goals. The RCEP arrangement presents an opportunity to strengthen the institutional hardwiring.

RCEP was designed by ASEAN policy strategists to buttress regional trade reform and Asia's growth potential in the global economy. At the time of its conclusion, RCEP was the only active credible multilateral endeavour anywhere in the world positioned to deliver a significant push-back on the retreat from globalisation and the advance of protectionism.

ASEAN has also pursued its centrality mainly by establishing FTA networks with its dialogue partners. The RCEP framework is an extension of that framework, consolidating its FTAs and providing a mechanism for securing them in the future. It is also strategically linked to the ASEAN Economic Community Blueprint 2025 that sets out ASEAN's ambitions for integration (Armstrong, Drysdale, Tay, 2019). RCEP is not simply another free trade and investment agreement, however. It incorporates a cooperation agenda, which is an essential element in building capacity for economic reform and mutually reinforcing regional development in South-East Asia (Armstrong, Drysdale, Tay, 2019).

A narrow conception of the cooperation agenda is of a technical cooperation agenda that helps less-developed RCEP members to implement RCEP commitments. A broader conception involves experience sharing, economic and political cooperation, and the creation of a framework for extending rules and membership. The RCEP 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 the China's Belt and Road Initiative (BRI) for investment in connectivity and geo-strategic territorial issues). RCEP also facilitates collective leadership, ASEAN

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

With ASEAN at its core, the 15-member RCEP grouping is the first inclusive regional effort at a binding economic agreement (Armstrong et al, 2019). RCEP will only go as far as ASEAN will. It will be difficult for any of the Plus 5 members to push ASEAN or other members too far in making commitments. ASEAN's own cooperative framework with capacity building may not appear to be meeting all of the targets and commitments, but in the past some services and investment commitments have lagged behind actual practice (Dee, 2009). In addition, its mode of cooperation has led to a sustainable integration process. There may be frustration about the slow pace of reform and integration within ASEAN, but the region has made substantial progress in economic opening and reform. The nature of the integration process – which can go only as fast as domestic processes will allow with regional consensus and no supranational authority or hegemonic enforcement – has created a mostly sustainable regional integration process suited to the political economy and circumstances of South-East Asia.

Having a committed, ambitious ASEAN is necessary for the success of RCEP. Building a framework that provides the venue and forum for making further commitments and achieving ongoing cooperation goals is a collateral, and important, benefit.

### **3. Key Features**

RCEP has a large share in the global economy, including all major trading nations in East Asia. It is more than twice the size of the CPTPP in terms of the scale of the economies involved and trade volume – although it does not pretend to the same standards. It is not simply a trade arrangement; it is an economic cooperation arrangement, incorporating elements that will see its members continuing to deepen their economic integration.

While the RCEP agreement does not have some of the disciplines of other agreements such as CPTPP, it does represent a large commitment to economic

liberalisation by East Asia. It allows developing countries in the arrangement to phase in their liberalisation over considerable periods of time, in contrast to many other free trade agreements, while still ensuring an endpoint of substantial liberalisation across a comprehensive range of goods and services. This approach recognises the wide range of economic development and market conditions found in members and helps them meet their commitments through cooperation rather than with the threat of punishments or sanctions. Indeed, RCEP provisions on government procurement, intellectual property, and the digital economy signal the willingness of members to commit to a shared rule book for emerging areas of trade despite bilateral disagreements and intersecting FTAs. These are all areas more amenable to an economic cooperation agenda than a negotiating endpoint.

RCEP also extends ASEAN+1 FTAs significantly. Low or no tariffs are applied to a much larger proportion of intraregional trade. It is comprehensive, overseeing about 90% of trade, compared to 60% or less in some of the bilateral ASEAN arrangements with regional partners. Some members, such as China, South Korea, and Japan, did not have any FTAs among themselves prior to RCEP (except a low standard agreement between China and South Korea). Specifically, the RCEP agreement spans 20 chapters, with provisions across trade in goods and services, e-commerce and digital trade, trade facilitation, rules of origin, investment, and intellectual property. The removal of tariffs and customs duties is accompanied by common rules of origin for all tradable goods, which allows originating goods from one member to be considered as originating in a second member. Common rules of origin allow cumulation, where products originating in one country can be further processed or added to products originating from another country – as if they had originated in the second country. This is a significant advance on the bilateral rules of origin arrangements that apply in CPTPP.

RCEP also includes provisions that extend the scope for liberalisation in trade in services. The negative-list approach to services exposes all sectors to foreign competition unless specifically excluded. These market access, most-favoured nation (that is, treating foreign suppliers at least as well as suppliers and investors of any other non-RCEP country), national treatment (treating local and foreign suppliers equally), and local presence provisions for services go beyond existing FTAs; at least

65% of service sectors will be fully open. Measures protecting sectors of national security and technological importance are complemented by a chapter on transparency in public procurement, particularly in telecommunications. The section on public procurement goes beyond that of existing ASEAN+1 arrangements, and RCEP is the first agreement in which Indonesia, Philippines, and Thailand have made commitments of this kind (ADB, 2020).

The RCEP chapter on investment goes beyond members' World Trade Organization (WTO) obligations but rejects an investor–state dispute settlement mechanism for resolving disputes. Foreign investors will receive most-favoured nation access and national treatment. Some countries, such as China, have – for the first time – signed onto negative-list commitments on foreign investment in non-services sectors such as manufacturing and mining (GOA, 2020). RCEP also includes provisions that prevent performance requirements in local content and technology transfer in exchange for market access. On the digital economy, RCEP sets out a framework for the digitalisation of trade and addresses cybersecurity as well as consumer and privacy concerns in e-commerce. These provisions are similar to those in the CPTPP agreement, as they commit members to protecting personal data and maintaining the current practice of refraining from imposing customs duties on electronic transmissions between members. Although RCEP nominally prohibits members from preventing cross-border data and information flows, there are strong national security and public policy carve-outs for doing so. Provisions to liberalise goods, services, and investment are reinforced by those to eliminate non-tariff barriers and to promote mutual understanding among members on customs, technical standards, and other regulatory barriers that may otherwise impose administrative or transaction costs on businesses.

The trade gain within the region under RCEP is conservatively estimated to be about \$438 billion to 2030 (Petri and Plummer, 2020). It is likely, however, to be much higher. For countries not in RCEP, the loss through trade diversion is estimated at \$48 billion (Petri and Plummer, 2020). Within the region, lower value-added producers in China will suffer as a consequence of the shift of production to lower labour-cost countries in South-East Asia. However, more sophisticated manufacturing and higher value-added exports from China should expand under

RCEP. There will be some large adjustments in production and trade over time, which will tend to follow where comparative advantage lies across the region and boost incomes and economic growth.

The three features that distinguish RCEP reflect its ASEAN origins and diplomatic philosophy: its inclusiveness and openness to new membership, its whole-of-region approach to integration, and its ongoing economic cooperation agenda that marks it as a ‘living agreement’ able to address issues of shared interest and priority as they evolve.

#### **4. ASEAN Institutional Underpinnings**

RCEP’s institutional setting within ASEAN will reinforce its inclusive character and encourage ASEAN’s multilateral orientation and role. RCEP’s economic cooperation agenda provides a platform for sorting through some of the most important issues that confront regional economic diplomacy today. Doing this will be helped by the fact that RCEP involves not just a once-off trade agreement. It will be implemented over time. There is an ongoing economic cooperation agenda. It therefore includes a set of processes which will establish a secretariat in order to manage the gradual liberalisation which RCEP will bring about through technical cooperation as well potentially as cooperation on a broader range of high policy issues of common interest.

The technical cooperation agenda will be supported by member-funded programmes for overseas development assistance-eligible members to implement the RCEP provisions. Its Regional Trade for Development Initiative will also support economic recovery from the COVID-19 pandemic and dialogue on strengthening RCEP partnerships. Some members, such as Australia, have already committed funding to this programme, drawing on experience from the ASEAN–Australia–New Zealand FTA.

Like all ASEAN-led agreements, RCEP includes a chapter on institutional provisions that promote its evolution. The ASEAN-based RCEP secretariat will provide the locus of coordination among members. There is provision for regular ministerial meetings, joint committees of senior officials, and subsidiary committees.



Officials are mandated to establish a secretariat for these purposes and to provide technical support, which establishes a framework that can evolve and develop as required.

The RCEP secretariat will, inevitably, become a platform from which this Asia-wide liberalisation and integration is managed, as well as a coordination mechanism for the economic cooperation process, which is a pillar of RCEP. It also has the potential to address issues such as monitoring the implementation of the agreement, opening avenues for dispute settlement (given that the WTO process on which RCEP was heavily reliant is currently blocked), or working through unresolved and evolving issues of services and digital trade. China may wish to encourage internationalisation of its Belt and Road Initiative (BRI) in this context. A flexible agenda is required that allows the creation of working groups to report to ministers on pressing issues of shared concern beyond the negotiated outcomes in RCEP, such as infrastructure investment principles and standards, dispute mediation, energy transition, the digital economy, supply chain resilience, sovereign debt management, and pandemic recovery issues such as travel protocols.

Regular ministerial- and leader-level meetings of RCEP around the ASEAN+ summits have potential to reduce political uncertainties and build a foundation for political cooperation. A joint committee will establish four subsidiary bodies: a committee on goods, a committee on services and investment, a committee on sustainable growth, and a committee on the business environment (RCEP, 2020). While these bodies will oversee the implementation of the agreement, they will also provide an outlet for discussions on matters related to the economic and political architecture of the region. The agreement also stipulates that RCEP ministers meet at least annually to consider matters concerning the agreement (RCEP, 2020). The first RCEP ministerial and summit meetings to be held late in 2022 will be crucial for setting the tone and direction of RCEP, as Indonesia takes over the role of ASEAN chair.

Immediately, RCEP provides a mechanism for routine economic dialogue among ASEAN members and their regional partners. Dialogue around the East Asian Summit has not encompassed regular dialogue on economic issues and while such dialogue could be readily initiated, it has not been part of the habit of East Asian plus

cooperation arrangements. This is a serious deficiency in regional architecture, a deficiency that the establishment of RCEP can now fill.

## **5. Political Confidence**

RCEP's anchor in ASEAN institutional arrangements is also important as insulation for the agreement from today's geopolitical competition across the region, especially given that China is a participant in the agreement. The pressure on US allies and partners to decouple their trade – especially technology – from China has grown. China's assertiveness in its dealings with the US and internationally and its use of economic coercion, particularly in its regional neighbourhood — earlier against Japan and South Korea and recently blatantly against Australia — have aggravated uncertainties about the nature of its rise. There is a growing attenuation of trust between China and other powers. The multilateralism that helps to restrain and shape great power settlements and is essential to East Asia's prosperity and security, is harder to sustain.

The RCEP economic settlement is an important opportunity to bridge these fractures and to undergird political confidence and trust. Political confidence is a much-underestimated element in realising international trade and economic potential. The institutional arrangements in ASEAN that will power RCEP economic cooperation will help reinforce political trust and confidence in deeper economic ties.

The first meeting of RCEP ministers and summit provides a crucial opportunity to signal the ambitions that RCEP offers to build trust and confidence among members and commitment to reinforcing the multilateral trading system. Simple affirmation of RCEP's WTO roots and adherence to its principles; a declaration of members' intention to explore the value of the multiparty interim appeal arbitration arrangement (MPIA) to all RCEP members while the WTO dispute mechanism is in abeyance (only Australia, China, New Zealand and Singapore are currently participants among RCEP members); a statement of resolve to achieve best practice norms in trade behaviour; alongside specific initiatives on COVID recovery and

economic cooperation would be hugely important to stabilisation and defence of the global regime and impetus to regional integration and political stability.

RCEP also reinforces ASEAN's neutral broker role within the region. The current state of relations between the US and China makes it difficult, because of fear of losing national face, for either side to take steps that might re-establish trust in the other's intentions. RCEP can provide an opportunity to demonstrate good intentions, a direction in economic reform, political accommodation, and a stronger foundation for confident and constructive dealings with the US – three of whose major regional allies are members of RCEP. RCEP also offers a valuable space for articulating and implementing the reforms and liberalisation to which China has committed. These will extend market opening in China, boosting its trade and economic performance. With commensurate market openings in key East Asian economic partners and consistent rules, regional economic integration will deepen.

Reform and market opening will, of course, have more impact if extended multilaterally, beyond RCEP membership. RCEP provides a platform for demonstrating progress in reform, including to the US; building consensus on rule-making; as well as multilateralising new commitments and rules. There is an opportunity to phase in most-favoured nation provisions into RCEP, especially for its less-developed members as ASEAN's original members did.

China has indicated intentions to seek membership in CPTPP. There are important hurdles to entry, however; its provisions have significant implications for Chinese SOE reform, intellectual property protections, and environmental and labour standards. A strong economic rationale for China joining CPTPP is to mobilise the pressure for domestic reform, in the same way that it did along the way to WTO accession.

In its long journey to WTO accession, China undertook major unilateral reforms and liberalisation to demonstrate its commitment to openness. Similarly, RCEP can provide a platform for China – similar to that which APEC offered for its WTO accession – in its commitment to SOE and other reforms. This will, in time, also elevate the prospects for the Free Trade Agreement of Asia and the Pacific (FTAAP) to build an economic bridge across the Pacific to engage the US.

## **6. Economic Cooperation Platform**

The RCEP cooperation framework that is an essential element in RCEP, offers opportunity to help members make progress in areas that are not suited to negotiation, such as cooperation on recovery from the coronavirus pandemic, the regulation of the increasingly important digital economy, or opening the services economy. It also presents an opportunity to build cooperation on regional infrastructure investment, helping manage China's BRI, China–Japan cooperation, and other initiatives in a multilateral context. RCEP is open to the participation of non-RCEP members, especially India, through the economic cooperation process around particular agendas.

The economic cooperation agenda can deliver the most on market access and stronger rules. Economic and technical co-operation are often understood to be limited to capacity building for developing countries; yet, with the experience in East Asia, it can also contribute to the development of a strategic framework that helps tackle broader reforms, build institutional capacity and mutual trust, and enhance economic policy deliberations and political cooperation among members. This was the objective of the economic cooperation that stems from ASEAN.

Economic cooperation can support RCEP implementation as well as market access commitments, domestic institution building, and ongoing engagement among members towards economic integration. The inclusion of economic cooperation in RCEP as a key outcome is likely to determine how important the agreement is in supporting economic growth and development in the region. Existing economic cooperation arrangements between ASEAN and its FTA partners provides the foundation for economic and technical cooperation in RCEP, narrowing development gaps among the parties and maximising mutual benefits.

East Asia has experience in building economic cooperation through ASEAN, APEC, and the ASEAN–Australia–New Zealand FTA. These arrangements include mechanisms that allow officials – and to a lesser extent, businesses and other stakeholders – to interact routinely, develop familiarity and understanding, and build trust. Structured economic consultations and cooperation on a continuing basis is a feature of RCEP that goes beyond traditional FTAs or the technical aspects on implementing commitments under the FTA element of RCEP.

The implementation of RCEP commitments and economic integration can help build understanding on how to deal with the barriers in each country to progressing domestic reforms, including trade and investment barriers, conflicting policy priorities, and sensitivities. The RCEP economic cooperation agenda can help socialise ideas and policy strategies. Policy strategy convergence is an objective that can be achieved over time; members of APEC built up common understandings of the importance of openness and progressively removing barriers to trade. RCEP presents that opportunity to its members over the whole range of new and rapidly changing issues that have to be dealt with in modern commerce. Developing robust economic governance arrangements that converge around member interests is an important objective of the economic cooperation agenda.

Not all aspects of economic integration should be negotiated between countries. Many behind-the-border issues are embedded in domestic institutions and regulatory structures. To build community support to change them requires longer time frames, capacity, and understanding of their linkages with other policies. ASEAN was able to multilateralise its FTA preferences over time by deepening interaction, dialogue, and cooperation, which has since helped ASEAN's integration into the global economy and the growth of value chains in East Asia. ASEAN sets non-binding targets against which Members are assessed in the same way that APEC and G20 member commitments are subject to a measure of public review. While many fall short of timetables and standards, the direction of reform is defined in a process that allows for changed circumstances. Monitoring progress will be a key element in RCEP's successful implementation.

The diversity among RCEP members – with economies at different stages of development and with different institutional and political systems – means that gains from integration are greater. Complementarity, diversity, and geography are powerful forces that will drive economic integration. Creative approaches are required for dealing with the differences and creating opportunities to build capacity for the entire RCEP group and its integration into the global economy. Thicker interaction at the policy level is needed on political and economic cooperation. Progress on issues – including regional approaches to cross-border infrastructure and energy transition – requires consultations among relevant experts and stakeholders,

including the business sector, and confidence building. Issues, such as strengthening social safety nets and undertaking complicated reforms, need to be promoted by sharing experience, building capacity, and applying peer pressure.

The RCEP economic cooperation agenda can bring about large gains over time – beyond negotiated market access and rules commitments of an FTA. Many countries cannot easily identify or deal with non-tariff barriers in their own economies, and not all non-tariff barriers are barriers to integration. Some non-tariff trade barriers can be dealt with in a negotiating framework, but many need to be dealt with in a purely domestic setting with domestically initiated reform packages. The economic cooperation agenda can help this process.

## **7. Embracing Non-Members**

The economic cooperation agenda will benefit from avoiding exclusion of the interests of non-RCEP members given the global interests of RCEP economies and provides a pathway to multilateralisation of RCEP reforms. A core focus of RCEP must be on the grouping's membership but that should not exclude the participation of others where relevant and where agreement can be forged over time.

RCEP's openness to new members compared with similar economic arrangements is one of its key strengths. But the ASEAN philosophy of inclusiveness that has shaped the thinking behind RCEP, gives more immediate priority to the important opportunities there are for embracing non-members where there is interest in its work on economic cooperation.

This interest is most prominent and a priority in respect of India, to which the door of membership has been left open.

RCEP members can define a protocol of engagement with India which leaves a path for eventual Indian membership of the grouping but in the meantime actively promotes cooperation not only with India itself but also its neighbours in South Asia. Bangladesh among others have expressed interest in participation. That will help to keep markets open to Indian suppliers and ensure medical, food and energy supplies to India that help it manage the health and economic challenges it faces from the pandemic. As India is a potentially important producer of a vaccine and supplier of

equipment, maintaining Indian openness to foreign investment and exports will be crucial in the global effort to fight the COVID-19 pandemic and sustain India's recovery and long-term development.

RCEP is a natural champion of open regionalism — that is, regional cooperation that does not come at the expense of non-members and is dedicated to global objectives — with structures that are open and flexible and engage external interests. Cooperation can be extended without compromising the core RCEP goal of deepening regional integration – and actually help entrench it. The RCEP grouping is systemically important enough to the global economy that its interests are best served with an inclusive approach that deepens trans-Pacific and trans-Asian economic integration.

The economic cooperation agenda can be used flexibly to involve key non-member countries and economies around issues where economic cooperation is mutually beneficial. The cooperation around recovery from COVID-19, the digital economy, energy transition and infrastructure investment are not exclusive to RCEP members.

Further, with RCEP recognised as part of the pathway towards the FTAAP in APEC, engagement of Taiwan – a member economy of APEC and WTO – is possible. Taiwan is an important part of the regional economy and East Asian supply chains.

RCEP is positioned to build understanding and confidence in economic integration through areas of mutual interest with non-RCEP countries that are in close proximity to the RCEP grouping. This can help socialise East Asian economic integration and expand value chains across East and South Asia, which would prepare for the eventual return of India to RCEP and facilitate the expansion of membership in South Asia and beyond.

## **8. RCEP's global role**

RCEP provides ASEAN space to press the multilateral agenda where the United States and China have abandoned it. It has the potential to enlarge ASEAN's and Asia's voice in global forums such as the WTO and the G20, for the multilateral cause. RCEP needs to signal this at every step.

Multilateral cooperation and global institutions have never been more important than now; RCEP emphasises multilateralism and entrenches institutions for multilateral cooperation at a time when they are under threat. The locus of RCEP in ASEAN in constraining big power behaviour that might damage and weaken the entire global trade regime is one aspect. Another is that in-built dialogue and cooperation among members makes the arrangement a potential vehicle for enlarging ASEAN's and Asia's voice on multilateral reform issues in global forums such as the WTO and the G20.

RCEP allows ASEAN to press a multilateral agenda where the US and China have abandoned it. It has the potential to amplify the voice of ASEAN and all of Asia in global forums such as WTO and G20 for the multilateral cause. RCEP needs to signal this at every step. For example, RCEP members have a critical interest in WTO reform, and their constructive participation is essential to a successful outcome. Indonesia outlined a strategy on WTO reform in a non-paper to the 2019 G20 Summit in Osaka. As G20 chair in 2022, in pursuing its strategy for WTO reform, Indonesia can appeal to ASEAN and the RCEP membership to work through issues in the reform agenda that require time to reach common ground. The active engagement of key Asian economies is necessary to build high-level commitment for system repair, and a consensus favouring multilateral solutions on which the RCEP settlement was promoted provides a foundation for reforming the global trading system.

### **8.1. COVID-19 Recovery**

Asian economies are central to the global recovery from the COVID-19 pandemic because of their weight in the world economy. Struck down by the virus first, they are now positioned to sustain economic recovery sooner. Asia can help lead the exit from the COVID-19 crisis and be a vital driver of the global economic recovery. RCEP reinforces this claim to economic leadership by pioneering the



opening up of regional value chains and trade openness, both of which have been shaken by ongoing vaccine protectionism and supply chain insecurity, which have slowed the global vaccine drive.

East Asia, including India, accounted for over 34% of global GDP valued at market prices in 2019 and is now the world's biggest region in terms of purchasing power parity. The ASEAN+6 group is a natural choice for Asian initiative on the COVID-19 crisis, incorporating six G20 members and anchored in ASEAN (Armstrong et al., 2020). Assembling the necessary scientific, medical, and professional expertise to assist progress with the implementation of health, social, and economic policy strategies will be important to constructive cooperation at all levels.

Collaboration among professionals is still needed to plan to open borders. Participating governments can issue public health certifications to their citizens, who can then travel under agreed quarantine guidelines to other participating countries. This programme can be opened to any country willing to comply with the necessary public health requirements. Facilitating people's movements is critical to the recovery of key sectors such as tourism and education and the resumption of migration. RCEP members are positioned to take early initiative on these recovery measures.

## **8.2. Digital Economy**

The same platform can be used to support trade, economic, and political cooperation, which underpins the open regionalism that will support recovery and resumption of the region's long-term growth potential. RCEP can work to update rules for the digital economy. Indeed, RCEP includes one chapter on the digital economy, which addresses multilateral rules, liberalisation of e-commerce customs duties on electronic transmissions, and data localisation requirements. These provisions are a good start but beg cooperation in securing the potential of the digital economy.

RCEP can play a critical role in exploring rules for new economic opportunities and security challenges from new technologies, such as 5G telecommunications and digital trade. Multilateral rules in WTO may cover trade in goods adequately but are

mostly non-existent for a large proportion of international commerce in the 21st century, as services, investment, data flows, and new forms of technology proliferate. The patchwork of rules from smaller agreements leaves major gaps and causes economic fragmentation.

Digital transformation needs to be more effectively governed through multilateral agreements to harness it as a driver of international economic recovery and social development in Asia. Current restrictions on cross-border data flows hamper the operation of these tools, delay the pandemic response, and raise costs for businesses. The agreement can be updated to include cybersecurity guidelines and assistance, with cloud procurement and cloud-first policies, and to build trust in domestic and cross-border data flows through policies that address concerns over privacy, consumer protection, and security.

RCEP provisions on e-commerce and the digital economy are similar to those included in the CPTPP, with stronger carve-outs for national security and public policy measures that may stifle the free flow of data and information. Despite being narrower in coverage than agreements such as the Australia–Singapore Digital Economy Agreement, RCEP provisions reflect the extent to which the RCEP agreement represents the current consensus among countries of varying size and levels of development (Findlay and Pedrosa, 2020). Given that most RCEP economies, excluding Cambodia, Indonesia, the Philippines, and Viet Nam, are part of the WTO Joint Statement Initiative, RCEP demonstrates how any future multilateral agreement on e-commerce could be framed (Findlay and Pedrosa, 2020).

Despite their shortcomings, regional agreements with e-commerce provisions, such as RCEP, have a role to play in updating the global rules for the digital economy. Ensuring that subsequent agreements pursue an open regionalism approach will guarantee that this global perspective is reflected in the future governance regime for the digital economy in Asia and the Pacific (Armstrong, Sta Maria and Watanabe, 2021).

### **8.3. Energy Transition**

Although RCEP does not contain any specific environmental standards or provisions, and climate change mitigation is outside the scope of the agreement, it

can use its economic cooperation agenda to boost access to green technologies and to help build cooperation on the transition to cleaner energy sources. The region is one of the most climate-exposed regions in the world, with a patchwork of members having committed to Paris Climate Goals. Australia, China, Japan, and Korea have all set net-zero emissions targets for 2050 or 2060.

RCEP can play a critical role in encouraging technical cooperation among members in renewable energy, fuel sources, and research and development. Ongoing ministerial and technical discussions under RCEP should be an opportunity to expand formerly bilateral attempts at coordinating investment in alternative fuel sources.

The agreement could lower trade barriers and standardise rules to encourage foreign direct investment in green technologies and renewable ventures (Kalirajan and Liu, 2016). RCEP provisions on government procurement, intellectual property, and other non-tariff trade barriers reduce uncertainties that may otherwise stymie the commercialisation of low-carbon technologies. This positive-sum framework will help facilitate a green transition without resorting to carbon tariffs or other trade barriers, which jeopardise the international trade regime, reduce efficiencies, and are likely to be poorly targeted.

RCEP ministerial and joint committee meetings can be used to standardise environmental and social governance regulations across East Asia and in global bodies such as WTO. Although Asia is gradually adopting these regulations, mobilising private capital for green investments is still limited by a lack of common standards, dearth of quality information, and maturity mismatches, all of which raise the search costs of investment in green assets.

Consistent regulation and standards for sustainable and green finance will facilitate the energy transition and help channel investment to more environmentally friendly projects with higher returns. Getting financial markets right across RCEP members can help intermediate the region's savings for investment in energy transition. Regional cooperation can also help achieve common standards and regulations.

RCEP should be careful to avoid the fragmentation of global environmental and social governance and the complexity around green finance and investment opportunities that can result around green finance and investment. Building on the

European Union–China development of a common green taxonomy, RCEP could provide multilateral pushback against the splintering of green governance and regulatory principles that have the potential to hinder cross-border technology flows and climate cooperation.

#### **8.4. Belt and Road Initiative**

RCEP also has the potential to provide a coordinated and consistent approach to the BRI or other international infrastructure and connectivity initiatives, which the *Master Plan on ASEAN Connectivity 2025* and other ASEAN initiatives do not yet provide. The BRI was conceived and is implemented largely bilaterally, with China as a hub and individual recipients as spokes, although its ultimate aim is to further multilateral connectivity among participating economies. Alongside the benefits that the BRI has provided to recipient countries, there have been difficulties in its roll-out, with logistical, economic, political, and financing challenges leading to scepticism and political pushback. This can be avoided through a more multilateral approach, which would provide lessons learned and a model for sustainable infrastructure investment beyond the region. Similarly, China and Japan are cooperating on infrastructure investment in third-country markets; Australia, Japan, and the US have also initiated cooperative approaches that attempt to mobilise the private sector.

RCEP should focus on issues around project assessment, sustainable debt, environmental impact, and dispute mediation and resolution that are important to both providers and recipients of investment capital. Further, a coherent, consistent ASEAN response to the BRI would insulate ASEAN members from perceptions of weak governance, reduce the likelihood of failed projects, and deliver higher returns to Chinese investments and recipient communities. Cooperation can expand to cross-border infrastructure investment, and the principles and the framework for cooperation can be multilateral.

RCEP includes economies that provide capital, have the capacity to manage projects, and possess access to major financial markets and their disciplines, alongside a range of recipient countries with varying capacities to regulate and manage those investments. Many issues that surround the management of cross-border infrastructure include governance and capacity constraints that are not suited

to negotiated outcomes. Instead, confidence and trust-building around a common set of interests can be pursued under a cooperation framework.

China and Japan's joint infrastructure projects in third-country markets – including in South-East Asia where many of the 50 projects are located – is an example of how Chinese policymakers are open to working towards the quality infrastructure standards that Japan made explicit in the G7 and later G20, and onto which China has signed. Japan's experience of infrastructure investment abroad can help shape the BRI without Japan formally joining it (Armstrong, 2018). The Australia–Japan–US Blue Dot Network initiative and others can be managed alongside the BRI, with ASEAN as an important mediator and beneficiary through RCEP and APEC. China–US strategic competition may mean cooperation in APEC is difficult, and not all ASEAN members are party to APEC. Therefore, RCEP cooperation can aim to foster broader multilateral cooperation in APEC and elsewhere.

These are some examples of how the cooperation agenda might develop, not a specific pathway forward. That will depend on the priorities for common action that emerge. But certainly, COVID recovery, digital trade, infrastructure investment and climate change are among the possible candidates.

## **9. Unfinished Business**

The global order has changed in ways that now threaten the shared prosperity and security that has been promoted over the past 70 years. Asia's economic cooperation arrangements were formed around the principles of multilateralism that are central to that order. The change is a product of big shifts in the structure of global power, with the rise of China and other emerging economies; China's posture is now a cause of anxiety among the established powers (Drysdale, King and Triggs, 2021).

The huge growth of the Chinese economy has required substantial adjustments in other countries. South-East Asia has made the most of the opportunities that a growing China has presented and has benefited from the expansion of global value chains that ASEAN helped realise. North-East Asian economies, such as Japan, Korea, and Taiwan, have become more closely integrated with the Chinese economy, helping to drive the development of regional supply chains. Australia, in particular

among the resource-rich countries, has also benefited enormously from the commodities boom that China's industrialisation has brought – with the exchange rate absorbing much of the shock of managing that change, and macroeconomic policies maintaining full employment.

Not all countries have managed the adjustment to the China shock as well as East Asia. In the US, the impact of Chinese import growth among large-scale technological change, has put pressure on lower-end manufacturing activities and employment. The policies and institutions needed to cope with these social and economic pressures have been inadequate and provided fertile ground for unleashing the populist protectionist sentiment and politics under the Trump Administration. The response to these changes and a withdrawal from globalisation are reflected in the US's surge in protectionism and a retreat from multilateralism.

The conflicts and trade-destroying strategies that have emerged ignore the established rules of international trade, which evolved from Bretton Woods institutions and WTO. While there are significant gaps in the rules and new issues, strategies that tear down the established rules corrode the open multilateral order. These developments have undermined trade and investment flows, disrupted supply chains, and caused long-term damage to the confidence and predictability that underpin cross-border commerce. The downturn in global foreign direct investment – which dropped 23% in 2017 and 18% in 2018, stabilised in 2019 and fell by 35% in 2020 – illustrates the impact of the retreat of confidence in the international trading system before the impact of the COVID-19 pandemic (Drysdale and Pangestu, 2019).

The weight that Asia now has in the multilateral system recommends that leadership must come from within that region. No one country can lead Asia, which has several large powers with divergent interests. Yet Asian collective leadership is critical to global economic policy outcomes, and ASEAN is at its core. RCEP embeds structures for dialogue and cooperation at the highest level that have the potential to make collective Asian leadership in reinvigorating the global economic system a practical proposition. RCEP's institutionalisation can help manage these dangers. The nature of its structure and rules means that RCEP will further encourage the development of Asia-wide positions and strategies and strengthen their impact on the direction of global trade and commercial policy.

ASEAN centrality has been an organising framework for Asian economic policy cooperation over the past half century. The retreat of the US under President Trump from its leadership of the global economic order; the rise of China with its assertive stance on the South China Sea and its strategically challenging BRI; a Quad configuration of Indo-Pacific powers around the US, India, Japan, and Australia; and the continuing North Korea crisis all present significant difficulties for ASEAN's central role in the region. Yet RCEP can help restore the core role of economic integration to securing regional prosperity and political stability. This will not happen without significant regional political will. Buttressing the multilateral economic order to create space for China, the US and other rising countries in South and South-East Asia has become a priority. This is unlikely to succeed without strengthening a security architecture around the alliance frameworks that embed mutual assurances on the use of political power across the region.

RCEP provides a region-wide organisational framework to achieve security for Asia through economic integration and development. But this is only one of the three pillars necessary for comprehensive security across the region and beyond. The other two are a framework that addresses the sustainability of development for one-third of the world's people, and one of mutual assurances of political amity. Such a comprehensive security framework that incorporates all three pillars has inspired constructive Asian diplomacy in the past – not only in South-East Asia through the understandings on which ASEAN was constructed – and is on the minds of leading strategic thinkers in Indonesia, a crucial player in any effort to build stronger regional architecture (Natalegawa, 2013).

No one country, however big, ought to dominate East Asia, the Asia Pacific or Indo-Pacific and multilateral principles can set terms of engagement that help to constrain the exercise of raw political power. A comprehensive security arrangement that affirms commitment to multilateral economic rules and ASEAN Treaty of Amity and Cooperation principles can help secure a free, open, inclusive, prosperous, and politically stable region. It frames a vision in which the region can shape a future; RCEP now makes that more possible.

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