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The Regional Comprehensive Economic Partnership Agreement and Europe: Impact and Implications

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Abstract: *In the first 2 decades of the millennium, European Union (EU) trade policy underwent historic changes, amongst them an explicit pivot to Asia. Along with continued firm support of the rules-based World Trade Organization (WTO)-centred multilateral trading system, important new directions in the EU's trade policy included a turn to competitive bilateralism, a strong focus on values, an ambition to protect and to promote European trade standards as well as the politicisation of trade policy. Asia's outwards looking economic growth, the increasing trade interdependence in Asia as well as the various bilateral and multilateral trade agreements in the region, notably amongst them the Regional Comprehensive Economic Partnership (RCEP), attracted the EU's attention, and have helped cause and drive these changes. There was no particular Asian influence on the EU's own regionalisation, however. Meanwhile, trade and investment relations between Europe and Asia have intensified greatly over this period. But the EU has been slow and late to formulate a comprehensive strategy for the Indo-Pacific region. In spite of some notable successes, the EU's trade policy remains fragmented with differentiated approaches for each trading partner.*

Opinions on the RCEP's relevance and importance for Europe are divided. RCEP sceptics point to the overall shallow nature of the agreement. RCEP optimists emphasise the future potential of trade and investment integration within the newly established RCEP economic area and warn of the discriminatory effects for Europe's economy and businesses. So, Europe's business will have to invest in the new RCEP free trade zone to overcome trade diversion risks and to benefit from the RCEP market integration. More worrying from Europe's perspective is RCEP's potentially negative policy impacts: a relative loss in the EU's trading power, the risk of Europe being sidelined in the make-up of future trade rules, and RCEP's future impact on rules based multilateralism and the WTO. The EU has various trade policy options with regard to the Indo-Pacific trade area and RCEP in particular. The most promising options include the conclusion of free trade agreements with as many RCEP member countries as possible, with the Association of Southeast Asian Nations as a group (as a region-to-region agreement), with other trading partners (from the Indo-Pacific or from other world regions), or with the Comprehensive and Progressive Agreement for Transpacific Partnership area.

Keywords: RCEP; EU; EU trade policy

JEL Classification: F13; F15; F53

1. Introduction

On 15 November 2020, the 10 Association of Southeast Asian Nations (ASEAN) member countries (Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic [Lao PDR], Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam) as well as Australia, China, Japan, New Zealand, and the Republic of Korea signed the trade agreement for the Regional Comprehensive Economic Partnership (RCEP). Due to an expedient ratification process, the agreement entered into force as early as 1 January 2022. RCEP will create the world's largest free trade area covering 2.2 billion people and accounting for around 30% of global production and trade. With its scope and its commitments to investment and trade liberalisation, RCEP goes far beyond ASEAN's single free trade agreements (with China, Japan, the Republic of Korea, India, Australia/New Zealand) (ASEAN+1) on which it builds. After the expiry of generous transition periods, at least 91% of RCEP's intra-trade will be tariff free, mainly for industrial products. What is more, in goods trade, the comparatively liberal ASEAN rules of origin will apply, thereby allowing a regional value content level of 40%. In total, there are 20 chapters that make RCEP quite a comprehensive trade agreement with commitments in areas such as services, investment, intellectual property rights, competition, standards, remedies, e-commerce, and dispute settlement.

RCEP was not unexpected. For Asia and the entire Indo-Pacific region, foreign trade and investment have long been the engines of economic growth, industrialisation, and wealth creation. East Asia has been the world region with the highest rate of economic growth since 1981, except 1 year during the Asian financial crisis in 1998. To spur trade and investment, numerous bilateral and multilateral trade and investment agreements have already been concluded in recent years, the ASEAN Economic community and the Comprehensive and Progressive Agreement for Transpacific Partnership (CPTPP) probably the most important ones amongst them. Through trade, East Asia is connecting more closely both to itself and to the larger Indo-Pacific region. East Asia is also the region with the highest intra-regional trade intensity, next only to Europe. So far, RCEP is the culmination of a decades-long pursuit of trade liberalisation and market integration within the world's economically most dynamic and most important region.

Asia's dynamic economic growth, its foreign trade integration, and the regional free trade race have not gone unnoticed in Europe, the other major world region in the Eurasian continent. Trade and investment relations between Europe and Asia have intensified. The European Union's (EU) trade policy underwent historic changes after the conclusion of the Uruguay Round, partly in response to the opportunities and challenges emanating from Asia. On the other hand, the EU trade policy is also likely to have an impact on Asia, too.[1]

The conclusion of the CPTPP and the signing of RCEP have attracted a great deal of attention in Europe. But opinions about its relevance and significance for Europe were and are divided. It should be clear that the ongoing shift of economic gravity to the Indo-Pacific had and will have a sustaining impact on Europe and the EU, too.

Against this backdrop, this paper is looking at the impact of RCEP – to a certain extent the proxy of Asia's and the Indo-Pacific's economic dynamism and the progressing discriminatory trade agreements in the region – on European foreign trade policy and on Europe's own regionalisation process (2000–2020). In this endeavour, the author adopts a European perspective.

The structure of the paper is as follows: Subsequent to the introduction, a more general description of the changes and the evolvement of the EU's trade and investment policies in the first 2 decades of the millennium is necessary to understand its internal dynamics and driving forces. Third, the EU's trade policy on Asia will be outlined. Fourth, opportunities and risks emanating from RCEP will be analysed.

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[1] Since 2020, the EU consists of 27 member countries: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden. The United Kingdom (UK) left the EU on 1 February 2020 (Brexit). Thus, a distinction must be made between a pre-Brexit EU (EU-28) and an after-Brexit EU (EU-27). In addition to the EU, Europe for the purposes of this paper includes the European Free Trade Association members (Iceland, Liechtenstein, Norway, and Switzerland) and the UK, but excludes Russia, other Eastern European economies (Belarus, Moldova, and Ukraine), the Caucasus, the Balkans, and Turkey.

2. EU’s Trade Policy Changing Course

2.1. Internal and External Challenges

The EU’s policy towards external trade has come a long way. Until the early 1990s, protection of domestic industries in sensitive areas such as agriculture, steel, cars, electronics, and textiles was prevalent and the former European Community’s relations to its trading partners were shaped by a pyramid of preferences. Although the EU introduced some new non-tariff barriers (NTBs) after the 2008–2009 global financial crisis and the EU’s trade policy in general is not free of protectionist tendencies, the EU is today strongly committed to open trade relations to enhance Europe's participation in the international division of labour. What is more, the EU has become a leading proponent of the multilateral trading system based on the World Trade Organization (WTO). This dramatic change took place in the course of the EU’s internal (liberal) deepening and external widening, the EU’s ongoing political, economic, and legal integration, and its expansion from 12 (in 1985) to 28 (in 2016) member states. Together, they brought about a liberal turn in European trade policy, notwithstanding the persistence of protectionist tendencies. On the other hand, the parallel development and formulation of a common European foreign and security policy led to a trade policy that is increasingly being instrumentalised for non-trade foreign policy goals.

But it was not only internal EU dynamics that shaped the EU’s trade policy in the new millennium. Powerful external forces also played an important role. Given the shift in weight in international trade and production from the Atlantic to the Pacific, the EU’s trade policy has had to respond. But also the global trade environment changed and became increasingly rough, especially after the global financial crisis and Europe’s subsequent euro crisis.

First, for a number of reasons, the growth of world trade has slowed and is now only just above the growth of world output. The heyday of globalisation, when growth in international trade was at times more than twice as high as world economic growth, appears to be well and truly over.[2] Whilst the flattening of global trade growth could have negative consequences for economic growth, the potential

[2] For a technical analysis, see Constantinescu, Mattoo, and Ruta (2015).

gains from trade liberalisation, as well as the policy incentives for trade liberalisation, have shrunk accordingly.

Second, protectionist tendencies are steadily on the rise around the world, according to Global Trade Alert, an independent trade policy monitoring initiative.[3] A progressively larger share of global trade is affected by trade-distorting measures, such as tariffs, anti-dumping measures, export subsidies, public procurement restrictions, etc. In retrospect, the global financial crisis marked a turning point from trade liberalisation to protectionism.

Third, with the rise of populism and nationalism worldwide, scepticism about globalisation and trade liberalisation grew in Europe as well. However, fears and reservations of the European publics differ from the anti-trade rhetoric in the United States (US). Europe's vocal nongovernment organisations focus less on the negative impact of trade on incomes and employment. Rather, critics are concerned about the negative implications of certain agreements on consumer protection, the environment, labour rights, and animal welfare. The democratic legitimacy of the negotiating EU Commission, especially when it came to the Transatlantic Trade and Investment Partnership (TTIP) agreement with the US is strongly questioned (Rudolff, 2017; Young, 2017).

Fourth, the multilateral trading system centred on the WTO is in a severe systemic crisis. Whilst the Doha Round of multilateral trade negotiations has failed and the WTO's dispute settlement system is no longer functioning, both trade liberalisation and the further development of global trade rules now take place predominantly outside the WTO. Moreover, neither the US nor China, the other two major powers in international trade, can be expected to defend or even preserve the multilateral trading system, given their behaviour in trade policy in recent years.

Fifth, in the face of growing geopolitical instability, foreign and security policy objectives determine trade policy more and more, and, to some extent, even trade flows. With the sharpening of great power rivalry between China and the US in the areas of security, diplomacy, and technology, the use of trade policy measures to achieve political goals has become more frequent and important. Both countries

[3] Global Trade Alert is an independent trade policy monitoring initiative, see https://globaltradealert.org

do not shy away from threatening and implementing sanctions, boycotts, and arbitrary discrimination against each other or against third countries, including EU member countries.

Faced with the new turbulent trading environment on the one hand and an increasingly trade-sensitive European public on the other, the EU's trade policy has had to adapt through institutional and political changes.[4]

2.2. Institutional Changes

Already at the start of the European integration process with the Treaties of Rome, trade was one of the key policy areas that the participating European nations delegated to the supranational level. Since then, more power and competences have been transferred to 'Brussels' the seat of the EU Council, the EU Commission, and the European Parliament whether due to practical necessities or as a result of constitutional reforms and supreme court decisions. Indeed, the establishment of a customs union in 1967 and a common internal European market in 1993 required a central executive authority, the EU Commission,[5] to enforce trade liberalisation within the Community, to chart the course of trade policy and coordinate it internally, and to speak with one voice externally. However, the member states, represented by the Council of Ministers, were only prepared to relinquish so much sovereignty because they reserved far-reaching decision-making and controlling rights for themselves. Indeed, the Council of Ministers gives the mandate for negotiations to the EU Commission, it oversees the negotiation process (through a special Trade Policy Committee), it has the right to request changes on sensitive issues, and it adopts the agreements by qualified majority. However, in practise consensus is sought and found in the Council.

Three major institutional changes occurred with the EU Treaty of Nice (2001) and the EU Treaty of Lisbon (2007), which entered into force in December 2009.

First, the EU's supranational trade policy responsibilities have been expanded to include henceforth trade in services, the commercial aspects of intellectual property rights, and foreign direct investment. However, the Treaty of Lisbon did

[4] For a comprehensive overview on the institutional and political development of the EU trade policy, see Lütz, et al. (2021).

[5] To be precise, the Directorate General for Trade of the EU Commission.

not specify how responsibilities should be divided between the EU and the member states when concluding comprehensive economic agreements. To address this question, the Court of Justice of the European Union ruled in 2017 with respect to the pending agreement with Singapore (EU–Singapore Free Trade Agreement) that only matters related to portfolio investment and investor-state dispute settlement (ISDS) fall within the jurisdiction of member states.

Second, the European Parliament (EP) received the exclusive right to ratify all negotiated trade agreements by simple majority, thereby elevating its decision power to the same level as the European Council. Only investment agreements dealing with portfolio investment and ISDS still have to be ratified by parliaments of the member states. From now on, the Commission, the Council, and the member states have to take the EP's objections and demands seriously, not only in the course of negotiations, but already at the mandatory stage. However, so far, with the notable exception of agriculture, the EP does not seem to have a deep interest in the details of trade agreements, but rather in high-level policy issues such as consumer protection, labour rights, the environment, development, and human rights.

Third, trade policy became an integral part of the EU’s ‘unified external action’, henceforth being guided by a common set of principles and objectives, such as preserving peace, promoting democracy, protecting human rights, and fostering sustainable development. The impact of the Ukraine war, which directly affects Europe's security and stability, on EU trade and trade policy cannot be foreseen. But so far, the EU’s Directorate General for Trade has not considered geopolitics as its task. Under guidance or even pressure from the EU Presidency, the EU Council, or the EP, this could change in the future.

2.3. Policy Changes Along Evolving EU Trade Strategies

In the 3 decades since the end of the cold war, the EU’s trade policy has undergone a remarkable transformation, becoming more active, more influential, and more liberal, notwithstanding the persistence of protectionist tendencies. It is to the EU's credit that, despite conflicting interests and attitudes within the EU, it has pursued a largely coherent trade strategy. The establishment of the European Single Market, the accompanying guarantee of free internal movement of goods, services, people, and capital, as well as the reform of the common agricultural policy in the course of the EU’s eastwards enlargement, were probably the two main driving forces in this transformation. Additionally, the widespread acceptance of liberal ideas and the centralisation of trade policy in the technocratic minded Commission played an important role (Lütz, et al., 2021; Young and Peterson, 2014).

After the completion of the European Single market (1993) and the conclusion of the Uruguay Round of the former General Agreement on Tariffs and Trade (GATT) (1994), the EU pursued its trade policy on the assumption that the liberalisation of domestic markets and market opening were closely linked. The officially claimed aim of the EU's trade policy was to improve the competitiveness of European companies and to give European goods and services better access to foreign markets, not least with a view to the growing markets of the Asia-Pacific region (European Commission, 1996). With this in mind, the EU assumed a leading role in initiating a new multilateral round of trade negotiations, which was launched in Doha in December 2001. Being under pressure to liberalise their agricultural markets in this new round, the EU was keen to reduce tariffs and, above all, non-tariff barriers in non-agricultural markets. Against this background, the EU actively advocated the inclusion of the so-called Singapore issues, i.e. competition, investment, public procurement, and trade facilitation. To underscore its principled commitment as the guardian of the multilateral trading system, the EU even imposed a de facto moratorium on itself on the opening of bilateral free trade negotiations in 1999. However, this multilateral strategy failed, when the Singapore issues were dropped at the WTO ministerial conference in Cancún in 2003, the Doha round trade negotiations subsequently stalled, and the race for bilateral free trade agreements (FTA) gathered pace worldwide.

As its strict multilateral stance was no longer tenable, the European Commission announced a ‘Global Europe’ strategy in June 2006 (European Commission, 2006), marking a clear shift towards bilateral agreements. The EU had concluded bilateral agreements before, for example with countries in the European neighbourhood, with former colonies, or with Mexico and Chile in response to America’s FTAs. But now, economically important markets in Asia and in the Americas were the target. Based on the objective of competitiveness, a more offensive external trade policy strategy should open foreign export markets to European business, and reinforce competitive disciplines at home. With these new-generation FTAs, the EU was striving for comprehensive and far-reaching trade liberalisation.[6] According to the Commission, the selected partner countries should have a large market and should offer sufficient market potential and growth potential resulting from the elimination of tariffs and NTBs (European Commission, 2006). Based on these criteria, the European Commission identified ASEAN, India, the Republic of Korea, and Russia as priority countries for negotiating FTAs, as well as the Gulf Cooperation Council and Mercosur, with which negotiations had already taken place. Going beyond that, the European Council authorised the Commission to open negotiations with ASEAN, India, the Republic of Korea, Central America, and the Andean Community. Some years later, the EU launched FTA negotiations with Canada (2009), the United States (2013), and Japan (2013).

In accordance with the so-called ‘Common Approach 2009,’ the EU’s trade policy evolved into a kind of trade diplomacy, which linked economics and politics in a rather clumsy formal, legalistic manner. Furthermore, FTAs were linked to the conclusion of previous or parallel political agreements with the EU. These agreements were to include binding political clauses on human rights, democracy, rule of law, non-proliferation of weapons of mass destruction, counterterrorism, and the International Criminal Court (Okano-Heijmans, 2014).

The regulatory depth of the envisaged FTA agreements caused fierce controversies, especially the TTIP negotiations with the US. Critics who claimed that the EU could be forced to lower its high standards of consumer, environmental, and animal protection found broad social and political support in Europe’s political arena. A fundamental debate arose over the goals of trade policy and the conduct of trade negotiations. The Commission responded to these urging demands for legitimacy with a shift in focus and emphasis, unveiling its new trade strategy ‘Trade for All’ in 2015 (European Commission, 2015). Whilst the general liberal orientation was upheld, a values-based trade policy was announced, which should

[6] See for example Hilpert and Park (2022); Siles-Brügge (2011).

pursue goals such as consumer protection, sustainability, human rights and the defence of the state's right to regulate. Furthermore, trade policy should be open, transparent, and inclusive.

In the early 2020s, the EU again needed to adjust its trade policy strategy as it was challenged by a protectionist United States, an assertively rising China, rising economic nationalism worldwide, and the negative impact of the novel coronavirus disease (COVID-19) pandemic. In addition, the EU's market and regulatory power was challenged by the new mega-regional agreements, the CPTPP and RCEP. Implementing its new transparency line, the Commission consulted first with its member states, the EP, business groups, and nongovernment organisations on how to develop a trade policy review (TPR). Eventually, a new trade policy strategy was launched in February 2021, setting the new paradigm of open strategic autonomy. Thereupon the EU still upholds its liberal commitment to trade openness and proposes WTO reform across all its functions, but asserts its right to defend and pursue its economic and political interests by means of trade policy. A strong new focus is laid on supporting the green and digital transformation of the EU economy (European Commission, 2021b). The new strategy initiated by the TPR is important, but it is still not clear, what open strategic autonomy, an inherently contradictory term, really means.[7]

Although national security is explicitly the legal competence of member states under the EU treaties, growing concerns about the increasing military power and their technologies behind it of authoritarian states such as Russia and China have led to a coordinating role for the EU. Thus, an EU framework for screening foreign investments that may pose a security risk was introduced in 2019. A regulation on export controls for dual-use items followed in 2021.

Brexit is another challenge for the EU’s trade policy. On 31 January 2020, the United Kingdom (UK) left the EU after a majority voted in favour of withdrawal in a referendum in June 2016. As a result, the EU’s weight in international trade is shrinking, and with it, its weight in international trade policy. From now on, internal decision-making in the EU will take place without the assertive liberal voice of the UK. As far as EU–UK trade relations are concerned, the bilateral Trade and

[7] For a critical look at the EU’s trade policy review, see Erixon (2021).

Cooperation Agreement of 24 December 2020 ensures free trade in goods between the UK and the EU, provided rules of origin are respected. But new barriers have been erected in the services trade. The UK now has an independent trade policy and is actively seeking to conclude FTAs worldwide. At the time of writing, the UK has struck deals with Australia, Japan, the Republic of Korea, New Zealand, Singapore, and Viet Nam amongst the RCEP countries. Notably, the UK has applied to join the CPTPP. It remains to be seen whether the EU and the UK will cooperate on international trade policy once their bilateral trade agreement is fully implemented, given similar trade policy interests and attitudes.

2.4. Important Features of EU Trade Policy

Notwithstanding the still unclear implications of the TPR and Brexit on the future course of the EU's trade policy, there are some distinctive features of the policy that are relevant for Asia and for RCEP.

High Level of Ambition

In its trade relations, the EU is asserting a high level of ambition. Having failed to include the Singapore issues in the Doha Round of WTO trade negotiations, the Global Europe Strategy placed high demands on its new-generation FTAs. FTAs should go far beyond mere tariff removals, but also encompass rules of origin, services, intellectual property rights (IPR) including geographical indications (GI), industrial and agricultural standards, public procurement, subsidies and competition, sustainability, and regulatory cooperation. To obtain the approval of the Council and the EP, the Directorate-General (DG) for Trade of the European Commission must work for a real reduction of NTBs. As a consequence of the EU's high qualitative requirements, FTA negotiations are lengthy, difficult, and often inconclusive. Several negotiations have failed because the negotiating partners were unable or unwilling to meet the EU's 'gold standard' demands for market opening and liberalisation.

Protecting and Promoting EU Rules and Standards

The EU has a natural self-interest to defend, to sustain and to promote its own trade rules and standards. Thus the Commission has set itself the goal of promoting and enforcing European and international standards via FTAs, e.g. rules of origin, technical standards and regulations in industry, food safety, services, intellectual property rights, data protection, and sustainability (labour, environment). Therefore, the EU puts a special focus on implementation and enforcement of trade agreements to ensure a level playing field. Given the rapid pace of technological development, the EU intends to strengthen its regulatory influence, particularly with regard to the green and digital transformation effect (European Commission, 2015; 2021b). In this endeavour, the EU competes with other major trading powers such as the US, China, and Japan, benefiting from the so-called Brussels effect.[8] When the EU links trade policy to sustainability issues, it is sometimes accused of protectionism. It is true that sustainability clauses prevent 'non-sustainable goods' from entering the EU market and thus have a protectionist effect. The EU counters this by reiterating its policy objective that trade policy should improve, not worsen, people's living and working conditions. Therefore, in the area of sustainability, the EU insists on binding commitments and compliance with recognised international standards, such as those of the International Labour Organization, rather than the higher European standards. However, this can be difficult to implement if there is a lack of corresponding international reference standards, as is the case in some areas of the environment and climate.[9]

Non-Trade Foreign Policy Goals

The access to the single market is a central power resource for the EU in its international relations. In this context, economic, political and security interests intertwine and trade policy works as an effective foreign policy instrument.[10] Although less so than in the case of the EU's neighbourhood policy, European security interests also affect and influence the EU's trade policy with Asian countries. More importantly, the EU's trade policy is committed to promote European values and standards – an obligation that arises from the Treaty of Lisbon,

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[8] Given the EU's market size, its regulatory capacities and its high stringent standards, it is advantageous for internationally active firms, even for non-EU-companies, to comply with the relatively high EU standards uniformly worldwide (Bradford, 2012).
[9] Answer in an interview with an anonymous member of the European Parliament's Committee on International Trade.
[10] See for example Damro (2012).

was set out in the ‘2009 Common Approach’ and is explicitly confirmed in the trade strategies of 2015 and of 2021. Thus, a kind of political conditioning has entered into the EU’s trade policy. Whilst trade agreements and political agreements are being negotiated in parallel, the EU expects from its partners to recognise political clauses on human rights, rule of law, democracy, peace preservation, and non-proliferation of weapons of mass destruction (Bungenberg and Hazarika, 2019; Chen and Gao, 2020).

Separation of Trade and Investment

Since the Court of Justice of the European Union had clarified that all issues related to portfolio investment and ISDS do not fall under exclusive European competence, the EU no longer negotiates trade and investment protection together. To maintain its credibility as a reliable partner, the EU has since been negotiating either two separate agreements or only one of the two. After the experience with the protracted and uncertain ratification processes for the agreements with the Republic of Korea, Singapore, and Canada, the Commission wants to ensure that the (comprehensive) trade agreements it negotiates only require the approval of the Council and the European Parliament. In contrast, Investment Protection Agreements (IPAs) are mixed agreements and must go through the national ratification process in all member states (Bungenberg and Hazarika, 2019; Lütz, et al., 2021).

Multilateral System at the Centre

In recent decades, the EU has fundamentally changed from a defensive mercantilist player in the GATT system to a staunch supporter of the rules-based multilateral trading system. The EU's firm support for the WTO system stands in marked contrast to the US’s open aversion for existing multilateral rules under the previous Trump administration and the competitive distortions in international trade caused by China's state-led economy. Despite its competitive bilateralism, the EU remains firmly committed to restoring the WTO's centrality, and to defending and reforming the WTO across all of its functions, at best, together with a group of like-minded countries (European Commission, 2021).

3. The EU’s Trade Policy’s Pivot to Asia and the Indo-Pacific

3.1. Europe's Slow Response to Asia's Economic Dynamism

In its relations with Asia, the EU has always encountered reservations and prejudices, but it also has to contend with difficulties of its own making. Certainly, Asians have not forgotten Europe’s colonial past in their region. But also in today’s world, the EU can be a difficult partner. To start with an understandable point: Europe’s natural priorities are not Asia, but Europe itself and its immediate vicinity. But more importantly, the EU has a complicated political and legal structure that is difficult to navigate, with its slowness and lack of transparency of decision-making, and the constant competition between the foreign and trade policies of the EU and those of the member states. These political structures, which are primarily focused on intra-European balance and consensus-building rather than on expediency and efficiency, have meant that Europe’s interactions with Asia have always been slow, behind the curve, and lacking in strategic direction. Overall, the EU’s approach to Asia has largely been responsive rather than proactive, especially when compared to the United States (Hilpert and Park, 2022). It is therefore not surprising that Europe has been late to recognise Asia’s economic and political dynamism, as manifested by its belated launch of a more rigorous ‘Asia Strategy’, based on the New Asia Strategy adopted by the European Commission in 1994 (European Commission, 1994).

Next, recognising each other’s importance, Asia and Europe initiated the Asia–Europe Meeting (ASEM) process of interregional dialogue and cooperation in 1996, based on the three pillars of political, economic, and social and/or cultural cooperation. ASEM now includes 51 countries as well as ASEAN and the EU. Heads of state and government meet in biennial summits with the US absent. Between summits, ASEM proceeds on the basis of ministerial meetings, sectoral dialogues, and convened working groups. ASEM undoubtedly has proved useful in bringing the two regions closer together, developing a better understanding of each other, and managing their interdependence. But ASEM has never realised its potential. Policy objectives have always remained vague and undefined. The choice of topics for the summits was not strategically chosen, but was rather randomly determined by external events, and it has always remained unclear what particular contribution ASEM would make. The strategic added value that ASEM could theoretically have had, namely deepening interregional trade and economic relations through a region-to-region agreement or building strategic cooperation beyond the respective relations with the US, has never seriously been addressed. As a consequence of Europe’s slow and rather passive interactions, the EU is still struggling to play a significant role as a political actor in Asia. Nevertheless, Europe is a very important economic partner and the main supplier of development and humanitarian assistance (Gaens and Kandekar, 2018; Hilpert, 2004; Park, 2004).

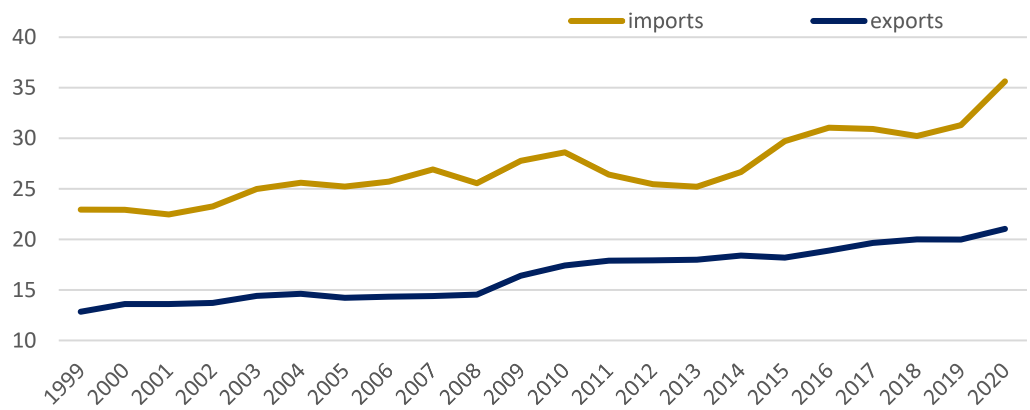
3.2. Growing Economic Interdependence between Asia and Europe

Notwithstanding the slow and sometimes inadequate response of European policy to Asia's dynamism, Eurasian trade and interregional economic integration have intensified substantially and rapidly over the past decades. This has occurred even without trade preferences. In contrast to policy, Europe’s business have clearly recognised Asia's economic opportunities and have pounced on its growing markets.

As Figure 1 shows, foreign trade between the EU-27 and the RCEP-15 has increased sharply over the past 20 years. RCEP has become the EU’s most important trading partner, even ahead of the North America region. The share of RCEP in total EU exports increased from €126.4 billion (13.6%) in 2000 to €406.7 billion (21.0%) in 2020, and the share of RCEP in total EU imports increased from €226.7 billion (22.9%) in 2000 to €611.7 billion (35.6%) in 2020, according to Eurostat. Extending the analysis to the whole of Europe (EU-27, plus the European Free Trade Association, plus the UK), a similar trend can be discerned. The data shows, that RCEP is the most important supplier of goods to Europe. On the other hand, Europe is the most important market for RCEP. It is noteworthy that for both regions, bilateral trade relations have become more important than their respective trade relations with the US or North America (including Canada and Mexico), at least on a quantitative basis. What is also striking in trade between the EU-27 and the RCEP-15 is the large and persistent discrepancy between exports and imports.

Figure 1: Trade in Goods between EU-27 and RCEP-15, 1999 to 2020

RCEP share in EU-27 extra-community trade in %

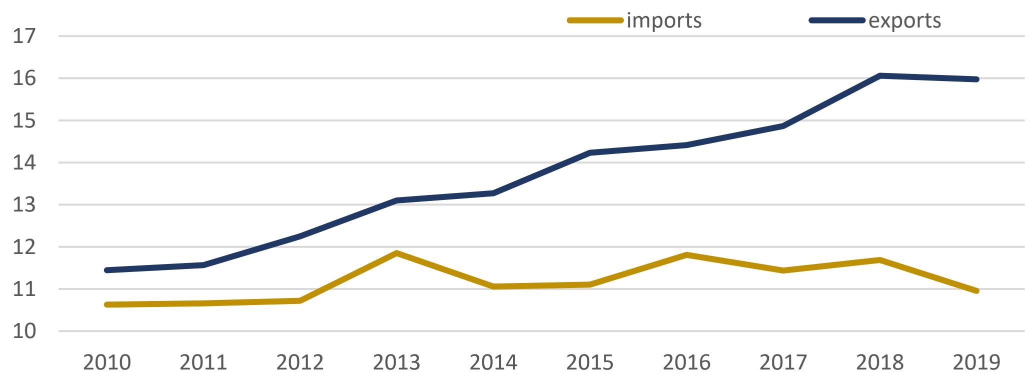


Source: Eurostat [DS – 018995] (accessed 12 January2022).

Compared to trade in goods, interregional trade in services between the EU-27 and the RCEP-15 has grown even faster and more strongly, as shown in Figure 2 for the period from 2010 to 2019. In services trade, the roles are reversed between Europe and Asia. The EU-27 has a large and growing surplus in services trade with the RCEP-15. However, with EU-27 exports worth €168.6 billion and EU-27 imports worth €107.6 billion in bilateral services trade with the RCEP-15 in 2020, the level is substantially lower than in goods trade.

Figure 2: Trade in Services between EU-27 and RCEP-15, 2010 to 2019

RCEP share in EU-27 extra-community trade in %

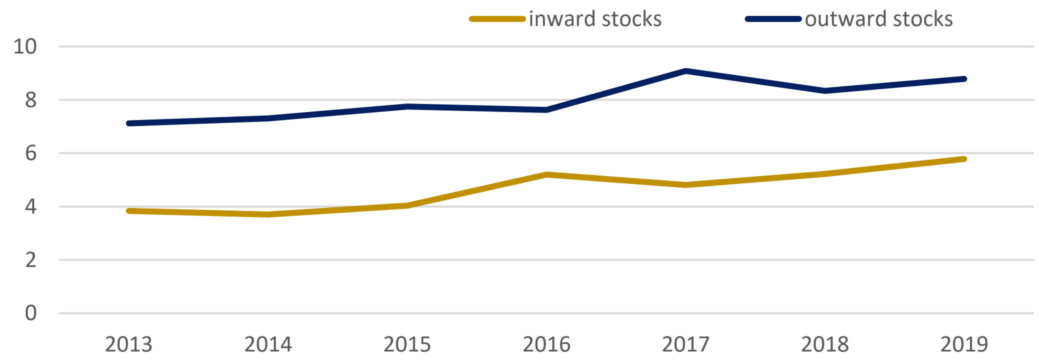


Source: Eurostat (BPM6) (bop_its6_tot) (accessed 29 March 2021).

EU-27 investment in Asia has also increased substantially in recent decades, although EU investment in the US, the UK, Switzerland, and offshore financial centres is still much higher. Nevertheless, the EU is the most important investor in many, but certainly not all the RCEP economies. Overall, the stock of EU-27 foreign direct investment in the RCEP-15 amounted to €789.6 billion at the end of 2019, representing a share of 8.8% (Figure 3). In contrast, RCEP-15 direct investment stocks in the EU-27 are lower at €412.9 billion, even though they have increased significantly in recent years.

Figure 3: EU-27 Direct Investment Stocks with RCEP-15, 2013 to 2019

RCEP share in EU-27 extra-community investment in %



Source: Eurostat [DS-018995] (bop_fdi6_geo] (accessed 12 January 2022).

An empirical look at trade in goods, services, and direct investment shows how close the economic relationship between Europe and RCEP has become. Obviously, the degree of economic interdependence has reached a high level what could be crucial for the future growth prospects of both sides. If current trends continue, economic interdependence and integration are likely to increase even further.

This broad interregional perspective highlights the mutual economic benefits of trade and investment relations between the EU-27 and the RCEP-15 and thus explains why tariff liberalisation and NTB dismantling make sense overall. However, this aggregate view is insufficient for a comprehensible explanation of the political dynamics of European–Asian trade policy relations. A more nuanced analysis would be required for at least three reasons.

First, trade policy is about more than economic calculations, such as trade liberalisation, preferential market access, and rules and standards. Geopolitical and security interests also play a role. Second, the trade policy interests of the 27 EU member states and their view of Asia and RCEP are by no means homogeneous, even though they have communitarised their overall trade policy, i.e. having raised the decision process on the supranational EU level. The EU consists of a variety of economies, different income levels, sectoral structures, competitive advantages, and also different trade policy orientations. Their defensive and offensive trade policy interests are accordingly also different. A cohesive view of the variance in perspectives and interests will be useful. Third, the EU does not pursue a region-to-region trade policy with Asia, but rather an individual and flexible country-by-country approach, still in line with its ‘Global Europe’ competitive bilateralism approach, which was introduced in 2006. As long as there is no entity equal to the EU in terms of competence to regulate trade and investment between its member states, a mega-regional agreement – at least so far – is not feasible (Bungenberg and Hazarika, 2019). Therefore, a closer look at the EU’s trade policy towards individual RCEP countries is needed.

3.3. Towards a Political Strategy for the Region

Attracted by the economic growth dynamic, Europe's interest in Asia has traditionally focused on trade and economics. It remained elusive, however, whether or which geopolitical interests the EU should pursue in Asia and the Indo-Pacific region, whose overwhelming strategic importance could no longer be ignored in the new millennium. It is true that the EU has entered into strategic cooperation with ASEAN or strategic partnerships with Japan, the Republic of Korea, China, and India. But what its political, security, and governance interests are for the region as a whole, the EU has been slow and late in clarifying. At last, in 2016, the European External Action Service (EEAS), which is the EU’s diplomatic service, stated that the EU should make full use of its economic potential to achieve its security objectives as part of its broader foreign policy agenda (EEAS, 2016). Then in 2018, as a first step in response to China's Belt and Road Initiative, the EU declared that its ‘connectivity’ principles are sustainability, comprehensiveness, and rules-based (European Commission, 2018). Building on this, the EU pledged in its recent Global Gateway Initiative to invest (with partners) €300 billion in infrastructure in developing and emerging countries (European Commission, 2021b; Chen and Gao, 2020). More importantly, a comprehensive EU policy strategy for the Indo-Pacific region was set out in 2021, following the national Indo-Pacific strategies of three member states (France, Germany, and the

Netherlands). The EU announced its political intention to focus more on the Indo-Pacific region. To this end, a framework for strategic engagement in and with the Indo-Pacific region has been set out. One of the seven focus areas is sustainable and inclusive prosperity, which includes the trade dimension. Another area is digital governance and partnerships, which includes trade. From now on, trade policy will be embedded in a comprehensive European policy strategy for the Indo-Pacific region (European Commission, 2021b).

However, there is no internal dimension of the EU's political strategy for the Indo-Pacific. Certainly, the Indo-Pacific's economic dynamism and the progressing discriminatory trade agreements in the region had certain influence on Europe's trade, on Europe's trade policy, and even on its broader foreign policy agenda. But no influence on Europe's own regionalisation process can be discerned. It was the global financial crisis and the subsequent euro crisis that prompted the EU, already the most liberalised and integrated economic bloc in the world, to push its integration even further in the 2010s. First, the so-called European Semester, an annual monitoring of national budgetary, fiscal, economic, and social policies introduced in 2011, forced member countries affected by the euro crisis to implement painful structural adjustment programmes and deregulate their markets. Second, there were agreements to create a capital markets union and a banking union. Thus, RCEP and Asia probably did not have a major impact on recent regionalisation trends in Europe, notwithstanding widespread hopes of attracting Asian investment based on successful structural adjustments.

3.4. The Influence of the EU Member States

As already noted above, under the EU constitution, the member states have reserved the ultimate right to make the final decision on trade policy issues, thereby balancing their commercial interests against other policy objectives. In practice, however, the Commission defines and represents the trade policy of the EU and EU member states and acts on their behalf vis-à-vis third parties. It is up to the Commission, by virtue of its bureaucratic authority and technocratic persuasiveness, to propose and impose a policy line that is acceptable to all member states, or at least to a qualified majority. Given the profound disagreements in

Europe on important policy issues, this is no easy task. Member states' national trade and investment promotion policies can reinforce or undermine EU trade policy. With regard to trade relations with the Indo-Pacific region, and with RCEP in particular, at least four points of contention can be identified in the EU. The fault lines run both between and within the member states. Thus, a change in government sometimes also entails a change in national trade policy orientation.

First, there is an ongoing, but still undecided struggle over the general direction of the EU's trade policy. Liberal voices emphasise Europe's offensive interests in access to Asia's export markets and in levelling the economic playing field. In contrast, the mercantilist side calls for protection against unfair agricultural and industrial imports. The staunchest supporters of a liberal trade policy are Denmark, Luxembourg, the Netherlands, and Sweden. In most cases, the liberal camp is led by Germany, which is often also supported by the other northern and eastern member states, provided they do not have particular defensive concerns of their own. Notably, Central Eastern European countries closely linked to German-led industrial supply networks, such as the Czech Republic, Poland, Slovakia, and the Baltic countries, support a liberal trade policy orientation. In contrast, the EU member states from south and southeast Europe make up the mercantilist camp (Bulgaria, Croatia, Cyprus, France, Greece, Hungary, Italy, Malta, Romania, Slovenia, and Spain). These countries, some of them suffering from high unemployment, would face further structural adjustments in the event of import liberalisation. Their export opportunities to the RCEP region, on the other hand, are limited. In many instances, France is their leading voice.[11]

Second, there is disagreement over the choice of negotiating partners for an FTA, particularly with respect to China. In general, EU member states agree on the need to conclude more FTAs with Indo-Pacific countries, with the possible exception of Austria and Bulgaria, which have reservations about FTAs in principle.[12] Most member states are in favour of an all-encompassing trade

[11] Classification by the author based on the foreign economic policies and various trade policy statements of the EU member states in recent years.

[12] In Austria, reservations about international trade and free trade agreements are very strong due to the possible negative effects on the environment, climate and animal welfare. In Bulgaria, the EU member state with the lowest GDP per capita, fears of import competition are widespread.

agreement with the entire region, with the CPTPP countries or with the ASEAN community, despite the foreseeable difficulties in reaching such an agreement. There is also wide support to conclude bilateral FTAs with individual countries. Apart from the FTAs already concluded, the potential FTA partner countries most favoured are Australia, New Zealand, Indonesia, and India. Only 10 member states – Austria, Bulgaria, Croatia, Cyprus, Denmark, Greece, Ireland, Malta, Poland, and Sweden –support including China in a comprehensive agreement or concluding an FTA only with China.[13] Elsewhere in the EU, reservations about trade agreements with China prevail for a variety of reasons, including a fear of Chinese import competition, a distrust of Chinese treaty compliance, and probably most importantly, a general scepticism that the important issues cannot be negotiated with China, such as subsidies, corporate governance and state-owned-enterprises, unfair competition, and political interference in private markets.

Third, there is no consensus on whether the Indo-Pacific region should be treated from a larger strategic perspective or simply as a trade and economic issue. There is a unanimous view in the EU that the Indo-Pacific is a region with enormous economic opportunities. Most member states also support a comprehensive strategic approach to the region that takes into account both economic and political interests. But for most of them, the foreign policy and security dimension of dealing with the Indo-Pacific region is not the priority. Only the three countries that have developed a national Indo-Pacific strategy – Germany, the Netherlands, and above all France – attach greater importance to foreign policy and security issues (Grare and Reuter, 2021).

Fourth, there are different views on the extent to which trade and investment measures should be used as an instrument to pursue non-trade objectives at the international level, such as ensuring sustainability, promoting democracy, or protecting human rights. There are also different views on the extent to which European trade and investment policy should balance its own trade and investment interests with its national regulatory objectives, such as consumer protection and regulatory sovereignty. In general, member states with strong, vocal and influential

[13] See the survey of the European Council on Foreign Relations on European views on the Indo-Pacific with stakeholders in EU member states (Grare and Reuter, 2021).

civil societies, attach great importance to all these issues and advocate for them in the European Council and the Trade Policy Committee, such as Austria, Belgium the Czech Republic, Estonia, France, Germany, Lithuania, Luxembourg, Spain, and Sweden in particular. The EP has also become a conduit for civil society engagement (Grare and Reuter, 2021).

In the EU's trade policy towards the Indo-Pacific and RCEP, Germany and France have a prominent position amongst the member states, albeit for different reasons:

- Germany, by far the largest economy in the EU, is even more important for EU–RCEP trade. In 2020, Germany accounted for 40.4% of all EU-27 exports to RCEP, which was more than the exports of the next five largest exporting nations combined, which were France, the Netherlands, Italy, Spain, and Belgium. In addition, Germany is also the channel for RCEP exports from other EU member states, especially from the Central European region, through the industrial supplier networks of German companies. Given the country's export strength, Germany's trade policy concerns regarding the RCEP region therefore carry great weight in the Commission.
- France, which possesses overseas territories in the Indo-Pacific region that are home to 1.5 million French citizens, considers itself a resident power in the region. France's foreign and security policy concerns are also EU concerns. They must therefore also be taken into account in the EU's trade policy. Moreover, as RCEP's second most important trading partner in Europe, France has important defensive and offensive economic interests that have to be considered, too.

3.5. The EU's Trade Policy with RCEP Member Countries and the Indo-Pacific

ASEAN

The EU was ASEAN's first dialogue partner (1977) that concluded at an early stage with a cooperation agreement (1980), acceded to the Treaty of Amity and Cooperation in Southeast Asia (2012), and supports ASEAN financially and technically. As ASEAN pursued trade liberalisation both internally through the establishment of the ASEAN Free Trade Area and externally through the negotiation of FTAs with its trading partners, the EU, having launched its Global Strategy in 2006, appeared to be in the best position to negotiate and conclude an ASEAN-EU interregional FTA as well (Bungenberg and Hazarika, 2017). In 2007, both sides, ASEAN and the EU, agreed to start negotiations. However, the negotiations never went beyond preparatory talks and the exchange of technical information. Soon, the DG for Trade of the EU Commission realised that a comprehensive and ambitious agreement with the entire ASEAN group was not feasible. The individual ASEAN member countries were far too different both in their trade engagement with the EU and in their negotiating priorities. The DG for Trade, which sought above all the effective abolition of non-tariff barriers, was not prepared to settle for the lowest common denominator here. Thus, interregional negotiations with ASEAN were suspended, especially as an attractive negotiating alternative presented itself with the start of negotiations on an FTA with Singapore, the EU's most important trade and investment partner in Southeast Asia at the time. The EU's trade embargo against Myanmar because of human rights abuses was another irritant, but not the reason for the failure of the negotiations.[14]

The suspension of the interregional FTA negotiations with ASEAN notwithstanding, the EU consistently asserts that the shift to bilateral negotiations has been tactical only. Having increased its trade related assistance to ASEAN in the last 2014–2020 budget cycle, the EU's ultimate goal remains a comprehensive trade and investment agreement between the two regions. But so far, the EU could reach agreements only with two ASEAN member countries: Singapore and Viet Nam.[15]

Singapore is the first ASEAN state with which the EU has concluded a trade agreement. The negotiations, which began in 2010, were successfully concluded in 2014. However, signing and ratification were significantly delayed. First, the issue

[14] For an in-depth analysis of the EU negotiations with ASEAN and Singapore, see Meissner (2017).

[15] At the time of writing, it is too early to assess these two agreements (and also of the Japan–EU Economic Partnership Agreement mentioned later), as they have not been in force long enough and COVID-19 has had a major impact on trade and investment in 2020 and 2021. But judging from the EU Commission's impact assessments in the run-up to the conclusion of these agreements, a stimulating effect on trade, investment and income as well as positive social and environmental impacts effects can be expected.

of concurrent legislative competences between the EU and the member states had to be clarified. Then, the initially agreed ISDS was no longer approvable in the EP. Finally, both sides agreed on two separate agreements (EU–Singapore Free Trade Agreement and EU–Singapore Investment Protection Agreement).

Viet Nam is the second member state of ASEAN to have an FTA with the EU. The EU-Viet Nam Free Trade Agreement is the most comprehensive and ambitious free trade agreement the EU has ever concluded with a developing country. The provisions on tariff dismantling and NTBs are certainly unmatched by the EU's trade agreements with the African, Caribbean, and Pacific (ACP) group of countries. Importantly, Viet Nam has ratified the International Labour Organization's Conventions 98 and 109 on trade union rights and the abolition of forced labour.

Indonesia is the only ASEAN member state currently in negotiations with the EU for an FTA. With the Indonesia–EU Comprehensive Economic Partnership Agreement, the EU is seeking an agreement similar in scope and coverage to the previous agreements with Singapore and Viet Nam. Negotiations which started in 2016, have stalled since the EU decided to phase out the use of palm oil as biofuel by 2030 because of environmental reasons. Both Indonesia and Malaysia have filed a complaint against the EU at the WTO dispute settlement mechanism.[16]

The EU's FTA negotiations with other ASEAN member states have been less successful so far. FTA negotiations with *Malaysia*, which began in 2010, were suspended at Malaysia's request in 2012, because the country was unwilling to meet the EU's demand to open its public procurement market. After a joint stocktaking in 2016, the resumption of negotiations seemed possible, but due to the controversial palm oil issue, this has not yet happened. Negotiations with *Thailand*, which began in 2013, were suspended by the EU after the military coup in Thailand in 2014. Negotiations are scheduled to resume in 2022, however. Negotiations between the EU and the Philippines, which started in 2015, stalled after the first two rounds due to President Duterte's hostility towards the EU and European concerns that the *Philippines* were not meeting the country's Generalized Scheme

[16] On the current state of negotiations, see the EU's news website: https://trade.ec.europa.eu/doclib/press/index.cfm?id=1620

of Preferences (GSP)+ commitments[17] in the wake of the country's robust actions on crime and drugs. Under the Philippine's new president Ferdinand Marcos Jr., bilateral relations have improved again, making the resumption of negotiations for an FTA probable.

The EU does not currently intend to enter into FTA negotiations with the other four ASEAN member states*: Brunei, Cambodia, Lao PDR, and Myanmar.* Cambodia, Lao PDR, and Myanmar, as least developed countries, benefit already from the EU's generous 'Everything but Arms' (EBA) scheme.[18] However, the EU has partially removed tariff preferences for Cambodia in 2020 due to the country's severe human rights violations.

Australia

Australia and the EU have been in negotiations for a comprehensive free trade agreement since 2018. Trade and investment relations between Australia and the EU have deepened and broadened in recent decades, although protectionism emanating from Europe's Common Agricultural Policy has long stood in the way of bilateral trade and foreign policy rapprochement. But common interests in trade liberalisation, multilateralism, and shared perceptions of global and regional threats argued for increased cooperation. The two sides had already agreed on a multi-faceted framework agreement in 2017, raising bilateral relations to treaty level (Murray and Matera, 2019). Although the contentious issue of EU market access for Australian agricultural products has not yet been resolved, negotiations are currently well advanced. A conclusion of negotiations in the course of 2022 seems to be within reach.

New Zealand

In parallel with Australia, the EU started negotiations with New Zealand in 2018. Again, market access to the EU for agricultural products was the most

[17] Under the EU's special initiative 'Generalized Scheme of Preferences+' (GSP+), developing countries can obtain additional tariff preferences compared to the normal GSP, provided they ratify and implement 27 international conventions on human rights, labour and environmental standards, and good governance.
[18] Under the Everything But Arms (EBA) Initiative, all products from least developed countries can be imported into the EU duty and quota free, except weapons and ammunition.

controversial subject of negotiation. At the end of June 2022, both sides concluded their negotiations. Except for the liberalisation in agricultural trade, the sustainability provisions agreed are especially ambitious.

China

China is the EU's most important and at the same time most difficult trading partner. As Europe is frequently and severely affected by Chinese displacement competition, no trading partner has been the subject of trade defence measures as often as China. On the other hand, EU firms complain about various regulatory and policy barriers to market entry in China, which not infrequently violate China's legally binding WTO commitments. Yet, there is no general trade agreement between the two sides apart from a large number of sectoral agreements and the growing economic linkages along China’s Belt and Road Initiative. The EU has not granted China market economy status despite intensive lobbying from the Chinese side. Moreover, Europe's efforts to promote democracy, the rule of law, and human rights are firmly rejected by China as interference in internal affairs. When the EU imposed sanctions in March 2021 on four Chinese officials over suspected human rights abuses in Xinjiang, China responded asymmetrically with sanctions on 10 European citizens and four European entities.

In spite of these difficult economic and political relations, Sino–European trade and investment intensified in recent decades, making both sides economically interdependent. However, the EU is not ready for an FTA with China, as many European industries are vulnerable to Chinese competition. On the other hand, China's potential market opening commitments are considered unenforceable and thus not credible from a European perspective. However, both sides agreed in 2012 to first negotiate an investment agreement, also in order to put bilateral economic relations on a more binding and reliable footing. In fact, negotiations for the Comprehensive Agreement on Investment (CAI) were successfully concluded at the end of 2020. To be sure, the CAI is not a classic investment protection agreement – the EU member states’ bilateral investment treaties with China remain in place. Rather on a ‘pre-investment’ basis, the CAI grants European investors better market access and commits China to binding rules on subsidies, state-owned enterprises, transparency, and sustainability. However, ratification by the EP is unlikely for the time being due to the sanctions imposed by China on five EP members.[19]

Republic of Korea

The EU–Korea Free Trade Agreement (KOREU) was the EU’s first FTA with a trading partner from Asia. In addition to comprehensive tariff liberalisation, KOREU covered a wide range of behind-the-border-measures, including a legally binding sustainability chapter. The specific commitments for industry in the sector-specific annexes were a first for FTAs at the time. Whereas negotiations lasted only 26 months (from 2007 to 2009), the ratification process was long and protracted, as the Italian government asked for stronger protection for its automotive industry and the mixed KOREU agreement still had to be approved by all member states’ national parliaments. Ten years after its provisional entry into force in 2011, KOREU is considered a great success. Bilateral trade and investment increased significantly in an otherwise difficult trade environment, especially compared to both sides' trade with third countries. In the EU's assessment, KOREU exemplifies the positive economic and political effects an FTA can have.[20]

Japan

The Japan–EU Economic Partnership Agreement (JEEPA), concluded at the end of 2017 after nearly 6 years of tough negotiations, is the EU's most important free trade agreement in Asia so far. After its entry into force in February 2019, JEEPA formed the world's largest free trade area previous to RCEP. With the almost complete dismantling of tariffs, an extensive reduction in non-tariff trade barriers, the provisions on transparency, sustainability, state-owned-enterprises and on regulatory sovereignty, the agreement is exemplary and forward-looking for the trade policies of both sides. In parallel with JEEPA, Japan and the EU also concluded a strategic partnership agreement for political, global, and sectoral cooperation, with the specific aim of preserving the rules-based liberal world order.[21]

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[19] From the broad literature on CAI, see especially Dadush and Sapir (2021) and Hu (2021).
[20] For an overview of KOREU, see Hilpert and Park (2022).
[21] For an assessment of JEEPA, see Hilpert (2019).

India

As with China, the EU has concluded neither a trade nor an investment agreement with India. The EU and India began negotiations on a free trade agreement in 2007, but suspended them in 2013 in light of irreconcilable differences. Key points of contention were the EU's demands for tariff liberalisation, opening of India's services and agricultural markets, improved patent protection, social and environmental sustainability, as well as India's demand for recognition as a country with an adequate level of data security and for more flexible work permits and visa regulations for Indian professionals. Although these issues remain unresolved, the EU and India agreed to resume negotiations in 2022 for a 'balanced, ambitious, comprehensive, and mutually beneficial' trade agreement and to launch separate negotiations on investment protection and geographical indications. Both sides are important and attractive negotiating partners for each other, Europe as a provider of investment capital and technology, India as a huge market with enormous growth potential and as an alternative source of supply to China. Actually, the EU and India are keen to move closer, as both sides share a common interest in maintaining the liberal, rules-based order.[22]

Other Indo-Pacific Trading Partners

The EU's foreign trade relations with the other countries of the Indo-Pacific region are shaped by a pyramid of preferences.

- All Pacific Islands have been offered to join the EU–Pacific Economic Partnership Agreement (EPA), already concluded in 2007, which grants free market access to the EU (on a reciprocal, but asymmetrical basis) and replaces the EU's former Cotonou Agreement with the ACP countries. So far, Papua New Guinea, Fiji, Samoa, the Solomon Islands, Tonga, and Timor-Leste have signed, acceded to, or informed to accede to the EPA, and are thus applying the EPA.
- All developing countries, that are not part of the ACP group, can benefit from the EU's GSP, which provides preferential access to the EU market. An additional tariff reduction (GSP+) is granted, if 27 international conventions

[22] For an analysis of EU–India trade policy relations, see Poitiers et al. (2021).

relating to human rights, labour rights, environmental protection, and good governance are ratified and implemented. For the least developed countries, there is the special EBA arrangement, which means that all products except weapons and ammunition can be exported to the EU duty free and quota free. Currently, all South Asian Association for Regional Cooperation member countries (Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka), as well as Mongolia are eligible for either the EBA or GSP+ schemes. In particular, exports of textiles, clothing, and footwear from Bangladesh and Pakistan to Europe under the preferential system are significant.

- For Hong Kong and Macao, only the GSP applies.
- Taiwan and North Korea are the EU's only trading partners in the Indo-Pacific region without preferences.

4. RCEP: Opportunities and Risks for Europe

4.1. Initial European Reactions

The RCEP agreement received some – but not intense attention in the European media, foreign policy circles, business associations, and member governments – certainly less than it deserved. Opinions on its relevance and importance for Europe were and are divided, as evidenced by the various comments in reaction to the conclusion of the RCEP negotiations (November 2019), the signing (November 2020), and the entry into force (January 2022). RCEP sceptics pointed to the overall shallow nature of the agreement and the long transition periods.[23] RCEP optimists emphasised the future growth potential of trade and investment integration within the newly established RCEP economic area. These comments also warned of the discriminatory effects for Europe's economy and businesses and the risk that Europe could be side-lined in setting technical or sustainability standards..[24] Other pundits addressed the political implications of the RCEP agreement. They saw it primarily as a political victory for China that would

[23] See for example the voices cited by Deutsche Welle (2021).
[24] See for example Gabriel and Scharping (2022); Politico (2020).

overcome Trump's decoupling policy and strengthen its own position as the economic centre of gravity in the Asia-Pacific region. In addition, ASEAN's important political role and Japan's trade advantages were recognised.[25] Against the background of these discussions, the different reactions of the European Union were remarkable: Executive Vice-President and Commissioner of Trade Valdis Dombrovskis was careful to point out the salient differences between the RCEP and EU trade agreements in terms of market access, rules, and enforcement.[26] Josep Borrell, the EU’s High Representative for Foreign Affairs and Security Policy, officially welcomed the RCEP agreement, but urged to enhance European engagement in the Indo-Pacific (Borrell, 2021). Several EP members, fearing that the EU would be side-lined, criticised the lack of progress in EU trade policy, especially with regard to ASEAN (Siebenhaar, 2020).

4.2. RCEP’s Impact on Europe

4.2.1. Economic Impact: Static and Dynamic Effects

By liberalising tariffs and harmonising rules of origin, the RCEP agreement promotes intra-RCEP trade within the newly created free trade zone, but also affects external trade with third countries, including the EU. Third countries will benefit from import expansion, but may suffer from trade diversion. Since all economic liberalisation agreed in the RCEP treaty applies only to RCEP-internal economic exchanges, imports of goods and services from third countries are discriminated against and could be substituted by (less efficient) imports from the RCEP countries. The possibility of trade diversion is a serious concern for Europe, as EU exports directed to the RCEP area account for more than one-fifth of total EU exports.

However, trade diversion is expected to vary depending on the respective exposure to the different tariff liberalisations of RCEP member countries. Since the ASEAN countries, Australia and New Zealand have already largely liberalised their intra-RCEP trade under bilateral free trade agreements, the EU will hardly have to fear additional trade distortions in these markets after the RCEP agreement enters

[25] See for example Bastian et. al. (2021); Bouissou (2021).
[26] See answer given by Executive Vice-President Dombrovskis on behalf of the European Commission (to the European Parliament) (Dombrovskis, 2021).

into force. However, discriminatory tariff dismantling in trilateral trade between Japan, the Republic of Korea, and China could hurt European exporters. The situation is particularly worrying with regard to China, as Japan and the Republic of Korea will benefit from considerable RCEP tariff preferences for their exports to China that the EU will not. However, the trade diversion effects will be somewhat mitigated by the long transition periods for China's tariff cuts. In the Republic of Korea and Japan, on the other hand, trade diversion in favour of the EU will disappear in the future. The exclusive tariff preferences that the EU currently still enjoys for its exports to the Republic of Korea and Japan under the bilateral KOREU and JEEPA agreements will erode in the coming years (Mathes and Kolev, 2021).

Trade economists have already estimated the total quantitative trade and income effects of the RCEP agreements on Europe using different methods.[27] According to their calculations, the EU must expect annual export losses in the single-digit billion dollar range, which accounts for approximately 0.2% of current total EU exports. On the other hand, Europe will benefit from rising RCEP import demand and from slightly lower RCEP export prices due to a more efficient production system in the RCEP free trade area. The resulting welfare effects will thus in all likelihood be positive.

However, compared to these static trade and income effects, the RCEP's dynamic effects on value and supply chains, on investment and on economic growth will probably prove much more important in the long run. From a European perspective, the RCEP region will become economically more attractive with the agreement's entry into force, but RCEP companies will also become even stronger competitors on the world market. European companies will therefore have to react to the legal and structural changes brought about by RCEP.

The most obvious response is to increase investment in the emerging RCEP free trade area. RCEP member countries that have concluded a bilateral free trade agreement with the EU (Republic of Korea, Japan, Singapore, and Viet Nam) or are

[27] Felbermayr et. al. (2021) and Petri and Plummer (2021) estimated the quantitative effects using simulations of a large computable general equilibrium model of the world economy. Nicita (2021) calculated the trade effect of tariff concessions on countries' import demand and export supply.

about to do so (New Zealand, Australia, and Indonesia) are likely to become preferred locations for European investment and production – all other conditions being equal. From the perspective of European business, these RCEP countries can guarantee easy and reliable market access as well as an investment and business environment that can be linked to the EU's network of suppliers and services.

Already the increasing import demand from the RCEP free trade area and its discriminatory (trade diverting) tariff reductions could prompt companies to invest. More importantly, however, RCEP will create a more stable and attractive investment environment for European companies. The relatively liberal and easy-to-use rules of origin will allow for value added from European sources, thus facilitating the participation of European companies in the growing markets of the region. Although the pandemic has taught European companies to care about the resilience of their supply chains, shifting production from European to Asian locations may again be an option. Greater regional trade integration will bring lower transaction costs, greater specialisation of locations and sub-regions along their comparative advantages, and facilitation of exports to other RCEP countries. To benefit from integration and growth, a strong economic presence is thus advantageous. Being in the region will also be useful to accompany the foreseeable industrial upgrading and structural change, which will be induced by the RCEP agreement.[28]

However, these industrial and growth dynamics, fostered by market integration within the world's largest free trade zone also poses serious risks to Europe's technological and economic competitiveness. As outsiders, EU-based companies have only limited access to the region's trade and innovation networks and may be late to important new developments. However, if European companies fail to adapt and respond to the new industrial and technological trends in Asia, their market position will quickly erode. From a European perspective, it should therefore be the task of politics and business to prevent an unfavourable development of comparative advantages to the disadvantage of the EU.

[28] For a technical look at global value chains and the likely sectoral changes to be induced by RCEP (and CPTPP), see Itakura and Lee (2019).

4.2.2. Political Impact: Trade Policy and Geopolitics

Although RCEP is a shallow trade agreement, when compared to the bilateral FTAs of the EU and the US or to the CPTPP, its size gives it the potential to shape global trade patterns and rules in the future. As the EU itself is a centre of economic gravity and a major trading power, a future influential role for RCEP is an obvious expectation from a European perspective. This will be even more so if RCEP expands to include more members. Thus, the conclusion of RCEP has significant political implications for the EU's trade policy and even its foreign policy. From the EU's perspective, the main implications of RCEP are, first, a potential shift in international trading power; second, its influence on rule and standard setting; and third, its potential impact on trade multilateralism and the WTO.

The formation of the large RCEP trade bloc, which includes almost all of East Asia as well as Australia and New Zealand, fundamentally changes the balance of power in international trade policy. In the future, RCEP will be a trade policy force to be reckoned with. From a geopolitical perspective, RCEP represents a win for all participating countries, but especially for ASEAN and China. ASEAN has managed to bring together countries with long-standing animosities and conflicts and to bridge their differences. China has shown that it can strike meaningful trade deals despite the US' vigorous efforts to isolate it politically in the region. These two actors in particular have gained in self-confidence and influence through the conclusion of the RCEP agreement. On the other hand, with the emergence of RCEP, all non-RCEP trading nations have lost some bargaining power and influence in international trade policy in a relative sense. This also applies to the EU. Thus, in the new environment, RCEP poses a challenge to the EU's market power and its regulatory reach. The EU has come under pressure to respond to this challenge with both internal and external measures; internally to foster its single market to maintain its attractiveness as a trading partner and investment location; externally to step up its efforts to conclude trade agreements, especially with the globally more important players, in order to secure access to trade and production networks worldwide.

The RCEP agreement's shallow nature notwithstanding, the new organisation has the potential to shape and influence the creation and the diffusion of global trade rules and standards. It is already known from ASEAN's internal and external economic cooperation that agreements start out weak, but then are successfully improved upon and modernised. In the future, RCEP could therefore become an important actor for the development and implementation of new trade rules, alongside the EU, the US, Japan, and the CPTPP. For the time being, however, it is still uncertain in what direction and with what ambition the RCEP will move forward in this area. It can be expected that China wants to become a dominant standard setter within the framework of its national standard 2035 strategy (Gargeyas, 2021). Also Japan, the Republic of Korea, and ASEAN will pursue their interests. It is up to the EU, however, to try to exert some influence on this process and engage in cooperative standard setting with RCEP, especially as the agreement leaves much room for deepening trade rules. Certainly, the EU has a lot to offer in areas such as IPR, services, investment protection, public procurement, competition, and subsidies as well as sustainability. In its engagement, the EU can build on the templates of the free trade agreements it has concluded with Japan, the Republic of Korea, Singapore, and Viet Nam. The EU can also build on its past joint efforts with ASEAN to develop standards for sustainable and resilient value chains and for rules-based trade. As the world's most important mega-regional trade agreement, forming the world largest free trade area, RCEP is not just another free trade agreement. Rather, because of its size, RCEP can be an important issue for the multilateral trading system. For example, it could be argued that RCEP divides world trade in RCEP trade and non-RCEP trade. The point is not to dispute RCEP’s laudable progress in tariff and trade liberalisation or to question the RCEP member countries’ commitment to the open, free, and rules-based multilateral system, as explicitly acknowledged in the preamble of the RCEP agreement. However, it should not be overlooked that the establishment of the RCEP could be a step on the way from centralised trade multilateralism with the WTO at its centre to a decentralised multi-layered system with the WTO only a kind of umbrella and various regional and interregional FTAs underneath. Should such tendencies emerge, the EU being firmly committed to defend the rules-based multilateral system and WTO centrality, would have to confront and counter them. Moreover, given the mercantilist traditions of some of the RCEP member countries, it is not a foregone conclusion that the RCEP will not turn inwards and become protectionist. In an unlikely but not impossible scenario, the pressure for structural adjustment created by the RCEP's liberalisation could trigger political reactions – more likely in the larger RCEP countries – demanding protection from world market competition. It is so far entirely uncertain whether and to what extent RCEP will be able to conduct its trade policy internally and externally independently of the influence of powerful lobbying interests, especially from the larger RCEP member states. As the world's largest trading bloc, RCEP would in any case be in a position to influence its terms of trade in world trade through protective measures and – being the world largest trading power would have to fear less trade retaliation in the process – an approach that China has already started to pursue in recent years. If the development of RCEP into a China-centric trading bloc that aggressively pursues its own economic interests at the expense of RCEP's external trading partners such as Taiwan, India, Mercosur, the US, Canada, and the EU occurred, in all likelihood there would be resistance from the more liberal minded RCEP member states. But it would also be up to the EU (and other like-minded trading partners) to remind RCEP member countries to their responsibility to the multilateral system and to remain faithful to their obligations from the WTO and the RCEP agreement.

4.3. The Way Forwards: Trade Policy Options for the EU

As the above look at the economic and political impact of RCEP has shown, the urgency for a trade policy response from the EU has certainly increased.

The EU's room for manoeuvre is restricted from two sides. Externally, in its bilateral and multilateral trade policy, the EU can of course only achieve results if and to the extent that the EU's proposals meet with the approval of its partners. Internally, the EU Commission, as powerful as it may be as an independent technocratic, liberal-minded actor, can only act according to the instructions of the EU member states and the EP. This often presents the Commission with a dilemma. For example, the Commission cannot make major concessions from its high level of ambition, but is getting sometimes also under pressure to conclude FTA negotiations more quickly for political reasons. In general, the strategies for the EU's trade policy and for the EU’s foreign and security policy set out in the current strategy documents must also be coordinated with member states and the EP and should receive support from these sides. It is therefore surprising and also contradictory that the Commission's recent Trade Policy Review does not address the EU's trade policy towards Asia and the Indo-Pacific region in particular (European Commission, 2021c), whilst the EEAS makes a convincing case in a parallel paper for stronger European engagement in and with the Indo-Pacific region (European Commission, 2021a). In the new EU trade policy strategy, Asia remains virtually unmentioned despite being the most dynamic and in terms of volume, the most important economic region in the world. If the EU is to maintain and strengthen the rules-based trade order, as it claims, close cooperation with like-minded actors in the Indo-Pacific region, including Japan, the Republic of Korea, Australia, New Zealand, and Singapore is essential. After all, the Commission does address at length the economic and political challenges China poses.

As a side note, it should be mentioned that European countries, which are not EU members such as the UK, Switzerland, Norway, or Turkey can be much more flexible and responsive in their trade policies, as shown for example by the UK's application for CPTTP membership or Switzerland's free trade agreement with China. However, these countries have far less negotiating and enforcement power than the EU.[29]

The obvious EU response to the RCEP agreement is to conclude as many bilateral FTAs as possible with RCEP member countries in order to mitigate the negative effects of trade diversion. Actually this seems to be the EU's line of action (see section 3.5). The advantage of this approach is obvious. In bilateral negotiations, the EU has a better chance to promote its commercial interests and its core principles such as human rights, sustainable development and the rule of law. Therefore, the EU is currently not interested in direct negotiations with RCEP. However, this strategy has its risks. Negotiations are lengthy and they can fail. Trading partners are getting alienated. Thus, pressure has increased on the Commission both from member states and the EP to reach a negotiated conclusion

[29] The EU member states themselves have shifted their trade policy sovereignty to the supranational EU level and can no longer conclude trade agreements for themselves. The trade policies of the EU member states are 'communitarised.'

more quickly, refrain from unrealistic demands and to complement the bilateral approach with a broader regional approach.

Another possible course of action for the EU can be the conclusion of free trade agreements with trading partners outside the RCEP area. In this respect, India is the most important and also the most attractive candidate. Both sides have agreed to resume their free trade agreement negotiations, which have been suspended in 2013. The stakes are now higher for both sides. India must free itself from its partly self-inflicted trade isolation. Europe needs India as an alternative and counterweight to a China that increasingly uses trade as a political weapon. It remains to be seen whether both sides will also be more willing to compromise. The EU would also be ready to negotiate with the US for tariff reductions and market openings, as soon as domestic political conditions in the US allow. Furthermore, the concluded negotiations with Mercosur are awaiting signature and ratification.

Finally, a promising strategic option for the EU is an approach that looks at the region as a whole. This could be done in a number of ways. One possibility would be to revitalise EU–ASEAN relations by revisiting an ASEAN–EU FTA. To be sure, it would be impractical to conduct negotiations with the ASEAN Community and with individual ASEAN member countries in parallel. Therefore, at least the ongoing FTA negotiations with Indonesia should be successfully concluded before the bilateral agreements could be turned into a regional one. A second possibility would be the ASEM channel. The ASEM mechanism has been long underutilised by both the EU and the EU's partners in Asia, dismissing the meetings as mere talking shops. ASEM trade ministers have not even held meetings since 2005. However, with the (biennial) participation of leaders from all major Asian and European powers, the ASEM mechanism could be used for a broad-based trade initiative that affects the entire region and serves to build consensus.[30] Third, the EU should consider establishing direct links with both RCEP and the CPTPP, since there are important issues that the EU should discuss with both of them. First, how should the development, implementation, monitoring, and enforcement of trade rules and standards be managed? How can plurilateral agreements get back on track on issues such as dispute settlement, safeguards, subsidies, state-owned

[30] On the role of ASEM, see Bungenberg and Hazarika (2017).

enterprises, competition, digital trade, or the settlement of investor-state-disputes? Second, how can mega-regionalism be reconciled with the multilateral trading system and WTO centrality?

Given the depth of the CPTPP agreement and its relevance for the development of future trade rules, the EU's engagement could (and should) go even a step further. The EU could (and should) enter into free trade negotiations with the CPTPP as a group. The EU already has FTAs with seven of the eleven CPTPP members (Canada, Chile, Japan, Mexico, Peru, Singapore, and Viet Nam) and is negotiating with two more (Australia, and New Zealand). Only Brunei and Malaysia are so far outside. Apart from improved market access, the benefits and advantages of CPTPP–EU alignment would be substantial for both sides and beyond. The CPTPP and the region would gain an economic heavyweight that could assume an anchor role for market-oriented trade in Asia – a role originally intended for the US. The EU's institutional link to the Indo-Pacific region could possibly even encourage the US to return to the CPTPP at a later stage. On the other hand, by linking up to the CPTPP, the EU could escape the risk of being excluded from the elaboration of future global trade rules. The EU would firmly establish itself as an economic and political insider in the Indo-Pacific region. Moreover, as long as meaningful WTO reform is not within reach, linking the EU and the CPTPP would be also the second-best option for securing the multilateral trade system. Unfortunately, these substantial benefits are countered by equally substantial hurdles and reservations. To begin with, full EU accession to the CPTPP would be difficult for Europe to implement and probably politically unfeasible, as the two sides' trade liberalisation programmes and trade rules diverge significantly in several respects. Negotiating an equivalence regime would be cumbersome and time-consuming. In particular, it would be difficult to reach agreement on contentious issues such as agricultural commodity trade, digital trade and data protection, government procurement, investor-state dispute settlement, geographical indications, competition, and subsidies.[31]

[31] For convincing arguments in favour of EU accession to the CPTPP, see Drapera and McDonagh (2021) and Nicolas (2021).

All these obstacles and problems notwithstanding, linking the EU and the CPTPP would be a worthwhile endeavour in light of the opportunities for fortifying and modernising trade rules and the world trading system, as well as, of course, the trade and welfare gains to be expected.

It is open which of the options mentioned will be possible for the EU. But certainly the EU has a role to play in the region owing to its status as a major trading power and a politically stable partner in a world which has seen increased geopolitical instability.

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