

Key Messages:

- With rising global uncertainties and global value chain (GVC) disruptions, the world is likely to experience more inward-looking policies, a rise in protectionism, and fragmentation of global and regional trading arrangements. Trading areas and arrangements are also under significant pressure to manage key domestic and regional issues beyond traditional trade issues.
- Trade and GVCs are critical for a sustainable and inclusive post-pandemic recovery with a digital and green transformation. This requires a new economic and social agenda beyond trading arrangements, and the alignment of global, regional, and domestic policies and structural issues.
- The Regional Comprehensive Economic Partnership (RCEP), the largest free trade agreement in the world, is expected to provide a new institutional framework. The built-in institutional feature within the RCEP agreement could be used for the progressive liberalisation of regional and global trade, as well as addressing contemporary issues beyond trade and investment, as a 'living' trade agreement.
- RCEP members need to establish an independent and progressive RCEP Secretariat within a year (by January 2023). This will be critical to manage global uncertainties, reinforce rules-based trading activities, and work on the economic and social issues beyond trade in the region.

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New Dynamism in ASEAN and East Asia: The Role of the RCEP as a 'Living' Agreement¹

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This policy brief highlights the importance of maintaining open regionalism and economic and regional integration for sustainable and inclusive regional and global growth in the Association of Southeast Asian Nations (ASEAN) and East Asia. With rising global uncertainties and global value chain (GVC) disruptions, the region requires a new economic and social agenda beyond trading arrangements, and the alignment of global, regional, and domestic policies and structural issues. The Regional Comprehensive Economic Partnership (RCEP) is expected to provide a new institutional framework under the built-in institutional feature (Chapter 18) of the agreement.

1. Introduction

In the past decade, the Association of Southeast Asian Nations (ASEAN) and East Asia have faced rising protectionism and anti-globalisation in regional and global trade, which will have a large impact on growth and development in the region (Rodrik, 2021; Kimura et al., 2022; Thangavelu, 2021). The coronavirus disease (COVID-19) pandemic shock, United States (US)–China trade war tensions, the Russia–Ukraine war in Europe, global inflationary pressures, global value chain (GVC) disruptions, and the expected global and regional recession in 2023 are expected to have significant impacts on the short- to long-run development of the region. With rising global uncertainties and GVC disruptions, we will experience more inward-looking policies, a rise in protectionism, and fragmentation of global and regional trading arrangements (Kimura, 2021). However, trade and GVCs are critical for a sustainable and inclusive post-pandemic recovery in terms of poverty reduction, and for creating stable and resilient development in terms of a digital and green transformation of regional trade (World Bank and WTO, 2022).

Recent studies by Kimura (2019; 2021) have highlighted the importance of the rules-based international trading order as an essential condition for effective and efficient functioning of international production

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networks in ASEAN and East Asia. The GVC production processes are located in various countries, requiring close coordination of the movement of intermediate goods and services. This necessitates a rules-based trading system that allows for stable and dynamic GVC activities in the region. However, the rules-based trading system has become weaker over the past decade due to the US–China trade war and the weakness of the World Trade Organization (WTO), amplified by the crisis of the WTO Appellate Body (Kimura, 2021).

Trading areas and arrangements are also under significant pressure to manage key domestic and regional issues beyond the traditional trade issues related to the movement of goods, services, and capital. The high-level forum organised by the ASEAN Secretariat, the Economic Research Institute for ASEAN and East Asia (ERIA), and Cambodia's Ministry of Commerce on the Regional Comprehensive Economic Partnership (RCEP) and Regional Dynamism highlighted the new economic and social agenda that trading arrangements must address beyond trade-related issues.² The forum emphasised (i) environmental and climate change issues, (ii) digitalisation and social impacts, (iii) domestic capacity building in terms of skills development and training, (iv) GVCs and increasing the role of small and medium-sized enterprises (SMEs), (v) strengthening the rules-based trading system, and (vi) sustainability and inclusive growth in the region. The high-level participants also highlighted the need to address the 'living' aspects of the RCEP agreement.

The above issues require an alignment of the global, regional, and domestic policies and structural issues. They also require coordination within and between countries and amongst different trading arrangements to reduce overlapping of policies, high transaction costs in cross-border trade, and fragmentation of the global and regional trading framework. This highlights the urgent need for new

²The High-Level Forum on the RCEP – *RCEP 10-Year Anniversary: Reminiscing the Journey of RCEP* and Launching of ERIA Book: *Dynamism of East Asia and Regional Comprehensive Economic Partnership (RCEP): The Framework for Regional Integration* – on 2–3 November 2022 in Phnom Penh, Cambodia. <https://www.eria.org/events/rcep-10-year-anniversary-remiscing-the-journey-of-rcep-and-launching-of-eria-book-dynamism-of-east-asia-and-regional-comprehensive-economic-partnership-rcep-the-framework/>

trading institutions, which requires more traction of trade policies on economic and social issues at the domestic, regional, and global levels.

The RCEP – the largest free trade agreement (FTA) in the world, which came into effect on 1 January 2022 – is expected to provide a new institutional framework. The built-in institutional feature within the RCEP agreement is expected to provide for the progressive liberalisation of regional and global trade and to address contemporary issues beyond trade and investment as a 'living' trade agreement.

2. The RCEP as a 'Living' Agreement: A New Trade Institution within Multilateral Agreements

The RCEP is the largest trading bloc in the world, with a combined population of 2.2 billion (30% of the world population), total regional gross domestic product (GDP) of around \$38,813 billion (30% of global GDP in 2019), and nearly 28% of global trade. It sets an important agenda for open regionalism, trade, and investment in global trade in terms of opening large domestic markets (demand), releasing huge resources for trade and investment, and creating dynamic regional and GVC activities (Table 1). The RCEP agreement is expected to benefit not only the East Asian region but will also have a global impact (Park, 2022; Itakura, 2022; Petri and Plummer, 2020). It is also expected to have a significant impact on the post-pandemic recovery of the region.

The RCEP has several key features: (i) a single rules-of-origin framework for the 15 member countries, which could have an accelerating and enhancing impact on GVCs in the region; (ii) the China–Japan–Korea (CJK) effect, as the RCEP agreement is the first FTA for trade and investment covering these three countries; (iii) elements for digital transformation and services liberalisation in crucial services trade in e-commerce, financial, professional, and telecommunications services; (iv) ASEAN centrality; and (v) the 'living' nature of the agreement.

The key institutional feature of the RCEP is the institutional provision in Chapter 18 of the agreement which creates the forward-looking dimension of progressive trade liberalisation and addresses key economic and social issues beyond trade. Under Chapter 18 (institutional provision), the RCEP Joint Committee will meet within 1 year after the

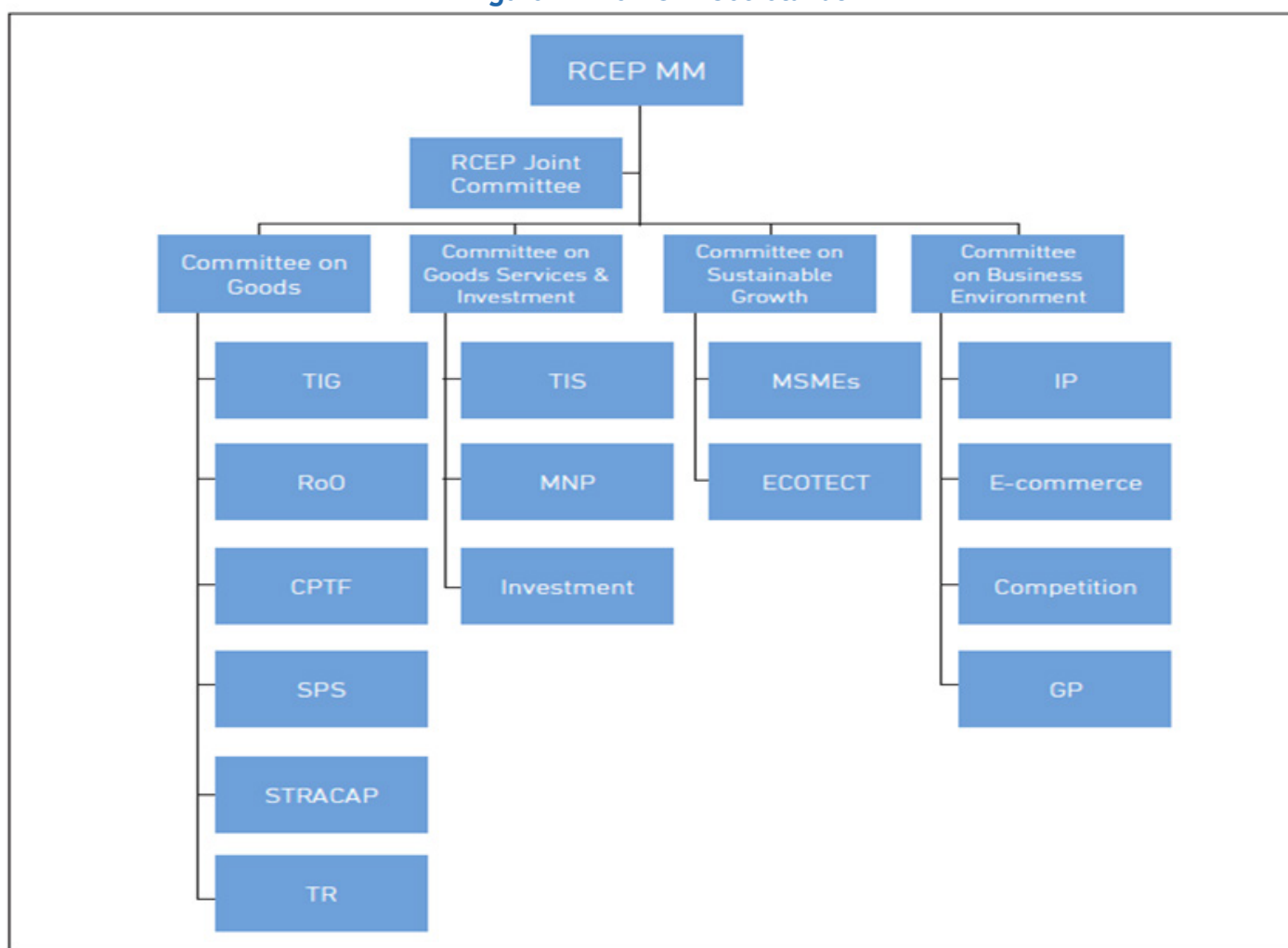
Table 1: Economic Impact of East Asian Regional Integration, 2017

Region/Country	Real gross domestic product (\$ billion)		Trade (\$ billion)		Foreign direct investment inflows (\$ billion)		Population (\$ billion)	
		Share (%)		Share (%)		Share (%)		Share (%)
World	81,984.30		21,045.70		1,495.20		7.6	
Country								
United States	19,611.80	24.0	1,917.40	9.00	253.5	17.0	0.33	4.00
China	13,376.10	16.0	2,624.90	12.0	138.3	9.00	1.43	19.0
Japan	4,536.90	6.00	747.90	4.00	9.8	1.00	0.13	2.00
Germany	3,573.90	4.00	1,634.00	8.00	73.5	5.00	0.08	1.00
France	2,570.70	3.00	620.30	3.00	38.1	3.00	0.07	1.00
India	2658	3.00	366.80	2.00	42.1	3.00	1.35	18.0
Korea, Rep. of	1,598.10	2.00	616.90	3.00	12.1	1.00	0.05	1.00
Australia	1,340.00	2.00	325.00	2.00	68	5.00	0.02	0.00
Brunei Darussalam	12.7	0.00	6.90	0.00	0.4	0.00	0.0004	0.00
Cambodia	22.2	0.00	15.90	0.00	3.2	0.00	0.016	0.00
Indonesia	999.1	1.00	195.70	1.00	15.5	1.00	0.267	4.00
Lao PDR	17.4	0.00	6.70	0.00	1.3	0.00	0.007	0.00
Malaysia	348.6	0.00	255.00	1.00	7.6	1.00	0.031	0.00
Myanmar	75	0.00	20.20	0.00	3.5	0.00	0.002	0.00
Philippines	354.6	0.00	75.90	0.00	6.6	0.00	0.106	1.00
Singapore	337.9	0.00	492.60	2.00	79.7	5.00	0.005	0.00
Thailand	449.2	1.00	263.20	1.00	10.3	1.00	0.069	1.00
Viet Nam	234.7	0.00	259.20	1.00	15.5	1.00	0.095	1.00
New Zealand	196.9	0.00	41.50	0.00	1.9	0.00	0.006	0.00
Regions and Free Trade Agreements								
ASEAN	2,851.90	3.00	1,596.80	8.00	148.9	10.0	0.65	9.00
RCEP (less India)	23,899.90	29.0	5,953.30	28.0	379.10	25.0	2.29	30.0
ASEAN+3	22,363.00	27.0	5,586.80	27.0	309.2	21.0	2.26	30.0
ASEAN–China	16,228.00	20.0	4,221.70	20.0	287.20	19.0	2.08	27.0
ASEAN–Korea, Rep. of	4,450.00	5.00	2,213.70	11.0	161.00	11.0	0.70	9.00
ASEAN–Japan	7,388.80	9.00	2,344.70	11.0	158.70	11.0	0.78	10.0
ASEAN–ANZ	4,388.80	5.00	1,963.30	9.00	218.80	15.0	0.68	9.00
European Union	14,511.10	18.0	6,343.20	30.0	349.8	23.0	0.51	7.00
NAFTA	22,516.70	27.0	2,897.10	14.0	331.7	22.0	0.49	6.00
CPTPP	10,384.40	13.0	3,246.10	15.0	274.8	18.0	0.5	7.00

ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership, NAFTA = North American Free Trade Agreement, RCEP = Regional Comprehensive Economic Partnership.

Source: Computed from UNCTAD (2017), UNCTADstat. <https://unctadstat.unctad.org/> (accessed 1 October 2017).

Figure 1: The RCEP Secretariat



CPTF = customs procedures and trade facilitation; ECOTECT = economic and technical cooperation; GP = general provisions; IP = intellectual property; MM = Ministers' Meeting; MNP = movement of natural persons; MSMEs = micro, small, and medium-sized enterprises; RCEP = Regional Comprehensive Economic Partnership; RoO = rules of origin; SPS = sanitary and phytosanitary; STRACAP = standards, technical regulations, and conformity assessment procedures ; TIG = trade in goods, TIS = trade in services; TR = trade remedies.

Source: Rillo, Robeniol, and Buban (2022).

agreement enters into force, and the RCEP Secretariat will coordinate all meetings thereafter (see Figure 1 for tentative structure of RCEP Secretariat as given by Rillo, Robeniol, and Buban, 2022). This unique feature of the RCEP – creating a built-in institution within a multilateral FTA – sets the agenda for developing the next set of trade institutions within multilateral FTAs. This will align domestic and regional reforms to create wider economic and social benefits beyond trade in a rules-based trading framework. Currently, no other multilateral FTA, including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), provide for the establishment of an built-

in institution and a secretariat, although some FTAs, such as the ASEAN–Australia New Zealand FTA and the ASEAN–Hong Kong FTA, have established facilities at the ASEAN Secretariat to augment human resources and support the ASEAN Joint Committees in overseeing the implementation of their FTAs with ASEAN (Rillo, Robeniol, and Buban, 2022). The institutional provision under the RCEP strengthens ASEAN centrality and creates a forward-looking agenda for ASEAN to create sustainable and inclusive growth in the region.

As a 'living' agreement, the RCEP Joint Committee will be able to create a wider regional integration agenda

to address key contemporary issues such as the environment and climate change, skills development, green transformation, and developing digital and smart urban centres. The role of the RCEP Secretariat as an independent and progressive institution will be critical in the implementation, monitoring, evaluation, and leveraging of the forward-looking component of the 'living' aspect of the RCEP agreement (Kimura et al., 2022; Thangavelu, Urata, and Narjoko, 2022; Armstrong and Drysdale, 2022; ADB, 2020). The RCEP Secretariat will be able to lead discussions to create complementary policies with the ASEAN Secretariat, mobilise more resources, and have new institutional features to address the rising global uncertainties and emerging challenges.

3. Significance of the RCEP in the Pandemic and Post-Pandemic Recovery

The RCEP is a critical framework for global trade and regionalism, given the current context of uncertainty and inward-looking policies induced by the COVID-19 pandemic and the US–China trade war. It provides the key impetus for global trade and investment and shifts the domestic and regional activities in East Asia to open regionalism and global trade and investment.

The impact of the RCEP will be significant for ASEAN and its least developed countries (LDCs) (Itakura, 2022; Park, Petri, and Plummer, 2021; Park, 2022). The dynamic computable general equilibrium analysis by Itakura (2022) highlighted the positive impact of the RCEP on GDP for all RCEP members throughout the 2030s, particularly for the scenario with deeper trade and investment facilitation and addressing behind-the-border issues (S4: tariff reduction, services liberalisation, logistic improvements, and investment facilitation). Park (2022) highlighted that the RCEP will generate more significant gains than the CPTPP for RCEP member countries.

4. Impact of the RCEP on Creating Sustainable and Inclusive Integration

The RCEP should address the following issues urgently for sustainable and inclusive integration of the region:

(i) The effects of the pandemic shock have been felt more by unskilled and older workers. It has also had an uneven impact on gender and has increased the vulnerability of females in the labour market and households. More

support could be provided under economic cooperation to increase the technical education and skills of vulnerable groups affected by the pandemic. Economic cooperation to support skills development for the ASEAN LDCs could be undertaken, with the support of other international organisations such as the World Bank and the Asian Development Bank.

- (ii) The effects of the pandemic are also felt unevenly by larger firms and SMEs. Given that larger firms have more access to financial markets and banks to leverage their risk, SMEs are often crowded out of the financial markets and banks. Financial inclusion for SMEs should be reviewed due to the pandemic shock.
- (iii) The RCEP framework also allows member countries to address economic cooperation to develop the regional and domestic capacity to increase regional resilience to external shocks such as the pandemic. Under the RCEP economic cooperation framework, a regional platform to consider mass testing and vaccination rollout against pandemic shocks such as COVID-19 could be an important area of cooperation.
- (iv) The pandemic has also increased the vulnerability of the fiscal status and sustainability of East Asian countries and ASEAN Member States (AMS). There is a need to review the fiscal sustainability of the RCEP member countries and to develop a platform for short-term loan support, which could be provided under the RCEP economic cooperation framework. This could be coordinated with the International Monetary Fund and the ASEAN+3 Macroeconomic Research Office.
- (v) The RCEP will provide domestic and regional platforms for the structural transformation of GVCs in the post-pandemic recovery. The higher risk from the COVID-19 pandemic will induce most multinational firms to undertake digital innovation and automation, which will directly affect GVC activities in the region. This will have implications for domestic industrial activities in manufacturing and services. ASEAN LDCs must undertake policies to induce structural transformation of their industries to higher value-added activities, which will support the GVC activities induced by the CJK effects through the RCEP. However, there is a need to accelerate the structural transformation of these

industries, especially in Cambodia, to increase GVC participation in parts and components. Structural transformation in ASEAN LDCs could be achieved by investing in critical infrastructure, upgrading special economic zones, and improving the skills and human capital of workers.

- (vi) Digital transformation will accelerate in the post-pandemic recovery and will have a direct impact on services activities and services trade in the region. AMS should develop a policy framework to manage the structural transformation of the services sector through digital innovation and automation. The RCEP could provide the framework to manage the structural transformation of services trade and investment in the post-pandemic period (Ando, Kimura, and Yamanouchi, 2022).
- (vii) During the pandemic recovery, we expect an intensification of the unbundling effects of production and economic activities in the global production value chains, facilitating participation by developing economies, which is important for the structural transformation of East Asian countries and AMS. These processes, in both goods and services value chains, will be intensified by the application of digital technologies. We also expect the acceleration of digital and services trade in the next phase of growth in East Asia (Ando, Kimura, and Yamanouchi, 2022; Findlay, Ye, and Roelfsema, 2022).
- (viii) In terms of economic cooperation, the development of skills and capacity building of workers must be prioritised under the RCEP agreement. As the region and domestic economies experience structural transformation, it will be important to develop the relevant skills for the next stage of growth. Economic cooperation under the RCEP could play an important role in this area.
- (ix) The RCEP framework could also address key issues related to climate change and the environment, green transformation of the region in terms of trade and infrastructure, and the development of new urban centres to drive the next phase of economic growth in East Asia.

RCEP members need to establish an independent and progressive RCEP Secretariat within a year (by

January 2023). This will be critical to manage global uncertainties, reinforce rules-based trading activities, and work on the economic and social issues beyond trade in the region. It will also be vital for the pandemic recovery, post-pandemic structural transformation, and sustainable and inclusive growth in the region.

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