

Key Messages:

- There are positive gains from the Regional Comprehensive Economic Partnership (RCEP) agreement for all 15 of its member countries. The East Asian countries of China, Japan, and the Republic of Korea seem to have the largest gains as the regional global value chain (GVC) activities are dominated by these countries.
- The key benefits from RCEP depend critically on the participation and positioning of the respective ASEAN countries in the GVCs in both manufacturing and services.
- The ASEAN least developed countries of Cambodia, the Lao PDR, and Myanmar also experience positive gains from RCEP but need to undertake deeper structural reforms to fully benefit from the agreement.
- The RCEP framework has key elements that will be crucial for the post-pandemic recovery and regional transformation in terms of (a) accelerating and enhancing GVC activities through the single rule-of-origin framework for the 15 RCEP member countries, and (b) services liberalisation and digital transformation in key services trade of e-commerce, financial, professional, and telecommunication services.
- ASEAN centrality, as highlighted by the RCEP framework, is critical for the post-pandemic recovery and structural transformation of the region.

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Impacts of the Regional Comprehensive Economic Partnership on ASEAN and ASEAN Least Developed Countries in the Post-pandemic Recovery

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This policy brief highlights the impact of the Regional Comprehensive Economic Partnership (RCEP) agreement on ASEAN and ASEAN least developed countries (LDCs) in the post-pandemic recovery. RCEP has key elements that will be crucial for the post-pandemic recovery and regional transformation, such as (a) a single rule-of-origin framework for the 15 member countries, which could have an accelerating and enhancing impact on global value chains in the region; (b) the key element of the China–Japan–Republic of Korea effect, where the RCEP agreement sets the first free trade arrangement for trade and investment for these countries; (c) key elements for digital transformation and services liberalisation in key services trade in e-commerce, financial, professional, and telecommunication services; and (d) ASEAN centrality, which is critical for the post-pandemic recovery and structural transformation of the region in terms of sustainable and inclusive growth.

RCEP and Post-pandemic Recovery

The Regional Comprehensive Economic Partnership (RCEP), which was recently completed on 15 November 2020, is the largest regional free trade agreement (FTA) in the world, comprising the 10 members of the Association of Southeast Asian Nations (ASEAN) (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam) and five regional ASEAN dialogue partner countries with which ASEAN has existing FTAs – Australia, China, Japan, the Republic of Korea (henceforth, Korea), and New Zealand.^{1,2}

¹ India has opted out of the agreement but with some provisions to join RCEP in the future.

² The ASEAN Framework for RCEP was adopted by the ASEAN Leaders during the 19th ASEAN Summit in November 2011 in Bali, Indonesia. The Joint Declaration of Ministers for the launch of RCEP negotiations was made on 20 November 2012 in Phnom Penh, Cambodia, during the 21st ASEAN Summit.

Currently, it is the largest regional trading bloc in the world, consisting of a combined population of 2.2 billion people (30% of the world's population), a total regional gross domestic product (GDP) of around US\$38,813 billion (30% of global GDP in 2019), and nearly 28% of global trade.

The agreement is important for open regionalism and sets the momentum for global trade and investment amid the current COVID-19 pandemic shock, which is creating uncertainty and inward-looking policies in East Asia (Kimura et al., 2020). Specifically, RCEP is based on four key elements of regional integration: (a) rule-based trade and investment, (b) market access, (c) economic cooperation, and (d) ASEAN centrality. These four key elements are important for East Asia and ASEAN for regional recovery in the post-pandemic period and also for moving the region to the next stage of inclusive and sustainable growth.

It also has several key elements that will be crucial for the post-pandemic recovery and regional transformation:

1. A single rule-of-origin (ROO) framework for the 15 member countries could have an accelerating and enhancing impact on global value chains (GVCs) in the region. Under RCEP, there is an agreement for a single ROO framework that could be applied across the agreement's 15 member countries. A recent study by the authors highlights that the co-sharing rule adopted in RCEP is less restrictive across other forms of ROO rules and regulations (Thangavelu et al., 2020). Under RCEP, businesses need to show that a product has a regional value content (RVC) level of 40% or has undergone a change in tariff heading (CTH) at the 4-digit Harmonized System (HS) code level of classification. The single ROO framework under RCEP will have important implications for GVC activities in the region in terms of greater intra-industry trade and investment, and it is likely to create more value-added activities in the region.
2. It also has the key element of a China–Japan–Korea (CJK) effect, where the RCEP agreement sets the first free trade arrangement for trade and investment for these countries. The CJK impact could be significant and could have a positive impact on ASEAN and ASEAN least developed countries (LDCs) in terms of greater flows of goods and services in the region. The CJK framework under RCEP is expected to intensify the GVC network and activities in the region, thereby increasing the trade and investment activities of ASEAN countries that have strong trade linkages to CJK. ASEAN LDCs, such as Cambodia, are in a unique position to take advantage of the

trade linkages to the CJK framework under RCEP and structurally transform their domestic economies.

3. The RCEP agreement also has key elements for services liberalisation in key services trade in e-commerce, financial, professional, and telecommunication services. These services will be critical for structural transformation in the post-pandemic recovery in terms of the digital transformation of services in the East Asia region. The digital transformation of services will also accelerate the services linkages in GVCs and the servicification of manufacturing activities (Thangavelu et al., 2018).

Under RCEP, services trade is expected to grow, as nearly 65% of services in member countries will open up for trade and investment. RCEP also emphasises a key framework for deeper services liberalisation in the sectors of e-commerce, financial, telecommunication, and professional services. The service sector liberalisation under RCEP also highlights a shift from the 'positive list' approach adopted in ASEAN+1 FTAs, where only certain service sectors are open for trade and investment, to the 'negative list' approach adopted in RCEP, where most service sectors are open for trade and investment unless specifically excluded. RCEP members are also given a certain time period to shift to the negative list approach after entering into the agreement. The negative list approach reduces uncertainty in service sector liberalisation and increases regional trade and investment in service sectors.

Importance of ASEAN centrality in RCEP and the post-pandemic transformation

RCEP also provides a new framework for regional integration for trade and investment that builds on from bilateral FTAs to multilateral FTAs, such as the ASEAN+1 FTAs (see Table 1) of ASEAN–China, ASEAN–Korea, ASEAN–Japan, and ASEAN–Australia–New Zealand that were initiated in the early 2000s. However, RCEP provides a greater platform for regional integration in terms of opening up domestic and regional markets for further trade and investment integration.

The East Asian regional integration architecture is shown in Figure 1. The centrality of ASEAN is clearly reflected in RCEP in terms of adopting the institutional structure of ASEAN, such as the RCEP Secretariat, and as market-driven regional integration. The RCEP Secretariat is expected to maintain the breath of trade and investment across the 15 member countries due to the vast economic and institutional diversity to meet the RCEP

Table 1: Building Blocks for Regional FTAs – ASEAN+1 FTAs

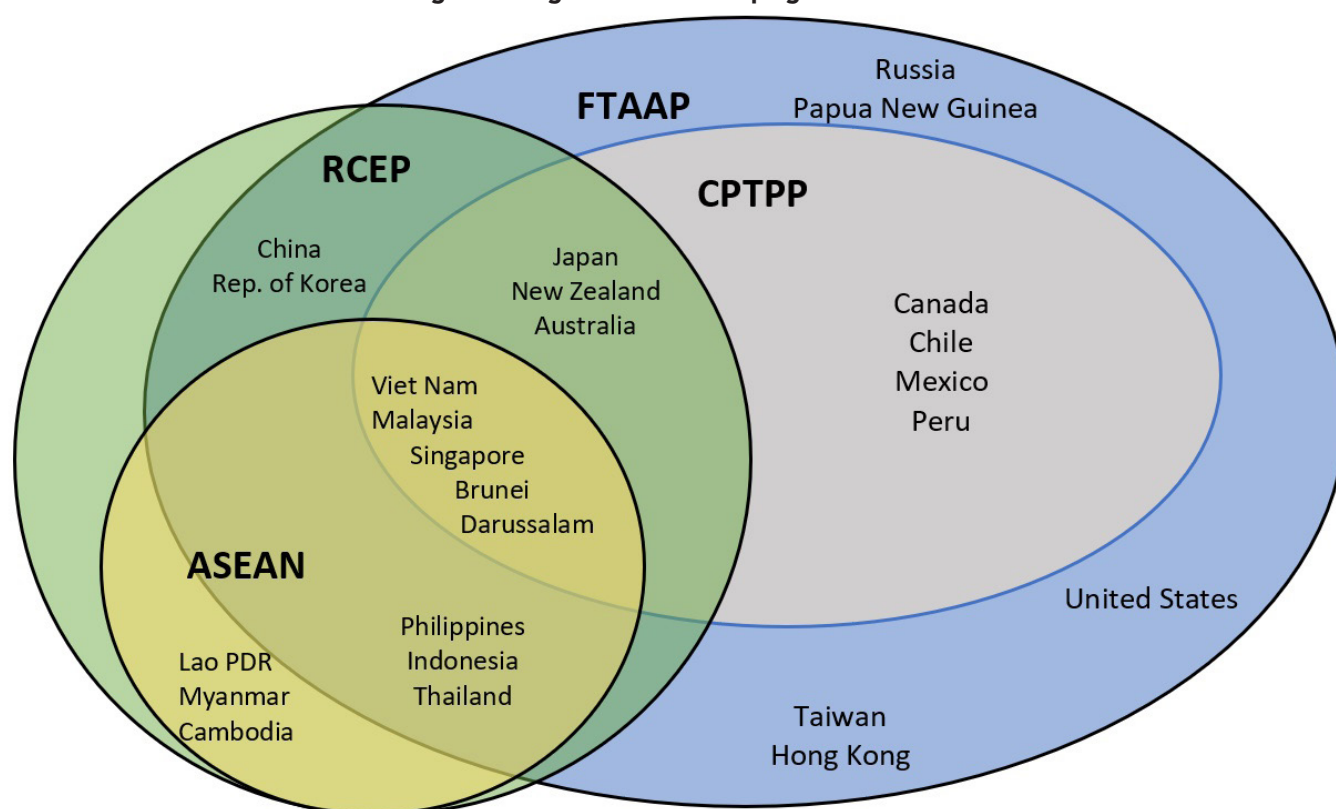
Free Trade Agreement (FTA)	Date in Effect
ASEAN–China FTA	January 2005
ASEAN–Korea FTA	June 2007
ASEAN–Japan FTA	December 2008–July 2010
ASEAN–Australia–New Zealand FTA	January 2010–March 2010
ASEAN–India FTA	January 2010–May 2011

Source: Enterprise Singapore. <https://www.enterprisesg.gov.sg/non-financial-assistance/for-singapore-companies/free-trade-agreements/ftas/singapore-ftas/aanzfta> (accessed 15 February 2021).

commitments, and ASEAN with the ASEAN Secretariat will create the dynamism and depth of integration in terms of deeper economic cooperation in East Asia by accessing new markets and deepening integration through connectivity and technological innovation.

ASEAN centrality is critical for the post-pandemic recovery and structural transformation of the region in terms of sustainable and inclusive growth. ASEAN centrality is further necessary for enhancing regional cooperation and inducing greater liberalisation and deeper structural reforms in the region for all ASEAN members to fully benefit from the RCEP agreement.

Figure 1: Regional Trade Groupings in East Asia



ASEAN = Association of Southeast Asian Nations, CPTPP = Comprehensive Progressive Trans-Pacific Partnership, FTAAP = Free Trade Area of the Asia Pacific, RCEP = Regional Comprehensive Economic Partnership.
Source: Authors.

Policy Recommendations: Positive Impacts of RCEP on East Asia and ASEAN LDCs

The economic impacts of RCEP as a regional trading bloc are significant for East Asia to mitigate the negative effects of trade and economic shocks, such as the US–China trade war (Petri and Plummer, 2020). The trade agreement under RCEP is also expected to create positive impacts on output in the region, mitigating the negative effects of the COVID-19 pandemic shock.

A recent study by Petri and Plummer (2020), accounting for only the US–China trade war, highlighted that all RCEP member countries would gain from the trade agreement, and no member country would experience a negative impact (Singapore and Brunei have the smallest marginal gains). RCEP also reflects the importance of CJK effects in the region, as it provides the first free trade arrangement for CJK that allows for the greater movement of goods and services in the region. The East Asian countries of CJK seem to have the largest gains from RCEP. This is mainly driven by the regional GVC activities dominated by these countries.

The key benefits from RCEP depend critically on the participation and positioning of the respective ASEAN countries in GVCs for both manufacturing and services. This is reflected in the gains of the ASEAN member countries of Indonesia, Malaysia, Thailand, and Viet Nam, which have stronger GVC participation in regional and global GVC activities. The ASEAN LDCs of Cambodia, Lao PDR, and Myanmar also experience positive gains from RCEP but need to undertake deeper structural reforms to fully benefit from the agreement.

The potential role of RCEP in the post-pandemic recovery will be critical for ASEAN and ASEAN LDCs.

1. RCEP will provide domestic and regional platforms for the structural transformation of GVCs in the post-pandemic recovery. With the persistence of the COVID-19 pandemic in terms of its restrictions on the movement of people and border lockdowns for more than 15 months (since the virus was first observed in December 2019 in China), the risks and costs of the COVID-19 pandemic for businesses have increased. The higher risk from the COVID-19 pandemic will induce most multinational firms to undertake digital innovation and automation, which will directly affect the GVC activities in the region. This will have implications for domestic industrial activities in manufacturing and services. ASEAN LDCs must undertake policies to induce the structural transformation of their industries to

higher value-added activities, which will support the GVC activities induced by the CJK effects through RCEP. For example, a recent study by Obashi (2021) highlighted the rising GVC activities in computers, electronic and electrical products, and transport equipment for Cambodia and Viet Nam. 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, such as Cambodia, could be in investing in critical infrastructure, upgrading their Special Economic Zones, or improving the skills and human capital of workers.

2. Digital transformation will accelerate in the post-pandemic recovery and will have a direct impact on services activities and services trade in the region. ASEAN member countries have to develop a policy framework to manage the structural transformation of the services sector through digital innovation and automation. RCEP could provide the framework to manage the structural transformation of services trade and investment in the post-pandemic period.
3. The post-pandemic impact will be significant on traditional services trade, which is dependent on the movement of people, such as through tourism, aviation, and logistics. These industries are critical for ASEAN LDCs in terms of employment and also the participation of small and medium-sized enterprises. These industries are not expected to recover in the short run until a framework for the movement of people in the region is established. RCEP could provide a platform to develop a framework for the movement of people in the 'new normal' GVC activities.
4. Under the RCEP agreement, there is differential treatment for member countries to implement the RCEP commitments and also economic cooperation support in terms of official development assistance and aid for domestic capacity building and trade reforms in the domestic economy. RCEP could provide a framework for technical assistance and economic cooperation for economic reforms in key sectors to increase the competitiveness of ASEAN LDCs. In particular, a regional platform for the consideration of mass testing and vaccination against the COVID-19 virus could be an important area of cooperation under RCEP. This could be critical for ASEAN and ASEAN LDCs in the post-pandemic recovery due to the lack of fiscal resources and health infrastructure in these countries.


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