

Routledge-ERIA Studies in Development Economics

POLITICAL ECONOMY OF EAST ASIAN ECONOMIC INTEGRATION

**THE PROCESS OF THE RCEP NEGOTIATIONS
AND BEYOND**

Edited by

Fusanori Iwasaki, Keita Oikawa and Shujiro Urata



Political Economy of East Asian Economic Integration

This book studies the influence of the Regional Comprehensive Economic Partnership (RCEP) on the East Asia region and the rest of the world from an international relations perspective.

Analysing the history and negotiation process of RCEP through a collection of written interviews from negotiators involved in the RCEP, this book helps readers understand the origins, proceedings, and characteristics of mega-regional trade integration. Individual case studies analyse the RCEP negotiations from the viewpoint of various states or economic blocs, such as ASEAN, Australia, China, Japan, the European Union (EU), and the United States. Several chapters also illustrate the dynamism of the regional architecture in East Asia concerning other regional movements, including the Trans-Pacific Partnership (TPP), Comprehensive and Progressive TPP (CPTPP), Belt and Road Initiative, and the newly launched Indo-Pacific Economic Framework (IPEF). In sum, the chapters illustrate how RCEP member countries and non-member countries try to utilise/maximise their national interests.

This book will interest researchers of international relations, international politics, international economics, and international political economy, as well as policymakers and negotiators responsible for future regional economic integration projects.

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I Overview, Literature Review, and Chapter Synopsis

Fusanori Iwasaki, Keita Oikawa and Shujiro Urata¹

1.1 Introduction

Since the 1990s, the ASEAN and East Asian regions have embarked on a process of regional economic integration in response to the growing wave of regionalism worldwide. Over the past two decades, bilateral free trade agreements (FTAs) began to develop in the early 2000s. This was followed by the promotion of regional and large-scale FTAs, often referred to as mega-FTAs, in the late 2000s and 2010s within the ASEAN and East Asia regions. One significant outcome of this regional economic integration process is the Regional Comprehensive Economic Partnership (RCEP), which was signed on 15 November 2020 and entered into force on 1 January 2022 amongst ASEAN Member States, Australia, China, Japan, New Zealand, and the Republic of Korea (henceforth, Korea).

However, the journey to the signature of RCEP has not been smooth. The launch of RCEP negotiations amongst ASEAN Member States, Australia, China, India, Japan, New Zealand, and Korea was declared at the 2012 ASEAN Summit. RCEP participants included ASEAN and countries that had already concluded FTAs with ASEAN. Yet, the negotiations encountered significant challenges, primarily stemming from differences in development levels, institutions, and policies amongst the participating countries. India, in particular, expressed concerns about its trade deficit with China. Ultimately, India withdrew from the RCEP negotiations just before the agreement was signed. Despite these obstacles, RCEP has managed to overcome many challenges on its path to fruition.

This book comprises a compilation of papers prepared for a research initiative conducted during 2021–2022, coordinated and led by the Economic Research Institute for ASEAN and East Asia (ERIA). The chapters aim to provide a comprehensive analysis of the Regional Comprehensive Economic Partnership (RCEP) and its negotiation process from various perspectives, including those of participating countries and the broader global context. These perspectives encompass ASEAN, Australia, China, Japan, the European Union (EU), and the United States.

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Insights from our analysis shed light on how these countries maintain ASEAN centrality throughout the negotiation process and consider the positive impacts of East Asian regional economic integration. Additionally, several chapters explore East Asia's regional architecture in relation to other initiatives such as the Trans-Pacific Partnership (TPP), the Comprehensive and Progressive TPP (CPTPP), the Belt and Road Initiative (BRI), and the Indo-Pacific Economic Framework (IPEF). The book also includes insights gleaned from interviews with RCEP negotiators, serving as an original source for future researchers and enhancing readers' understanding of the RCEP negotiation process.

Furthermore, this volume enriches the understanding of the subject for researchers and students while informing economic policymaking. It delves into the factors driving regional free trade agreement negotiations through the study of RCEP and its interaction with other initiatives. Emphasising the significance of such analysis, the editors highlight its relevance amid increasing anti-globalisation sentiments and the proliferation of inward-looking protectionist policies globally.

The chapters explore various aspects of RCEP, including its establishment, the political agendas of member countries, their roles during negotiations, and the prospects for RCEP. With a consistent focus on ASEAN, authors discuss the centrality of ASEAN and RCEP's significance for its members, the impact on neighbouring countries (Australia, China, and Japan), and the role of the RCEP region in the global economy (the United States and EU).

The remainder of this chapter is structured as follows. Section 1.2 provides a literature review of RCEP, focusing on its depiction in international relations studies. Section 1.3 delves into theories of international relations to comprehend the mechanisms through which ASEAN and other countries with shared interests in the region establish multilateral institutions, including RCEP, within the current geopolitical environment and the distribution of power. Lastly, Section 1.4 offers a succinct summary of each chapter in the book.

1.2 Literature Review 1: Narratives of RCEP

The section offers a review of previous studies on the formation of RCEP within the field of international relations. Focusing on their narratives of RCEP, we identified three main perspectives: RCEP as an ASEAN-centred institution of regional integration, the Mega-FTA contest between RCEP and TPP, and the question of leadership within RCEP.

1.2.1 RCEP as an ASEAN-Centred Institution of Regional Integration

Several studies examine the formation of RCEP in alignment with ASEAN's efforts in building an economic community. Shimizu (2021) reinforces the notion of ASEAN-led East Asia economic cooperation, including RCEP formation. The multi-layered international system, as noted by Oba (2014, 2016),

is characterised by ASEAN's economic integration endeavours, encompassing initiatives such as the ASEAN Free Trade Area (AFTA) in 1992, ASEAN+1 FTAs, ASEAN+3, and the East Asia Summit (EAS). Fukunaga (2015) emphasises the significance of 'ASEAN Centrality' in shaping RCEP, highlighting ASEAN's pivotal role not only as a negotiation platform but also as a driver of substantive economic integration. The term 'ASEAN centrality' was cited in the first RCEP leaders' declaration in 2012 and the Guiding Principles of the RCEP negotiations. However, while ASEAN stresses the concept of 'ASEAN centrality' at various fora, it also expresses its concerns about the risk of losing that position, as articulated by Mueller (2019). Mueller suggests that East Asian nations, apart from ASEAN, are becoming less reliant on ASEAN's centrality as a trade hub, diminishing the effectiveness of ASEAN's leadership in trade matters. Despite most negotiation meetings being held in ASEAN Member States (AMS) and the ASEAN Secretariat serving as the secretariat, there remains contention regarding the substantive role in concluding the negotiations.

1.2.2 Mega-FTA Contest between RCEP and TPP

Some studies particularly highlight RCEP's status as one of the mega-FTAs in the ASEAN and East Asia region and try to understand its characteristics compared with TPP. Within the multi-layered framework outlined by Oba (2016), several studies have endeavoured to compare the characteristics and implications of RCEP with TPP (Aggarwal, 2016; Gantz, 2016; Hamanaka, 2014; Jiang and Yu, 2021; Lewis, 2013; Rahma and Ara, 2015; Urata, 2019; Wilson, 2015; Ye, 2015). In pursuit of the Free Trade Area of the Asia-Pacific (FTAAP), initially proposed at the Asia-Pacific Economic Cooperation (APEC) Business Council in 2004, two distinct types of agreements have emerged (Lewis, 2013: 363). The comparison between the original TPP and RCEP potentially reflects a broader conflict between the United States and China in international relations. Hamanaka (2014) contends that a competition for control over geographical membership and agenda setting occurs during the formation of regional economic groupings, with both the United States and China vying for exclusive influence. Aggarwal (2016) underscores contrasting perspectives, noting that:

Advocates of the TPP assert that it will strengthen the US strategic role in the region, in part by countering China's membership in the RCEP, claims made in response to growing scepticism in the United States about the value of liberalised trade. Advocates of the RCEP argue that it can be a stepping-stone to the broader and more liberal TPP, rather than rival mega-FTAs, with both eventually subsumed into a Free Trade Area of the Asia-Pacific (FTAAP) under the auspices of Asia-Pacific Economic Cooperation (APEC).

(Aggarwal, 2016: 2)

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1.2.3 *Question of Leadership within RCEP*

While several authors explore the rivalry between the United States and China in the formation of the TPP and RCEP, some studies examine which countries take the initiative and leadership or play a leading role in completing the RCEP negotiation process. As highlighted in previous research, several studies underscore China's initiatives in forming the RCEP agreements, primarily driven by its incentive to establish a regional economic grouping in East Asia (Aggarwal, 2016; Hamanaka, 2014). Even when more prominent countries do not overtly display strong initiatives, they inadvertently or intentionally contribute to the negotiation process. Yoo and Wu (2021) portray China's role as a hegemonic power in East Asia, emphasising Beijing's significant role in persuading other members to reach an agreement. Jiang and Yu (2021) also assert that China reaps substantial benefits from RCEP, promoting an open policy for international trade and investment and encouraging participation in CPTPP. Although Ye (2015) views RCEP as an ASEAN-led mechanism (Ye, 2015: 221), supporting a non-US mechanism generates positive externalities from China's rise in the region.

Meanwhile, some papers underscore ASEAN's leadership in RCEP negotiations, aligning with the concept of 'ASEAN Centrality' (Fukunaga, 2015; Kimura, 2021; Ye, 2015). Kimura (2021) suggests that RCEP would bolster Factory Asia as a whole and would have positive impacts on ASEAN, notwithstanding concerns about trade diversion to non-ASEAN participating countries. Shimizu (2021) also acknowledges ASEAN's willingness to uphold its centrality despite pressure from the commencement of TPP negotiations.

1.3 **Literature Review 2: Theories to Understand the Road to RCEP**

The previous section reviewed the literature on international relations (IR), focusing on narratives of the RCEP. This section reviews the theories of IR to help us understand the mechanisms by which AMS and the RCEP-participating countries move and agree to form RCEP, a multilateral institution.

In the study of the IR, researchers seek to investigate two fundamental interests which modern sovereign states and their political elites pursue: security and economic interests. Security interests encompass the advantages that a state derives from actions aimed at enhancing its security and protecting its territorial integrity, sovereignty, nations, and national interests. States pursue security interests to safeguard themselves against external threats, maintain stability and order within their borders, securing energy and materials.

Economic interests involve the advantages that a state derives from economic activities and engagements at the international level. Modern sovereign states and their political elites seek economic benefits to enhance their wealth, prosperity, and economic well-being. Pursuing higher standards of living and greater domestic stability are often regarded as responsibilities by sovereign states. These benefits may be gained by increasing trade opportunities, access

to foreign markets, foreign direct investment, technological transfers, and economic growth. It is important to note that opening the domestic market to foreign countries can also promote economic growth by enhancing market competitiveness and the productivity of domestic companies (Melitz, 2003). States pursue these fundamental interests through political decision-making regarding international issues.

However, political decisions are not solely determined by political elites (or policymakers). Political decision-making processes are shaped by the constraints of existing power distribution both domestically (internally) and internationally (Gourevitch, 1978; Putnam, 1988). Regarding domestic constraints, even non-democratic countries must consider audience costs imposed by their citizens (Fearon, 1994; Tomz, 2007; Weeks, 2008). International power distribution significantly constrains a state's actions, such as cooperation or contention with other states, to pursue its national interests. It is rational for a state to decide its actions by maximising its national interests within the existing international system.

A long tradition in IR posits that internal (domestic) power distribution within a state can significantly influence its behaviour in international relations (Gourevitch, 1978; Iida, 1993; Putnam, 1988). Classical studies have regarded the concept of public opinion as emotional and highly volatile in its attitude (Almond, 1950; Lippmann, 1955). As a result, decisions of a state with an unstable internal power position can appear inconsistent with its international interests. For example if the government of a state holds a stable power position within the state, state elites may make decisions regarding international relations without much consideration for their domestic political structure. However, if the government lacks stable power within the state, it must focus on internal political conditions, such as audience costs by citizens and pressure from interest groups on state elites, and may not be able to effectively pursue international interests.²

To understand the political decisions made by the RCEP-negotiating countries, it is necessary to comprehend their security and economic interests, as well as the positions of their state elites in both international and domestic power distributions. Therefore, the structure of IR theories essentially follows a pattern where we identify the distribution of power surrounding the states of interest as causal factors (independent variables) and examine the mechanisms influencing the decision-making of states in their internal and international behaviour (dependent variables).

The mechanisms we typically examine fulfil the condition where the observed decisions by the states of interest maximise their interests in security, economics, and the preservation of the political position of state elites. The specific interests focused on or given importance depend on researchers' beliefs or whether the mechanisms can account for states' behaviours under the specific distribution of power in a parsimonious way (e.g. King et al., 1994; Sprinz and Wolinsky-Nahmias, 2004).

To consider the RCEP which is one of the multilateral institutions in East Asia and state behaviour, one approach is to examine the strategic utility of the

international institutions for states (He, 2008; Ikenberry, 2001; Koga, 2018a, 2022; Wallander and Keohane, 1999). Below, we briefly examine three theories of institutional strategies: institutional balancing, institutional bandwagoning, and institutional hedging to better understand the RCEP negotiation and the strategy and behaviour of each participating country.

1.3.1 Institutional Balancing

Institutional balancing represents a strategy where states counter pressures or threats by leveraging and dominating multilateral institutions within an anarchic system (He, 2008, 2009, 2019). Unlike traditional balancing, which focuses on military alliances, institutional balancing highlights the use of multilateral institutions. This approach arises due to (1) increased economic interdependence, prompting states to adopt alternatives to military alliances, and (2) the distribution of power shaping how states engage in institutional balancing, either inclusively or exclusively.

Hard balancing primarily involves military power accumulation. In contrast, soft balancing is a strategy for a state to counter pressures or threats by resorting to non-military tools, such as international institutions, economic statecraft, and diplomatic arrangements (Pape, 2005). Institutional balancing, categorised as soft balancing, operates through multilateral frameworks. It encompasses two approaches: inclusive and exclusive balancing. Inclusive balancing involves binding target states within institutions, using norms and rules to shape behaviour, while exclusive balancing consolidates political and economic unity to resist external pressures (He, 2008: 493).

The institutional balancing model posits that power distribution and economic interdependence shape state behaviour, determining whether they engage in hard balancing or soft balancing. In low interdependence scenarios, power balancing predominates. In high interdependence situations, institutional balancing becomes more prevalent (Ibid: 495).

In a unipolar world, where one dominant power – the hegemon – holds significant sway over international affairs, states may find themselves compelled to engage in exclusive balancing through the formation of multilateral institutions without the hegemon's involvement. This approach is driven by the recognition that attempting to constrain the hegemon within existing institutions may be ineffective, as the hegemon often has the capability to shape agendas and disregard rules it deems unfavourable. Thus, states opt to form alternative alliances or coalitions, excluding the hegemon, in the hope of collectively resisting its influence and asserting their own interests (Ibid.: 496).

Conversely, in a multipolar world characterised by the presence of multiple significant powers with relatively balanced capabilities, coupled with high levels of economic interdependence, inclusive institutional balancing emerges as a more sensible approach. In such a scenario, states recognise the necessity of cooperation and collaboration within multilateral institutions to address common challenges and promote stability. Inclusive balancing entails engaging

all relevant actors within institutions, fostering dialogue, building consensus, and adhering to shared norms and rules. This approach allows states to pool resources, mitigate conflicts, and achieve mutually beneficial outcomes, ultimately enhancing the cooperation and stability in the international system (Ibid.: 497).

While exclusive balancing may strain inter-state relations by creating divisions and exclusionary dynamics, inclusive balancing promotes cohesion and trust amongst participating states. By emphasising inclusivity and cooperation, inclusive balancing not only addresses immediate security concerns but also lays the groundwork for long-term stability and resilience in the face of global challenges. Thus, in a multipolar world characterised by high interdependence, inclusive institutional balancing emerges as a pragmatic and effective strategy for states to navigate complex geopolitical dynamics and safeguard their interests.

Overall, the institutional balancing model suggests that in a unipolar world, states with economic interdependence with the superpower and that feel pressure from it opt for exclusive institutional balancing to resist it in a soft manner. In a multipolar world, states that depend on each other economically choose inclusive institutional balancing by engaging all relevant states within institutions to address conflicts, foster cooperation, and promote mutual benefits, thus reinforcing stability within the international arena. He (2022) also points out that institutional balancing amongst great powers increases the dynamics of the institutions and, in turn, ensures the intensity and utility of institutions in the international system.

1.3.2 Institutional Bandwagoning

Institutional bandwagoning refers to the collective alignment with a great power or powers, including those perceived as sources of threat, to secure benefits or ensure security, often at the expense of opportunities for cooperation with other great powers (Koga, 2022: 26). Within institutions, member states seek to adopt a unified stance towards target states or, at the very least, refrain from opposing such a stance. This enhances military, economic, and political cooperation amongst the members. Additionally, member states may integrate a target state into the institution, providing an opportunity to influence its leadership. This allows members to collectively address threats posed by the target state and leverage its greater military, economic, and political resources for mutual benefit.

Bandwagoning, often seen as the counterpart to balancing, entails aligning with the stronger or perceived threatening side. According to Walt (1988), it involves a vulnerable state making concessions to a dominant power and accepting a subordinate role. It signifies accommodation to pressure, even tolerating illegitimate actions by the dominant ally. This strategy is deemed costly as it involves forfeiting values to avoid attack and preserve national interests. In other words, bandwagoning involves costs, particularly the loss of

autonomy resulting from dependence. Koga's definition of institutional bandwagoning focuses on the benefits accruing to states that align themselves with a superpower. According to Koga, if states experience a loss of autonomy or incur costs because of bandwagoning, it is considered a failure of the bandwagoning strategy.

According to Koga (2022), a concrete example of institutional bandwagoning can be observed in the formation of the TPP. Originating from an economic agreement established in 2005 by four smaller powers in the Asia-Pacific region – Brunei, Chile, New Zealand, and Singapore – the TPP initially served economic objectives. However, in 2008, the United States joined the TPP, transforming it into a platform with enhanced security, economic, and political influence across the Asia-Pacific and beyond. This incorporation of a major power into the institution not only bolstered the framework's capabilities but also aligned member states with the United States, thus amplifying their collective strength in addressing regional challenges and opportunities.

1.3.3 Institutional Hedging

Institutional hedging involves maintaining strategic ambiguity for states to mitigate or avoid the risks associated with the negative outcomes of failed institutional balancing or bandwagoning (Koga, 2022: 26–27). Failed institutional balancing can provoke a severe retaliation from the target state(s) against balancing institutions, while failed bandwagoning can result in the domination of bandwagoning institutions by the targeted states, leading to a potential loss of autonomy and security. Additionally, both strategies may face challenges in securing commitment from allies or bandwagoned states. To address these risks, states dare to adopt an ambiguous stance against target states by mixing policies that may be both preferable and unfavourable to the target states. Furthermore, in 'institutional' hedging strategies, states leverage their institutional power, which involves exerting indirect control over others through diffuse interactions. This power is manifested through the mobilisation of material, symbolic, or normative resources. In practice, a security institution incorporates target state(s) as member states, aiming to constrain their behaviour by establishing or reinforcing institutional norms and rules. By doing so, states seek to maintain flexibility and adaptability while minimising the adverse consequences of failed balancing or bandwagoning strategies. Koga (2022) illustrates institutional power with an example: ASEAN's incorporation of major powers into an ASEAN-led institution to influence them using the 'ASEAN Way', characterised by norms such as non-interference and consensus decision-making.

To better understand the concept of institutional hedging, let us refer to the discussion of hedging presented by Cheng-Chwee (2008). Hedging is described as a strategy employed by states to mitigate risks by pursuing multiple policy options aimed at producing mutually counteracting effects, particularly in situations characterised by high uncertainties and high stakes. The term

'risks' plays a central role in understanding hedging as a behavioural pattern. While some risks, such as military aggression or political encroachment, stem from intentional actions of specific state or non-state actors, others arise from impersonal or structural forces such as global economic downturns, domestic political instability, and shifts in the distribution of power on a systemic level (Ibid: 163). Small states are particularly vulnerable to these risks due to limitations in internal capacity, which can make them susceptible to external exploitation, and a lack of resources to absorb structural shocks or mitigate risks independently.

Essentially, the response of a state to a particular great power, as well as its approach to other actors such as neighbouring countries, hinges largely on whether it perceives an imminent security threat. When faced with an immediate threat, a state is likely to adopt a balancing strategy towards the actor, mobilising its strategic assets for security-seeking purposes. Conversely, if a state views an actor as a principal source of assistance rather than a threat, it may opt for bandwagoning, prioritising profit-seeking behaviour. However, there are often situations where policymakers do not perceive a clear and immediate threat. Instead, they may see risks as more versatile, multifaceted, and uncertain. This is a common scenario for many countries in the Asia-Pacific region in the post-Cold War era. For small states, predicting shifts in power structures is challenging, as the distribution of power is a systemic process beyond the control of any single actor, and the commitment of a great power can change unpredictably over time. Cheng-Chwee (2008: 165) claims that whether hedging behaviour is adopted depends on three key factors: (i) the absence of an immediate threat that would compel a state to ally with a power for protection, (ii) the absence of ideological fault lines that rigidly divide states into opposing camps, and (iii) the absence of an all-out great power rivalry that would force smaller states to choose sides. Hedging behaviour becomes viable only when all three conditions are met. According to Cheng-Chwee (2008), an example of hedging behaviour is Malaysia's strategy towards China after the early 1990s. Malaysia intensified economic ties with China while maintaining close relations with other major powers simultaneously.

As mentioned earlier, hedging is a well-known strategy in East Asia and Asia-Pacific region to minimise the risks of security issues, in particular, for small- and medium-sized countries from great powers (Ciorciari and Haacke, 2022; Haacke, 2019). Some studies examine the phenomenon of hedging in various countries, including Indonesia (Iksan and Soong, 2023), Japan (Koga, 2018b), Malaysia (Cheng-Chwee, 2008; Lee, 2017), Singapore (Cheng-Chwee, 2008), Korea (Lee, 2017), Viet Nam (Vu et al., 2023), and ASEAN as a whole (Cheng-Chwee, 2016). Many of these studies focus on strategies for navigating the challenges posed by the rise of China and the confrontation between the United States and China.

As we have seen from previous studies and theories, RCEP is one of the important institutions that major East Asian countries join, reflecting each state's political and economic interests, both amongst the member states and

with non-member states. Due to the variation of economies in each country, RCEP serves as a useful case for scholars to understand the theories of institutional balancing, bandwagoning, and hedging. Although each chapter in this book does not rely solely on the theories mentioned earlier, the editors offer an understanding of the behaviours and strategies of the RCEP member countries towards RCEP by applying these theories.

1.4 Chapter Synopsis

Lastly, this section provides a summary of each chapter of this book.

Chapter 2, titled ‘Road to Regional Comprehensive Economic Partnership Establishment’ by Iwasaki, Oikawa, and Urata, presents and discusses the historical background and process of the RCEP negotiations. From the perspective of the historical development of regional economic integration in East Asia and the Asia-Pacific, RCEP is an initiative that originated in East Asia. At the same time, the TPP and CPTPP are initiatives involving Asia-Pacific countries. The motivations and directions of the RCEP, TPP, and CPTPP negotiations were different and influenced each other. The chapter examines how the two regional integration processes differ, and which countries have tried to take the initiative in the negotiations. The second half of the chapter examines the RCEP negotiation process from the start of negotiations in 2012, using information from interviews with several RCEP negotiators. We try to determine how the negotiators thought about the relationship between RCEP and other regional integration processes.

Chapter 3, titled ‘Regional Comprehensive Economic Partnership: Economic Backgrounds of ASEAN and its Dialogue Partners’ by Oikawa, Iwasaki, and Urata, provides an overview of the economic backgrounds of the RCEP negotiation participating countries (RNPCs) and two ASEAN Dialogue Partners – the United States and the EU – to understand their economic relations before the RCEP was signed and their economic interests in the RCEP. We find that the 16 RNPCs differ in terms of economic sizes, income levels, growth patterns, and the importance of trade and foreign direct investment (FDI) flows. Our analysis of trade and FDI flows in East Asia reveals the rapid expansion of intra-regional trade and FDI, leading to the formation of regional production networks. In this network, ASEAN and China play an important role in the production base for manufactured goods, receiving intermediate goods and FDI from Japan and Korea. Final products assembled in ASEAN and China are exported to other East Asian countries as well as to the United States and the EU. Amongst the RNPCs, India is not involved in any production network. India has a bilateral trade deficit with China, which is one of the main reasons for India’s withdrawal from the RCEP negotiations. India was also concerned about the negative impact of a massive inflow of Chinese manufactured goods resulting from the RCEP on its manufacturing industry, which India was keen to develop. Simulation results from a computable general equilibrium model show that RNPCs, especially the less developed

ASEAN countries, would benefit greatly from lower trade costs in services and investment liberalisation. India is also amongst the countries that would benefit most from RCEP. In contrast, the non-RNPCs, namely the United States and the EU, would suffer from the negative effects of RCEP through trade diversion effects.

Chapter 4, titled ‘Centrality and Community: ASEAN in the Regional Comprehensive Economic Partnership’ by Kim, examines the role of ASEAN in shaping the RCEP agreement. The analysis in this chapter focuses on the centrality of ASEAN, both in concept and in practice, in influencing the launch and progress of RCEP. In practice, the RCEP agreement consolidates and significantly reduces the number of overlapping trade agreements between ASEAN – 38 in total – and its 5 RCEP partners: Australia, China, Japan, Korea, and New Zealand. This chapter also examines the relationship between the ASEAN Economic Community (AEC) and RCEP. RCEP provides for further tariff liberalisation between ASEAN members and its five RCEP partners, thereby expanding the zone of preferential treatment for goods exported from ASEAN and other RCEP members. Going forward, RCEP and ASEAN’s role within it are likely to be shaped by the challenges and opportunities presented by the CPTPP and the Biden administration’s IPEF initiative.

Chapter 5, titled ‘RCEP, ASEAN’s Agency, and the Role of ASEAN Members in Shaping the Regional Economic Order’ by Le Thu, looks at the process of RCEP negotiations as an example of ASEAN exercising agency. This chapter also argues that RCEP asserts the agency of lesser powers within the trade network – ASEAN and its individual member states. In particular, the more active individual members, including Viet Nam and Singapore, were amongst the most diplomatically supportive of the agreement. At a time of great power competition, with China emerging as one of the world’s major economic centres and the US competing with a vision of the Indo-Pacific, the regional, middle, and smaller powers are concerned about becoming ‘collateral damage’, especially in the process of US–China ‘decoupling’. RCEP shows that ASEAN countries can show agency in pursuing trade liberalisation at a time when the US, the global leader in this area, is absent. A mega-trade deal can be successfully led by smaller and even developing economies.

Chapter 6, titled ‘Australia’s Interests in East Asia’s Regional Comprehensive Economic Partnership’ by Armstrong, aims to analyse the importance of RCEP to Australia, both economically and politically, from the outset. The RCEP economies account for about two-thirds of Australia’s total trade, and being part of an ASEAN-led initiative to advance broader East Asian economic integration was consistent with the structure of Australia’s trade interests and Australia’s support for the multilateral trading system. Australia has a track record of pursuing regional cooperation in support of multilateral trade and supporting outward-looking regional integration. The ASEAN–Australia–New Zealand Free Trade Agreement (AANZFTA) included an economic cooperation agenda focused on capacity building, which was a success for its

members and shaped Australia's approach to and support for economic cooperation, which is a pillar of RCEP.

Chapter 7, titled 'China and the Regional Comprehensive Economic Partnership: An Economic and Political Perspective' by Zhang, examines China's policy and participation in East Asian economic integration and cooperation. The progress of RCEP is remarkable at a time when the global and regional economies are facing many challenges. As the largest economy in East Asia, China plays a key role in maintaining regional momentum. Why is China actively and constructively initiating ASEAN+1 FTAs and an integrated framework of FTAs in East Asia? RCEP, which was initiated by ASEAN and strongly supported by China, is essential to sustain East Asia's economic dynamism. The completion of RCEP negotiations and implementation hold significant implications for the region. China's benefits from RCEP are not only economic but also political. East Asian economic integration and cooperation are based on two fundamental principles: openness and inclusiveness. As a region of great diversity, it is crucial to provide opportunities for all parties with differences. China will continue its open policy and actively participate in multilateral and regional arrangements. As the largest economy in East Asia, it serves as an important pillar for East Asia to be a centre of the global economy. China sees the RCEP as an important framework to enhance its interests and role in East Asia and the Asia-Pacific region against a politically driven Indo-Pacific initiative.

Chapter 8, titled 'Japan and the Regional Comprehensive Economic Partnership (RCEP)' by Oba, aims to clarify Japan's role in the process leading up to the establishment of RCEP. In terms of ASEAN centrality, Japan had played a leading role in developing discussions on East Asian regional integration up to the start of RCEP negotiations. For Japan, the RCEP is one of the fruits of pursuing the new East Asia/Asia-Pacific strategy since the mid-1990s to protect and enhance the interests and benefits of Japanese business and to maintain Japan's political influence in the region. When RCEP negotiations began in 2013, the importance of RCEP to Japan was secondary to other free trade agreements, including the TPP, the China–Japan–Korea (CJK) FTA, and the Japan–EU FTA. However, the Japanese government and business community had several economic and strategic objectives in promoting RCEP. After the US withdrawal from the TPP, the RCEP was seen as an essential framework for establishing a rules-based regional order in the Indo-Pacific. Although it was only after India's withdrawal that the emphasis on maintaining order shifted, Japan simultaneously pursued the conclusion of negotiations and the establishment of high-level rules and achieved some success. Ultimately, the blow dealt by the pandemic and the sense of crisis in the traditional liberal international order caused by the intensifying strategic competition between the United States and China drove the conclusion of RCEP. The importance of RCEP for Japan and the Asian economic order will grow. Ironically, as the strategic competition between the US and China escalates, leading to the rise of protectionism, the financial and strategic importance of RCEP, an FTA that

includes China, becomes more important as a measure to counter unilateralism and protectionism. In addition, RCEP needs elements that address the negative impacts and pitfalls of globalisation, such as the environment, labour rights, and reducing the gap between rich and poor.

Chapter 9, ‘The Regional Comprehensive Economic Partnership Agreement and Europe: Impact and Implications’ by Hilpert, analyses the relationship between RCEP and the EU. The first two decades of the millennium saw historic changes in the EU trade policy, including an explicit pivot to Asia. Alongside continued support for the rules-based, WTO-centred multilateral trading system, important new directions in the EU trade policy included a turn towards competitive bilateralism, a strong focus on values, an ambition to protect and promote European trade standards, and the politicisation of trade policy. Asia’s outward-looking economic growth, increasing trade interdependence, and the various bilateral and multilateral trade agreements in the region, notably RCEP, have attracted the EU’s attention and helped to trigger and drive these changes. However, there has been no particular Asian influence on EU regionalisation. Meanwhile, trade and investment relations between Europe and Asia have intensified significantly. RCEP has received a lot of attention in Europe, but opinions are divided on its relevance and importance for Europe. For example European businesses will need to invest in the new RCEP free trade area to overcome the risks of trade diversion and to benefit from RCEP market integration. More worrying from a European perspective are the potentially negative political implications of RCEP: a relative loss of EU trading power, the risk of Europe being sidelined in the design of future trade rules, and the future impact of RCEP on rules-based multilateralism and the WTO.

Chapter 10, titled ‘Heyday of Asian Regionalism? The Implications of the Regional Comprehensive Economic Partnership for the United States’ by Solís, analyses the implications of the RCEP’s entry into force for the United States. Traditionally, trade policy has been central to the United States’ goal of positioning itself as a Pacific power and an architect of the evolving regional economic architecture. Over the years, however, American trade strategy has evolved in different ways: from an emphasis on bilateral trade negotiations and open regionalism (APEC) to the pursuit of a high-standard transregional trade agreement (in the TPP), to the pursuit of unilateralism and the use of tariffs as a form of leverage over competitors (China) and partners (allies in Europe and Asia) alike. However, the US withdrawal from the TPP and the successful conclusion of the RCEP talks (even in the absence of India) have changed this calculus. This chapter identifies three main implications of RCEP for the United States at this juncture: growing marginalisation from intra-Asian trade, diminished rule-making capabilities as alternative standards proliferate in the region, and diminished diplomatic clout as the United States struggles to integrate trade liberalisation into its Asia policy. A fourth possible consequence – renewed interest in joining the CPTPP – has not materialised. Instead, the Biden administration is developing an Indo-Pacific economic

framework that will not include market access negotiations. The ability of the United States to offer a compelling plan for economic engagement with the region is in question, raising the spectre of marginalisation as Asian regionalism advances.

Chapter 11, titled ‘The Role of the Economic Research Institute for ASEAN and East Asia (ERIA) in Promoting the Regional Comprehensive Economic Partnership (RCEP)’ by Iwasaki and Oikawa, aims to analyse how international organisations engage in intergovernmental negotiations through the case of ERIA over more than 10 years of activities. Through various economic analyses of regional economic integration in ASEAN and East Asia, ERIA has contributed to policymakers and scholars in the region, helping them better understand the importance of realising open regionalism, as emphasised in numerous ministerial and summit-level statements. More specifically, ERIA’s studies, such as the mapping studies, the AEC 2015 Mid-Term Review, and *ASEAN RISING*, have been directly reflected in the official documents of the RCEP and the ASEAN Economic Community Blueprint. Beyond the creation of an epistemic community, ERIA’s engagement can be evaluated as the real ‘think tank’ of East Asia’s regional economic integration.

Chapter 12, titled ‘The Real Voices of Regional Comprehensive Economic Partnership Negotiators’ by Iwasaki and Oikawa, contains the transcripts of written interviews conducted by the authors. The authors asked the same questions to the interviewees and received 12 responses. The chapter serves as an original source for future researchers in the field, offering insights into the negotiation processes of RCEP and enhancing the understanding of its complexities and dynamics.

To conclude this chapter, we provide a perspective on the path to RCEP based on insights from the preceding chapters and the IR theories introduced in Section 1.3. The dynamics of power in East Asia and the Asia-Pacific regions underwent significant shifts following the end of the Cold War in 1991. The resolution of tensions between the superpowers of that era – the United States and the Soviet Union – marked a pivotal moment, presenting both challenges and opportunities for ASEAN nations.

As the Cold War ended, the United States emerged as the sole superpower, ushering in a unipolar world order. However, the United States faced constraints in fulfilling its security and economic commitments to its Asian allies due to its relative economic decline in the early 1990s. Concurrently, China’s rapid economic rise, alongside Japan’s earlier emergence as the world’s second-largest economy in the 1980s, profoundly influenced the regional economic and political landscape. Additionally, India, now the fifth-largest global economy, has also undergone a rapid growth.

China’s rapid economic expansion and its elevation to the position of the world’s second-largest economy in 2010 profoundly reshaped regional power dynamics. Its expansive economic market became a focal point for regional states, fostering significant trade and financial interdependence. Moreover, initiatives like the Belt and Road Initiative (BRI) provided alternative avenues for

development assistance, further cementing China's influence across the region. In addition to its economic endeavours, China's increasing military presence in East Asia introduced strategic pressures on regional states, altering the security dynamics of the region. This shift has posed challenges to the previously dominant US-led unipolar system. Meanwhile, India's growing prominence has contributed to a more multipolar landscape in East Asia and the broader Asia-Pacific geopolitical sphere.

Against the backdrop of power distribution in the Asia-Pacific region, ASEAN Member States, individually smaller compared to major powers, have adopted hedging strategies. Collectively, they engage in institutional balancing by presenting a unified ASEAN front. China's rise presents both economic opportunities and potential threats to ASEAN Member States. Each ASEAN country has calibrated its approach, balancing between aligning closely with China and maintaining relationships with other major regional powers (He, 2008, 2022; Cheng-Chwee, 2008, 2016; Lee, 2017).

For instance Singapore strategically pursued bilateral FTAs with all non-ASEAN RCEP-negotiating countries even before RCEP negotiations began. Singapore also engaged with the United States through the Trans-Pacific Partnership (TPP) and is a member of initiatives like the IPEF. Viet Nam, despite not having an FTA with China, played a pivotal role in concluding RCEP negotiations as the ASEAN chair in 2020 (see Chapter 5) and joined TPP and IPEF. These actions illustrate ASEAN Member States' policy of institutional hedging, allowing flexibility in their relationships with emerging powers while promoting norms like the ASEAN way and ASEAN centrality (see Chapter 4).

As a unified entity, ASEAN endeavours to cultivate close relationships with major powers in the Asia-Pacific region. ASEAN's establishment of ASEAN+1 FTAs with neighbouring major powers like China, India, and Japan can be interpreted as institutional hedging strategies. However, RCEP, which combines these ASEAN+1 FTAs, represents ASEAN's inclusive institutional balancing strategy by integrating major powers in the region.

From China's perspective, RCEP serves as an exclusive institutional balancing strategy vis-à-vis the US. Despite the temporary US withdrawal from the Asia-Pacific region during the Trump administration, the US has made efforts to maintain its presence in the region to counterbalance China (see Chapter 10). In this context, it is reasonable for China to strongly support RCEP (see Chapter 7).

From Japan's viewpoint, RCEP represents an inclusive institutional balancing strategy vis-à-vis China, as Japan seeks to establish a rule-based regime amongst RCEP members (see Chapter 8). It is noteworthy that Japan has also pursued an exclusive institutional balancing vis-à-vis China through initiatives such as TPP and IPEF. Consequently, each RCEP member country's interests and objectives regarding RCEP were different, but each member found strategic value in RCEP, and its conclusion occurred under ASEAN centrality.

Participation in RCEP by each government reflects their respective country's political and economic strategy in East Asia and the Asia-Pacific region. Despite regional uncertainties and geopolitical tensions, RCEP has strengthened ASEAN centrality amongst both ASEAN Member States and non-ASEAN RCEP members. Each RCEP member country's trade policy has respected ASEAN centrality, highlighting the importance of maintaining regional integration momentum.

ASEAN Member States' hedging stance towards surrounding major powers, combined with the institutional balancing and hedging strategies of neighbouring major powers and ASEAN as a unified entity in the Asia-Pacific region, contributes to regional order by reinforcing ASEAN's central role.³ The robust ASEAN-centred framework serves as a valuable mechanism for maintaining power balance in the region while fostering economic development.

Notes

- 1 The views expressed in the chapter are solely those of the author(s) and neither represent those of the organisation(s) to which the author(s) belong(s) nor ERIA.
- 2 Recent studies show much more complicated relations between foreign policies and public reactions (De Vries et al., 2021).
- 3 As He (2022) points out, ASEAN as an international institution has been strengthened through institutional competitions with great powers in the region.

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2 The Road to the RCEP – Historical Background of Regional Economic Integration and the RCEP Negotiation Process

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2.1 Introduction

The Regional Comprehensive Economic Partnership (RCEP) reached an agreement with 15 member countries (the 10 Association of Southeast Asian Nations (ASEAN) Member States (AMS), Australia, China, Japan, New Zealand, and the Republic of Korea (henceforth, Korea)) on 20 November 2020. The agreement entered into force on 1 January 2022, as the ASEAN Secretariat had received ratifications or acceptances from 10 RCEP member countries (ASEAN, 2021) by 2 November 2021 (ASEAN, 2022). The RCEP became a 15-member framework on 23 June 2023 when the 15th country, the Philippines, ratified the agreement. The RCEP member countries cover nearly 30% of the world's gross domestic product (GDP) and 2.3 billion people, making it one of the most significant economic agreements in the world. Some view the completion of this mega free trade agreement (FTA) as the culmination of East Asian economic integration, which has been under way since the end of the 20th century, while others see it as a major milestone towards even broader regional cooperation. Regardless of one's assessment, the RCEP is a broad economic concept that emerged in the context of the globalisation of the world economy and the rise of regionalism under globalisation (Mansfield and Milner, 1999), which began with the end of the Cold War.

This chapter discusses the historical background and process of the RCEP negotiations. The first half touches upon the advancement of discussions regarding regional architecture up to the commencement of the RCEP negotiations. The regional architecture evolved after the end of the Cold War, first promoted informally (sometimes referred to as the 'ASEAN Way') (Acharya, 2004) and then gradually formalised through the establishment of the ASEAN+1 FTAs. Although the Asia-Pacific and East Asia economic integration projects have different origins, they have sometimes influenced each other and facilitated economic integration in the region, such as the Trans-Pacific Partnership (TPP), the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and the RCEP. The chapter also briefly examines the link between the RCEP and the TPP (CPTPP),² two regional integration processes, and

identifies the countries that have sought to lead in these integration efforts. The second half of the chapter examines the RCEP negotiation process from the start of negotiations in 2012, using information from interviews with several RCEP negotiators. By tracing the historical development of the negotiations, we try to discern how the negotiators thought about the relationship between the RCEP and other regional integration processes.

The chapter is structured as follows. Section 2.2 provides a brief historical background on the initiation of the RCEP negotiations. Section 2.3 examines the RCEP negotiation process, and Section 2.4 concludes the chapter. The authors use official government and ASEAN documents, secondary information such as academic journal articles and working papers of international organisations, and interview data from our research.

2.2 History of East Asian Integration and the RCEP Negotiations

To gain a better understanding of the emergence of the RCEP in the early 2010s, the authors suggest reviewing the history of regional economic integration spanning over 30 years since the late 1980s. Rillo et al. (2022) noted that ‘RCEP creation was not only the result of various proposals by Japan and China to create a region-wide FTA, but one also had to understand the various forces within the global economy and wider East Asia’ and ‘the role that ASEAN+3 had played in facilitating and widening ASEAN’s goal to expand intra-regional economic cooperation’ (Rillo et al., 2022: 3). Despite the scarcity of government-level regional institutions in Asia during the Cold War period (Oba, 2019: 127), the completion of the RCEP stands as a significant achievement of three decades of East Asian regionalism.

2.2.1 First Phase: The Germination of Regional Economic Integration in the 1980s and 1990s

In the mid-1980s, the sharp devaluation of the US dollar following the 1985 Plaza Accord led to a rapid increase in investment in the region of Japan and the newly industrialised countries, as they sought to address the decline in the international competitiveness of their domestically produced goods. Japan was also attracted to manufacturing in ASEAN to mitigate economic friction with the West. After experiencing an economic stagnation in the first half of the 1980s, AMS shifted their policies towards export-oriented industrialisation by increasing the inflow of foreign direct investment in the second half of the 1980s (ASEAN, 1987; Shimizu, 1998). In 1989, nearing the end of the Cold War, Asia-Pacific Economic Cooperation (APEC) was established, inviting the ASEAN region into the concept of economic cooperation in Asia and the Pacific and initiating a framework for economic cooperation with a moderate emphasis on openness. This marked the beginning of a trend in which economic integration in the Asia-Pacific region and economic integration centred

on ASEAN and East Asia would progress in parallel and share some common areas.

In the 1990s, regionalism gained momentum worldwide, exemplified by the establishment of the European Union in 1993 and the North American Free Trade Agreement amongst Canada, Mexico, and the United States in 1994. Against this backdrop, the Fourth ASEAN Summit in 1992 called for ASEAN to advance regional cooperation in the face of ‘economic groupings’ (ASEAN, 1992). The agenda included the establishment of the ASEAN Free Trade Area by six AMS and the expansion of ASEAN membership into the Indochina region. Following the peace process in Cambodia, ASEAN established a number of multifaceted regional cooperation projects in the Mekong region, including the Forum for the Comprehensive Development of Indochina proposed by the Japanese Ministry of Foreign Affairs, the Mekong Committee, the Greater Mekong Subregion Economic Cooperation Program led by the Asian Development Bank, and the Cambodia–Lao PDR–Myanmar Economic Cooperation Working Group led by the Japanese Ministry of International Trade and Industry (now the Ministry of Economy, Trade and Industry (METI)). As noted by Urata (2019: 8), China’s rapid development since the late 1980s also spurred ASEAN’s interest in establishing a region-wide market to attract foreign direct investment to ASEAN.

However, there was a strong opposition to regional groupings that challenged US interests, such as US opposition to the concept of the East Asian Economic Group (later the East Asian Economic Caucus) proposed by Malaysian Prime Minister Mahathir in 1990. While the United States acknowledged its role as a consultative group to discuss regional economic issues, it pressured Japan and Korea to reject the concept of the grouping (Higgott and Stubbs, 1995). The United States proposed and hosted the first APEC Leaders’ Meeting in Seattle in 1993, and in 1994, APEC leaders set the goal of achieving free and open trade and investment in the Asia-Pacific by 2020 (APEC, 1994).

In the late 1990s, the Asian financial crisis struck, and the economic growth that had been hailed as the East Asian miracle suddenly faltered. Concurrently, the ASEAN Vision 2020 (marking the 30th anniversary of the founding of ASEAN) advocated for the concept of a future ASEAN Community as an important economic stimulus (ASEAN, 1997). East Asia also began to explore institutionalising the region through the establishment of FTAs, a trend that has intensified in the 21st century. The first of these agreements was initiated by Singapore, which approached Korea and Japan. Initially hesitant, Japan later changed its stance (Kim, 2016). In Japan, the most dominant economic power in the region at the time, ‘by the late 1990s, it was keenly felt that Japanese commercial policy was lagging behind that of other nations’ (Katada, 2020: 94). The stalemate in the General Agreement on Tariffs and Trade (GATT) and World Trade Organization multilateral negotiations prompted the consideration of FTAs in the region, marking the onset of an era of blossoming FTAs, starting with the Japan–Singapore Economic Partnership Agreement in early 2002.

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2.2.2 *Second Phase: Commencement of Flourishing FTAs in East Asia and the Asia-Pacific in the 2000s*

In the early 2000s, a network of FTAs began to take shape in East Asia, a region previously characterised by the absence of such agreements. This trend was largely driven by competition between China and Japan, resulting in a number of FTAs concluded through bilateral agreements with AMS and agreements between ASEAN and Dialogue Partners (ASEAN Plus One). Ravenhill (2010: 201–2), for example, showed the primacy of political motivations in intergovernmental agreements rather than economic domino effects. Terada (2010: 83) pointed out that China's proposal of the China–ASEAN Free Trade Area accelerated market integration in ASEAN, which previously lacked unity as a regional organisation and inspired other nations, particularly, to pursue FTAs with ASEAN. This trend has influenced the current vision of East Asian regional integration, with ASEAN as the hub.

Simultaneously, the idea of broad cooperation in the East Asian region gained traction, with the ASEAN Plus Three framework initiated in 1997 and the East Asia (ASEAN Plus Six) framework launched in 2005. Initially, Japan played a leading role in both frameworks, but by the late 2000s, the Plus Three framework increasingly saw dominance from Korea and China. In 2001, the East Asia Vision Group (EAVG), proposed by former Korean President Kim Dae-jung, presented a report to the ASEAN Plus Three leaders advocating for the concept of the East Asia Free Trade Area (EAFTA) (EAVG, 2001). The ASEAN Plus Three Economic Ministers acknowledged the need for a feasibility study on the EAFTA by private sector experts in 2004, and China initiated the formation of the 13-member Joint Expert Group in 2005 (Zhang and Shen, 2011: 26).

Following the formation of the EAFTA research group, METI proposed the concept of an East Asia Economic Partnership Agreement within the framework of the ASEAN Plus Six (later called the Comprehensive Economic Partnership for East Asia (CEPEA)) (METI, 2006). A private sector research group began a feasibility study on CEPEA in 2007, with a second phase report in 2009 recommending government-to-government talks (Urata, 2019: 12). Reflecting the rivalry between China and Japan, these two initiatives ran concurrently, with ASEAN serving as the focal point for East Asian integration.

Amid the proliferation of ASEAN Plus One FTAs and ASEAN-centred mechanisms in the 2000s, ASEAN decided to promote regional integration through the establishment of a community. In 2003, ASEAN leaders declared their intention to establish the ASEAN Community by 2020, consisting of three elements: the ASEAN Political-Security Community, the ASEAN Economic Community (AEC), and the ASEAN Socio-Cultural Community (ASEAN, 2003). In 2007, ASEAN declared a more ambitious target of creating an ASEAN Community by 2015 (ASEAN, 2007a), indicating a push to accelerate regional integration with a defined timetable and actively working towards intra-regional trade liberalisation within the AEC. ASEAN also agreed on the ASEAN Charter in 2007 and released blueprints for each community to institutionalise the ASEAN Community Pillar Scheme (ASEAN, 2007b).

Alongside the trend towards East Asian integration, economic integration in the Asia-Pacific region took a new direction. The United States advocated for the development of the Free Trade Area of the Asia-Pacific (FTAAP), proposed at the APEC Business Advisory Council in 2004. The United States also expressed interest in joining the Trans-Pacific Strategic Economic Partnership (P4) amongst Brunei Darussalam, Chile, Singapore, and New Zealand in September 2008 and formally joined negotiations in 2009. Consequently, the P4 evolved into the TPP. Thus, based on the APEC scheme, US-driven FTAs gained momentum.

2.2.3 Third Phase: Proliferation of Mega-Regional FTAs in the 2010s

At the APEC Yokohama Summit in 2010, ‘the FTAAP was considered a primary means for regional economic integration in the Asia-Pacific, and the EAFTA, CEPEA and TPP were considered the pathways to realising the FTAAP’ (Urata, 2019: 15). Negotiations on the TPP began in March 2010, with membership expanding until 2013 when Japan joined. By the end of 2015, the TPP negotiations had reached an agreement. Subsequently, there were reports of interest from non-member AMS such as Indonesia and Thailand in joining the TPP, sparking discussions about how the disparity in ASEAN membership could challenge the unity of the AEC. However, soon after taking office, the Trump administration decided to withdraw from the TPP in January 2017. In May 2017, the trade ministers of the remaining 11 countries issued a statement confirming their consensus to proceed with the TPP-11 (Terada, 2019). Finally, the CPTPP was agreed in November 2017 by the trade ministers and signed in Chile in March 2018. After the withdrawal of the United States, Japan played a leading role in the realisation of the CPTPP (Terada, 2019).

The ASEAN Community was finally completed at the end of 2015, although not all the measures listed in the blueprints were fully implemented (Ishikawa, 2021). ASEAN leaders issued a declaration to guide the community-building process until 2025, with the list of remaining issues in the ASEAN Economic Community Blueprint 2025. In August 2011, the ASEAN Plus Six Economic Ministers’ Meeting proposed an initiative to accelerate the establishment of the EAFTA and CEPEA, and the ASEAN Framework for Regional Comprehensive Economic Partnership was agreed at the ASEAN Summit in November 2011 (ASEAN, 2011).

In the early 2010s, Japan leveraged its participation in the TPP and CPTPP to encourage China’s participation in the RCEP, in the context of ‘the concerns over being excluded from the regional trade regime as the region divided between TPP and non-TPP groups’ (Katada, 2020: 111). The RCEP is based on the ASEAN Plus Six framework rather than the ASEAN Plus Three advocated by China. Japan succeeded in taking the initiative (Katada, 2020). Solís and Katada (2015: 172) also pointed out that Japan’s participation in the TPP negotiations promoted the spread of regional FTAs in the region. The ‘TPP become a commitment device for Japan to boost credibility in its trade policy,

which in turn raised the spectre of large economic, legal and political externalities for China, ASEAN and the EU'. In conclusion, the coexistence of two mega FTAs – the TPP and the RCEP – has fostered the facilitation of each other's regional economic integration.

The next section overviews the RCEP negotiation processes from 2012.

2.3 The Brief Process of RCEP Negotiations

The RCEP negotiations were officially launched with the Joint Declaration by the 16 leaders of the participating countries on 20 November 2012. The declaration emphasised 'ASEAN centrality', considering the expert groups' recommendations on the EAFTA and CEPEA, as well as achieving 'a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement establishing an open trade and investment environment in the region to facilitate the expansion of regional trade and investment' and contributing 'to global economic growth and development' (RCEP, 2012b: 1). Prior to this declaration, the economic ministers of the RCEP-participating countries agreed on the 'Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership' in August 2012, outlining the direction and contents of the negotiation process (ASEAN, 2012; RCEP, 2012a).

The negotiation process started with the first round of negotiations and other working group meetings in Brunei Darussalam in May 2013. The first RCEP Ministerial Meeting was held on 19 August 2013, at the ASEAN Economic Ministers Meeting. 'The ASEAN Member States, led by Indonesia, took the pivotal role of chairing the RCEP Trade Negotiating Committee (TNC), seven working groups, and four sub-working groups. All these were acceptable to the FTA partners' (Rillo et al., 2022: 7). From the beginning of the negotiation process, 31 round of negotiation meetings, 8 Ministerial Meetings, 7 Intersessional round of negotiation Meetings, 11 Intersessional Ministerial Meetings, and 4 RCEP Summits were held over almost 8 years.³ Several critical moments marked the negotiation processes, including the establishment of the ASEAN Community at the end of 2015, the agreement on the TPP in February 2016, the US withdrawal from the TPP in January 2017, and India's withdrawal from RCEP negotiations in November 2019.

In mid-2014, the participating countries announced their intention to finalise negotiations by the end of 2015, in line with the recommended deadline in the Guiding Principle (ASEAN, 2014). The RCEP was one of the pillars of the AEC 2015 under Integration into Global Economy (pillar D) (ASEAN, 2015b). The new AEC Blueprint 2025 listed the RCEP under Global ASEAN (ASEAN, 2015c). Despite not concluding by the end of 2015 (RCEP, 2015), the participating countries maintained the momentum in advancing the negotiations (ASEAN, 2015a).

The TPP agreement in 2016 significantly influenced the RCEP negotiators, particularly regarding trade in goods and market access.⁴ Developed

countries tended to ‘TPP-nize’ the RCEP agreement to make it more commercially meaningful.⁵ Australia, Korea, and Japan contributed to achieving the high-level rule settings on intellectual property rights, e-commerce, and competition policies at that time.⁶

In October 2016, during the 15th round of negotiations, the draft text on the economic and technical cooperation chapter was concluded, marking the first chapter reaching conclusion.⁷ This chapter is important for implementing the RCEP agreement and accelerating the narrowing of development gaps amongst member countries. The 16th round of negotiations in December 2016 concluded the chapter on small- and medium-sized enterprises.⁸

The withdrawal of the United States from the TPP and the onset of the US–China trade conflict also affected the RCEP negotiations. In 2017, the Third Intersessional Ministerial Meeting emphasised the urgency of a successful and timely conclusion in the face of increasing risks of policy uncertainty and growing protectionist sentiment in the world, and substantial conclusion of the RCEP was identified as a priority deliverable of ASEAN’s 50th Anniversary in 2017 (RCEP, 2017).

On 4 November 2019, the 15 RCEP-participating countries reached an agreement to finalise regional trade deals and concluded text-based negotiations for 20 chapters (RCEP, 2019). India decided to withdraw from the negotiation process at that time. One of the main reasons was concern regarding the increasing trade deficit with China. India proposed different levels of tariff concessions for China to safeguard its domestic industry from cheap imports (Suneja, 2019).⁹ India’s domestic politics also affected this decision-making. The Indian National Congress, the opposition party in India, severely criticised the Modi government for participating in the RCEP, citing concerns about the potential impact on the domestic manufacturing and agriculture sectors (Wicaksono, 2021). As the background of establishing ASEAN+6, Japan has been keen to inviting India to RCEP to cope with Chinese dominance, but Katada (2022: 277) mentions that Japan was reluctant to accept the India’s request to RCEP negotiation.

India’s withdrawal affected other member countries and raised the fear of a so-called domino effect, which would trigger other countries to withdraw from RCEP negotiations.¹⁰ As declared by the leaders in November 2019,

Against this backdrop, the 15 RCEP participating countries reaffirmed their commitment to continue working with India to address its outstanding issues, as instructed by RCEP Leaders at the Third RCEP Summit in November 2019. Recognising India as a valuable original participant, the 15 RCEP participating countries would welcome India’s return to the RCEP negotiation.

(RCEP, 2019)

The outbreak of the coronavirus disease (COVID-19) may also have impacted the negotiation schedule. However, since most of the negotiation

process was completed by 2019, the text-based process proceeded smoothly to conclusion in November 2020.¹¹

To sum up, the Trump administration assumed power in the United States in January 2017 and announced its withdrawal from the TPP. As the TPP faltered, political leaders of RCEP-negotiating countries become more aware of the risks associated with growing protectionist sentiment. The two mega FTAs faced challenges with the departure of their key partners: the TPP without the United States and the RCEP without India. However, the TPP has since been brought into force as the CPTPP without the United States. Some studies have pointed out that China took the initiative in the RCEP negotiation process (Aggarwal, 2016; Hamanaka, 2014; Yoo and Wu, 2021; Jiang and Yu, 2021). However, our data from interviews with RCEP negotiators show that many countries, including AMS, had their own stakes and attempted to take the initiative in each chapter based on their respective interests. Additionally, as Rillo et al. (2022: 14) pointed out, the ASEAN Secretariat played a significant role in providing discussion papers and position papers for the negotiations, reconciling the positions between AMS and non-AMS, and facilitating discussions between the negotiators and experts.

2.4 Conclusion

This chapter has reviewed the historical background of regional economic integration in East Asia and the Asia-Pacific and the 8-year negotiation process of the RCEP. The important point is that there is no linear development of economic integration, and regional powers such as China, Japan, and the United States have, from time to time, attempted to establish integration schemes that are favourable to their interests.

Another important point is the role of ASEAN and AMS in strengthening the regional architecture. Beyond regional power politics, the association of small- and middle-power countries in Southeast Asia provides a platform for countries in the region to discuss regional issues. Chapter 4 of this book by Kim describes ASEAN's role in shaping the RCEP agreement and the significance of ASEAN centrality. This trend continued under the Indo-Pacific region as the ASEAN Outlook on the Indo-Pacific in 2019. The following chapters of this book aim to promote a better understanding of the realities of East Asian economic integration through an analysis of regional powers and intra-ASEAN developments related to the RCEP, respectively.

Notes

- 1 The views expressed in this chapter are solely those of the authors and neither represents those of the organisations to which the authors belong nor ERIA.
- 2 The TPP was a proposed trade agreement between 12 Pacific Rim countries. The countries involved included Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Viet Nam. However, in January 2017, the United States withdrew from the agreement, effectively halting its implementation. Following the United States' withdrawal, the

- remaining 11 countries renegotiated the agreement, leading to the creation of the CPTPP. It was signed in March 2018 and entered into force in December 2018, after being ratified by the first six countries: Australia, Canada, Japan, Mexico, New Zealand, and Singapore.
- 3 The authors collected this information from the government websites of the RCEP member countries.
 - 4 Based on the authors' interview of a negotiator (see Chapter 12).
 - 5 Based on the authors' interview of a negotiator (see Chapter 12).
 - 6 Based on the authors' interview of a negotiator (see Chapter 12).
 - 7 See Australian Government Department of Foreign Affairs and Trade (2016a).
 - 8 See Australian Government Department of Foreign Affairs and Trade (2016b).
 - 9 Those advocating for India's exit cited New Delhi's increased trade deficits with its FTA partner countries as the evidence of what RCEP-led economic integration would bring. Others had reservations about the lack of safeguards allowing India to respond to import surges, particularly from China; the threat of import competition in agriculture; and inadequate market access for services exports, including a greater mobility of people to deliver them (Sundaram, 2022).
 - 10 Based on the authors' interview of a negotiator (see Chapter 12).
 - 11 Based on the authors' interview of a negotiator (see Chapter 12).

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3 Regional Comprehensive Economic Partnership

Economic Backgrounds of ASEAN and Its Dialogue Partners

Keita Oikawa, Fusanori Iwasaki and Shujiro Urata

3.1 Introduction

Negotiations for the Regional Comprehensive Economic Partnership (RCEP) were officially launched through a joint declaration by the leaders of the 16 countries participating in RCEP negotiations – the ASEAN Member States (AMS), Australia, China, India, Japan, New Zealand, and the Republic of Korea (henceforth, Korea) – on 20 November 2012. After 8 years, the RCEP agreement was signed by 15 member countries (the countries participating in the RCEP negotiations except India) on 20 November 2020. This chapter provides an overview of the economic background of the 16 countries participating in the RCEP negotiations as well as globally significant political and economic entities – the European Union (EU) and the United States (US) – to understand their economic incentives regarding the RCEP. Like the countries participating in the RCEP negotiations, the EU and the US are Dialogue Partners of the Association of Southeast Asian Nations (ASEAN). A free trade agreement (FTA) such as the RCEP is negotiated or concluded on the basis of not only the economic interests of the participating countries but also non-economic interests such as political motivations. However, the literature reveals the importance of economic gains in joining an FTA (e.g. Baier and Bergstrand, 2004). In addition, FTA discussions and negotiations necessarily include the economic effects of such agreements.

We approach the economic background of the selected countries or groups of countries from four dimensions. The first dimension is basic characteristics, such as economic scale (population and gross domestic product (GDP)), economic growth, income level (GDP per capita), trade openness (trade-to-GDP ratio), and foreign direct investment (FDI) intensity (FDI inflows and outflows per GDP unit). This dimension reveals that the economies of the 16 countries participating in RCEP negotiations are different in terms of size, income, growth, share of trade in the economy, and FDI flows. The second dimension is bilateral trade relationships. The bilateral trade flows reveal that ASEAN and China have experienced a continuous increase in intermediate goods trade with each other, Japan, and Korea since 2000, which is a sign of

being involved in international production networks (IPNs). The third dimension is bilateral FDI relationships. The bilateral FDI flows reveal that Singapore, as a regional hub for FDI, receives FDI from advanced countries (e.g. the EU and the United States) and reinvests it in India and other AMS. The fourth dimension is the expected economic effects of the RCEP. The economic impacts simulated on the basis of a computable general equilibrium (CGE) model show that countries participating in RCEP negotiations, especially less developed countries, would benefit considerably from the RCEP's agenda of cutting services trade costs and liberalising investment. The countries that did not have FTAs with other countries participating in RCEP negotiations (e.g. no FTAs amongst China–Japan–Korea and China–India) would also gain significantly. In contrast, countries not participating in RCEP negotiations would be negatively affected by the RCEP's trade diversion consequences.

The remainder of this chapter is organised as follows. Section 3.2 provides an overview of the basic economic statistics of the countries participating in RCEP negotiations, the EU, and the United States. Section 3.3 studies the bilateral trade relationships amongst the AMS; the Australia and New Zealand (ANZ) economy; and other selected ASEAN Dialogue Partners (China, India, Japan, Korea, the EU, and the United States). Section 3.4 examines the bilateral FDI relationships of the countries participating in RCEP negotiations, the EU, and the United States. Section 3.5 discusses the economic effects of the RCEP on the countries participating in RCEP negotiations, the EU, and the United States based on an exercise using a CGE model. Section 3.6 concludes.

3.2 Economic Overview

This section provides an overview of the economic statistics of ASEAN and selected Dialogue Partners. Table 3.1 shows that the RCEP member countries vary significantly in terms of scale. Amongst the RCEP member countries, China has the largest population (1,407.7 million) and GDP (\$14.3 trillion). ASEAN has about half of China's population (660.6 million) and one-fourth of China's GDP (\$3,169.9 billion). Amongst the AMS, Indonesia has the largest population (270.6 million) and GDP (\$1,119.1 billion), while Brunei Darussalam has the smallest population (0.4 million) and GDP (\$13.5 billion). The RCEP represents the emergence of a significant economic area – the RCEP member countries comprise about 30% of the world's population and GDP. The total GDP of RCEP members is 1.2 times that of the United States and 1.6 times that of the EU. If India is included in the RCEP members, the total GDP becomes 1.3 times and 1.8 times larger than the United States and the EU, respectively.

Table 3.1 also shows that the RCEP member countries differ significantly in terms of income level and economic growth rate. According to the World Bank's country classifications by income level, amongst the RCEP member countries, Cambodia, Indonesia, the Lao People's Democratic Republic (Lao PDR), Myanmar, the Philippines, and Viet Nam are classified as 'lower-middle

Table 3.1 Basic Economic Statistics of ASEAN and Selected Dialogue Partners, 2019

Country/ Region	Population (million)	GDP (\$ billion)	GDP growth* (%)	GDP per capita (\$'000)	Trade-to- GDP ratio (% of GDP)	Net inflow FDI** (% of GDP)	Net outflow FDI*** (% of GDP)
Brunei	0.4	13.5	0.27	31.1	108.5	2.92	n.a.
Cambodia	16.5	27.1	7.14	1.6	123.6	12.50	0.41
Indonesia	270.6	1,119.1	5.33	4.1	37.4	2.09	0.58
Lao PDR	7.2	18.9	7.18	2.6	n.a.	6.27	n.a.
Malaysia	31.9	365.3	5.12	11.4	123.0	3.34	3.62
Myanmar	54.0	68.7	6.98	1.3	60.7	3.70	n.a.
The Philippines	108.1	376.8	6.30	3.5	68.8	2.01	1.31
Singapore	5.7	374.4	3.92	65.6	323.5	22.96	12.74
Thailand	69.6	544.3	3.22	7.8	109.6	1.92	2.52
Viet Nam	96.5	261.9	6.30	2.7	211.5	5.78	0.55
Australia	25.4	1,392.0	2.64	54.9	45.8	3.77	0.48
New Zealand	5.0	212.9	2.99	42.8	54.1	1.02	-0.11
China	1,407.7	14,279.9	7.35	10.1	35.9	2.25	1.11
India	1,366.4	2,870.5	6.46	2.1	39.4	1.71	0.41
Japan	126.3	5,148.8	0.95	40.8	34.8	0.36	3.11
Korea	51.7	1,651.4	2.95	31.9	75.8	0.73	2.09
US	328.3	21,433.2	2.27	65.3	26.3	1.79	1.66
The EU	447.2	15,689.6	1.52	35.1	95.2	3.49	4.09
ASEAN	660.6	3,169.9	5.01	4.8	n.a.	n.a.	n.a.
ASEAN+5	2,276.7	25,854.9	5.22	11.4	n.a.	n.a.	n.a.
ASEAN + 6	3,643.1	28,725.4	5.34	7.9	n.a.	n.a.	n.a.
World	7,683.4	87,555.2	3.03	11.4	n.a.	n.a.	n.a.

Abbreviations: ASEAN = Association of Southeast Asian Nations, EU = European Union, FDI = foreign direct investment, GDP = gross domestic product, n.a. = not applicable, US = The United States.

Note: ASEAN+5 = ASEAN Member States plus Australia, New Zealand, China, Japan, and Korea; ASEAN+6 = ASEAN+5 countries plus India.

* 2010–2019 average.

** 2011–2019 average.

*** 2011–2019 average.

Source: World Bank (2022), 'World Development Indicators', <https://databank.worldbank.org/source/world-development-indicators> (Accessed 29 January 2022)

income countries' (World Bank, n.d.). China, Malaysia, and Thailand are classified as 'upper-middle income countries'; and Brunei Darussalam, Japan, Korea, and Singapore are 'high-income countries'. GDP per capita ranges from \$1,300 (Myanmar) to \$65,600 (Singapore). The RCEP members include many lower middle-income countries, which have been increasing their economies rapidly. All the lower middle-income countries amongst the RCEP members experienced average annual growth rates of more than 5% from 2010 to 2019.

With respect to the relative importance of international trade in ASEAN and its Dialogue Partners, as shown in Table 3.1, many of the AMS trade-to-GDP ratios are very high. In fact, Brunei Darussalam, Cambodia,

Malaysia, Singapore, Thailand, and Viet Nam have trade-to-GDP ratios of more than 100%. Amongst them, Singapore has the highest trade-to-GDP ratio (323.5%), followed by Viet Nam (211.5%). Many AMS have received relatively large amounts of foreign capital. Singapore received inward FDI totalling 22.96% of GDP on average from 2011 to 2019. Singapore also has a large scale of outward FDI, registering 12.7% of GDP on average from 2011 to 2019. These inward and outward FDI figures are much higher than those of the other countries, reflecting Singapore's position as a regional FDI hub and as the main channel for FDI to AMS (AMRO, 2020). Less developed countries also received a relatively large amount of FDI inflows. For example the inward FDI-flow-to-GDP ratios are 12.50% for Cambodia and 5.78% for Viet Nam. The other AMS have also received more FDI than the developed countries of East Asia – Japan and Korea – which both have small FDI inflows but large FDI outflows, especially to AMS.

In this section, we found that the RCEP member countries differ in terms of economic scale, income levels, growth trends, share of trade in the economy, and FDI flows. Less developed countries tend to have experienced more rapid economic growth than developed countries. For many AMS, international trade is of great importance to the economy. Further, both lower- and higher-income AMS have received a large amount of FDI, while Japan and Korea had more FDI outflows than inflows. The next section examines the bilateral trade relationships amongst the countries participating in RCEP negotiations, as well as with the United States and the EU.

3.3 Overview of Bilateral Trade in Goods

This section overviews the bilateral trade in goods since 2000 between the countries participating in RCEP negotiations and the ASEAN Dialogue Partners to assess the extent to which each pair of countries depends on each other. To simplify the discussion, we focus on the selected countries – ASEAN, ANZ, China, India, Japan, Korea, the United States, and the EU. To avoid redundancy, this section comprises four subsections examining the viewpoints of ASEAN, ANZ, China, and India; and it covers the other countries' points of view. (The Appendix includes figures on bilateral trade relationships from the viewpoints of Japan, Korea, the United States, and the EU.) In addition to the total bilateral trade in goods amongst the countries under study, this section examines changes in their bilateral trade by different product categories – primary goods, intermediate goods, and final goods – to understand the changes in trade and production networks between the countries. It is important to pay attention to increases in intermediate goods trade, in particular for assessing the development levels of the less developed countries (elaborated below). For that purpose, this overview uses the data set of the Trade Industry Database (TID) constructed by Japan's Research Institute of Economy, Trade and Industry (RIETI). The REITI-TID (RIETI, n.d.) is a database developed by converting the detailed bilateral trade value data of the United Nations (UN) Comtrade Database into a database containing aggregate bilateral trade values

by the 3 (or 5) product categories from the production process viewpoint and by 13 (or 14) industries.

Reviewing economic growth in East Asia, participation in global value chains (GVCs) has been a primary way of achieving economic growth for emerging economies. As Baldwin (2016) pointed out, the world economy has experienced significant decreases in trade costs and expanding waves of globalisation since the 1820s. The first wave of globalisation was driven by significant decreases in the cost of transportation with the advent of steam, diesel, gas, and electric engines. Decreases in the cost of moving goods unbundled the places of production and consumption; in other words, a firm could earn profits by producing goods in one country and selling them in another country. Baldwin called this globalisation phase the ‘first unbundling’. The first unbundling provided the world with an international market for final goods and raw materials but not for intermediate parts.

The second wave of globalisation started in the 1990s, brought about by significant decreases in the cost of moving production and management ideas across countries through notable information and communication technology (ICT) improvements. ICT enabled large-scale companies in advanced countries to unbundle their production processes and rearrange the unbundled production units globally. This ‘second unbundling’ provided emerging countries with opportunities to be involved in the IPNs of multinational companies or to participate in GVCs. In that way, the second unbundling created international markets in intermediate goods. Since participating in GVCs appears in the form of significant increases in intermediate goods trade, looking at how trade in intermediate goods amongst the selected countries evolved helps us understand their competitiveness and positioning in the global production markets in addition to their interdependence.

Another advantage of using the RIETI-TID is that it allows us to sketch the competitiveness of each country by product category by looking at each country’s net export position in each category. A surplus in the trade of a product with overseas (net importing) countries indicates that the product produced by the exporting country sells well internationally to the extent that the amount of production of the product is greater than that of the consumption in the importing country. In fact, the value of net exports is one of the competitiveness performance indicators adopted by the Trade Competitiveness Map of the International Trade Centre (ITC, 2014). Although determining a country’s competitiveness based on its net export position may be criticised for oversimplification, it is still useful to provide a rough picture of competitiveness by using this indicator.

3.3.1 Overview of Bilateral Trade and Trade Networks

Before looking at each bilateral trade relationship, let us begin with an overview of bilateral trade (exports plus imports) in goods and trade networks amongst ASEAN and its Dialogue Partners. Table 3.2 shows the bilateral trade in goods of ASEAN and its Dialogue Partners. Amongst the countries

Table 3.2 Bilateral Trade in Goods of ASEAN and Selected Dialogue Partners, 2019 (\$ billion)

Country/ Region	Trading partner									
	ASN	ANZ	CHN	IND	JPN	ROK	US	EU	R15	R16
ASEAN	n.a.	70.4	507.9	80.9	207.2	135.1	304.2	258.1	920.6	1001.5
	n.a.	3%	24%	4%	10%	6%	14%	12%	43%	47%
ANZ	70.4	n.a.	192.3	14.9	66.0	31.7	43.3	53.0	360.4	375.3
	13%	n.a.	35%	3%	12%	6%	8%	10%	65%	67%
China	507.9	192.3	n.a.	79.5	313.5	261.1	543.6	655.2	1274.8	1354.4
	12%	5%	n.a.	2%	7%	6%	13%	15%	30%	32%
India	80.9	14.9	79.5	n.a.	17.7	21.2	92.1	89.2	214.2	214.2
	11%	2%	11%	n.a.	2%	3%	12%	12%	28%	28%
Japan	207.2	66.0	313.5	17.7	n.a.	71.4	212.5	162.1	658.1	675.7
	14%	5%	22%	1%	n.a.	5%	15%	11%	46%	47%
Korea	135.1	31.7	261.1	21.2	71.4	n.a.	135.9	103.9	499.3	520.5
	13%	3%	25%	2%	7%	n.a.	13%	10%	48%	50%
The US	304.2	43.3	543.6	92.1	212.5	135.9	n.a.	702.2	1239.5	1331.6
	8%	1%	14%	2%	6%	4%	n.a.	18%	32%	35%
The EU	258.1	53.0	655.2	89.2	162.1	103.9	702.2	n.a.	1232.4	1321.7
	6%	1%	15%	2%	4%	2%	16%	n.a.	28%	30%

Abbreviations: ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, ASN = ASEAN, CHN = China, The EU = The European Union, HKG = Hong Kong, IND = India, JPN = Japan, n.a. = not applicable, ROK = Republic of Korea, The US = The United States, R15 = ASN + ANZ + CHN + JPN + ROK, R16 = R15 + IND.

Note: Lower figures in each cell stand for the corresponding country's share of trade values (exports plus imports). For example ASEAN's trade with Australia and New Zealand (ANZ) reached \$70.4 billion in 2019 – 3% of the total trade value of ASEAN with the world.

Sources: RIETI-TID (n.d.), www.rieti.go.jp/en/projects/rieti-tid/ (Accessed 21 September 2021) and authors' elaboration.

participating in RCEP negotiations, ANZ are the most dependent on the other countries participating in RCEP negotiations in trade. The aggregate value of ANZ bilateral trade with other countries participating in RCEP negotiations (R16) accounted for 67% of the total trade values of ANZ (the value with the other RCEP member countries (R16 less India) accounted for 65%). The second most dependent country is Korea (50%), and the third is Japan along with ASEAN (47%). China is the fifth (32%), and India is the last (28%). India's figure is even less than the value of the United States and the EU. We notice that India depends on trade with the United States and the EU more than on ASEAN, Australia, New Zealand, China, Japan, or Korea.

Next, let us overview trade networks amongst ASEAN and its Dialogue Partners by product category. Figures 3.1, 3.2, and 3.3 map bilateral trade relationships in 2019 amongst the countries under study in primary goods, intermediate goods, and final goods, respectively. Gray arrows connecting countries stand for trade flows – the starting point of an arrow marks the exporting country, and the ending point marks the importing country. The width of an arrow represents its trade volume – a thicker arrow connecting two countries means a larger trade volume between the countries. The thickness of an arrow represents the exact amount of trade in US dollars. Thus, the thickness of an arrow in Figure 3.1 can be compared with not only other arrows in Figure 3.1 but also other arrows in Figures 3.2 or 3.3.

Figure 3.1 shows trade networks in primary goods amongst the countries. The arrow representing exports from ANZ to China is notably thick. The arrow from ANZ to Japan and the one from ASEAN to China are also relatively wide but thinner than the arrow from ANZ to China. Other arrows are very thin. These observations indicate that ANZ are significant exporters in primary goods amongst the countries, especially exports to China.

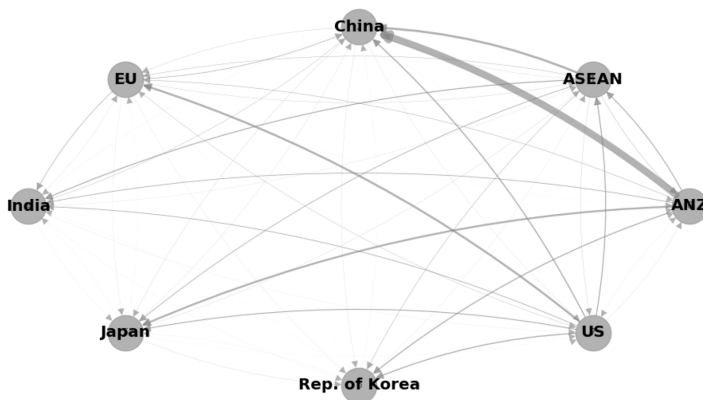


Figure 3.1 Trade Networks in Primary Goods amongst ASEAN and Its Dialogue Partners, 2019

Figure 3.2 shows the trade networks in intermediate goods. This figure is clearly different from Figure 3.1. Many wide arrows cross in the figure. Remarkably, the ASEAN–China, China–EU, and EU–US pairs have a reciprocal export–import relationship in intermediate goods – broad arrows flow between these pairs of countries. As mentioned earlier, deepening IPNs appears in the form of increases in reciprocal intermediate goods trade. These pairs are tightly connected in terms of manufacturing production. Japan and Korea also have thick arrows pointed towards ASEAN and China. However, the arrows towards Japan and Korea from ASEAN and China are not very thick. These findings imply that Japan and Korea are competitive or have comparative advantages over ASEAN and China in intermediate goods. ANZ and

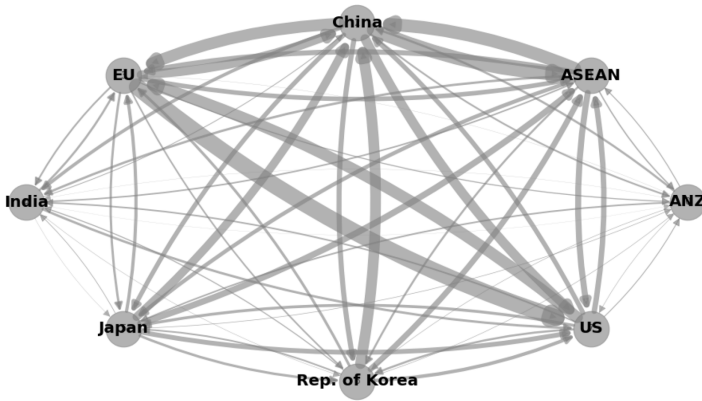


Figure 3.2 Trade Networks in Intermediate Goods amongst ASEAN and Its Dialogue Partners, 2019

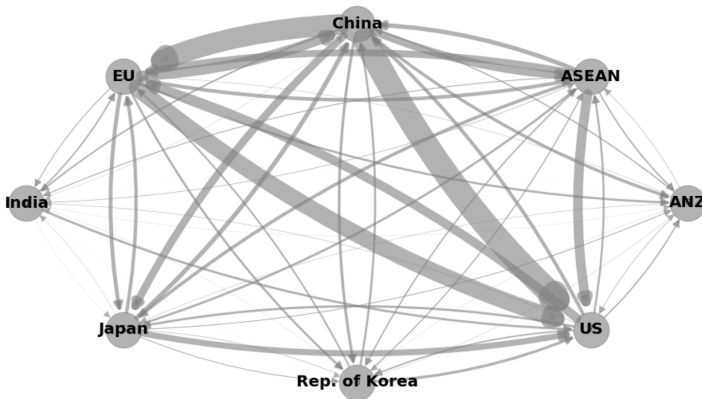


Figure 3.3 Trade Networks in Final Goods amongst ASEAN and Its Dialogue Partners, 2019

India are somewhat separated from IPNs in the region – their intermediate goods’ trade with other countries is not very active.

Figure 3.3 shows the trade networks in final goods. Like Figure 3.2, relatively thick arrows flow across the countries. Amongst them, China is remarkable in the volume of its final goods exports to the EU and the United States. Although its trade volume is smaller, ASEAN has a structure similar to China. ASEAN and China export a great deal to the EU and the United States, while they do not import much from those countries. ANZ and India are the same as the case of intermediate goods and do not have broad arrows with other countries.

In summary, in trade networks amongst ASEAN and its Dialogue Partners, ANZ is remarkable in exporting primary goods to other countries, especially China. ASEAN and China are similar in terms of their trade structure – they have significant reciprocal intermediate goods’ trade with other countries and export a great deal of final goods to large markets such as the EU and the United States. It should also be noted that ASEAN and China have a close trading relationship in intermediate goods. Japan and Korea have a similar trade structure because they have been integrated in the trade networks by exporting intermediate goods more than importing them. India is somewhat separate from the trade networks. Next, we will see more details of the bilateral trade relationships amongst the countries under study.

3.3.2 *Bilateral Trade Relationships since 2000 from ASEAN’s Point of View*

From ASEAN’s viewpoint, it is salient that the values of exports to and imports from China have drastically increased since 2000 in terms of intermediate goods. Figure 3.4 shows a radical increase in exports and imports from

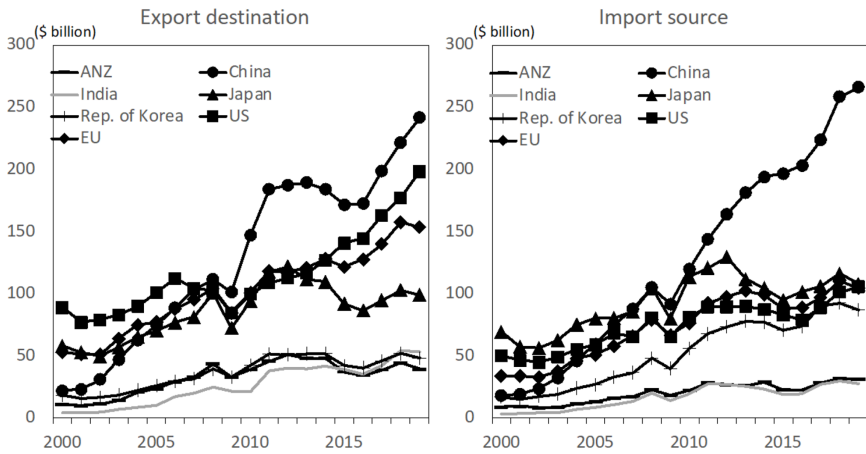


Figure 3.4 ASEAN’s Bilateral Export Values by Destination and Import Values by Source, 2000–2019

2000 to 2019. The export value from ASEAN to China in 2019 was \$242 billion, which is 11 times larger than that in 2000 (\$22 billion). Until 2010, the United States was the largest export destination, while Japan was the largest import source. Since 2010, China has been the largest trading partner both in exports and in imports. The import value from China to ASEAN in 2019 was \$266 billion, which is 2.5 times larger than that from Japan, the second-largest import source (\$108 billion). Looking at changes in ASEAN’s import sources, Korea is also notable in terms of the extent of the increase in imports from that country. The import value from Korea increased from \$17 billion in 2000 to \$87 billion in 2019 – close to the values for Japan (\$108 billion), the United States (\$106 billion), and the EU (\$105 billion). Trade with ANZ and India increased steadily in terms of exports and imports, but ASEAN’s dependence on those countries was low compared with the other ASEAN Dialogue Partners.

Breaking down the bilateral trade relationships by product category, one finds that ASEAN has deepened IPNs with other selected countries, especially China. We examine the patterns of trade in intermediate goods to discern the expansion of IPNs, as intermediate goods are traded actively inside IPNs. Figure 3.5 shows that intermediate goods exports from ASEAN to China rose by 10 times from \$16 billion in 2000 to \$160 billion in 2019. Similarly, ASEAN experienced a massive increase in intermediate goods imports from China, rising 16.7 times from \$10 billion in 2000 to \$167 billion in 2019. It should be noted that the value of ASEAN’s net imports (imports less exports) from China was not large (about \$25 billion) in 2019. China has also increased its presence in final goods trade – the value of final goods imported from China to ASEAN was about \$38 billion in 2019, while that of exports from ASEAN to China was about \$16 billion. China is a very important trading partner for ASEAN.

ASEAN has also steadily deepened its production networks with Japan, Korea, the United States, and the EU, though less than with China. In 2019,

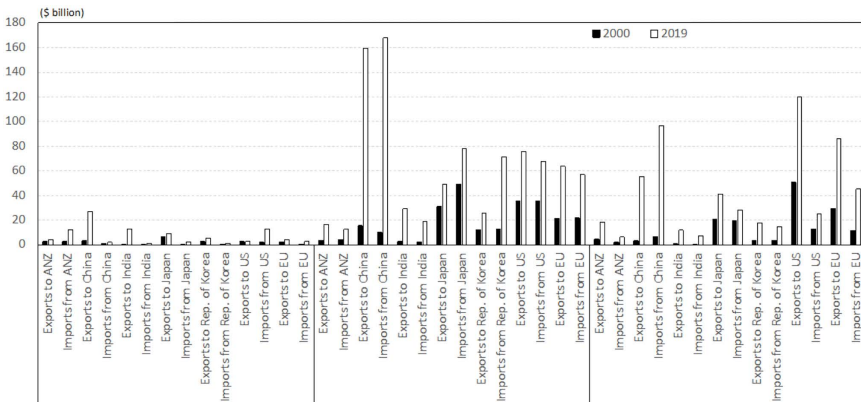


Figure 3.5 ASEAN’s Trade by Commodity Category and by Trading Partner, 2000–2019

the intermediates import values of Japan and Korea increased to \$78 billion (from \$49 billion in 2000) and \$72 billion (from \$13 billion in 2000), respectively. ASEAN has been a relatively significant net intermediate goods' importer from Japan and Korea. Meanwhile, the United States and the EU have increased their intermediates exports and imports to and from ASEAN. In 2019, ASEAN's intermediate goods exports and imports to and from the United States increased to \$76 billion (from \$36 billion in 2000) and \$68 billion (from \$35 billion in 2000), respectively. For the EU, ASEAN's intermediates exports and imports rose to \$64 billion in 2019 (from \$21 billion in 2000) and \$57 billion in 2019 (from \$22 billion in 2000), respectively. It should be noted that ASEAN maintained a net importer position against Japan and Korea, which may reflect Japan and Korea's strong competitiveness in intermediate goods compared with ASEAN. This trade characteristic is also seen in the case of China, as discussed in the following subsection.

ASEAN's net exporter position in final goods against the US and the EU is also remarkable. In 2019, the final goods export value from ASEAN to the US was \$120 billion, whereas the import value was \$25 billion. ASEAN's final goods export value to the EU was \$86 billion, while the import value from the EU was \$45 billion. This net final goods exporter position of ASEAN is similar to that of China, as shown below.

Considering the above findings, ASEAN has developed interdependence and deepened IPNs with not only East Asian countries but also the US and the EU. In particular, the extent of integration between ASEAN and China is more significant than ever. In the East Asia region, ASEAN is in a net importer position in terms of intermediates vis-à-vis Japan and Korea. Final goods produced in ASEAN are exported to the US and the EU in large magnitude. Meanwhile, ASEAN's interdependence with ANZ and India is not significant compared with its interdependence with the other ASEAN Dialogue Partners.

3.3.3 Bilateral Trade Relationships since 2000 from ANZ's Point of View

ANZ also experienced a rapid increase in exports to China. Figure 3.6 shows a rise in the export value to China from less than \$10 billion in 2000 to almost \$140 billion in 2019 – more than three times greater than that of the second-largest economy, Japan. The import value from China in 2000 was also less than \$10 billion, increasing to \$60 billion in 2019. Thus, in trading with China, ANZ transitioned from an almost balanced position to a significant net exporter position. In trading with Japan, ANZ has retained a net exporter position since 2000. The amount of net export surplus was not as much as China in 2019 but was still larger than the other countries. In contrast to trading with China and Japan, ANZ's exports to India, the US, and the EU remained low from 2000 to 2019. Further, ASEAN's imports from India were also low in 2000 and did not increase during the period. ANZ's trade relationship with India did not deepen through the period from 2000 to 2019.

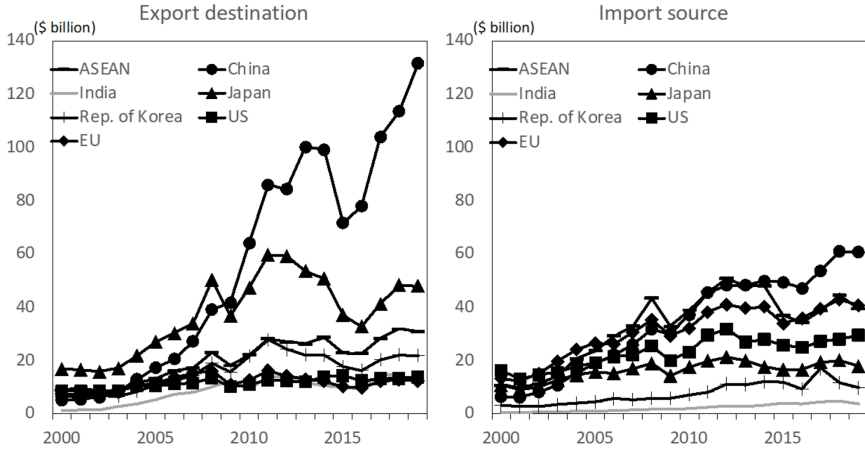


Figure 3.6 ANZ’s Bilateral Export Values by Destination and Import Values by Source, 2000–2019

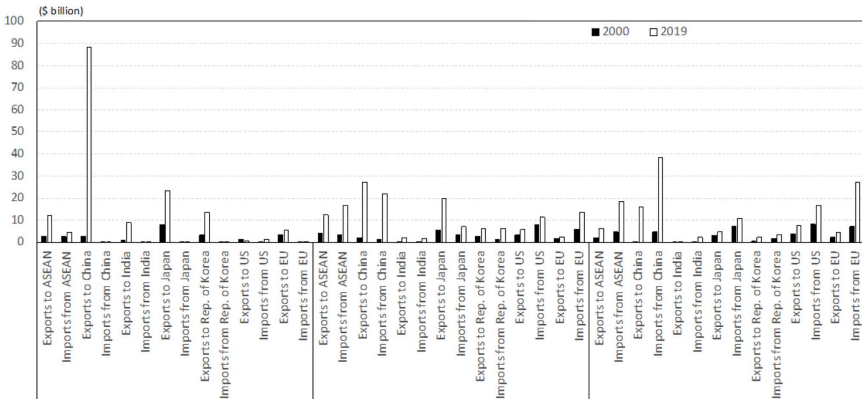


Figure 3.7 ANZ’s Trade by Commodity Category and by Trading Partner, 2000–2019

Figure 3.7 clearly shows that the primary factor behind the significant rise in exports to China is an exponential increase in primary goods. The primary goods export value in 2019 was about \$88 billion – 32 times greater than the corresponding value in 2000 (\$3 billion). Increases in ANZ’s intermediates goods trade were not evident compared with those of ASEAN.

China has become ANZ’s most important trading partner, and ANZ has built significant dependence on the Chinese economy. Regarding the industrial structure, ANZ has intensified its dependence on exporting primary goods and buying final goods from other countries, especially China. India, the US, and the EU are relatively far from ANZ in terms of trade dependence.

3.3.4 *Bilateral Trade Relationships since 2000 from China's Point of View*

China's three largest export destinations changed in 2013. As shown in Figure 3.8, before 2013, the top three export destinations were the US, the EU, and Japan. However, the order changed after 2013 – the top two countries are the same, but the third is ASEAN. The top two countries – the US and the EU – are largely different from other countries, such as ASEAN and Japan, in bilateral trade relationships with China. First, exports to the US and the EU significantly exceeded imports from these sources. China's trade surplus vis-à-vis the US in 2019 was about \$300 billion, while its trade surplus with the EU was about \$150 billion. Meanwhile, the differences between exports and imports for ASEAN and Japan were much smaller than those for the US and the EU. China's trade surplus with ASEAN is about \$25 billion, and its deficit with Japan is \$5 billion. China has deepened its interdependence with the East Asia economies as well as the US and the EU. India, however, is its exception. China's exports increased slightly to the same level as its exports to ANZ, but we cannot see increases in China's imports from India.

Figure 3.9 breaks down these bilateral trade relationships by product category. The changes in China's intermediate goods trade are different with East Asian countries on the one hand and with the US and the EU on the other hand. Regarding China's trade with ASEAN, as mentioned earlier, intermediate goods exports and imports rose significantly from 2000 to 2019, and the magnitude of intermediates trade is much larger than final goods trade, which means that ASEAN and China have been greatly integrated in terms of production networks since 2000. China's trade patterns with Japan and Korea are similar to the pattern with ASEAN but slightly different. The fact

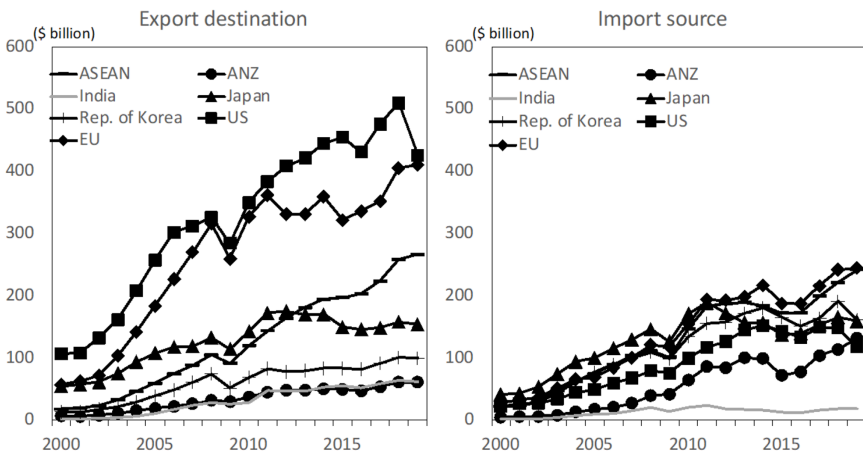


Figure 3.8 China's Bilateral Export Values by Destination and Import Values by Source, 2000–2019

that intermediate goods trade has risen significantly since 2000 and is larger than final goods trade is the same, but intermediate goods exports have been much smaller than intermediate goods imports for these two countries. The continuing intermediate trade deficits with Japan and Korea can be interpreted as Japan and Korea maintaining competitiveness against China in terms of intermediates in production networks in the East Asia region. When it comes to China's trade with the US and the EU, while their intermediate goods trade has risen since 2000, the increases in China's final goods exports to the two regions are much larger than those of intermediates.

In summary, China has continuously developed IPNs with ASEAN, Japan, and Korea since 2000. Japan and Korea have retained competitiveness in intermediates in the region's production networks, and China exports significant numbers of final goods to the US and the EU. China has integrated its economy into the global economy, but India seems to be an exception as a trading partner. The value of China's trade with India is significantly lower than that of its trade with other countries and regions. The next subsection examines India's perspective.

3.3.5 Bilateral Trade Relationships since 2000 from India's Point of View

Figure 3.10 shows that India has four significant trading partners. The EU was India's second-largest partner for exporting and third largest for importing in 2019. The export value was about \$48 billion, while the import value was about \$42 billion. The net export value was about \$6 billion, which is not very large compared with India's net export value with the US. The US is India's largest export partner and its fourth largest import partner. The US is different from the EU in that the difference between exports and imports is significant. India's exports to the US reached about \$58 billion in 2019, whereas its imports from the US were about \$33 billion. India's net exports were about

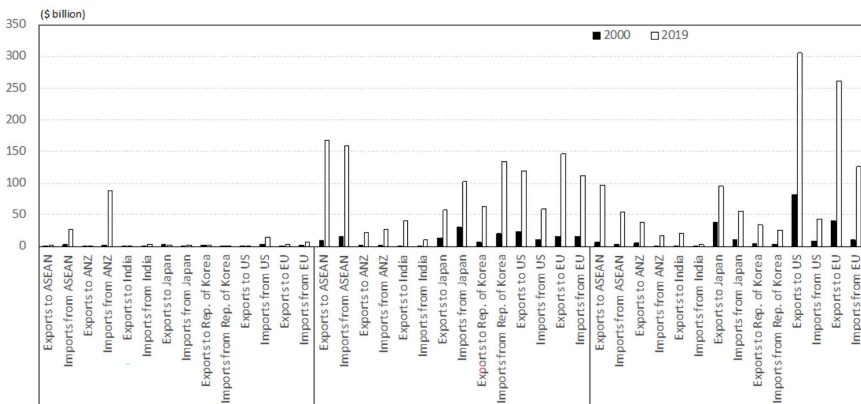


Figure 3.9 China's Trade by Commodity Category and Trading Partner, 2000–2019

\$25 billion. ASEAN and China are similarly significant trade partners of India, since India’s exports to those countries are lower than its imports. However, the scale of net imports vis-à-vis China is much larger than the level with ASEAN. For ASEAN, India’s export value in 2019 was about \$27 billion, while its import value was about \$53 billion. India’s net import value was about \$26 billion. India’s exports to China totalled about \$18 billion in 2019, whereas its imports from China were about \$62 billion, resulting in a trade deficit of about \$44 billion.

Breaking down India’s bilateral trade relationships, as seen in the cases of ASEAN and China, increases in intermediate trade are notable. Indeed, Figure 3.11 indicates that increases in intermediates trade since 2000 are outstanding compared with increases in final goods trade. Regarding the

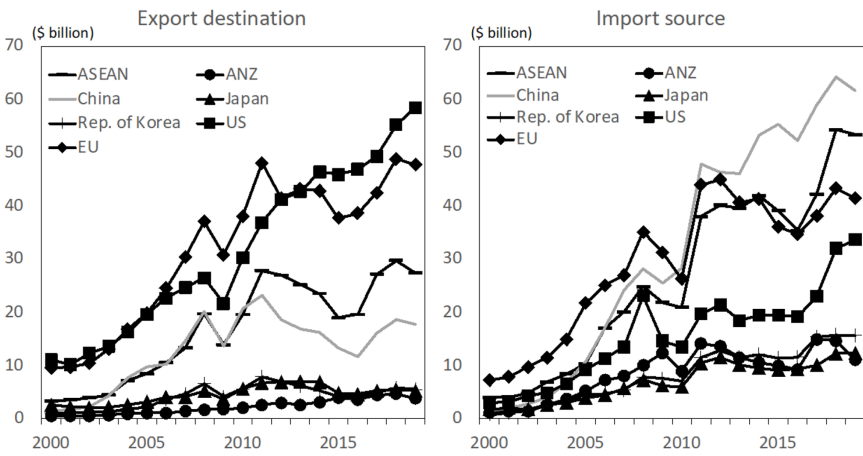


Figure 3.10 India’s Bilateral Export Values by Destination and Import Values by Source, 2000–2019

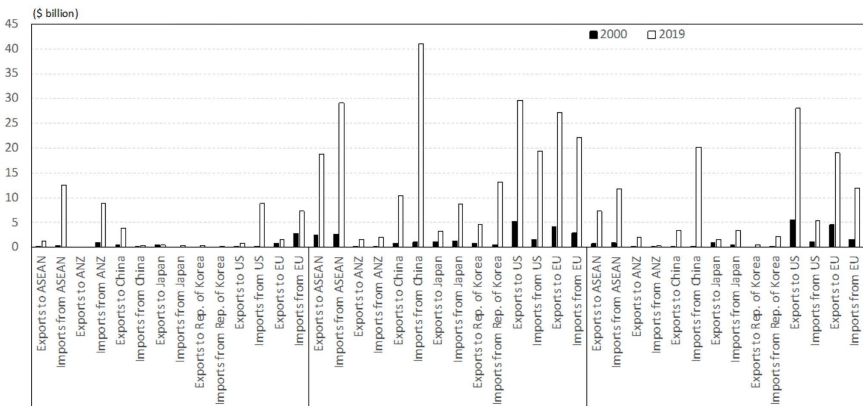


Figure 3.11 India’s Trade by Commodity Category and by Trading Partner, 2000–2019

intermediates trade with the US and the EU, the export value is larger than the import value. Meanwhile, regarding intermediates trade with ASEAN and China, India is a net importer vis-à-vis those two countries. In particular, net imports from China were about \$30 billion in 2019, amounting to two-thirds of the total net imports. Japan and Korea are also net import countries from India's viewpoint. Overall, India has steadily developed its production networks with East Asia, the US, and the EU. It should be noted, however, that economic interdependence with India is not significant from the perspectives of the other countries participating in RCEP negotiations. Furthermore, India's competitiveness in intermediates and final goods in the East Asia IPNs has not been strengthened. The US and the EU are exceptions in the sense that India's competitiveness resides in final goods.

If India is keen on improving the competitiveness of its manufacturing sector, it may be concerned about trading partners like China, which show competitiveness in intermediate goods.

In examining the bilateral trade relationships, we found that the countries participating in RCEP negotiations have continually built IPNs in the East Asia region since 2000. China and ASEAN have grown rapidly by deepening their production networks and participating in GVCs. Japan and Korea, advanced countries in East Asia, have retained their competitiveness in the intermediate goods markets (often capital-intensive goods). China and ASEAN have shown a similar trade structure. On the one hand, these countries have had a trade deficit in intermediate goods with Japan and Korea. On the other hand, they have had a trade surplus with the US and the EU. Furthermore, China and ASEAN have built a reciprocal intermediate goods trade relationship in both exports and imports, which indicates that China and ASEAN have been deeply integrated in terms of IPNs. India has been relatively separate from IPNs in the region. In addition, India's trade deficit with China is significant in terms of both intermediate and final goods, which is likely to be a factor that made India withdraw from the RCEP to protect its manufacturing industry.

3.4 Overview of Bilateral Foreign Direct Investment

This section overviews the bilateral FDI of ASEAN and its Dialogue Partners. We use a unique FDI data set constructed by Japan's Institute of International Trade and Investment (ITI) (ITI, 2021). The ITI's FDI data set includes bilateral FDI data for world economies, including that of AMS, by country and industry. The data are collected through each public institution's publications or website responsible for the FDI data. As a caveat, ITI does not make any changes to the original data, such as standardising detailed definitions of FDI. Table 3.3 reports the cumulative total inward FDI from 2011 to 2019 for ASEAN and its Dialogue Partners. Unless otherwise explicitly noted, the amount of inward FDI in this section stands for the cumulative total from 2011 to 2019. Lower figures in each cell stand for the source country's share of inward FDI. For example Indonesia received FDI from other AMS for \$87 billion from 2011 to 2019, amounting to 53% of the total FDI

Table 3.3 Bilateral Inward FDI of ASEAN and Selected Dialogue Partners (Cumulative Total, 2011–2019, \$ Billion)

<i>Recipient</i>	<i>Investor</i>										
	ASN	ANZ	CHN	HKG	IND	JPN	ROK	US	EUR	R15	R16
Indonesia	87.0	1.3	8.6	6.1	0.3	50.1	4.7	-5.1	14.2	151.8	152.1
	53%	1%	5%	4%	0%	31%	3%	-3%	9%	92%	93%
Lao PDR	4.2	0.1	7.2	0.5	0.0	0.1	0.2	0.0	1.1	11.8	11.8
	18%	0%	31%	2%	0%	0%	1%	0%	5%	51%	51%
Malaysia	18.7	0.6	4.1	0.3	n.a.	16.6	0.3	4.2	20.0	40.2	40.2
	21%	1%	4%	0%	n.a.	18%	0%	5%	22%	44%	44%
Myanmar	26.6	0.1	11.5	3.4	0.6	1.7	1.1	0.3	3.7	41.0	41.5
	54%	0%	23%	7%	1%	3%	2%	1%	7%	82%	84%
The Philippines	2.7	0.2	0.4	2.0	0.0	2.9	0.5	2.7	3.0	6.6	6.7
	17%	1%	2%	12%	0%	18%	3%	17%	19%	41%	41%
Singapore	21.6	5.8	19.4	41.3	2.3	53.8	15.2	265.3	201.6	115.8	118.1
	2%	1%	2%	5%	0%	6%	2%	29%	22%	13%	13%
Thailand	10.9	1.7	4.4	8.0	0.2	32.5	2.2	9.4	-2.1	51.7	51.9
	15%	2%	6%	11%	0%	43%	3%	13%	-3%	69%	69%
Viet Nam	43.4	2.3	15.6	23.8	0.7	43.5	54.3	3.5	16.6	159.3	160.0
	18%	1%	7%	10%	0%	18%	23%	1%	7%	66%	67%
Australia	26.1	0.4	32.2	12.7	0.3	80.8	4.6	110.5	98.7	144.0	144.4
	6%	0%	7%	3%	0%	18%	1%	24%	21%	31%	31%
New Zealand	2.2	12.3	0.2	4.7	0.0	1.9	0.0	-3.0	2.9	16.6	16.6
	9%	53%	1%	20%	0%	8%	0%	-13%	13%	72%	72%
China	61.6	3.2	n.a.	n.a.	0.5	42.1	35.3	22.7	70.2	142.2	142.8
	5%	0%	n.a.	62%	0%	4%	3%	2%	6%	12%	12%
Hong Kong	60.7	n.a.	266.2	n.a.	n.a.	16.2	n.a.	6.8	72.9	343.1	343.1
	6%	n.a.	28%	n.a.	n.a.	2%	n.a.	1%	8%	37%	37%
India	84.6	0.6	2.3	3.5	n.a.	24.1	3.7	19.0	75.8	115.2	115.2
	26%	0%	1%	1%	n.a.	8%	1%	6%	24%	36%	36%

(Continued)

Table 3.3 (Continued)

Recipient	Investor										
	ASN	ANZ	CHN	HKG	IND	JPN	ROK	US	EUR	R15	R16
Japan	18.4 12%	3.0 2%	5.3 3%	8.3 5%	0.1 0%	n.a. n.a.	6.5 4%	45.7 30%	47.5 31%	33.2 22%	33.3 22%
ROK	11.1 11%	2.3 2%	4.1 4%	5.3 5%	0.5 1%	15.1 15%	n.a. n.a.	14.1 14%	37.1 37%	32.7 32%	33.2 33%
US	14.7 1%	45.5 2%	40.4 2%	14.3 1%	2.8 0%	297.4 12%	52.2 2%	n.a. n.a.	1511.6 60%	450.1 18%	452.9 18%
Germany	2.1 0%	1.7 0%	10.8 2%	4.7 1%	0.6 0%	20.4 3%	4.2 1%	93.5 13%	571.0 80%	39.3 6%	39.9 6%
France	0.9 0%	0.0 0%	1.2 0%	4.2 2%	0.2 0%	7.5 3%	1.9 1%	-5.5 -2%	241.8 97%	11.5 5%	11.7 5%
UK	18.0 3%	11.3 2%	5.2 1%	9.5 1%	2.7 0%	24.8 4%	0.8 0%	277.4 40%	261.3 37%	60.1 9%	62.8 9%

Abbreviations: SN = ASEAN, ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, CHN = China, EUR = Europe, FDI = foreign direct investment, HKG = Hong Kong, IND = India, JPN = Japan, n.a. = not applicable, ROK = Republic of Korea, R15 = ASN + ANZ + CHN + JPN + KOR, R16 = R15 + IND, UK = the United Kingdom, US = the United States.

Note: Lower figures in each cell stand for the source country's share of inward FDI. For example Indonesia received \$87 billion in FDI from other ASEAN Member States from 2011 to 2019, 53% of its total FDI.

Sources: ITI (2021) and authors' elaboration.

that Indonesia received from the world. Because of the ITI's coverage limitations, data on Brunei Darussalam, Cambodia, and the EU are not available. Instead of the EU, here we report some large European countries (i.e. Germany, France, and the United Kingdom) as recipient countries and the whole of Europe as an FDI source region.

Let us first consider the significance of participating in RCEP negotiations for each country in terms of inward FDI. Table 3.3 shows that AMS, in general, are highly dependent on the other countries participating in RCEP negotiations. As much as 93% of Indonesia's inward FDI came from the other countries participating in RCEP negotiations (see R16 column). Indonesia was the most dependent country on the other countries participating in RCEP negotiations in FDI. Myanmar was the second (84%), Thailand the third (69%), Viet Nam the fourth (67%), and the Lao PDR the fifth (51%). Singapore (13%) was an exception because of its nature as a regional FDI hub, as we saw in Section 3.2. Regarding non-AMS countries participating in RCEP negotiations, New Zealand was highly dependent on inward FDI from the other countries participating in RCEP negotiations (74%). The other countries had 20%–30% of their inward FDI from countries participating in RCEP negotiations – Australia (31%), India (36%), Japan (22%), and Korea (33%). China had 12%, but the figure may be higher considering Hong Kong's role as a gateway for FDI.

Next, we point out several distinctive findings in Table 3.3. Singapore, as a regional FDI hub, received a large amount of FDI from the US and Europe – the share of inward FDI from the US and Europe averaged 29% and 22%, respectively, from 2011 to 2019. As mentioned earlier, Singapore is an FDI hub for ASEAN and surrounding countries, accounting for most of the inward FDI of the other AMS. For example 95% of Indonesia's inward FDI from the other AMS was accounted for by Singapore. The only exception is the Lao PDR. The primary inward FDI source country was Thailand, followed by Viet Nam.¹ It is also worth noting that India received FDI from ASEAN, mostly Singapore, on a large scale (26% of total inward FDI). As Le Thu (forthcoming) points out, Singapore played an active role in the RCEP negotiation process. Considering Singapore's regional FDI hub positioning and its economic gains from making ASEAN an attractive FDI destination, it is natural that Singapore was proactive in establishing more open and attractive regional markets for advanced countries, such as the US and the EU.

Japan, one of the large outward FDI countries, had a prominent presence as an investor in AMS, especially higher-income countries. Japan accounted for 31% of the inward FDI in Indonesia, 18% in Malaysia and the Philippines, and 43% in Thailand. Korea, another large outward FDI country, dominated 28% of the inward FDI of Viet Nam, the largest share as an investor for Viet Nam. These two representative Asian developed countries do not depend significantly on Singapore's FDI hub function. Japan has the third largest share of inward FDI for Singapore at 6%, significantly smaller than the share of the US or Europe in Singapore's inward FDI. Korea accounted for only 2%

of Singapore's inward FDI. Japan's investment in Indonesia (\$50.1 billion) was almost the same as that of Singapore (\$53.8 billion). Korea invested \$54.3 billion in Viet Nam, which was much more than the \$15.2 billion it invested in Singapore. In contrast, neither the US nor Europe invested more in AMS than in Singapore.

China, one of the large-scale inward FDI countries, had remarkable features in its investor countries. The US, in general, invested in Asian countries on a large scale. However, the values of its investments were lower than those of other advanced economies such as Japan, Korea, and Europe. The US share of inward FDI in China was 2%, which is less than the share of Japan (4%), Korea (3%), and Europe (6%). When it comes to Hong Kong, the FDI gateway to China, the US accounted for only 1%, which is smaller than Japan's 2% and much less than Europe's 8%. As Solís (2022) mentioned, the political divide between China and the US became prominent after the arrival of former President Donald Trump in 2017. Considering the amount of US investment in China, the US had kept its distance from China before 2017. China has become an important FDI source country for some AMS. China's shares in FDI inflows for the Lao PDR and Myanmar are 31% and 23%, respectively.

In summary, AMS received FDI from East Asia and advanced economies such as the US and Europe. Singapore, as a regional FDI hub, received FDI from advanced countries and reinvested in other ASEAN and neighbouring countries, including India. This FDI hub positioning makes Singapore promote liberalised regional markets to attract investors from advanced countries. Japan and Korea, two Asian advanced countries, invested in AMS more directly than the US and Europe. The US and Europe tended to invest in AMS through Singapore. The US had kept its distance from China in terms of investment compared with other advanced countries.

3.5 Expected Economic Effects of the RCEP

Lastly, we examine the expected economic effects of the RCEP. One of the most important factors for the decision to participate in the RCEP is its expected economic effects. Here, we use Itakura's dynamic Global Trade Analysis Project (GTAP) model simulation results (Itakura, 2019) for the economic effects of the RCEP on the countries participating in RCEP negotiations as well as other countries to comprehend their interests at the macroeconomic level. The dynamic GTAP model is constructed on the basis of CGE modelling and is considered a workhouse model for simulating the economic effects of regional integration. Economic effects are measured by the difference between the cases with and without the RCEP. It should be noted that the simulation included India, which withdrew from the RCEP negotiations at the last moment.

The dynamic GTAP model can simulate changes in the trade and investment environment caused by FTAs through the following mechanism: a

reduction in barriers on trade such as tariff reductions would increase trade between FTA members (trade creation effect) under certain circumstances at the cost of trade with non-FTA members (trade diversion effect). Trade expansion increases production, which in turn increases employment and workers' incomes. Increased production is likely to increase investment, while increased income would increase consumption. Through this mechanism, FTAs would promote the economic growth of FTA members, while FTAs are likely to hurt non-FTA members. A similar mechanism is likely to take place in the case of a reduction in service trade costs and investment liberalisation, promoting economic growth through an expansion in service trade and investment.

Before looking at the simulation results, we examine the bilateral trade deals in force before the signing of the RCEP amongst the countries participating in RCEP negotiations. In the above explanation of economic impact channels in the dynamic GTAP model, we separated the world into the countries inside and outside the FTA regions. When we see differences in economic effects amongst the countries participating in RCEP negotiations, we need to examine the existing FTAs amongst these countries. Regarding the countries inside ASEAN, the average zero tariff ratio (the percentage of the number of products with zero tariff in the total number of products) of imports across AMS had already reached 98.6% in 2019 under the ASEAN Trade in Goods Agreement (Suvannaphakdy, 2021).² Meanwhile, ASEAN had concluded FTAs with all the non-AMS participating in RCEP negotiations before the RCEP negotiations. Table 3.4 summarises the bilateral trade deals in force before the RCEP signing amongst the countries participating in RCEP negotiations. We focus on the pairs of countries without FTAs. There are two notable findings. First, there were no FTA relationships amongst China, Japan, and Korea (CJK). Since the RCEP is the first FTA amongst these countries, we expect relatively large economic impacts on CJK through trade creation. The second finding is

Table 3.4 Bilateral Trade Deals in Force before the RCEP Signing amongst the Countries Participating in RCEP Negotiations

<i>Country/ Region</i>	<i>ASEAN</i>	<i>CHN</i>	<i>JPN</i>	<i>ROK</i>	<i>IND</i>	<i>AUS</i>	<i>NZL</i>
ASEAN	n.a.	Yes	Yes	Yes	Yes	Yes	Yes
China	Yes	n.a.	No	Yes	No	Yes	Yes
Japan	Yes	No	n.a.	No	Yes	Yes	No
Rep. of Korea	Yes	Yes	No	n.a.	Yes	Yes	Yes
India	Yes	No	Yes	Yes	n.a.	No	No
Australia	Yes	Yes	Yes	Yes	No	n.a.	Yes
New Zealand	Yes	Yes	No	Yes	No	Yes	n.a.

Abbreviations: ASEAN = Association of Southeast Asian Nations, AUS = Australia, CHN = China, IND = India, JPN = Japan, n.a. = not applicable, NZL = New Zealand, RCEP = Regional Comprehensive Economic Partnership, ROK = Republic of Korea.

Sources: Chapter 4 and authors' elaboration.

that India did not have FTAs with Australia, China, and New Zealand. By the same reasoning applied to CJK, we would expect relatively high trade creation effects on India if it were to join the RCEP.

Now, let us examine the results. Itakura (2019) adopted the following three scenarios and examined their economic impacts.

- **Scenario 1:** tariff reduction
- **Scenario 2:** tariff reduction + service trade cost reduction
- **Scenario 3:** tariff reduction + service trade cost reduction + investment liberalisation

Scenario 1 simulation measures the economic effects of only tariff reductions under the RCEP agreement on real GDP. One of the findings is that the AMS will not enjoy large economic gains from tariff reductions. The six Dialogue Partners (the countries participating in RCEP negotiations minus the AMS) will have a slightly larger benefit from the tariff reductions than the AMS. As shown in Table 3.5, scenario 1 leads to a 0.2% higher real GDP for AMS compared with the baseline in 2035, while the corresponding figure for the countries participating in RCEP negotiations as a whole is higher at 0.5%. These results are not surprising because the countries participating in RCEP negotiations comprise the ASEAN+1 FTA countries as seen earlier. In other words, the tariff schedules between AMS and their Dialogue Partners were already low. Meanwhile, some Dialogue Partners did not have bilateral FTAs (e.g. CJK and China–India), so the effects of tariff reductions through the RCEP are large on the Dialogue Partners.

The results of the economic effects are different when considering the service trade cost reduction. Scenario 2 examines the economic effects of tariff reductions (scenario 1) plus service trade cost reduction. The RCEP agreement stipulates trade facilitation and service liberalisation, which reduce service trade costs. According to the results shown in Table 3.5, RCEP member countries will gain 1.2% from the RCEP in terms of real GDP in 2035, while the AMS as a group will gain 2.2%. Looking at an individual ASEAN Member State, we find that less developed countries (e.g. Cambodia and the Lao PDR) obtain larger economic gains than the other countries. These results may indicate that service trade costs in many AMS, especially less developed ones, are high.

Furthermore, investment liberalisation gives rise to additional gains, mainly to AMS. Scenario 3 assesses the economic effects of tariff reductions and service trade cost reductions (scenario 2) plus investment liberalisation. Table 3.5 shows that the AMS will enjoy 4.7% more real GDP than the baseline, whereas an increase in real GDP for the 16 countries participating in RCEP negotiations as a group is lower at 2.0%. A large benefit that AMS may enjoy from investment liberalisation under the RCEP is due to the presence of high investment barriers in these countries.

Let us examine the economic effects on ASEAN Dialogue Partners countries that are not participating in RCEP negotiations. As seen in Table 3.5,

the RCEP will negatively affect the US economy, although to a small extent. All three scenarios indicate that the US suffers trade diversion effects from the RCEP because the US is outside the RCEP. Additionally, a more liberalised scenario makes the US economy suffer more. Scenarios 1, 2, and 3 give rise to a negative impact on US real GDP of -0.1% , -0.1% , and -0.3% , respectively. Itakura's simulation results do not include the EU case, but we may expect similar negative impacts on the EU economy as in the case of the US.

Altogether, tariff reductions alone will not bring about notable gains to the countries participating in RCEP negotiations except non-AMS. However, service trade cost reductions and investment liberalisation will provide large benefits to the countries participating in RCEP negotiations, especially the less developed AMS. It is worth noting that India would have the largest gain from the RCEP amongst the ASEAN Dialogue Partners. Scenario 3 would enable India to gain 3.8% in terms of real GDP growth and \$432.8 billion from the baseline case. However, India withdrew from the RCEP. India was

Table 3.5 Economic Effects on Real GDP in ASEAN and Its Dialogue Partners, 2035
(Percentage Deviation, \$ Billion, Constant 2011 Prices)

<i>Country/Region</i>	<i>S1</i>			<i>S2</i>			<i>S3</i>					
							<i>(%)</i>			<i>(\$ billion)</i>		
Brunei	0.2	1.0	1.3	0.1	0.4	0.5						
Cambodia	3.3	9.8	14.9	2.0	5.8	8.8						
Indonesia	-0.02	1.4	2.7	-0.6	42.2	80.3						
Lao PDR	0.9	4.4	7.0	0.4	1.8	2.9						
Malaysia	0.3	2.0	3.9	2.4	18.4	35.6						
The Philippines	-0.1	2.2	10.8	-1.2	24.1	120.2						
Singapore	0.2	2.1	3.8	1.2	10.8	19.9						
Thailand	0.7	4.5	5.4	5.4	32.5	39.1						
Viet Nam	0.6	3.9	5.4	3.6	21.9	30.6						
RoSEAsia	-0.03	0.2	1.9	-0.1	0.6	6.2						
Japan	0.7	1.0	1.0	46.5	70.3	67.8						
China	0.2	0.5	0.8	66.8	143.0	252.1						
Rep. of Korea	1.0	1.9	1.9	24.5	47.2	46.6						
India	1.4	2.7	3.8	153.8	304.2	432.8						
Australia	0.0	0.7	2.2	1.3	17.4	59.7						
New Zealand	0.7	1.6	5.3	2.2	5.0	16.4						
US	-0.1	-0.1	-0.3	-14.6	-30.0	-78.3						
ROW	-0.2	-0.4	-1.0	-107.3	-229.4	-560.1						
ASEAN	0.2	2.2	4.7	12.9	158.6	344.1						
RCEP	0.5	1.2	2.0	307.9	745.7	1219.5						
WLD	0.1	0.3	0.3	170.2	452.2	499.1						

Abbreviations: ASEAN = Association of Southeast Asian Nations, GDP = gross domestic product, RCEP = Regional Comprehensive Economic Partnership, S = scenario, RoSEAsia = Rest of Southeast Asia, US = the United States, ROW = Rest of the World, WLD = World.

Source: Itakura (2019: 36)

the least open economy participating in RCEP negotiations and tried to set conditions to protect its domestic markets, but this was not accepted during the negotiation process (Gaur, 2020). The non-RCEP ASEAN Dialogue Partners will suffer negative economic impacts through trade diversion effects, albeit a small loss.

3.6 Conclusion

This chapter examined the economic background of ASEAN and selected Dialogue Partners in terms of basic statistics, bilateral trade, bilateral FDI, and the expected economic effects of the RCEP. Examining the basic statistics, we found substantial variations amongst countries participating in RCEP negotiations in terms of their economic sizes, income levels, growth rates, trades, and FDI. More developed countries tend to have had slower economic growth than their less developed counterparts. International trade is very important to many AMS. AMS have attracted significant FDI, while Japan and Korea provided much more FDI than they received.

When we examined bilateral trade relationships, we found that the countries participating in RCEP negotiations have been building IPNs in the East Asia region since 2000. China and ASEAN have grown quickly by expanding their production networks and joining GVCs. Japan and Korea, which are developed countries in East Asia, have maintained their competitiveness in the market for intermediate goods. China and ASEAN have similar trade structures. On the one hand, these countries have a trade deficit with Japan and Korea in intermediate goods. On the other hand, they have been able to export more to the US and the EU than they import from them. Further, China and ASEAN have built a relationship in which they both export and import intermediate goods. This shows that China and ASEAN are deeply connected in terms of IPNs. India has not been involved in IPNs in the region. From India's point of view, its trade deficit with China is large, in terms of both intermediate and final goods. This is likely to be one reason that India left the RCEP negotiations – to protect its manufacturing industry.

An examination of bilateral FDI data revealed that East Asia and advanced countries like the US and the EU undertook FDI in AMS. As a regional hub for FDI, Singapore received FDI from advanced countries and invested in other ASEAN and nearby countries like India. It also pursued FDI liberalisation policies to attract investment from advanced countries. Japan and Korea, two advanced countries in Asia, invested directly in AMS. Unlike the case for FDI from Japan and Korea, a large portion of FDI from the US and Europe in AMS went through Singapore. Compared with other advanced countries, the US had not invested as much in China.

Based on Itakura's dynamic GDP simulation exercise (Itakura, 2019), the RCEP will not benefit the countries participating in RCEP negotiations significantly, except non-AMS, if tariff cuts alone are considered. However, if one considers lowering the costs of service trade and investment, the RCEP would

benefit countries participating in RCEP negotiations, especially less developed AMS. India would benefit the most from the RCEP out of all the Dialogue Partners of ASEAN. However, India withdrew from the RCEP negotiations at the final stage of negotiations. Amongst the countries participating in RCEP negotiations, India is the least open economy. Its attempt to set conditions to protect its domestic markets during the RCEP negotiations was refused. The RCEP would hurt non-RCEP members because of the trade diversion effect, albeit a small loss.

What we found by examining the economic background is that not only the potential economic gains from negotiating regional trade deals but also the current regional integration status are important for the stance of countries participating in negotiations and their final decision on participation in trade deals. Countries that were integrated in GVCs seemed to be more proactive towards the RCEP deals (e.g. Singapore). Less developed countries such as Viet Nam, which had increasingly participated in GVCs, also behaved proactively in the RCEP negotiations and intended to use the RCEP as an opportunity to advance structural reforms (see Chapter 5). Meanwhile, in the case of less integrated countries such as India, their momentum towards trade deals seems rather weak despite potential gains.

Notes

- 1 The information regarding an individual ASEAN Member State's share of another ASEAN Member State's inward FDI is not reported in Table 3.3.
- 2 Suvannaphakdy (2021) also asserted that when splitting the AMS into higher-income countries (ASEAN-6 – Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, and Thailand) and lower-income countries (Cambodia, the Lao PDR, Myanmar, and Vietnam), even the lower-income countries had reached an average tariff elimination rate of 97.7% in 2019 (the higher-income countries had a rate of 99.3%).

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Appendix

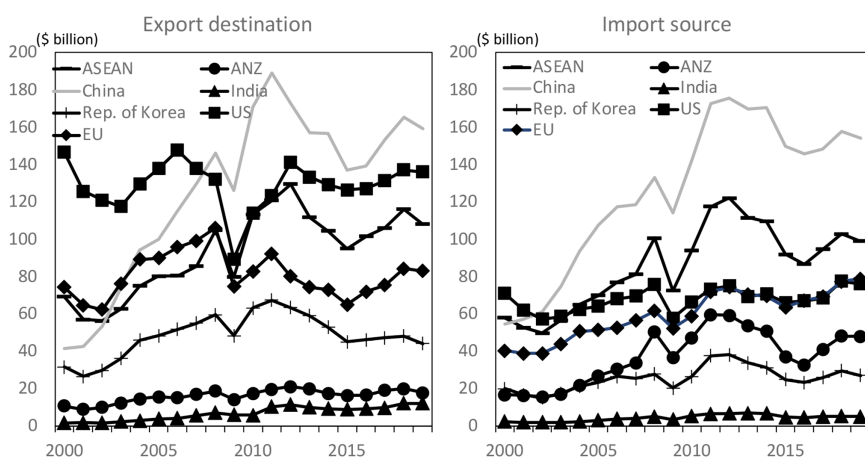


Figure 3A-1 Japan's Bilateral Export Values by Destination and Import Values by Source, 2000–2019

Abbreviations: ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, EU = the European Union, US = the United States.

Sources: RIETI-TID (n.d.), www.rieti.go.jp/en/projects/rieti-tid/ (Accessed 21 September 2021), and authors' calculations.

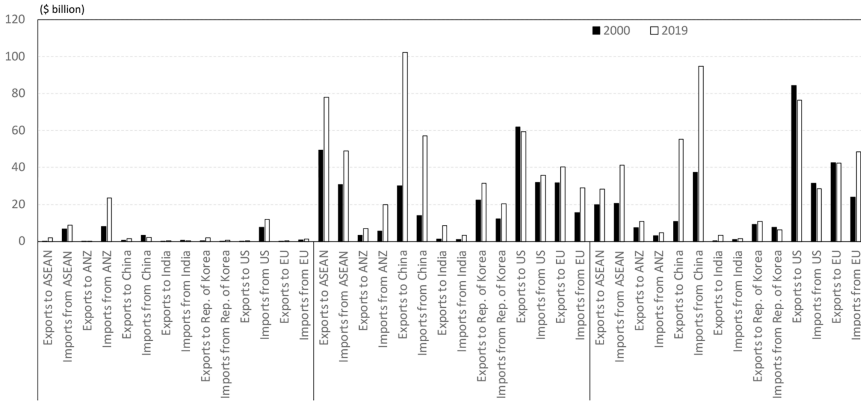


Figure 3A-2 Japan’s Trade by Commodity Category and Trading Partner, 2000–2019

Abbreviations: ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, EU = the European Union, US = the United States.

Sources: RIETI-TID (n.d.), www.rieti.go.jp/en/projects/rieti-tid/ (Accessed 21 September 2021) and authors’ calculations.

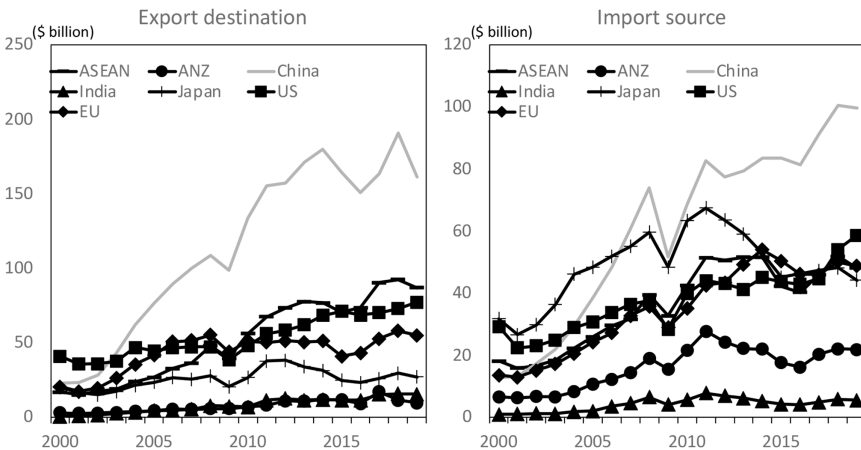


Figure 3A-3 Korea’s Bilateral Export Values by Destination and Import Values by Source, 2000–2019

Abbreviations: ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, EU = the European Union, US = the United States.

Sources: RIETI-TID (n.d.), www.rieti.go.jp/en/projects/rieti-tid/ (Accessed 21 September 2021), and authors’ calculation.

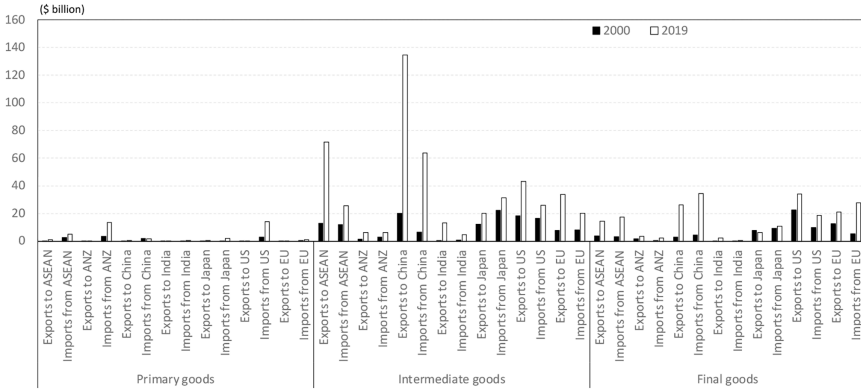


Figure 3A-4 Korea’s Trade by Commodity Category and Trading Partner, 2000–2019

Abbreviations: ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, EU = the European Union, US = the United States.

Sources: RIETI-TID (n.d.), www.rieti.go.jp/en/projects/rieti-tid/ (Accessed 21 September 2021), and authors’ calculations.

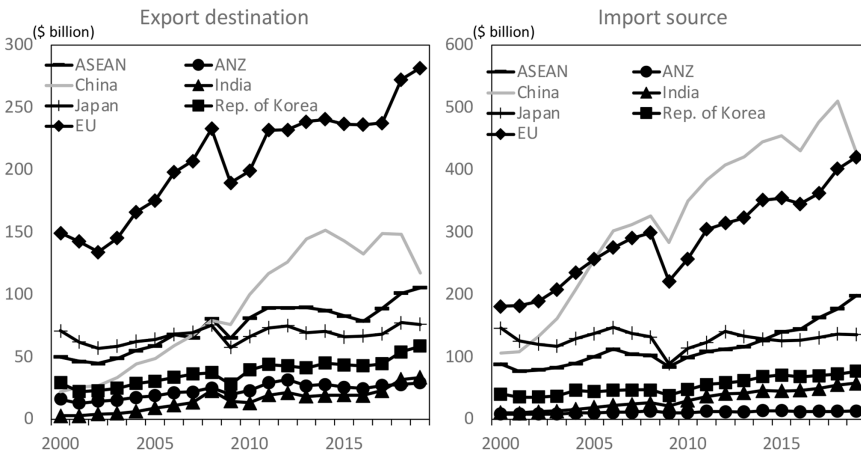


Figure 3A-5 US Bilateral Export Values by Destination and Import Values by Source, 2000–2019

Abbreviations: ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, EU = the European Union, US = the United States.

Sources: RIETI-TID (n.d.), www.rieti.go.jp/en/projects/rieti-tid/ (accessed 21 September 2021), and authors’ calculations.

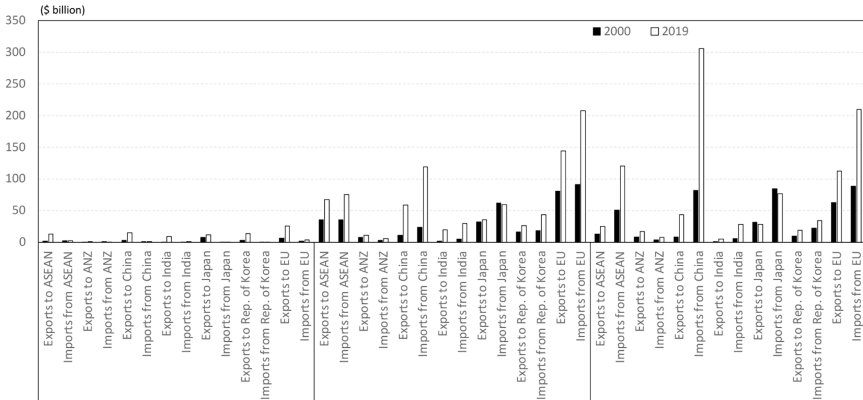


Figure 3A-6 US Trade by Commodity Category and Trading Partner, 2000–2019

Abbreviations: ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, EU = the European Union, US = the United States.

Sources: RIETI-TID (n.d.), www.rieti.go.jp/en/projects/rieti-tid/ (accessed 21 September 2021), and authors’ calculations.

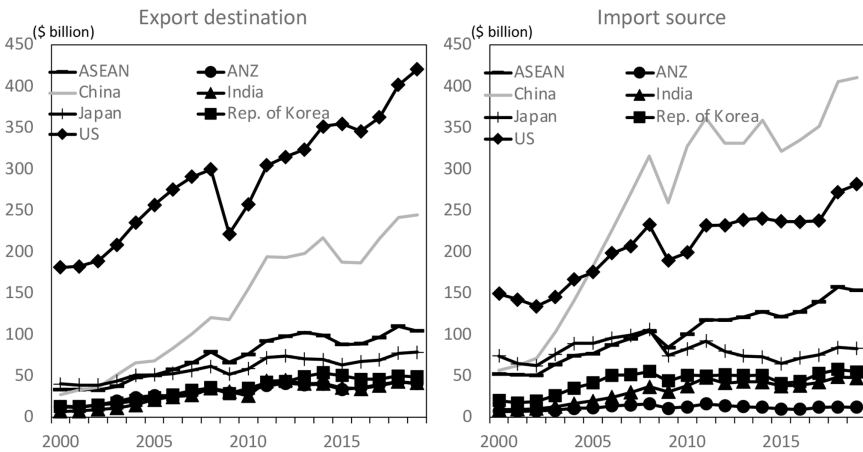


Figure 3A-7 EU Bilateral Export Values by Destination and Import Values by Source, 2000–2019

Abbreviations: ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, EU = the European Union, US = the United States.

Sources: RIETI-TID (n.d.), www.rieti.go.jp/en/projects/rieti-tid/ (accessed 21 September 2021), and authors’ calculations.

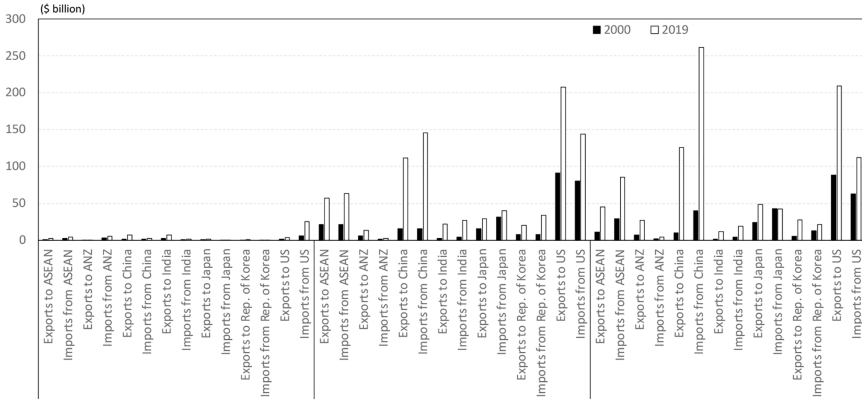


Figure 3A-8 EU Trade by Commodity Category and Trading Partner, 2000–2019

Abbreviations: ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, EU = the European Union, US = the United States.

Sources: RIETI-TID (n.d.), www.rieti.go.jp/en/projects/rieti-tid/ (Accessed 21 September 2021), and authors’ calculations.

4 Centrality and Community

ASEAN in the Regional Comprehensive Economic Partnership

Soo Yeon Kim

4.1 Introduction

The Association of Southeast Asian Nations (ASEAN) is fully engaged in the Regional Comprehensive Economic Partnership (RCEP) agreement. All 10 ASEAN members – Brunei Darussalam, Cambodia, Indonesia, Lao People’s Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam – are signatories to RCEP. This chapter examines the role of ASEAN within RCEP. The focus is twofold. First, the analysis examines the centrality of ASEAN in the formation, negotiation, and conclusion of the RCEP agreement. ASEAN centrality in its broadest sense is about how this group of 10 nations drives the international politics of Asia, carving out a pivotal role in the region’s institutional architecture as leader, convenor, and hub, amongst other interesting roles (Caballero-Anthony, 2014). Second, the analysis will examine the relationship between RCEP and ASEAN’s own integration project, the building of the ASEAN Economic Community (AEC). As RCEP consolidates ASEAN’s existing free trade agreements (FTAs) with other signatories, the agreement is likely to facilitate the ambitious AEC project and its four pillars: the creation of a single market and production base, development as a competitive economic region, promotion of equitable economic development within the ASEAN community, and integration into the global economy.

Two key contextual factors impacting the Asian regional economy have also affected the formation of RCEP and ASEAN’s role in this process. First, the locus of global trade governance has shifted, from the multilateral trade regime of the World Trade Organization (WTO) to the more delimited FTAs that not only are more limited in membership but also provide alternatives for managing trade (Fiorentino et al., 2007; WTO, 2011; Baldwin, 2016).¹ According to the WTO, there are 350 trade agreements that have been notified to the General Agreement on Tariffs and Trade (GATT) and the WTO that are currently in force.² RCEP is very much a product of these times, where FTAs have increasingly taken over the governance of trade due to the lack of cooperation amongst WTO members.

The parallel existence of free trade agreements has created a ‘two-pillar structure’ for governing trade in which rules preceding the WTO era coexist with a decentralised network of FTAs that provide rules that are often overlapping and not always consistent (Baldwin, 2016). RCEP is also what is known as a mega-FTA, a new form of regionalism (Börzel and Kim, 2022) that features a trade agreement formed by a large group of countries, which consolidates existing trade agreements between them. Mega-FTAs may reflect a broader trend towards regionally centred governance of international economic exchange (Breslin, 2010; Katzenstein, 2015; Van Langenhove, 2016; Hettne et al., 1999; Solingen, 1998; Lake and Morgan, 2010).

The second contextual factor important for understanding the formation of RCEP and ASEAN’s position in it is the geopolitics of Asia. Great power rivalry has long been a systemic feature driving the politics of Asia, and especially since the end of the Cold War (Goh, 2000, 2007; Acharya, 2003; Friedberg, 1993). Major actors including the United States, China, Japan, and more recently India have at various times cooperated, competed, or simply jostled against one another for influence in this region (Chan, 2013), and their joint presence in the region has formed the backdrop for advancements in economic cooperation and regional integration. The ongoing US–China trade war is one manifestation of the great power competition between the world’s largest economy and most powerful actor and the rising power that is second in economic size (Amiti et al., 2020; Chong and Li, 2019; Liu and Woo, 2018; Kim, 2019). The novel coronavirus disease (COVID-19) pandemic has had the effect of accelerating the move towards decoupling that was already taking place (Johnson and Gramer, 2020). Finally, the emergence of the Indo-Pacific has injected a new perspective and narrative on major power rivalry in Asia (Choong, 2019; Medcalf, 2018).

This chapter is organised in two main parts. First, the chapter analyses the role of ASEAN centrality as a driving force in the RCEP project. There is both ASEAN centrality as a concept that has been investigated in academic scholarship, and there is ASEAN centrality as practice, where ASEAN in its 10-member form has been a key actor that is linked to the major powers involved in RCEP and therefore has successfully taken on a mediating role amongst them. ASEAN as a group has FTAs with each of the five non-ASEAN RCEP negotiating partners – China, Japan, the Republic of Korea (henceforth, Korea), Australia, and New Zealand. Individual ASEAN members also have FTAs in effect with some RCEP members. Given this unique position as a ‘hub’ in this configuration, ASEAN has been a mediating presence amongst the most contentious parties during the negotiations. The second part of the chapter is devoted to the relationship between RCEP and the AEC. The discussion focuses on how RCEP supports and complements ASEAN’s regional community-building efforts.

4.2 ASEAN Centrality in RCEP

This section examines the role of ASEAN centrality as a driving force in the progress and successful conclusion of RCEP. ASEAN centrality in concept and practice has been a key driver of the international political economy of Asia

since the end of the Cold War. Consensus and consultation are the hallmarks of the ‘ASEAN Way’ as a mode of decision-making, and it can be observed since the earliest days of the post-Cold War period such as through the Kuching Consensus adopted by the Asia-Pacific Economic Cooperation (APEC) forum (Elek and Soesastro, 2010; Damond, 2003; Elek 2005). On the road to RCEP, ASEAN centrality is demonstrated, in particular, in the role as a hub that links the negotiating parties through existing trade agreements and consolidates overlapping commitments.

4.2.1 ASEAN Centrality: Concept and Practice

ASEAN was formed in 1967 with the signing of the ASEAN Declaration by the foreign ministers of the five founding members – Indonesia, Malaysia, the Philippines, Singapore, and Thailand.³ ASEAN is the oldest grouping of its kind in the non-Western, developing world, with the ASEAN Declaration signed just 10 years later than the Treaty of Rome creating the European Economic Community. In addition to the five founding members, an additional five members joined in subsequent years: Brunei Darussalam joined ASEAN on 7 January 1984, Vietnam on 28 July 1995, Lao People’s Democratic Republic (Lao PDR) and Myanmar on 23 July 1997, and Cambodia on 30 April 1999. Together, these nations comprise today’s 10 Member States of ASEAN. ASEAN has been instrumental in the Asia-Pacific region as a driver of regional integration and cross-country and cross-regional cooperation. The pivotal role of this group of nations has been noted extensively in existing scholarship, which has observed ASEAN as driving essential features of East Asia’s institutional design and architecture (Caballero-Anthony, 2014; Tan, 2017). Scholarship has lauded ASEAN’s success in ‘living with giants’ in Southeast Asia and more broadly in the Asian region as a whole (Beeson, 2013; Goh, 2016). Where regional and extra-regional actors have had a strong presence, ASEAN has successfully engaged them, though the rise of China has raised questions about the viability of maintaining coherence in the times to come (Jones, 2010; Jones and Jenne, 2016; Le Thu, 2019; Ye, 2015). In addition to navigating the increasingly tense relations between the United States and China (Oba, 2019), ASEAN has been at the forefront of political and economic engagements with Japan, India, Australia, and the European Union (EU), amongst others.

ASEAN centrality as a concept has two major attributes. First, the concept emphasises the ‘actorness’ of the 10-member group of nations. Actorness has been conventionally associated with the role of the EU as a unified entity in international politics (Niemann and Bretherton, 2013; Rhinard and Sjöstedt, 2019; Toje, 2008; Drieskens, 2017). The Trends in Global Governance and Europe’s Role (TRIGGER) project defines actorness as the ‘capacity to behave actively and deliberately in relation to other actors in the international system’ (TRIGGER, 2019). Authors of the TRIGGER project note lack of agreement on a shared concept of actorness. Existing scholarship has advanced the study of actorness through case studies to identify its main attributes in practice. While the concept has been widely applied to the EU, it can be extended to

characterise the role of ASEAN as a distinct and unified actor in the international politics of the Asian region. As is the case with the EU, ASEAN is arguably in and of itself an entity, and its members act in concert and jointly in many international fora. Unlike the EU, however, there has been no formal delegation to ASEAN of representation of its individual member states or transfer of sovereignty in any policy domain. ASEAN's actorness, insofar as it overlaps with the conceptualisation of actorness applied to the EU's influence in the international political arena, has thus relied on the functional or informal processes in economic integration amongst its members. That is, ASEAN Member States have cooperated out of shared interests in furthering the group's economic integration. ASEAN Member States' ability to cooperate and to advance a joint position in various policy domains without any transfer or pooling of sovereignty is thus the hallmark of the 10-nation group's own brand of actorness. As a distinct actor in the international politics of Asia, ASEAN is notable for successfully engaging the region's external actors and for taking a leading role in fora that have formed Asia's institutional architecture. In this sense, ASEAN's actorness is unparalleled as a regional organisation originating in the Global South.

Second, ASEAN centrality is integrally linked to the prominence of the ASEAN Way in the mode of interaction and decision-making process of Asia's institutions. The ASEAN Way is the group's signature decision-making process that relies on consultation and consensus in managing differences and converging on common actions (Acharya, 1997, 1998; Goh, 2000, Narine, 1997; Yukawa, 2018). It reflects the normative dimension of ASEAN centrality, where informal practices of consultation and consensus are valued as the appropriate mode of interaction amongst governments in achieving cooperation. The ASEAN Way has been variously characterised as culture, norm, and identity, reflective of the Asian region. While subject to criticism about its continued viability as the prevalent mode of decision-making in Asia's institutional environment, such as in the formation of the ASEAN Regional Forum (ARF) (Narine, 1997), the term also highlights the significance of ASEAN at its core. In the early years of the post-Cold War period, ASEAN's experience with consultation and consensus was regarded as a way to build 'trust and confidence and inculcate habits of cooperation and consultation' amongst countries in the broader Asia-Pacific region (Snitwongse, 1995: 528). The ASEAN Way as a mode of interaction and decision-making diffused in subsequent years to Asia's regional institutions, including the ARF and the APEC forum. In APEC, for example, the Kuching Consensus in 1990 became the basis for ASEAN's participation (Elek and Soesastro, 2010; Hirano, 1996), and it solidified APEC's identity largely as a consultative forum that eschews mandatory directives for its members.

On the practice side of ASEAN centrality, and in particular in the formation of RCEP, is the group's visibility in the advancement of regionalism in Asia. Regionalism in Asia refers to the process of top-down, state-led institution building in the Asian region. Institution building by states on a wide range of

issues of importance to Asia, including security, political, and economic issues, has relied heavily on the 'ASEAN+' formula that has positioned ASEAN literally at the centre of institutional arrangements. ASEAN's engagement of major actors has taken the form of regional forums where this group of 10 nations has been pivotal for building cooperation with regional actors from within and outside Asia (Acharya, 1995, 2009).

Amongst the most prominent political fora are the ARF and the East Asia Summit (EAS). The ARF, established in 1994, consists of 27 members: ASEAN's 10 members; its 10 Dialogue Partners including Australia, Canada, China, the European Union, India, Japan, New Zealand, Korea, Russia, and the United States; Bangladesh, the Democratic People's Republic of Korea, Mongolia, Pakistan, Papua New Guinea, Sri Lanka, and Timor-Leste (Severino, 2009; Haacke, 2009). The ARF is devoted to dialogue on security issues in the Asia-Pacific. The EAS is an annual regional forum that held its first summit in 2005 (Akhir and Sudo, 2016; Malik, 2006; Kim, 2010). It evolved from the cooperation of ASEAN Plus Three following the Asian financial crisis in 1997. Through the East Asia Summit, ASEAN engages with its three Northeast Asian neighbours including China, Japan, and Korea, and together they have become a central forum for building regional cooperation in East Asia. ASEAN+3 and later ASEAN+6 countries sought cooperation on a wide range of issues of importance to East, Southeast, and South Asia, including but not limited to the prevention of financial crises and the spread of severe acute respiratory syndrome (SARS). The EAS now includes 18 members, bringing together the ASEAN+3 countries with Australia, India, New Zealand, Russia, and the United States.

4.2.2 ASEAN and RCEP

ASEAN centrality has been a prominent and long-standing feature of the international political economy of Asia, whether in the bottom-up process of regionalisation driven by private economic actors or in state-led efforts at regionalism through the formation of international institutions. It is therefore no surprise that the RCEP agreement is one that essentially involves ASEAN and its major trading partners in the region. Collectively forming the ASEAN+6 grouping, the 10 ASEAN members plus Australia, China, India, Japan, New Zealand, and Korea together started the negotiations of RCEP. After taking part in 28 of 31 rounds of negotiations in seven years, India withdrew from the RCEP during ASEAN's Bangkok Summit, in November 2019. The ASEAN Framework for Regional Comprehensive Economic Partnership announced (12 June 2012) at the 19th ASEAN Summit expressly invokes Article 1 Section 15 of the ASEAN Charter as a guide to 'maintain the centrality and proactive role of ASEAN as the primary driving force in its relations and cooperation with its external partner in a regional architecture'. At the signing of RCEP on 15 November 2020, the Joint Leaders' Statement included the following: 'We also note that the RCEP agreement is the most ambitious free

trade agreement initiated by ASEAN, which contributes to enhancing ASEAN centrality in regional frameworks and strengthening ASEAN cooperation with regional partners.⁴

In the course of the negotiations for RCEP, eight working groups covering the areas of cooperation in the agreement were chaired by representatives from ASEAN Member States (Pitakdumrongkit, 2016). The ASEAN Secretariat has also taken a prominent role in public outreach following the successful conclusion of negotiations. With the signing of the RCEP agreement taking place in the midst of the pandemic, the ASEAN Secretariat together with the East Asia Business Council (EABC) held a series of webinars to inform the business communities on how best to utilise the benefits of the RCEP agreement. The first of these focused on the trade in goods aspect of RCEP, promoting a public information campaign on issues such as tariffs, non-tariff measures, and trade remedies (ASEAN, 2021).

The way that RCEP negotiations were launched is indicative of ASEAN's role as a 'convener' in Asian regionalism (Mueller, 2019). By several accounts, it was the rivalry between China and Japan that advanced ASEAN's role in launching negotiations for the RCEP agreement. China and Japan each had competing visions for regionalism in the post-Asian financial crisis period. China proposed the East Asia Free Trade Area as its vision for building Asian regionalism. Harmonisation of rules of origin, economic cooperation, trade facilitation, and trade and investment liberalisation were particular areas of interest. Japan, on the other hand, advanced a proposal for the Comprehensive Economic Partnership of East Asia, whose objectives would be to deepen regional economic integration and to redress developmental gaps through economic cooperation, facilitation of trade and FDI facilitation, and liberalisation of trade and investment (Urata, 2008). The latter is more in line with what subsequently became RCEP.

As ASEAN had successfully concluded FTAs with all of its six future negotiating partners in RCEP (including India at the time), the 10-member group further secured its centrality in East Asia's institutional architecture for governing economic relations (Kumar, 2008). As disagreement deepened over the institutional form that East Asian regionalism would take, ASEAN's role emerged as the convener of the RCEP negotiations. At the 19th ASEAN summit in 2011, member states agreed on the objectives and Guiding Principles for the RCEP negotiations to commence in the following year (Hsu, 2015).

As elaborated earlier, ASEAN as a group has a unique position within RCEP, as ASEAN as a whole or its members have FTAs with all five negotiating partners. Table 4.1 provides a summary of the existing FTAs between ASEAN and its five RCEP negotiating partners and the date that each agreement went into effect. China is ASEAN's earliest FTA partner, with a framework agreement that was signed in 2002 that led to the signing of the ASEAN–China Free Trade Area (ACFTA) agreement in 2004. This agreement was implemented in July 2007. This was followed by the ASEAN–Korea FTA (AKFTA) and the

Table 4.1 ASEAN+5 FTAs

<i>Agreement name</i>	<i>Date in effect</i>
<i>ASEAN's FTAs with RCEP-negotiating parties</i>	
ASEAN–China Free Trade Area (ACFTA)	1 July 2005
ASEAN–Korea Free Trade Area (AKFTA)	1 June 2007
ASEAN–Japan Comprehensive Economic Partnership (AJCEP)	1 December 2008
ASEAN–Australia–New Zealand Free Trade Area (AANZFTA)	1 January 2010
<i>Australia's FTAs with ASEAN members</i>	
Singapore – Australia (SAFTA)	28 July 2003
Thailand – Australia (TAFTA)	1 January 2005
Malaysia – Australia (MAFTA)	1 January 2013
Indonesia–Australia Comprehensive Economic Partnership Agreement (IA-CEPA)	5 July 2020
<i>Australia's FTAs with non-ASEAN RCEP-negotiating parties</i>	
Australia–New Zealand (ANZCERTA or CER)	1 January 1983
Korea–Australia (KAFTA)	12 December 2014
Japan–Australia (JAEPA)	15 January 2015
China–Australia (ChAFTA)	20 December 2015
<i>China's FTAs with ASEAN members</i>	
China–Cambodia FTA	1 January 2022
China–Singapore FTA	1 January 2009
<i>China's FTAs with non-ASEAN RCEP-negotiating parties</i>	
China–New Zealand Free Trade Agreement	1 October 2008
China–Korea Free Trade Agreement	20 December 2015
China–Australia Free Trade Agreement (ChAFTA)	20 December 2015
<i>Japan's FTAs with ASEAN members</i>	
Japan–Singapore Economic Partnership Agreement	30 November 2002
Japan–Indonesia Economic Partnership Agreement	1 July 2008
Japan–Malaysia Economic Partnership Agreement	13 July 2006
Japan–Thailand Economic Partnership Agreement	1 November 2007
Japan–Brunei Economic Partnership Agreement	31 July 2008
Japan–Philippines Economic Partnership Agreement	11 December 2008
Japan–Vietnam Economic Partnership Agreement	1 October 2009
<i>Japan's FTAs with non-ASEAN RCEP-negotiating parties</i>	
Japan–Australia Economic Partnership Agreement (JAEPA)	15 January 2015
<i>Korea's FTAs with ASEAN members</i>	
Korea–Singapore Free Trade Agreement	2 March 2006
Korea–Vietnam Free Trade Agreement	20 December 2015
<i>Korea's FTAs with non-ASEAN RCEP-negotiating parties</i>	
Korea–China Free Trade Agreement	20 December 2015
Korea–Australia Free Trade Agreement	12 December 2014
Korea–New Zealand Free Trade Agreement	20 December 2015
<i>New Zealand's FTAs with ASEAN members</i>	
New Zealand–Singapore Closer Economic Partnership (upgrade)	1 January 2001 1 January 2020
New Zealand–Thailand Closer Economic Partnership	July 2005
New Zealand–Malaysia Free Trade Agreement	August 2010
<i>New Zealand's FTAs with non-ASEAN RCEP-negotiating parties</i>	
New Zealand–Australia Closer Economic Relations (CER)	1 January 1983
New Zealand–China Free Trade Agreement	1 October 2008
New Zealand–Korea Free Trade Agreement	20 December 2015

Abbreviations: ASEAN = Association of Southeast Asian Nations; RCEP = Regional Comprehensive Economic Partnership.

Sources: Australia: www.dfat.gov.au/trade/agreements/trade-agreements

China: <http://fta.mofcom.gov.cn/topic/ensingapore.shtml>,

<https://commerce.gov.in/international-trade/trade-agreements/>

Japan: www.mofa.go.jp/policy/economy/fta/index.html

Korea: <https://english.motie.go.kr/en/if/ftanetwork/ftanetwork.jsp>

New Zealand: www.mfat.govt.nz/en/trade/free-trade-agreements/

ASEAN–Japan Comprehensive Economic Partnership (AJCEP) agreements, which entered into effect in 2007 and 2008, respectively. In 2010, ASEAN’s FTA with Australia and New Zealand and the ASEAN–Australia–New Zealand Free Trade Area (AANZFTA) entered into effect. ASEAN’s existing agreements with the five RCEP-negotiating partners are thus evidence of its centrality within this group.

Table 4.1 shows FTAs currently in effect (i) amongst the RCEP-negotiating parties outside ASEAN and (ii) between the non-ASEAN RCEP-negotiating parties and individual ASEAN members. Australia and Korea have existing agreements with four and three, respectively, of the five non-ASEAN countries, China and New Zealand both have existing agreements with three non-ASEAN countries, and Japan has an existing trade agreements with Australia. The network amongst the ASEAN+5 countries formed by their existing trade agreements shows that ASEAN occupies an important position amongst the negotiating parties as the only party to hold links with all other parties.

Australia, China, Japan, Korea, and New Zealand also have FTAs in effect with individual ASEAN members. Japan has the largest number of FTAs with individual ASEAN members, with agreements in effect with seven ASEAN members: Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. Australia has FTAs in effect with four ASEAN members: Indonesia, Malaysia, Singapore, and Thailand. New Zealand has agreements with three ASEAN members: Malaysia, Singapore, and Thailand. Both China and Korea have agreements with two ASEAN members: China with Cambodia and Singapore, and Korea with Singapore and Vietnam. The FTAs with individual ASEAN members serve to enhance the ASEAN-level FTA, providing for the tailoring of trade liberalisation for specific bilateral relationships and possibly going beyond ASEAN-level commitments.

Table 4.2 presents the data organised by individual ASEAN members. Table 4.2 shows that Singapore is the only ASEAN member to have an individual FTA with all five non-ASEAN RCEP-negotiating parties. Singapore also has the longest history of FTAs, with the New Zealand–Singapore Closer Economic Partnership in effect since 2001 (and upgraded in 2020). The Japan–Singapore FTA dates to 2002, and the Singapore–Australia FTA has been in effect since 2003. Malaysia has three FTAs in effect, with Australia, Japan, and New Zealand. Thailand has three FTAs in effect, with Australia, Japan, and New Zealand. Indonesia and Vietnam have two FTAs in effect: Indonesia with Australia and Japan, and Vietnam with Japan and Korea. Brunei, Cambodia, and the Philippines each have one FTA in effect: Brunei with Japan, Cambodia with China (the newest, in effect since 1 January 2022), and the Philippines with Japan.

There are a total of 18 FTAs in effect between individual ASEAN members and its give negotiating parties. There are four ASEAN-level FTAs with RCEP-negotiating parties, and 16 FTAs are in effect amongst the non-ASEAN RCEP-negotiating parties. Well over half (22) of a total of 38 FTAs in effect between all RCEP-negotiating parties include either ASEAN as a group or

Table 4.2 ASEAN Members' FTAs with RCEP-Negotiating Parties

<i>Agreement name</i>	<i>Date in effect</i>
<i>Singapore</i>	
Singapore–Australia FTA	28 July 2003
China–Singapore FTA	1 January 2009
Japan–Singapore Economic Partnership Agreement	30 November 2002
Korea–Singapore Free Trade Agreement	2 March 2006
New Zealand–Singapore Closer Economic Partnership (upgrade)	1 January 2001 1 January 2020
<i>Malaysia</i>	
Malaysia–Australia FTA	1 January 2013
Japan–Malaysia Economic Partnership Agreement	13 July 2006
New Zealand–Malaysia Free Trade Agreement	August 2010
<i>Thailand</i>	
Thailand–Australia FTA	1 January 2005
Japan–Thailand Economic Partnership Agreement	1 November 2007
New Zealand–Thailand Closer Economic Partnership	July 2005
<i>Indonesia</i>	
Indonesia–Australia Comprehensive Economic Partnership Agreement	5 July 2020
Japan–Indonesia Economic Partnership Agreement	1 July 2008
<i>Vietnam</i>	
Japan–Vietnam Economic Partnership Agreement	1 October 2009
Korea–Vietnam Free Trade Agreement	20 December 2015
<i>Brunei</i>	
Japan–Brunei Economic Partnership Agreement	31 July 2008
<i>Cambodia</i>	
China–Cambodia FTA	1 January 2022
<i>The Philippines</i>	
Japan–Philippines Economic Partnership Agreement	11 December 2008

Abbreviation: FTA = free trade agreement.

Sources:

Australia: www.dfat.gov.au/trade/agreements/trade-agreements

China: <http://fta.mofcom.gov.cn/topic/ensingapore.shtml>

Japan: www.mofa.go.jp/policy/economy/fta/index.html

Korea: <https://english.motie.go.kr/en/if/ftanetwork/ftanetwork.jsp>

New Zealand: www.mfat.govt.nz/en/trade/free-trade-agreements/

one of its members. This is further evidence of ASEAN centrality in the RCEP negotiations, with ASEAN and its members' FTAs forming a strong foundation for the commitments that are delivered in the agreement. The substantial number of overall FTAs in effect between the RCEP-negotiating parties is also an indication of the potential of RCEP to consolidate the myriad bilateral agreements and to provide a significant degree of harmonisation in commitments. Such coordination through an umbrella agreement such as the RCEP is likely to make trade more efficient and streamlined for firms engaged in cross-border trade.

Given the existing trade agreements within the RCEP-negotiating parties, RCEP as a mega-FTA can thus be viewed as a consolidation of existing agreements and addressing the problems and inconveniences of overlapping agreements (Wilson, 2015). Within the negotiations themselves, ASEAN has been depicted as a ‘fulcrum and norm provider’ (Mueller, 2019), although there is significant scepticism about ASEAN’s actual influence on the institutional design of RCEP. ASEAN also had a substantive effect on the RCEP’s provisions. Given that many of ASEAN’s members are developing countries, the RCEP agreement includes provisions for special and differential treatment (SDT) to accommodate the varying levels of development amongst ASEAN members, in particular the CLMV countries – Cambodia, Lao PDR, Myanmar, and Vietnam. The SDT provision was not included in the Trans-Pacific Partnership (TPP) agreement and others that included negotiating parties from the Asian region. The SDT clause has been extended as well to ASEAN’s FTAs with the five RCEP-negotiating partners, thus acknowledging ASEAN’s centrality in RCEP (Pitakdumrongkit, 2016) and actively accommodating the needs emanating from differences in the level of development amongst ASEAN members.

4.3 RCEP and the ASEAN Economic Community

This section examines the link between RCEP and the ASEAN Economic Community (AEC), ASEAN’s most ambitious integration project to date. The AEC is envisioned as a single market and production base comprising ASEAN members, providing for free movement of goods and services, investment and capital, and high-skilled labour (Chia, 2014; Das et al., 2013; Wei-Yen, 2005). Investment, in particular, was a key motivation for the formation of the AEC and the development of the ASEAN region into a single production base. Efforts towards the AEC built on ASEAN’s ‘Strategy for Collective FDI-dependent and Export-oriented Industrialization’ adopted at the 3rd ASEAN Summit in 1987. Rodolfo Severino, Secretary General of ASEAN from 1998 to 2002, noted the deep concern of ASEAN’s leaders concerning the group’s ability to attract investment, due in large part to the emergence of and competition from India and especially China as major destinations for foreign investment (Severino, 2006). Severino argued that leaders of ASEAN Member States were convinced of ASEAN’s imperative to deepen economic integration to be competitive with China and India, and such integration efforts would enhance ASEAN’s credibility and attractiveness to investors.

RCEP holds a great promise for promoting the progress of the AEC. On the governance side, commitments under RCEP have a greater depth than existing ASEAN FTAs and the ASEAN Trade in Goods Agreement (ATIGA), as RCEP contains commitments in more issue areas such as investment, services, procurement, competition, and intellectual property rights (IPR). RCEP’s coverage of competition policy and IPR is included in ‘Pillar B. Competitive Economic Region’ of the *ASEAN Economic Community Blueprint*, which was

adopted at the 13th ASEAN Summit in November 2007. Such overlapping scope across RCEP and the AEC indicates strong potential for institutional complementarity. In addition, as RCEP consolidates existing FTAs amongst its members, the RCEP agreement provides for greater harmonisation of rules and regulations governing trade and investment and promotes ASEAN regional integration through the AEC. RCEP further reduces tariffs between ASEAN and its five RCEP partners and consolidates rules of origin (ROO) requirements amongst them. Both aspects of RCEP have strong potential for facilitating trade and production in the AEC and ASEAN regional integration more broadly.

4.3.1 Formation of the ASEAN Economic Community

The AEC is the 10-member group's plan for deeper economic integration, which has been in progress for several decades. The AEC is the most ambitious and advanced economic integration project to date in the Asian region. It is the culmination of decades of cooperation amongst ASEAN members, beginning with commitments to economic cooperation by member states at the 1st ASEAN Summit in 1976.⁵ By 1992, ASEAN members had successfully negotiated, signed, and put into effect the establishment of the ASEAN Free Trade Area (AFTA) (Akrasane and Stifel, 1992; Bowles and MacLean, 1996; Yue, 1998). On 28 January 1992, the AFTA agreement was signed by the six then current ASEAN members – Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand. AFTA welcomed new members in tandem with the growth of ASEAN membership. Vietnam acceded to AFTA in 1995, Lao PDR and Myanmar in 1997, and Cambodia joined in 1999. These latter four newcomers, together comprising the CLMV countries, were given longer transition periods to fulfil AFTA commitments in tariff reduction. AFTA sought to make ASEAN more competitive as a production base for the global market, through the elimination of tariffs and non-tariff barriers (NTBs) amongst members and by attracting more foreign direct investment to the ASEAN region. AFTA was the first agreement in an increasing trend towards regionalism, that is, state-led institution-building through FTAs in Asia (Kim, 2015; Calvo-Pardo et al., 2011; Ishikawa, 2021). It sought to leverage the potential of the ASEAN region as a production base, and, to this end, governments coordinated through trade agreements to support firms on the ground with the appropriate institutional infrastructure. State-led coordination on liberalising and moving towards harmonisation of behind-the-border regulatory trade measures was particularly important in this endeavour, as tariffs had reached historic lows by this time.

With the experience of AFTA, ASEAN Member States in 2003 began work on deepening regional integration with negotiations for the establishment of the AEC. The *ASEAN Economic Community Blueprint* identified the goals to be achieved by member states by the time the AEC was to be launched in 2015. It envisaged four inter-related and mutually reinforcing key

characteristics of the ASEAN Economic Community: (i) a single market and production base, (ii) a highly competitive economic region, (iii) a region of equitable economic development, and (iv) a region fully integrated into the global economy (ASEAN Secretariat, 2008). In the years preceding the adoption of the *Blueprint*, ASEAN Member States had achieved steady success in trade liberalisation. The ASEAN Free Trade Area agreement, combined with the ASEAN Trade in Goods Agreement (ATIGA) and the ASEAN Agreement on the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area (AFTA), gradually reduced tariffs amongst ASEAN Member States (ASEAN Secretariat, 1992). For the original six members of ASEAN – Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand – tariffs averaged less than 5% when AFTA came into effect. Tariffs declined to almost 0% and covered 99.65% by 2010, and FTA utilisation rates also increased (Shimizu, 2021). For the newcomers, the CLMV countries, tariffs on 98.96% of goods traded fell to the range 0% to 5% (Shimizu, 2021).

In 2009, ASEAN Member State leaders announced the Cha-am Hua Hin Declaration on the Roadmap for the ASEAN Community (2009–2015) (ASEAN Secretariat, 2009). The announcement of the Roadmap invoked the previous ASEAN Vision 2020 adopted in 1997 at the 2nd informal Summit of ASEAN Heads of State/Government in Kuala Lumpur, Malaysia (ASEAN Secretariat, 1997). It also recognised the Declaration of ASEAN Concord II (Bali Concord II) of 2003, which sought to realise ASEAN Vision 2020 goals with the establishment of an ASEAN Community. The Declaration envisioned the establishment of an ASEAN Community comprising three pillars: political and security cooperation, economic cooperation, and sociocultural cooperation. These would be ‘closely intertwined and mutually reinforcing for the purpose of ensuring durable peace, stability and shared prosperity in the region’ (ASEAN Secretariat, 2012). In advancing regional integration along these lines, the 2009 Roadmap also adopted the *ASEAN Political-Security Community Blueprint*, the *ASEAN Economic Community Blueprint*, and the *ASEAN Socio-Cultural Community Blueprint*.

The 2009 Roadmap was subsequently updated in 2015 with *ASEAN 2025: Forging Ahead Together*, which was introduced at the 27th ASEAN Summit in Kuala Lumpur on 22 November 2015. Announced just days ahead of the official launch of the AEC, *ASEAN 2025: Forging Ahead Together* was presented as the *ASEAN Community’s Post 2015 Vision* (ASEAN Secretariat, 2015). The Kuala Lumpur Declaration included the *ASEAN Community Vision 2025*, the *ASEAN Political-Security Community Blueprint 2025*, the *ASEAN Economic Community Blueprint 2025*, and the *ASEAN Socio-Cultural Community Blueprint 2025*. Also adopted at the 27th ASEAN Summit in 2015 was the *Kuala Lumpur Declaration on the Establishment of the ASEAN Community*. These were landmark documents that signalled ASEAN Member States’ commitment to deepening regional integration in the long term. Building on the AFTA agreement, the AEC commitments went beyond tariffs and non-tariff

barriers to include not only the free movement of goods but also services, capital, investment, and skilled labour. In this aspect, the AEC is ASEAN's move towards a common market.

The AEC was officially launched on December 2015, when the RCEP negotiations were well under way, and RCEP negotiations proceeded in parallel with the first years of the AEC. Reports from the ASEAN Summits and East Asia Summits note the synergistic potential of the relationship between the AEC and RCEP. The 2012 ASEAN Summit, for example, affirmed the potential of RCEP to strengthen ASEAN's commitment to global and regional economic partnerships. ASEAN's mid-term review of the AEC Blueprint 2021 expresses optimism for RCEP to strengthen the objective of a 'Global ASEAN.'

The establishment of the AEC was a monumental achievement for ASEAN, with decades of intra-ASEAN cooperation culminating in the most advanced regional integration project in Asia. Already in January 2015, ASEAN Member States had succeeded via the AFTA agreement in eliminating virtually all tariffs amongst all ASEAN members, moving closer to the goal of achieving a single market and production base as delineated in the *AEC Blueprint 2015*. The six original ASEAN members had removed intra-regional tariffs for 99.2% of all tariff lines by 1 January 2015 (Shimizu, 2021).⁶ For the CLMV countries, 90.86% of goods were traded duty free within AFTA. The elimination of tariffs on some goods from the CLMV countries, not exceeding 7% of tariff lines, was extended to 2018. Overall, 95.99% of goods within ASEAN were traded duty free, the highest amongst FTA member states in East Asia. ASEAN members also took this opportunity to improve rules of origin requirements, draft a self-certification scheme, and seek customs integration through the formation of the ASEAN Single Window (ASW). By 2019, all 10 ASEAN Member States participated in the live operation of the ASW. Official pronouncements show that ASEAN Member States saw RCEP as a positive force for regional integration. ASEAN's Dialogue Partners in the East Asia Summit also saw RCEP as supporting the achievement of the AEC and the deepening of regional economic integration.

RCEP's substantive provisions indicate that the mega-FTA is a larger and more advanced trade agreement that provides benefits greater than the sum of existing ASEAN+1 FTAs, that is ASEAN's bilateral FTAs with the six negotiating partners. The legal text of RCEP contains 20 substantive chapters and four annexes. The annexes include member countries' individual tariff schedules (Annex 1), Schedules of Specific Commitments for Services (Annex II), Schedules of Reservations and Non-Conforming Measures for Services and Investment (Annex III), and Schedules of Specific Commitments on Temporary Movement of Natural Persons (Annex IV).

The chapters cover, amongst others: Trade in Goods (Chapter 2); Rules of Origin (Chapter 3); Customs Procedures and Trade Facilitation (Chapter 4); Sanitary and Phytosanitary Measures (Chapter 5); Standards, Technical Regulations, and Conformity Assessment Procedures (Chapter 6); Trade Remedies

(Chapter 7); Trade in Services (Chapter 8); Temporary Movement of Natural Persons (Chapter 9); Investment (Chapter 10); Intellectual Property (Chapter 11); Electronic Commerce (Chapter 12); Competition (Chapter 13); Small and Medium Enterprises (Chapter 14); Economic and Technical Cooperation (Chapter 15); Government Procurement (Chapter 16); and Dispute Settlement (Chapter 19). Chapter 20 on Final Provisions specifies the RCEP's relations with other agreements such as those under the WTO, conditions for entry into force of RCEP, and withdrawal and accession provisions. As well as including all the substantive issues included in current FTAs between ASEAN and RCEP member countries under one umbrella agreement, Shimizu (2021) notes that Government Procurement is a new substantive chapter that is not included in these existing agreements.

4.3.2 Depth in RCEP Provisions

RCEP and its impact on the AEC can be examined in the context of ASEAN's existing FTAs and FTAs amongst the RCEP-negotiating parties. Table 4.3 utilises data from the Design of Trade Agreements (DESTA) database on the depth of trade agreements (Dür et al., 2014).⁷ Table 4.4 provides information on the additive index that DESTA uses, which is constructed from the content of provisions across seven key areas of interest to the mapping project. Each provision is coded as 1 if the FTA includes such a provision and 0 otherwise. The first – *FTA* – indicates whether the trade agreement provides for all tariffs (with limited exceptions) to be reduced to zero at some point. It captures the extent to which signatories intend for the agreement to create a full free trade area amongst members. The remaining six negotiating areas – Standards, Investment, Services, Public Procurement, Competition, and Intellectual Property Rights (IPR) – are captured by the index to assess trade cooperation beyond tariff concessions. For each negotiating area, the DESTA database indicates whether the agreement contains any 'substantive' provisions such as an explicit national treatment provision in the Services chapter (distinguishable from a hortatory pronouncement that opening services market is desirable). The seven-point index is constructed by adding up the values (0 or 1) across the seven areas from the DESTA mapping.⁸

4.3.3 Specific Benefits of RCEP for the AEC

On how the provisions of RCEP can promote the integration project of the AEC, the agreement can facilitate the harmonisation of rules and regulations across the existing FTAs that ASEAN has with the RCEP partners. This will in effect multilateralise the rules that have been included in RCEP and overlap with existing FTAs. Such harmonisation will build and enhance strong links with the existing WTO agreements.

The specific benefits that RCEP can provide for the progress of the AEC can be observed in overlapping areas of governance between the two institutions.

Table 4.3 Depth of FTAs of RCEP-Negotiating Parties

<i>Agreement</i>	<i>Year signed</i>	<i>FTA</i>	<i>Standards</i>	<i>Investment</i>	<i>Services</i>	<i>Public procurement</i>	<i>Competition</i>	<i>IPR</i>	<i>Depth (DESTA)</i>
ASEAN FTA	1992	1	1	0	0	0	0	0	2
ATIGA	2009	1	1	0	0	0	0	0	2
ASEAN–China	2007	1	1	0	1	0	0	0	3
ASEAN–Japan	2008	1	1	1	0	0	0	0	3
ASEAN–Korea	2007	1	1	0	1	0	0	0	3
China–New Zealand	2008	1	1	1	1	0	0	0	4
Australia–New Zealand (ANZCERTA)	1988 2015	1 1	1 1	0 1	1 1	1 0	0 0	0 1	4 5
Australia–China									
ASEAN–Australia–New Zealand (AANZFTA)	2009 2015	1 1	1 1	1 1	1 1	0 0	1 1	1 1	6 6
China–Korea									
Australia–Japan	2014	1	1	1	1	1	1	1	7
Australia–Korea	2014	1	1	1	1	1	1	1	7
Korea–New Zealand	2015	1	1	1	1	1	1	1	7
RCEP	2021	1	1	1	1	1	1	1	7

Abbreviations: FTA = free trade agreement, IPR = intellectual property rights.

Source: DESTA, author coding for RCEP.

Table 4.4 *ASEAN Economic Community Blueprint 2015*

A.	Single Market and Production Base
A1	Free Flow of Goods
A2	Free Flow of Services
A3	Free Flow of Investment
A4	Freeer Flow of Capital
A5	Free Flow of Skilled Labour
A6	Priority Integration Sectors
A7	Food, Agriculture, and Forestry
B.	Competitive Economic Region
B1	Competition Policy
B2	Consumer Protection
B3	Intellectual Property Rights
B4	Infrastructure Development
B5	Taxation
B6	E-Commerce
C.	Equitable Economic Development
C1	SME development
C2	Initiative for ASEAN Integration
D.	Integration into the Global Economy
D1	Coherent Approach Towards External Economic Relations
D2	Enhanced Participation in Global Supply Networks

Tables 4.4 and 4.5 show the development of the AEC through two of its landmark documents, the *AEC Blueprint 2015*, adopted in 2007, and *AEC 2025: Forging Ahead*, adopted in 2015 as the AEC was launched. They show the scope of governance sought in the AEC at its beginning and in the tenth year. The *Blueprint* outlining the first set of goals for the Community, when compared with the analysis of FTA depth provided in Table 4.3, shows that the AEC seeks to expand the scope of trade governance. While both AFTA and ATIGA envisioned a free trade area with considerable liberalisation in standards, the *AEC Blueprint* is more ambitious, moving beyond tariff reductions to cover investment (A3), services (A2), competition policy (B1), and intellectual property rights (B3), which are four areas covered in the measurement of depth according to the DESTA project. Two areas of the *Blueprint* also covered by RCEP are commitments concerning Electronic Commerce (Chapter 12 in RCEP, B6 in *AEC Blueprint*) and Small and Medium Enterprises (Chapter 14 in RCEP, C1 in *AEC Blueprint*). Finally, provisions with commitments in public procurement in RCEP also commit ASEAN members, which will in turn have consequences for trade liberalisation within the AEC as well.

Areas of cooperation, coordination, and integration that are outlined in the next landmark document, *ASEAN 2025: Forging Ahead Together*, build on the *AEC Blueprint 2015* to deepen and expand ASEAN's integration project. The goals for 2025 comprise five 'characteristics' or areas of cooperation and integration: (i) a highly integrated and cohesive economy; (ii) a competitive, innovative, and dynamic ASEAN; (iii) enhanced connectivity and sectoral

Table 4.5 ASEAN 2025: Forging Ahead Together – ASEAN Economic Community Blueprint 2025

A.	Highly Integrated and Cohesive Economy
A1	Trade in Goods
A2	Trade in Services
A3	Investment Environment
A4	Financial Integration, Financial Inclusion, and Financial Stability
A5	Facilitating Movement of Skilled Labour and Business Visitors
A6	Enhancing Participation in Global Value Chains
B.	A Competitive, Innovative, and Dynamic ASEAN
B1	Effective Competition Policy
B2	Consumer Protection
B3	Strengthening Intellectual Property Rights Cooperation
B4	Productivity-Driven Growth, Innovation, Research and Development, and Technology Commercialisation
B5	Taxation Cooperation
B6	Good Governance
B7	Effective, Efficient, Coherent and Responsive Regulations, and Good Regulatory Practice
B8	Sustainable Economic Development
B9	Global Megatrends and Emerging Trade-Related Issues
C.	Enhanced Connectivity and Sectoral Cooperation
C1	Transport
C2	Information and Communications Technology
C3	E-Commerce
C4	Energy
C5	Food, Agriculture, and Forestry
C6	Tourism
C7	Healthcare
C8	Minerals
C9	Science and Technology
D.	A Resilient, Inclusive, People-Oriented, and People-Centred ASEAN
D1	Strengthening the Role of Micro, Small, and Medium Enterprises
D2	Strengthening the Role of the Private Sector
D3	Public–Private Partnerships
D4	Narrowing the Development Gap
D5	Contribution of Stakeholders on Regional Integration Efforts
E.	A Global ASEAN

Steady progress towards integrating the region into the global economy through FTAs and comprehensive economic partnership agreements (CEPs), etc.

cooperation; (iv) a resilient, inclusive, people-oriented, and people-centred ASEAN; and (v) a global ASEAN (ASEAN Secretariat, 2015).

With respect to the progress of the ASEAN Economic Community, RCEP has two important benefits. First, it reduces tariffs for ASEAN and its five final negotiating parties – Australia, China, Japan, Korea, and New Zealand. ASEAN on its own completed its journey to zero tariffs in 2018 under the ASEAN FTA and ATIGA. The tariffs on 600 products from CLMV countries that had been postponed for 3 years were finally eliminated as of 1

January 2018 (Shimizu, 2021). Thus, with ASEAN member countries' fulfilling their zero tariff commitments, RCEP then provides the additional benefit of tariff reductions with the five non-ASEAN members of RCEP.

Second, RCEP also provides for a consolidation or harmonisation of ROO requirements amongst the 15 member states, where all traded goods are subject to common rules of origin and rules of cumulation. Provisions on rules of origin are found in Chapter 3 of RCEP, immediately following Chapter 2 on Trade in Goods. Article 3.4 on Cumulation provides that:

[G]oods and materials which comply with the origin requirements provided in Article 3.2 (Originating Goods), and which are used in another Party as materials in the production of another good or material, shall be considered as originating in the Party where working or processing of the finished good or material has taken place.

All production undertaken and value added to a good within RCEP member countries thus qualify for preferential treatment. Firms may thus employ intermediate goods imported from RCEP partners, and the final product would retain originating status that qualifies for trade preferences under the agreement.

The cumulation provision in RCEP provides for diagonal cumulation, where firms can import intermediate goods from any trade partner within the same FTA if the imported goods themselves meet the criteria for originating status, that is they are produced under the same ROO and rules of cumulation. Cumulation provisions in FTAs can be bilateral, diagonal, or cumulative (Bombarda and Gamberoni, 2013). Under bilateral cumulation, firms can employ intermediate goods produced domestically or in the FTA partner importing its goods, and under full accumulation, firms can utilise intermediate goods imported from FTA partners irrespective of whether the goods themselves qualify for preferential treatment. While the above paragraph 1 of Article 3.4 provided for diagonal cumulation at the time that RCEP was signed, paragraph 2 of Article 3.4 also provides for the possibility of extending to full cumulation, with a review for this purpose to commence as RCEP enters into effect.⁹ If the RCEP partners agree to full cumulation, then any goods traded within RCEP would fulfil the origin criterion.

Scholarship has noted the constraining effects of rules of origin provisions in trade agreements, especially in processes of multistage production (Rodriguez, 2001) and supply chains (Tsirekidze, 2021; Ju and Krishna, 2005). Cumulation provisions, at least diagonal if not full cumulation provisions, can greatly enhance trade for trade agreement partners (Bombarda and Gamberoni, 2013). For the RCEP members, including ASEAN and its five RCEP partners, the cumulation provision, whether in diagonal or full form, is likely to greatly facilitate, enhance, and expand regional supply chains, where production is fragmented across countries and there exists extensive trade in intermediate goods. Cumulation in ROO facilitates not only production but also

trade logistics by easing the movement of goods in the ASEAN region and also with its RCEP partners. Regional distribution hubs are likely to expand as a result (Kang et al., 2020).

Article 3.5 provides for the calculation of regional value content based on the cumulation provision. Scholarship has argued that provisions on value-added content in trade agreements may incentivise firms to raise their output prices and thus hurt the consumer (Mukunoki and Okoshi, 2021). Studies to date, however, have shown that the RCEP's co-sharing rule is relatively less restrictive (Thangavelu, Narjoko, et al., 2021; Thangavelu, Urata, et al., 2021), as firms are required to show a regional value content level of 40% or a change in tariff heading at the four-digit harmonised System code level of classification. With this less restrictive and single ROO framework for the RCEP signatories, the agreement is likely to greatly facilitate the flows of goods and especially the flow of intermediate goods that are vital for the operation of production networks in ASEAN and the Asian region more broadly. Multinational firms from ASEAN's RCEP partners, especially China, Japan, and Korea, have invested heavily in the ASEAN region over the years, from Japan in the late 1950s to China and Korea in recent years. The combined effect of reduced tariffs and a single ROO framework, along with the other commitments in RCEP in areas such as trade facilitation and investment, is likely to further reinforce ASEAN members' commitments on the AEC and thus facilitate and perhaps even accelerate the progress of the AEC as a single market and production base.

More broadly amongst the RCEP partners, joint statements from the RCEP-negotiating parties have also emphasised the potential of the agreement to boost business confidence, promote inequality, and deepen regional integration. This may be a consequence of the harmonisation of rules and regulations, which would greatly facilitate trade and investment across the RCEP Member States. Finally, RCEP is also viewed by ASEAN and others to be critical to pandemic response and economic recovery (Thangavelu, Urata, et al., 2021; Business Standard, 2022).

4.4 Conclusion: Challenges and Opportunities

This chapter examined ASEAN's role in RCEP. RCEP as the largest trade agreement to date has been shaped broadly by the systemic context, in which trade governance has shifted from the multilateral trade regime under the WTO to free trade agreements and where the geopolitics of Asia has cast a shadow on the progress of regional integration efforts. The analysis in the first part of this chapter highlighted the centrality of ASEAN, in both concept and practice, in the formation of RCEP. In concept, ASEAN centrality is about the capacity of the ten-member group to help launch negotiations for the RCEP agreement and to shape the substantive contours of RCEP. In practice, the RCEP agreement consolidates and significantly unravels the numerous overlapping trade agreements between ASEAN, 38 in all between individual

ASEAN members and its five RCEP partners –Australia, China, Japan, Korea, and New Zealand.

Section 4.2 examined the relationship between ASEAN's latest regional integration project, the ASEAN Economic Community (AEC), and RCEP. First, RCEP provides for further tariff liberalisation between ASEAN members and its five RCEP partners. This expands the zone of preferential treatment for goods exported from ASEAN and other RCEP members, and the sheer size of this preferential zone makes RCEP the largest trade agreement currently in existence. The total size of the markets covered by RCEP is also likely to attract new members. Second, RCEP is especially notable for consolidating rules of origin requirements. RCEP provides for diagonal cumulation and common rules of cumulation for agreement partners. Such common rules concerning the origin requirements of traded goods and how value added may be cumulated across member countries is likely to greatly facilitate production and trade along regional supply chains. Both tariff liberalisation and common rules of origin and cumulation are likely to facilitate the progress of the AEC and promote regional production networks.

Moving forward, the opportunities provided by RCEP to promote and enhance ASEAN regional integration are also likely to be shaped by two new developments that provide additional opportunities and challenges in managing trade and investment in the region and Asia more broadly. The first development concerns the other mega-FTA in the Asian region, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The CPTPP is a mega-FTA whose 11 signatories include Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. It was signed ahead of the RCEP agreement, on 8 March 2018, and entered into force on 30 December 2018. The CPTPP is the successor to the Trans-Pacific Partnership (TPP) agreement, signed on 4 February 2016 but which did not enter into force due to the withdrawal of the United States by President Donald Trump when he entered office in January 2017.

Seven of the 11 CPTPP members are also members of RCEP: Australia, Brunei, Japan, Malaysia, New Zealand, Singapore, and Vietnam. The CPTPP also includes 4 of the 10 ASEAN members, Brunei, Malaysia, Singapore, and Vietnam, and three non-ASEAN RCEP members, Australia, Japan, and New Zealand. The RCEP member states with overlapping membership in the CPTPP have the potential to be influential, for signatories both in agreements and for outside trade partners. Australia, Japan, and New Zealand as ASEAN+ countries and ASEAN members Brunei, Malaysia, Singapore, and Vietnam can take the important role of mediating between and finding commonalities that can foster cooperation across the two mega-FTAs.

To trade partners outside these two agreements, FTAs with these seven countries can provide important market access to the two preferential trade zones. The overlapping memberships also indicate that within ASEAN, Brunei, Malaysia, Singapore, and Vietnam are well positioned to reap the economic benefits of both agreements in tandem, while Australia, Japan, and New

Zealand are similarly well positioned as ASEAN+6 countries (minus India). Japan is also the only country amongst the ASEAN+3 grouping to have membership in both the CPTPP and RCEP and thus is in a favourable position to influence the implementation trajectories of both agreements.

Finally, US President Biden unveiled in Tokyo on 23 May 2022, during his first trip to Asia as President, the Indo-Pacific Economic Framework for Prosperity (IPEF). The IPEF is the latest and a landmark economic initiative from the Biden administration, with 13 countries participating at the outset and an open invitation for other countries to join.¹⁰ The US is joined by other members of the Quad, including Australia, Japan, and, in particular, India, which had withdrawn from the RCEP negotiations. The framework signals the US' strong engagement with Asia and the reversal of the policy stance of the Trump administration. IPEF includes 11 of the 15 RCEP partners. RCEP members that joined the IPEF include Australia, Brunei, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and Vietnam. The RCEP members that were not amongst the founding members of the IPEF are Cambodia, China, Lao PDR, and Myanmar. The IPEF's 14 founding member states comprise 40% of world GDP, and it is an economic bloc that is larger in economic size than RCEP (White House, 2022b).

The framework proposes four areas of cooperation: the digital economy (Connected Economy), resilience in supply chains (Resilient Economy), clean energy initiatives (Clean Economy), and anti-corruption measures (Fair Economy) (White House, 2022b). Countries participating in the IPEF are not required to commit to all four areas but rather may choose areas for negotiating agreements. US Commerce Secretary Gina M. Raimondo noted that 'It is by any account the most significant international economic engagement that the United States has ever had in this region' in referring to the IPEF (New York Times, 2022). The IPEF is the centrepiece of the Biden administration's Asia strategy, and it is both a replacement of the TPP and a response to RCEP. While oriented towards economic governance, the IPEF also reflects the US response to China's pervasive presence in the region's institutional architecture and US' absence in the region in recent years. China responded negatively to the announcement of the framework, labelling it as a 'closed and exclusive clique' (CNN, 2022).

The relationship between RCEP and the IPEF will serve as an important barometer for the geopolitics of Asia and for the shape and trajectory of Asia's regional economy. The 11 RCEP members that have also signed on to the IPEF will face the challenge of navigating between an ambitious IPEF that is intended, according to US President Biden, to write 'the new rules for the 21st-century economy' and the 15-member RCEP that is regarded as a 'shallow agreement' (Crivelli and Inama, 2022). Yet, this challenge is also an opportunity for the 11 countries that are participating in both agreements to define the terrain of cooperation in liberalising and regulating trade in Asia. ASEAN members comprise 7 of these 11 pivotal members. Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam are members of

both the IPEF and RCEP. These ASEAN members acting in concert will be a key actor whose preferences can determine which of the four areas of cooperation are negotiated and on what terms cooperation can be achieved. With the mega-FTAs in the region, Asia's economic integration will thus continue to be shaped by ASEAN centrality and in turn shape the progress of the ASEAN community itself.

Notes

- 1 Free trade agreements (FTAs) in this chapter refer broadly to trade agreements that include two or more countries. 'FTAs' is used as a general term and include regional trade agreements (RTAs) and preferential trade agreements (PTAs).
- 2 WTO Regional Trade Agreements Database, <http://rtais.wto.org/UI/Public-MaintainRTAHome.aspx> (Accessed 1 March 2022)
- 3 On the history of ASEAN's formation and development, see, for example Weatherbee (2019), Suryadinata (2014), and Davies (2018).
- 4 Joint Leaders' Statement on the Regional Comprehensive Economic Partnership (RCEP), 15 November 2020, <https://rcepsec.org/wp-content/uploads/2020/11/RCEP-Summit-4-Joint-Leaders-Statement-Min-Dec-on-India-2.pdf>
- 5 The Declaration of ASEAN Concord, Bali, Indonesia, 24 February 1976.
- 6 Figures on duty-free products are drawn from Shimizu (2021).
- 7 DESTA Database: Indices, www.designoftradeagreements.org/downloads/ (Accessed 1 March 2022)
- 8 The DESTA mapping also includes information on mapping of flexibility, strength of dispute settlement provisions, and an alternative measure of depth. As these are a more complex exercise that requires in-depth examination of the agreement text by multiple codes, the analysis here focuses on the additive index that relies on dichotomous indicators of whether key chapters are included.
- 9 The Parties shall commence a review of this Article on the date of entry into force of this Agreement for all signatory States. This review will consider the extension of the application of cumulation in paragraph 1 to all production undertaken and value added to a good within the Parties. The Parties shall conclude the review within five years of the date of its commencement, unless the Parties agree otherwise.
- 10 Fiji subsequently joined as a founding member, announced by the White House on 26 May 2022. See White House (2022a).

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5 Regional Comprehensive Economic Partnership, ASEAN's Agency, and the Role of ASEAN Members in Shaping the Regional Economic Order

Huong LE THU

5.1 Introduction

For decades, the Association of Southeast Asian Nations (ASEAN) nurtured the narrative that nested regionalism, primarily focused on economic benefits (more reachable than security cooperation), is the way to go. Largely, most of the Asia-Pacific, and partners beyond, went along with this idea and participated in ASEAN-centred regional architecture. This architecture was based more on dialogues, consultations, and meetings, rather than on binding and concrete provisions of, for example, security guarantee, defence exercises, or intelligence cooperation. The economic agenda has been more concrete than security-themed dialogues. A number of free trade agreements (FTAs) have materialised from the regular meetings. The economic predisposition of the region stimulated the growth of the trade, but regional institutions, like ASEAN, have taken that goal as the core of their work.

Arguably the most prominent and the largest to date is the Regional Comprehensive Economic Partnership (RCEP), which came into force on 1 January 2022. On 15 November 2020 at the 37th ASEAN Summit, the decision to finalise the decades-long negotiation was made. The 15 RCEP member states (10 ASEAN Member States – Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic [Lao PDR], Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam – and China, Japan, the Republic of Korea (henceforth, Korea), Australia, and New Zealand) combine one-third of the world's population and gross domestic product (GDP).

The finalisation of RCEP was a big deliverable and a much-needed reassertion of ASEAN's centrality in the economic architecture of East Asia, even as India opted out after years of negotiation. It is a symbolic accomplishment and contributes to the goal of connecting the Indo-Pacific via a dense network of bilateral and multilateral trade agreements (the so-called 'noodle bowl' effect) that serve to entwine the economies of Southeast Asia and Northeast Asia.

Many RCEP members already have FTAs with each other. For example Australia has ratified agreements with eight Asian countries and now is party to a third regional agreement. RCEP, however, is the first trade agreement outside

the World Trade Organization, which comprehensively brings together the two sub-regions of Southeast Asia and Northeast Asia.

Viet Nam has been amongst the strongest supporters of FTA networks, not only expanding the number of its own bilateral agreements but also promoting connections to two of its top investors – Korea and Japan. Of course, the RCEP mega-trade pact, as with all multilateral trade agreements, will not benefit all members equally (Cook, 2020), and details of implementation will vary according to economic sectors and an individual state's ability or willingness to conform. Indonesia, for example, has already declared that it will exclude sensitive sectors of rice and alcohol, so for Australian winegrowers, facing punitive tariffs in the China market, this does not necessarily offer a relief (Jakarta Post, 2020). But collectively, RCEP does present ASEAN's unequivocal support for multilateralism, a rules-based regional agenda, and a rebuttal of the Trump administration's tariff war.

Collectively, the significance of RCEP is strategic. The circumstances under which RCEP came to life are not trivial. With Viet Nam as ASEAN chair in 2020, and amidst the global pandemic, RCEP was finalised. RCEP's political and geo-economic significance arguably can overtake its economic role. In the time of great power competition where China becomes one of the key economic centres of the world, and the United States competes with a vision of Indo-Pacific, the regional middle and smaller powers are anxious about becoming collateral damage, particularly in the process of US–China decoupling. The ASEAN countries have time and again emphasised the reluctance to 'choose a side'. RCEP shows that they can demonstrate agency in carrying out trade liberalisation at the time when the global leader of the US in this field is missing. A mega-trade deal can be successfully led by smaller, and even developing, economies.

The inclusion of China is strategically important for Southeast Asia as a part of the strategy of coping with the big neighbour with increasingly assertive ambitions. Engaging with China, along with Japan and Korea, the other two most important economic actors for the region, has long been considered a lynchpin of ASEAN's centrality and ability to bridge between the Northeast Asian neighbours who have competing visions and lack regional bodies like ASEAN.

Moreover, ASEAN's ability to contribute to regional matters has been on the decline over the past decades. Other than regularity and density of meetings and leaders' dialogues, ASEAN has been heavily criticised for not being able to offer any substantive action in the face of many regional challenges (e.g. see Jakarta Post, 2014; McCarthy, 2017), including multilateral disputes in the South China Sea, the growing concerns over the Mekong River, the Rohingya refugee crisis, and most recently the Myanmar coup. In all cases, ASEAN Member States' differentiating opinions prevented any consensus or unity necessary for the organisation's commitment to the cause that, over the years, resulted in a strained reputation of ASEAN as simply a 'talk shop'. But the finalisation of RCEP is one of the rare accomplishments that ASEAN

has managed and one that confirms its consistent path towards an ASEAN Economic Community.

RCEP is not only a continuation of the regional economic goals, sustaining the ASEAN-centred architecture. It also has a potential to shape the post-novel coronavirus disease (COVID-19) recovery for the greater region. The COVID-19 pandemic has caused huge economic costs for the whole world, but for the developing ASEAN countries, it is likely to upset their complicated growth, trade, and economic trajectories. RCEP can be an important norm-setter for the region's recovery and rebuilding of the post-pandemic value and supply chains. Importantly, it has a potential to shape the rules and regulations for the rapidly evolving data governance standards. Arguably, Singapore and Viet Nam, particularly amongst the ASEAN countries, are going to play a more active role in negotiating the agenda. This chapter sets out to understand the most critical contribution of RCEP to the future of the region, particularly shaped by interests by the ASEAN economies.

This chapter also argues that RCEP asserts the agency of smaller powers within the trade network – ASEAN and its member states, particularly the more active individual members, including Viet Nam and Singapore, are amongst the most diplomatically supportive of the deal. It seeks to understand the agency within this group and examines whether there are significant differences in the approaches towards RCEP, and how, and if, they are being addressed in the intra-ASEAN negotiations.

5.2 Geopolitics – and Where Individual ASEAN Countries Stand

As the great power competition 'returns' and the China–US relations continue to cause tension in nearly all aspects of international politics, small and middle powers such as ASEAN nations can no longer take peaceful dividends for granted. The Southeast Asian countries are not unfamiliar with great power competition. With the renewed US–China competition, it is no surprise that ASEAN has grown uncomfortable with the intensified competition that challenges its position as a 'convening power' and risks taking away ASEAN's central role that it gained in the post-Cold War era.

Changes to global supply chains may have already been underway to some degree because of the US–China trade war, but the push to diversify production is being further propelled by the pandemic. As explained earlier, Southeast Asians have a shared interest in not choosing sides and reject being forced into making binary choices.

In late 2020, ASEAN countries finalised the world's largest trade pact, the Regional Comprehensive Economic Partnership (RCEP) with Australia, China, Japan, New Zealand, and Korea (Al Jazeera, 2020). RCEP is an important accomplishment in the larger regional economic architecture and may become even more significant in the post-COVID-19 economic recovery (Pitakdumrongkit, 2021). It also represents a diplomatic gap between the

region's still strong embrace of trade and the opposition to globalisation in other parts of the world, including the United States. Within Southeast Asia, most countries view the US–China trade war as highly detrimental to economic and political stability. Not surprisingly, the state most dependent on trade (Singapore) is most concerned, but even Viet Nam (which is amongst the biggest winners) is concerned about the long-term repercussions for the global economy and financial markets (Shoulberg, 2019).

Responding to the more uncooperative environment, politically, in the ASEAN Outlook on the Indo-Pacific (AIOP) 2019 (ASEAN, 2019), the 10 nations explicitly rejected the notion of 'zero-sum' great power competition and called Asia-Pacific for sustaining greater cooperation.

The real effects of decoupling on the region, like the overall impact of the COVID-19 pandemic, are yet to be fully determined. For some countries, like Indonesia and the Philippines, the shocks may be secondary, whereas for Viet Nam (as well as Singapore), the impact will be felt more instantaneously. The impact of the US–China decoupling has been less clear in Indonesia and the Philippines. This can be appreciated by comparing trade-to-GDP ratio: for Viet Nam, it is 206% (second only to Singapore at 326%), whereas the ratio for the Philippines and Indonesia is 65% and 41%, respectively.¹ But that proportion of trade-to-GDP ratio also helps to understand why certain countries in ASEAN have been more eager on RCEP and supportive of the trade agenda in general. Not surprisingly, Singapore and Viet Nam (along with Malaysia and Brunei) are also members of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). RCEP, along with the CPTPP that Japan saved after the US' abandonment, is a powerful counter example of the 'global decline in rules-based trade' (Petri and Plummer, 2020).

5.3 Asserting ASEAN Centrality

Before assessing ASEAN's central role in the materialising of RCEP, it is worth reminding that this group's contribution to the economic architecture has had its origins in the wider regional context.² It dates back to the 1990s with the economic development of the 'newly industrialised economies'. The Asia-Pacific Economic Cooperation (APEC) forum, although it started in 1989 under an Australian initiative, was also 'centred' around ASEAN – or so the Southeast Asians thought. Malaysia's then Prime Minister, Mahathir Mohammad, proposed the idea of an East Asia Economic Caucus (EAEC) in 1991. The ASEAN Free Trade Area (AFTA) was launched in 1992. These are some key examples of the regional driving force behind not only the direct ASEAN economic processes but also the ones that involve broader East Asia or the Asia-Pacific. Table 5.1 provides a summary of the key initiatives forming the economic network in the region.

The breaking point was the 1997–1998 Asian financial crisis that affected most of Asia, most notably Thailand, Indonesia, the Philippines, Hong Kong, and Korea. As to this date the disgruntled Southeast Asians, particularly allies

Table 5.1 Key Plurilateral Initiatives for Region's Economic Architecture

<i>Name</i>	<i>Year of establishment</i>
Asia-Pacific Economic Cooperation	1989
East Asia Economic Caucus	1991
ASEAN+3	1999
Chiang Mai Initiative	2000
East Asia Summit	2005
Regional Comprehensive Economic Partnership	2020

Abbreviations: ASEAN = Association of Southeast Asian Nations.

Source: Author's compilation.

like Thailand and the Philippines keep reminding, the US did not come to help the economies in crisis (Leightner, 2007). What came out of the Asian financial crisis was a much more integrated Northeast Asia and Southeast Asia through the ASEAN+3 (China, Japan, and Korea) mechanism. The regional self-help resulted in financial cooperation and stimulated regional trade and investment cooperation in the form of FTAs. These included the Japan–Singapore economic partnership agreement (EPA), ASEAN–China and ASEAN–Korea FTAs, the ASEAN Plus Japan Comprehensive EPA, and many official negotiations for bilateral and plurilateral FTAs – such as a Japan and Korea EPA, and a framework called the ASEAN plus Closer Economic Relations (CER) and FTAs with Australia and New Zealand and India.

The proliferation of trade arrangements in East Asia peaked in the post-Asian financial crisis period and resulted in the noodle bowl effect. The main motivations behind this phenomenon were summarised as '(i) the deepening of market-driven economic integration; (ii) the success of European and North American economic integration initiatives; and (iii) the Asian financial crisis' (Kawai, 2007).

Beyond trade, the regional countries have also stepped up investment, financial, and monetary swap mechanisms. The Chiang Mai Initiative (CMI) that concluded in 2000 was an arrangement amongst the ASEAN+3 countries that established a network of bilateral swap agreements amongst members. The CMI was designed to address short-term liquidity needs in the event of a crisis. The CMI consists of two elements: the enlarged ASEAN Swap Arrangement and the network of 16 bilateral swap arrangements amongst 8 ASEAN+3 members (Kawai, 2007).

In the same year, the 13 nations set up the ASEAN+3 finance ministers' Economic Review and Policy Dialogue (ERPD) process that aimed at financial surveillance to prevent potential financial crises through the early detection of irregularities and vulnerabilities and prepare swift implementation of remedial policy action.

Taking this historical view, RCEP is not a new nor an outstanding accomplishment. It is in fact a continuation and a building block of a long-term

project for the region's economic integration.³ RCEP embraces and symbolises the changing state of trade relations in East Asia. The importance, or symbolism, of RCEP is more strongly emphasised in ASEAN's trade relations and links with external partners than for intra-ASEAN trade. The RCEP's contribution to the ASEAN Economic Community (AEC) (ASEAN, 2015) seems to be of less importance than its consolidation role of the pre-existing network of ASEAN+1 FTAs.

Aside from the security realm, trade is considered to be the most important policy area where ASEAN centrality could be displayed, in this case, arguably, much more effectively, given the bottlenecks in the security-related issues like the South China Sea. The noodle bowl effect, however, that ASEAN has been able to build since the 1990s suggests some successes in the trade agenda. Critics would point to the limits of the substance of those individual FTAs, while there are varying qualitative assessments depending on specific FTAs, but collectively and quantitatively the outcome remains impressive.

Scholars and analysts have argued that ASEAN's central role in trade has been enabled by the regional rivalry between Japan and China. After the Asian financial crisis in 1997–1998, both China and Japan came up with somewhat competing visions of regional economic architecture. The East Asia Free Trade Area (EAFTA) proposed by China focused on the ASEAN+3 countries, whereas Japan's Comprehensive Economic Partnership of East Asia (CEPEA) had a broader scope, more resembling today's RCEP (Oba, 2016).

In 2012, ASEAN became the regional convener for the region-wide trade negotiations to bypass the Chinese–Japanese rivalry. Both China and India have had issues with ASEAN's leadership, as China wanted to take charge, while India finally eventually exited the deal due to its own protectionist conflict.⁴ The process was not always smooth or in accord until 2018 when Singapore was ASEAN chair of the year and displayed stronger determination to finalise the trade pact. But again, this reflects the individual member's contribution rather than the organisation as a whole. Yet, in the RCEP process, there was an insistence on an ASEAN-as-one approach that may therefore preserve ASEAN centrality in the sense that it attempts to prevent divergences within the membership (Mueller, 2019). Towards the non-members, ASEAN has been described as a convener for the RCEP negotiations. By this token, ASEAN is central to the RCEP negotiations because it launched them and consistently provides a forum for discussion.

Quantitatively, RCEP connects about 30% of the world's population and output. Despite the sceptical voices, RCEP is now the world's largest trade bloc with aggregated members' GDP of \$25.84 trillion (World Bank, 2019). Asia is a trade-dependent region. Much of ASEAN is still developing economies, so the estimated stimulus to this group is significant. By one estimation, RCEP could add \$209 billion annually to world incomes and \$500 billion to world trade by 2030 (Petri and Plummer, 2020).

In the current context, RCEP is especially important post-COVID-19, because these economies need to keep trade lanes open. A study by the

Asian Development Bank estimated that RCEP could help create as many as 2.8 million jobs by 2030 (Park, Petri, et al., 2021). This would be excellent news for the region that is hard-hit by pandemic job losses and livelihoods lost.

In fact, before the renewed US–China competition under the Trump administration, the Chinese–Japanese rivalry in East Asia had been more palatable in regional affairs. One of the ASEAN bureaucrats and a negotiator in the RCEP process since early days pointed to the ‘Japan–Republic of Korea–China factor’ as a choke point that stalled the progress for years.⁵ Although in the later stage, the three Northeast Asians were more inclined to make concessions regarding robustness of standards, India’s hesitancy stalled the process. The RCEP negotiation stalemate seemed to have come more from external partners than internally. But the external gridlock meant that without ‘ASEAN centrality’, RCEP could not have materialised.

India’s last-minute withdrawal undoubtedly disappointed many in ASEAN. As a negotiator from Singapore described: ‘We gave up a lot to meet India’s demand. The process took a long, much longer time. So it was regrettable that India suddenly pulled out’.⁶ I argue that India missing from the larger Asia-Pacific economic process can be seen as a ‘double whammy’. In the context of the newly re-emerged concept of the ‘Indo-Pacific’ that somehow rivals the old concept of ‘Asia-Pacific’, India apparently plays a more prominent role. Indo-Pacific expands beyond Asia and includes the major powers that formally would be seen as ‘external’ such as the US. The Indo-Pacific is also a value-charged concept, or so it presents to be, with adjectives such as ‘free’, ‘open’, ‘transparent’, ‘inclusive’, etc., which rejects the dominance of authoritarian powers with coercive tendencies (Le Thu, 2018). Obviously, this is a code for countering China, but the Indo-Pacific puts it as elevating the role of the US, India, Japan, and Australia and more recently also included the European powers. But as much as the pronouncement of the Indo-Pacific concept is, as a strategy, it still is significantly deficient in implementation. One of the key criticisms is that it lacks the economic pillar. The US’ engagement with the region is increasingly military-focused but lacks behind in diplomacy. In trade – because of its decoupling mindset even under the Biden administration – it continues to be an impasse. The US withdrawal from the Trans-Pacific Partnership (TPP) rings hollow and, without an alternative, becomes the testimony for the US’ absence in the economic order in the region, whether it is called Asia-Pacific or Indo-Pacific.

India’s withdrawal from RCEP becomes that double whammy as another key major economy is sitting out the economic integration of the region and indulges in its own protectionism. If we accept the understanding that the Indo-Pacific plays up the role of India and the US, then the realisation of the Indo-Pacific is not an optimistic one when it comes to economic agenda, trade liberalisation, and regional integration. The US opted out from the TPP, while India opted out from RCEP, and so far these have been most concrete deliverables of the transition to the Indo-Pacific, as opposed to the Asia-Pacific.

This is disappointing to the ASEAN countries. The ASEAN Outlook on the Indo-Pacific (AOIP) signalled a lukewarm attitude to the Indo-Pacific and is not accepting it automatically as the premise of their operation. In fact, the 2019 AOIP explicitly states that, in ASEAN's understanding, the Indo-Pacific comprises two connected but distinct regions: Asia-Pacific and the Indian Ocean (ASEAN, 2019). Notwithstanding the language and geographical scope, the limited economic agenda in the Indo-Pacific concepts has been its key disadvantages. The absence of the US and India in larger trade cooperation mechanisms as the outcome of the transition to the Indo-Pacific hence is a disappointing outcome for the ASEAN countries.

Even more so, RCEP serves the purpose of reaffirming the Asia-Pacific spirit of cooperation, regionalisation, and economic integration. Moreover, RCEP's finalisation at the time of the COVID-19 pandemic added to its importance. In the first year of the pandemic, when most of the world had struggled with the crisis and the global supply chain suffered major disruptions, the regional agreement to facilitate trade and services made a commitment towards a functioning supply chain. As a negotiator of the process told me: 'We wanted to show that supply chains work'. Not only is this an important economic prospect for the region but also a political message rejecting the US-driven decoupling targeted at 'unplugging' the supply chains away from China.

5.4 Intra-ASEAN Negotiations

The breakthrough leading to the RCEP conclusion was credited to a string of ASEAN chairs that were committed to this trade pact: Singapore in 2018, Thailand in 2019, and Viet Nam in 2020.

A Singaporean official told me that as the Trump administration waned on the decoupling and trade war: 'we wanted to send a strong signal to the world. That we – ASEAN – are supporting the trade agenda'.⁷

Thailand which shepherded the AOIP (ASEAN, 2019) – which emphasised trade as priority and RCEP amongst key areas of cooperation – played an important diplomatic role. Viet Nam, despite chairing virtually in the pandemic year, managed to finalise RCEP despite India dropping out.

The three countries may have been on the same page about the finalisation of the trade pact, but it was not necessarily the case for all 10 ASEAN members. There has been disagreement amongst the 10 economies, particularly to some key RCEP provisions.

Qualitatively, the provisions that caused the most deliberation are arguably also the ones that would make the most difference. The areas believed to be significantly shifted by RCEP are:

- 1) Trade liberalisation
- 2) Regional investment
- 3) Digital economy

The RCEP goal is to get member economies to lower tariffs for about 92% of goods traded within the region over a committed time frame. It targets the opening up of 65% of all service sectors (e.g. professional, telecommunications, financial sector, etc.) with increased shareholding limits. But the tariff reduction had been achieved by gradually implementing other earlier FTAs in the region, so it is important to underscore the gradualist approach of RCEP.

The 15 RCEP economies investment stood at \$122 billion prior to the pandemic – higher than investment seen in the CPTPP and the North American Free Trade Agreement but lower than that seen in the European Union (EU) (\$414 billion) (Park, Basu-Das, et al., 2021). The post-pandemic demand for investment will further put on significance of RCEP, as it not only prevents backtracking the existing flow but also facilitates further intra-block investment.

One of the booming sectors during the pandemic is the digital economy. RCEP addresses this issue by committing to the ICT-driven trade facilitation measures, free cross-border flow of data, and less stringent approaches to data localisation. RCEP also features commitments to promote e-commerce by protecting online consumers and their personal information and by enhancing domestic regulatory frameworks – including in areas of transparency and cybersecurity.

5.4.1 Where Negotiations Were Most Challenging

The need for members' adjustment naturally demanded more work and often created more friction. That is despite what an official from the Malaysian Trade Office described as 'going for lower hanging fruit so that we can bring along all ASEAN brothers and sisters'.⁸ Malaysia, along with Singapore, Brunei, and Viet Nam, is also a party to the CPTPP which has more ambitious provisions and was still keen on the less-ambitious RCEP for the sake of ASEAN collectiveness. Malaysia served as a chair for the Services chapter and took the characteristically 'middle way' approach and most of the time served as an 'honest broker' and accommodated the extension of timelines for those who needed. The bureaucrats did express frustrations with some countries taking more time to arrive at agreement, but perhaps the strongest felt frustration was with India. As an ASEAN insider explained: 'The delay in negotiations was not part of ASEAN disagreement, it was because of external partners' reservations'.⁹

The RCEP negotiation process took so long because of the nature of multilateral negotiation where member economies differ significantly in terms of development level, economic profiles, as well as in their individual ambitions towards the trade agenda. The political economy and geopolitical factors have undoubtedly played a role in both stalling and – in the final stage – accelerating the negotiations. But interestingly, the process of arriving at a common, shared trade pact in this diverse region exemplifies another important exercise – one of norms and rule-making. Arguably, RCEP asserts trade norms and rules that members adhere to, although, given their economic differences, with distinct, negotiated timelines.

Issues where member states took the longest to reach agreement include rules of origin (ROO), intellectual property (IP), digital economy, and e-commerce (being relatively new phenomena).

Singapore chaired arguably the most difficult chapter – Intellectual Property protection. Singapore is world-renowned performance in IP protection, it also provides the headquarters for the World Intellectual Property Organisation – a global initiative advancing the standards, rules, and legality on the matter. With this strong portfolio, Singapore is a natural leader on the matter and would be inclined to have higher ambitions (Singapore Ministry of Trade and Industry, 2021) in advancing IP protection within the RCEP framework. The strictness of IP protection within the region, however, differs significantly making the chapter one of the most challenging to arrive at an all-accommodating agreement, not only within the ASEAN region but also with the Dialogue Partners in RCEP. Singapore, Viet Nam, Malaysia, and Brunei already have robust chapters with the CPTPP (and Viet Nam with the EU) on IP commitment. But the strategy Singapore adopted was to leverage its political capital and ensure support from the friends of the chair to make the chapter less contentious and more cooperative.¹⁰

ROO was another chapter that required more time and negotiation. Thailand chaired this chapter where a limited flexibility was shown.¹¹ Issues such as environmental protection, human rights, labour rights, worker rights, and climate mitigation policies potentially would have become dividing, but RCEP was rather ‘lenient’ in these aspects (ARIC, 2021).

As the negotiators revealed, the most challenging task, equally for ASEAN and non-ASEAN members, was to agree on the so-called ‘positive list’ and ‘negative list’. In the former, members set out their respective detailed commitments, while in the latter the non-conforming measures in opening up their service sectors to their strategic trade partners. At the end, the positive list approach was taken by Cambodia, China, Lao PDR, Myanmar, New Zealand, the Philippines, Thailand, and Viet Nam. The negative list approach was adopted by Australia, Brunei, Indonesia, Japan, Malaysia, Singapore, and Korea (Asia Trade Centre, 2020).

Viet Nam is an interesting case, since it was under its chair that RCEP was finalised. For the country itself, RCEP was important for the compilation of its own overarching trade strategy. At the same time, Viet Nam negotiated the TPP and EU–Viet Nam FTA, which are considered of more value with stronger market access than RCEP. But RCEP was an important regional anchor and accomplished the long-term process. The regional FTA is also necessary for the completion of Viet Nam’s strategy of global market outreach – which expanded to Europe and the UK due to the FTAs with the EU and the UK, whilst the CPTPP was instrumental for the expansion to the Pacific markets. In that sense, the finalisation of RCEP was more of a country’s own strategic goals rather than a political response to the waging trade war at the time, although the two did correspond with each other. Viet Nam remains very pro-trade, and despite initial gains from companies and factory relocations from China, it is unlikely to support the trade war and decoupling in principle.

Viet Nam played an important role in the last year of negotiations, as challenges of the pandemic meant that the most critical phase had to be done virtually. It was also the time that India's participation hung on a threat, and thus the whole RCEP risked being further postponed. Japan insisted on having India in and also was inclined not to finalise the deal. Viet Nam had to utilise its diplomatic persuasion as chair and ensure Japan's commitment. The pandemic-induced supply chain disruption and the looming economic slowdown became the arguments why RCEP needed earlier rather than later finalisation. A Vietnamese official who participated in the process in that year is convinced that Ha Noi's exercise of diplomatic negotiation skills that actively engaged everyone saved the deal from further delays.¹² In fact, that commitment to the regional process is not surprising for Viet Nam. In another study examining ASEAN's leadership, we identified Viet Nam's increased role, particularly in the security agenda when it comes to traditional and maritime security and issues related to the South China Sea, but importantly support to sustaining a well-functioning and strong ASEAN. That requires, as we argued, a constant commitment to the organisation and putting it as a foreign policy priority – something that is neither apparent nor automatic in other ASEAN Member States (Emmers and Le Thu, 2021).

RCEP for Viet Nam did not mean all the positives either, and there had been some concerns over its potential adverse impact too. Like most of the RCEP member states, Viet Nam was also, if not even more, concerned with China looming large in the group and potentially create even a larger trade imbalance which is already a concern in Viet Nam¹³ as well as in a number of neighbouring countries. But this is a risk that the government accepts and plans mitigation strategies towards. Viet Nam mainly imports raw materials and components from China, so it needs to manufacture enough value-added products to be able to export them as Vietnamese products. That's the logic of the supply chain, and Viet Nam intends to be a critical part of it. 'We are building a market economy – competition is indispensable. We cannot shut down from competition. The people support the market economy and competition. At the policy level there are some protection measures in place, but the room is small'.¹⁴ In fact, Viet Nam has already made a lot of concessions through the World Trade Organization and other successive FTAs, so RCEP would not change much in that matter anyway.

For Viet Nam, as well as other ASEAN members, the areas that would gain from RCEP are the new and evolving sectors such as e-commerce, telecommunications, and logistics. The different levels of infrastructure development, policy disparities, and legality of data access, etc. will remain an evolving process. But this takes us to another discussion on how the differences have been managed in a successful multilateral negotiation.

The differences are understandable, given the disparity of individual members' economic calculations. This is neither new nor problematic. The cases above illustrate the approach to managing the differences. Setting new standards and negotiating them can be seen as a form of norm-making. These

‘items’ are rules and norms of conduct in the international trade practice that the RCEP signatories are obliged to comply with. If seen as norms, then ASEAN has a significant extent of experience in norms’ formation and adoption. Traditionally associated with political and security sets of norms, such as ‘non-interference in internal matters’, ‘non-use of force’, and ‘consensus decision-making process’, through its treaties such as the Treaty of Amity and Cooperation from 1976 and the ASEAN Charter 2008, ASEAN, however, has also through economic regionalisation processes created and sustained economic sets of norms and rules (ASEAN, 2008; ASEAN Treaty of Amity and Cooperation, 1976). The RCEP process, hence, is an example of norms persuasion. While only a number of actors engage in the so-called ‘norm-entrepreneurship’ by actively designing and creating the norms. For the norms to successfully prevail, they need to be diffused and persuaded to others before finally internalising or rejecting them.

5.4.2 RCEP as a Norm-Making Exercise

As such, the RCEP process can be seen as a norm-negotiation process. While the early norm-entrepreneurship process was arguably easier as the trade agenda itself was not an invention of RCEP, the norm-persuasion and diffusion took much longer. We are yet to arrive at the internalisation process because that would only occur after the ratification and implementation by individual members, and most likely the upcoming few years would pan out. But the signing of RCEP by the 15 members means that there is an agreement to buy-in and internalise the norms and rules under this trade liberalisation process, and only India opting out – rejected the norms.

The traditional model of norm-making can be explained in the visualisation (Figure 5.1).

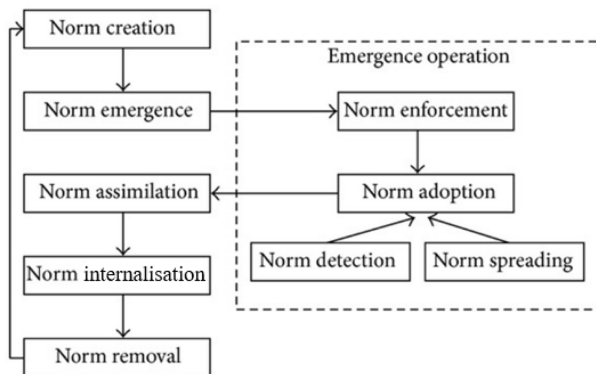


Figure 5.1 Traditional Model of Norm-Making

5.4.3 *What Is in There for Us?*

Beyond the important ASEAN centrality and agency exercise, but intangible for everyday citizens, is the question: what are the tangible gains from RCEP to the region? A number of economic projections have pointed out that RCEP in fact will benefit most of the non-ASEAN members, particularly the North-east Asia trio: China, Japan, and Korea. Their trade within RCEP will significantly grow, whereas for the ASEAN economies, the intra-RCEP trade should get a boost, but their primary markets will remain outside RCEP. This seems to be confirmed by the Asian Development Bank estimations (Park, Petri, et al., 2021).

Taking this argument that economic benefits were not the primary driver for ASEAN to push for the RCEP finalisation, it would point to other objectives, such as norm leadership and political signalling of support for trade and regionalism – in other words, asserting ASEAN’s centrality and ability to lead a larger architecture, as well as rejection of the trade war and anti-trade agenda led by the US under the Trump administration, which is apparently continued also under the Biden administration (Ramesh, 2021).

Hesitancy in Indonesia was pointed to the chaos caused by the COVID-19 pandemic, particularly the Delta outbreak. The legislation stalled the ratification in ASEAN’s biggest member. It is in Indonesia’s interest to ratify, particularly as it heads to chair the Group of 20 (G20) in 2022, and regional and global credentials in economic leadership are desired. RCEP would help integrate Indonesia further into the regional value chains, attract investments, and help create more jobs, particularly in the manufacturing sector – all very needed in the post-pandemic context (G20, 2022). At the time of writing, it was estimated that millions of jobs have been lost over the course of the last 2 years.

But there are reasons for a slow progress in ratification in Indonesia (Springer, 2021). Indonesia’s trade law basically says that any comprehensive and strategic trade treaty that could ‘impact broader Indonesian society’ must go through a legislative process in the People’s Representative Council (Dewan Perwakilan Rakyat), taking the power away from the president to ratify them himself.¹⁵

Lobbying forces related to the agricultural and natural resources sectors appear to have led to a slow approval of the trade deal. Indonesia only ratified the RCEP on 30 August 2022,¹⁶ just a few months ahead of hosting the G20 Summit – with its theme of economic recovery – in Bali in November. Another common concern heard amongst some ASEAN members, above all the Philippines and Viet Nam, is the possibility of a growing trade deficit with China. China is the RCEP’s largest economy and is already enjoying trade surpluses with many Southeast Asian economies. For many Southeast Asian economies, RCEP may only exacerbate the trade deficit with their largest trading partner.

This is even more interesting when noting that Indonesia played a critical role in the earlier phases of the RCEP negotiations. It was Jakarta and its key

diplomats and economists that were behind conceiving this trade pact and led the negotiations. Mari Elka Pangestu, Indonesia's former Minister of Trade, currently at the World Bank, was informally known as the 'Mother of RCEP'.

In an interview, a Filipino analyst summarised the RCEP calculations as: 'Concerns about potential tariff revenue loss, worsening of trade deficit and harmful effect on vulnerable sectors like farmers'.¹⁷ The Philippines underwent a presidential election in 2022, and the economic agenda, particularly the rising cost of living since the Ukraine war outbreak as well as in post-COVID-19 reality, became a major election issue.

Similarly, Malaysia's domestic political turmoil has slowed down its ratification of RCEP. Malaysia's domestic politics have been unstable since the watershed elections in 2018 and as the aftermath of the IMDB scandal. But the pandemic and discontent had further destabilised the power in the country, making Prime Minister Muhyiddin resign amidst the Delta peak in 2021. The COVID-19 response and party politics have become the primary focus for the ruling elites, and the slow progress in ratifying RCEP is no surprise.

A negotiator from an ASEAN member country observed: 'The slowest are the big democracies (in the region). Domestic politicking tends to be a bigger issue. Hopefully, RCEP does not become an election item for them'.¹⁸

5.4.4 The Least-Developed Countries

There are more expectations towards positive effects of RCEP for the least-developed countries (LDCs) in the group like Cambodia, Lao PDR, and Myanmar. Cross-border supply would promote investment in the country, including job creation and skills training and transfer of 'know-how'. Cambodia committed to allow foreign firms to operate in the areas of legal services (with some exceptions), accounting, auditing, management consulting, and transport (Khmer Times, 2022). It is also expected that RCEP will push the manufacturing for even larger amounts of export.

For Lao PDR, RCEP is thought to be a good booster to this small economy. Bounleuth Luangpaseuth, vice president of the Lao National Chamber of Commerce and Industry said: 'The RCEP agreement has great importance for business in Laos, as it will create favorable conditions for more trade, foreign investment and tourism in Laos' (Xinhua, 2021). Any further facilitation of Laotian tourism, connectivity, trade, and services is considered a good opportunity for a small country that would have struggled to attract these on its own. Moreover, in the new areas that need more adjustment, like e-commerce, IP, or ROO, Lao PDR, as an LDC, is likely to receive technical support and training from the partners. This was the case when the Economic Research Institute for ASEAN and East Asia (ERIA) offered training in ROO for Lao PDR officials (ERIA, 2021). So from that perspective, there are also non-monetary benefits, such as knowledge transfer, from greater cooperation and integration.

At the moment of writing, the situation in Myanmar remains unstable in the post-coup reality. The country is in disarray, and the economy is suffering from

political turmoil. The challenges of Myanmar participating in the ASEAN processes grow as violence on civilians by the Myanmar military Tatmadaw challenges ASEAN's mediation processes. As a result, at the most recent ASEAN Summit in 2021, the coup leader senior general Min Aung Hlaing was disinvited to attend. Myanmar's participation in the regional process a year after the coup is still under question marks as there has neither been a formal recognition nor rejection of junta seizure of power (Le Thu et al., 2021). So the real extent of the RCEP role in Myanmar's economy is beyond predictable modelling.

5.4.5 Compromises

The RCEP text describes itself as a 'modern, comprehensive, high quality and mutually-beneficial' trade pact. An Asian Development Bank study provides a case-by-case comparison between the provisions under the RCEP and the CPTPP trade pacts and assesses that, in general, the former is less rigorous than the latter. RCEP estimates to reduce 90% tariffs, while the CPTPP aims at 94%. It is also less ambitious in terms of IP provisions; it does not include chapters on labour rights, environment protection, or distinction for private companies and state-owned enterprises (Crivelli and Inama, 2022). But given the difference in memberships and scale of the countries involved, the RCEP's achievements are impressive for the conditions. Compromises are seen as a form of norm-persuasion. Through lowering the threshold, and going for 'low-hanging fruit', the group ensured a buy-in of the larger RCEP framework. It was more important to have the 'less-ambitious' agenda but accept the trade framework than pursuing more rigorous provisions but risking a fallout of the entire project. India would be a counter-example of that. Proponents of RCEP had been both surprised by India's sudden withdrawal and wanting to prevent the bloc chipping off further and hence willing to push for a more accommodative RCEP content.

5.5 Conclusion

Many external critics point to the low value of RCEP, because most of the tariff reductions can and have been achieved by respective earlier FTAs, and conclusion of this large trade deal is more symbolic than practical. The ASEAN members often take a different view and that is to provide a unified voice and exercise the organisation's centrality.

The internal divide was not economic-based. This is a familiar issue that has proven to be manageable. ASEAN had the experience of resolving differences amongst each other with the previously discussed FTAs in gradually creating the noodle bowl, and RCEP helps consolidation into the same ROO. The ASEAN Economic Community (AEC) had a well-oiled template of setting different timeline expectations according to the economic development level of the member states. As such, the group 'CLMV' (Cambodia, Lao PDR,

Myanmar, and Viet Nam) previously, nowadays more often ‘CLM’ as Viet Nam graduated from this tier – often have a longer time to achieve the common economic goals. Similarly with RCEP, for example, the tariff reduction time for the CLM is extended to the 2050s. Moreover, ASEAN’s approach to the RCEP negotiations was one of unity. The group would have sub-level meetings ahead and arrive at a common, albeit compromised, approach in front of other RCEP partners. As such, RCEP can be seen as a successful, and rare, exercise of unity and solidarity of ASEAN.

The individual role of particular member states that were more enthusiastic about the regional trade pact – Singapore, Viet Nam, as well as Indonesia and Thailand earlier – have been critical to finalise the deal. Without active diplomacy of the three consecutive ASEAN chairs – Thailand, Singapore, and Viet Nam – the multilateral negotiations would have likely dragged on longer. Eagerness, especially of Ha Noi in the final year, despite India opting out, ushered the completion of RCEP.

RCEP is to the economy what vaccines are to humans in the pandemic – a boost for recovery. It is also a reminder of the prevailing principle that is needed to overcome this crisis – international cooperation. Because ultimately, RCEP is not only a trade pact, it is also an economic cooperation framework that contributes to cementing the political security dialogue amongst the member states. For example the Australia–China relations are at a freeze – despite early signs of breaking ice after a change of government in May 2022 – no real progress has been made while trade tariffs are increasing the tension, besides there being a larger context such as the East Asia Summit where the two sit at the same table. RCEP is another important trade framework where the two disputed partners can find an example of cooperation.

RCEP is not meant to be the end game. Rather, it is considered to be a part of the larger and continuous process of trade liberalisation in the broader region. RCEP is a stepping stone towards a more comprehensive integration process in Asia and the Pacific continued commitment, following such milestones like the Asia-Pacific Economic Cooperation (APEC) and the ASEAN+ FTA mechanisms. As such, RCEP should not be seen, nor assessed, as a stand-alone project. Rather, RCEP needs to be considered for its contribution and facilitation in the ongoing process of Asian integration. Certainly, that was the intention of ASEAN to express their commitment and vision of the region that continues to integrate, trade, and prosper, rather than being divided by the security – trade fault lines of the trade war. That is the agency ASEAN exercised in ratifying RCEP that trumped the internal domestic concerns as well as intra-regional differences.

It is hard to deny that ASEAN is experiencing an unprecedented crisis. It is more divided than ever, and the internal commitment to the organisation amongst the members is at its weakest. ASEAN Member States do not agree on many things, including key security challenges facing the region like the South China Sea disputes or the Myanmar crisis. This increasing rift challenges its core operational principle which is the consensus-based decision-making

mechanism. Without that unity of positions, ASEAN continues to face stalemate and even its ability to assert regional agency, let alone centrality.

But amongst the few things that the members agree on is the economic agenda. Development, growth, and trade – despite differences in the details – remain the common objective for this group. Even more keenly felt after the outbreak of the COVID-19 pandemic that stresses capacity and derails the growth prospects for many in the region, economic recovery remains the number one concern, as well as agreement, in ASEAN.

In the 2021 regional survey of elite perceptions in Southeast Asia, the vast majority of Southeast Asians think that COVID-19 presents the single most dangerous threat for the entire region. According to the 2021 ISEAS survey, the three top challenges to the region are COVID-19 (73% of respondents from all 10 ASEAN nations), followed by unemployment (63%) and income inequality (41%) (ISEAS, 2021). RCEP becomes one of the tools to achieve the objective of economic recovery and get back on track of development and growth through trade.

ASEAN has proven with RCEP that it can deliver on the goals it set. The important question going ahead though is: does this testify for a lasting ASEAN economic order success or ‘last swan song’ of the ASEAN way or regionalism? Only future implementation will show. The RCEP’s political and geo-economic significance may be more important than economic significance. It reasserts ASEAN’s much sought-after centrality. It gives hope for post-pandemic recovery. It plays a role in norm-setting, including in trade and emerging areas such as the digital economy. But most importantly, it reminds implicitly that economic integration is not only a matter of economy; it is also, in fact, a source of security for the region.

Notes

- 1 With the exception of the trade-to-GDP ratio, measures on ‘global integration’ cost the US billions of dollars (WDI database).
- 2 For more, please see Urata (2018).
- 3 For more, please see Ishikawa (2021).
- 4 Author’s interview with an ASEAN RCEP negotiator, January 2022.
- 5 Interview with the author, January 2022.
- 6 Interview with the author, December 2021.
- 7 Interview with the author, January 2022.
- 8 Interview with the author, November 2021.
- 9 Interview with the author, November 2021.
- 10 Interview with the author, January 2022.
- 11 Insight from an ASEAN bureaucrat, interview with the author, January 2022.
- 12 Interview with the author, January 2022.
- 13 In 2021, Viet Nam had a trade deficit with China amounting to US\$39 billion. The trade deficit grew 150 times between 2001 and 2019 (Vietnam Ministry of Foreign Affairs, 2021).
- 14 Interview with the author, January 2021.
- 15 <http://extwprlegs1.fao.org/docs/pdf/ins49202.pdf>
- 16 www.straitstimes.com/asia/se-asia/indonesian-parliament-approves-membership-of-trade-bloc-rcep

- 17 Interview with the author, January 2022.
18 Interview with the author, December 2021.

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6 Australia's Interests in East Asia's Regional Comprehensive Economic Partnership

Shiro Armstrong

6.1 RCEP and Increasing Global Trade Uncertainty

From its inception, Australia's membership of the Regional Comprehensive Economic Partnership (RCEP) agreement was seen as economically and politically important. The RCEP economies account for roughly two-thirds of Australia's total trade. Being part of an Association of Southeast Asian Nations (ASEAN)-led initiative that progressed broader East Asian economic integration was consistent with the structure of Australia's trade interests and with Australia's support for the multilateral trading system. As an open and trade-dependent country, Australia has a track record of pursuing regional cooperation that supports multilateral trade and regional integration that is outward-oriented.

RCEP became more important economically, politically, and strategically during the course of its negotiation (Armstrong, 2017). It grew out of regional institution building that accelerated significantly in response to the Asian financial crisis, starting with the ASEAN+3 (ASEAN members plus China, Japan, and the Republic of Korea (henceforth, Korea)) process and the ASEAN+1 free trade agreements (FTAs). RCEP was negotiated in parallel to the Trans-Pacific Partnership (TPP) agreement that included the United States, Australia, New Zealand, Peru, Chile, and four Southeast Asian countries – Singapore, Malaysia, Brunei Darussalam, and Viet Nam – and later Japan, Canada, and Mexico. The RCEP grouping was seen as a way not only to further East Asian economic integration and later as a way to avoid fragmentation within the region from the TPP but also to entrench the ASEAN Economic Community (AEC) project (Armstrong et al., 2019). The conclusion of RCEP took on still greater importance and urgency as a ballast against the rising protectionism globally and trade war between the United States and China in the latter half of the 2010s.

RCEP came into force on 1 January 2022 as the world's largest regional economic agreement in terms of its coverage of gross domestic product (GDP), population, and trade. RCEP would have been important to the global economy at any time, but that is more so in the context of the growing political divide between the United States and China, rising global protectionism, a

trade war between the United States and China, and the added protectionist pressures arising from the novel coronavirus disease (COVID-19) pandemic that have put the global trade regime under extreme pressure. It was always in Australia's economic and strategic interest to be part of the world's largest regional economic agreement. For Australia, there was never any doubt about being involved in RCEP but instead a concern about being left out.

US political leaders, including then President Barack Obama, falsely described RCEP as China-led to help galvanise a coalition of domestic support behind the TPP.¹ Many journalists also described RCEP as China-led,² misunderstanding the role that ASEAN played in its conception and leading its negotiation. China was the single largest economy from the beginning of negotiations, and its share of the RCEP economy steadily increased over the course of negotiations.

Successive Australian trade ministers emphasised that RCEP was based on ASEAN centrality.³ This was important, given the involvement of a broad range of significant regional economies and pointed to the potential benefits of liberalisation with such a grouping. Australian trade ministers managed to continue this narrative and reassure the public and other policymakers even as the Australia–China bilateral relationship began to deteriorate from 2017. The geopolitical implications of RCEP were downplayed in public discussion, but the agreement was seen as a way to strengthen ASEAN by entrenching its centrality and creating a new framework to help manage economic and political relations in the broader region, including with China.

This chapter reviews Australia's strategic economic interests in RCEP. The next section explains Australia's economic interests which are global but centred on East Asia. The chapter then explains Australia's approach towards RCEP in the context of other agreements and arrangements it was pursuing in parallel. The management of the domestic politics of the agreement, as tensions increased in Australia–China relations, is then discussed. The chapter concludes with a discussion of the implications for Australia's diplomacy towards the East Asian economy and the RCEP members.

6.2 Australia's Strategic Economic Interests

Driven by geography, comparative advantage, and the region's large and growing economies, Australia's trade is heavily concentrated in East Asia. The three large Northeast Asian economies are geographically relatively close to Australia and are major importers of Australian natural resources. Production and the export of strategic raw materials and fossil fuels are crucial for economic security in China, Japan, and Korea. In addition, Australia's trade with ASEAN as a group was larger than Australia's trading relationships with Japan or the United States over the decade of the 2010s (Table 6.1). Together the ASEAN+6 group (ASEAN members plus China, Japan, Korea, India, Australia, and New Zealand) accounts for two-thirds of Australian trade. The RCEP group accounted for 71.5% of Australian exports in 2020. Complex interdependence with the East Asian economies best describes

Table 6.1 Australia's Major Trading Partners by Share, 2000–2020 (%)

	2000	2005	2010	2015	2020
ASEAN	13.8	14.9	14.2	13.6	11.9
Exports to	13.7	11.5	9.5	10.3	10.1
Imports from	14.0	20.1	19.3	16.5	15.2
China	6.6	12.7	22.0	26.5	35.1
Exports to	5.4	11.5	25.1	30.1	40.5
Imports from	7.7	13.7	18.6	23.1	28.6
CJK	29.0	33.6	42.2	44.3	49.3
Exports to	33.5	39.8	52.8	53.1	59.0
Imports from	24.9	28.0	30.6	36.1	37.7
RCEP 15	47.7	53.4	59.9	60.9	63.9
Export to	53.1	57.8	65.8	66.8	71.5
Import from	42.7	49.4	53.4	55.5	55.4
India	1.1	2.8	4.2	2.9	2.3
Exports to	1.7	5.0	7.2	4.1	2.7
Imports from	0.6	0.8	0.9	1.8	1.8
The United States	15.1	10.4	7.3	8.4	8.1
Exports to	9.9	6.7	4.0	5.4	5.3
Imports from	19.9	13.8	10.8	11.1	11.7
Europe	17.0	17.4	12.9	11.4	12.2
Exports to	11.6	10.7	7.9	5.1	7.2
Imports from	22.1	23.3	18.3	17.2	18.4
Rest of World	19.1	16.1	15.8	16.4	13.5
Exports to	23.8	19.8	15.0	18.6	13.3
Imports from	14.7	12.8	16.6	14.4	12.7

Abbreviations: ASEAN = Association of Southeast Asian Nations. CJK = China, Japan, and Korea, RCEP = Regional Comprehensive Economic Partnership.

Note: Europe is EU27 plus the UK.

Source: Australian Bureau of Statistics.

Australia's supply-chain-led integration with East Asia. In the 2010s, China has been by far the largest export destination and trading partner for Australia, largely driven by iron ore and raw materials' demand, as well as tourism and education exports and a range of China-sourced but often foreign branded imports.

China accounted for over 40% of Australian exports in the late 2010s. Australia is no stranger to having one country dominate its international trade shares. At its peak in the 1970s and 1980s, Japan accounted for roughly the same share of Australia's trade as China does today. Trade with the United States peaked during World War II, accounting for 39% of Australian imports and 40% of its exports. The UK consistently accounted for over half of Australia's trade, and up to 60%, until the end of Commonwealth preferences after World War II.

The structure of Australia's trade has been market driven and is the result of a commitment to open international markets and confidence in the multi-lateral trading system.

Table 6.2 Australia's Main Sources of Foreign Direct Investment Stock, 2010–2020

2020 Rank	Economy	2010	2010	2020	2020
		A\$ billion	% share	A\$ billion	% share
1	The United States	110.3	21.2	196.3	19.1
2	Japan	51.1	9.8	131.8	12.8
3	The UK	53.7	10.3	123.5	12
4	ASEAN	25.8	5.0	59.0	5.7
5	The Netherlands	27.6	5.3	52.8	5.1
6	Canada	14.9	2.9	46.2	4.5
7	China	12.9	2.5	44.3	4.3

Abbreviation: ASEAN = Association of Southeast Asian Nations.

Source: Tang, E. (2021), 'Who Invests in Australia? Analysing 2020's \$4 Trillion Record for Foreign Investment', *Austrade*, 26 May, www.austrade.gov.au/news/economic-analysis/who-invests-in-australia-analysing-2020-s-4-trillion-record-for-foreign-investment

Australia's largest investment relationships follow a different pattern with the largest sources of direct investment being the United States, Japan, the United Kingdom, the Netherlands, Canada, and China in that order with China accounting for 4.3% of the stock of foreign investment in Australia in 2020 (Table 6.2). ASEAN countries as a group are the fourth largest source of direct investment into Australia. Australian direct investment abroad is driven more by shared culture, language, and history with the Anglophone countries being the largest destinations of Australian investment.

Australia's international economic diplomacy seeks to maintain a constructive US economic and political presence in East Asia alongside its military presence, manage the rise of China, and preserve an open multilateral trading system that underpins the economic rules-based order (Australian Government, 2017). Central to achieving these aims is strengthening ASEAN, its institutions and centrality, and broadening economic integration of India into the Asian and global economy – RCEP was an important opportunity to further these aims.

The idea of RCEP was consistent with Australia's international economic priorities. The goal of further entrenching the US economy and US rule-making leadership in East Asia was being pursued in the TPP, which was being negotiated in parallel with RCEP and was conceived as the more 'ambitious' agreement in terms of new rules and higher standards.

The RCEP agreement was seen from the beginning as a strategically important agreement for Australia, beyond the economic benefits that it would deliver. The Australian government understood the strategic as well as economic significance of RCEP.

The Australian government's recognition and understanding of the strategic significance of RCEP were maintained steadfastly throughout the negotiations and were not tested significantly even though the circumstances changed, and

there was not always a deep appreciation of the potential economic benefits. That was partly due to the TPP attracting much more public scrutiny but largely because of a pervasive understanding within the Australian government of the importance of the agreement for managing Australia's economic security in its own region. This is the focus of the rest of this chapter.

6.3 Multilateral Trade and RCEP

The most successful period of Australia's trade liberalisation occurred unilaterally throughout the 1980s in concert with Asian neighbours. Australia's unilateral trade liberalisation at that time subsequently played into multilateral commitments in the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) negotiations (Vines, 1995). Australia became a champion of non-discriminatory trade arrangements and concerted unilateralism that helped Asian economies collectively open up to the global economy in a strategy of open regionalism – regional cooperation that deepens integration and pursues open non-discriminatory economic policies that do not come at the expense of the rest of the world (Garnaut, 1994). The strong support for multilateralism was reflected in the leadership at the Cairns Group⁴ and the Asia-Pacific Economic Cooperation (APEC) forum, for example, that complemented the GATT and later the World Trade Organization (WTO).

Australia's support of multilateral trade adopted a new strategy from the mid-2000s starting with the bilateral Singapore–Australia Free Trade Agreement in 2003 and, more significantly, the Australia–US Free Trade Agreement in 2005 (Productivity Commission, 2010). The decisive turn towards bilateral agreements coincided with a regional and global trend towards discriminatory bilateral agreements – that had lower tariffs and favourable treatment between signatories – to make progress on trade liberalisation and rule-making when that stalled in the WTO. Later, recognition that many smaller bilateral agreements did not deliver significant economic gains and the overlapping 'noodle bowl' of arrangements was complicating rather than simplifying trade encouraged the development of regional agreements (Hayakawa et al., 2017).

Australia's support for bilateral and regional agreements to supplement the multilateral trading system included agreements that eventually covered all RCEP partners except India. The ASEAN–Australia–New Zealand Free Trade Area (AANZFTA) included an economic cooperation agenda focused on capacity building, which was seen as a success for its members and shaped Australia's approach and support for economic cooperation as a pillar of RCEP (Healey, 2017).

Australia was negotiating bilateral agreements with Indonesia and India in parallel with RCEP negotiations in an attempt to make progress where possible. The bilateral agreement with Indonesia – the Indonesia–Australia Comprehensive Economic Partnership Agreement – would conclude soon after RCEP was finalised, but the Indian agreement stalled and is yet to be concluded. The strategy of pursuing new rules and liberalisation with partners in

bilateral and regional agreements was consistent with the approaches towards other partners. The three Australian agreements with Northeast Asian partners signed in 2015 were groundbreaking and included material access to the Japanese agricultural market for the first time for any country and new services and significant goods market liberalisation commitments in China. The value-add from RCEP would include further investment and services liberalisation in China and bringing China, Japan, and Korea under the same regional agreement for the first time, furthering East Asian supply chains and economic integration through region-wide rules-of-origin arrangements.

Negotiations for RCEP were chaired and led by Indonesia and ASEAN. Australia played a proactive role in pushing for high standards – credible market access commitments and new rules – in the negotiations. Australia also worked with ASEAN and Japan in particular to involve external experts from academia and think tanks, including the Economic Research Institute for ASEAN and East Asia (ERIA), in the negotiating rounds for input at critical times.

Australia was one of the RCEP member countries that were also negotiating the TPP in parallel. The interest in the TPP was to keep the United States productively engaged in the region and to further rule-making and liberalisation amongst the TPP members. Having an overlapping membership between the TPP and RCEP would mean that there was less chance of significant divergence or inconsistencies between them, although the approach differed in each arrangement. The TPP was US-led and had high entry barriers. The United States, as a major innovator and exporter of intellectual property (IP), pushed a key agenda on IP protections, but some of its proposals were strongly resisted by Australia and several other TPP members as unbalanced and not reflecting the trade-offs between encouraging innovation while still maximising the take-up and dissemination of the results of innovation. There is evidence that strengthening IP protections in trade agreements results in transfers instead of mutually beneficial net gains and even results in outcomes that are globally welfare reducing (Deardorff, 1992). RCEP, given its more diverse membership and with ASEAN at its core, took a more gradual approach of commitments that were in line with the level of development of each member and economic cooperation that would help countries achieve those commitments and go further.

The process of negotiating the TPP also differed from that in RCEP. The TPP negotiations were very much US-led, and the US preferred to engage with countries bilaterally. In RCEP with Indonesia chairing the Trade Negotiating Committee and ASEAN at its centre, working groups and sub-working groups all reported to the committee for strategic oversight (Fukunaga, 2015). The TPP negotiations proceeded largely in silos. While there was some ‘friendly competitive pressure’ between the Australian RCEP and TPP negotiating teams, the structure of negotiations was very different. RCEP started from ASEAN+1 FTAs. There was no routine or formal consultation process,

but the RCEP negotiators kept abreast of developments in the TPP and other bilateral agreements and the WTO.

With India deciding to walk away from RCEP on the eve of its completion in 2019, Australia had bilateral agreements with all the other members. But the significance of simplifying the regional 'noodle bowl' of overlapping bilateral agreements and consolidating or multilateralising the ASEAN+1 agreements with China, Japan, Korea, and Australia plus New Zealand meant there would be further gains from the agreement. Having the three Northeast Asian economies in a binding regional trade agreement for the first time was significant. Northeast Asian economic cooperation required ASEAN as a hub because of the difficult bilateral relationships in that group.

In response to a question about the absence of India in RCEP on 6 November 2019, Australia's trade minister Simon Birmingham responded that:

India are choosing at this time not to proceed with RCEP. Now, the door remains firmly open to India. . . . RCEP itself still remains very commercially viable and beneficial to the parties that are there.' and went on further to explain 'more generally in terms of RCEP, the strategic benefit there is that the ASEAN nations sit at the heart of RCEP. Those ten sovereign ASEAN nations, many of them very rapidly growing economies, and they are the ones who have driven RCEP from concept stage to execution. They are the leaders within RCEP in terms of chairing the negotiations, and so strategically it really does in our region cement the centrality of ASEAN and that's very important.

(Birmingham, 2019)

The Australian Department of Foreign Affairs and Trade argued to a parliamentary hearing that:

[T]he benefits to Australia from RCEP lie in the inclusion of both ASEAN and Australia's other major trading partners under a single agreement, enabling easier trade for Australian businesses across the region and the commitment by RCEP Parties to integrate their economies into the international trade environment.

(pp. 47–48)⁵

The reputation of RCEP was one of low ambition or standards, especially compared to the TPP, which was negotiating rules on environmental and labour standards and had disciplines on state-owned enterprises, as well as strong intellectual property provisions. The inclusion of India – a perennial laggard in international trade negotiations – and less developed countries meant that parts of RCEP appeared to have low ambition. But RCEP has strengthened rules that build on AANZFTA and can be built on further and developed over time. Significantly, RCEP is the first ASEAN-related FTA

to include a Government Procurement Chapter and the E-Commerce Chapter's data flows and localisation provisions are the first obligations of this kind for several RCEP parties. The Intellectual Property Chapter usefully requires RCEP parties to be party to eight major multilateral agreements administered by the World Intellectual Property Organization.

RCEP has modern architecture, including services and investment commitments, built-in agendas, and innovative institutional arrangements. Establishment of an RCEP Secretariat and the move away from traditional siloed committee structures found in FTAs with a focus on outreach and broader engagement are significant. There will be an RCEP Ministers' meeting at least annually; and the establishment of an RCEP Joint Committee with four subsidiary bodies – (i) Goods, (ii) Services and Investment, (iii) Sustainable Growth, and (iv) Business Environment – usefully reflects the integrated and cross-cutting nature of trade, investment, and global supply chains. There are also provisions for the parties to engage with business, experts, academia, and other stakeholders.

Former Australian Prime Minister Malcolm Turnbull described RCEP to a US audience in 2020 as an 'old-fashioned' and 'a really low ambition trade deal' (McDonald, 2020). The final report of the Australian Parliament's Joint Standing Committee on Treaties in August 2021 – a necessary process for ratification of a treaty in Australia – described RCEP as 'not a particularly ambitious trade agreement, and in terms of market access does not deliver much in the way of additional benefit for Australia'. But it recognised that the:

RCEP's significance, however, lies in the broad composition of its membership – accounting for almost one-third of the world's population and Gross Domestic Product (GDP –) – its reinforcement of ASEAN's regional leadership role, and its simplification and harmonisation of rules of origin and other trading standards which should facilitate growing supply-chain integration.

(Parliament of the Commonwealth of Australia, 2021)

The report did not emphasise China and the difficult bilateral relationship but did emphasise ASEAN's regional leadership role.

The sentiment that the agreement was low ambition was not shared by Trade Minister Simon Birmingham who in November 2020 explained that RCEP 'gives a more common set of rules and standards and a higher ambition in areas that are important to Australia, like intellectual property and digital trade and commerce' (Birmingham, 2020a).

ASEAN remains central to broader regional cooperation and institution building. The process of its economic integration underpins its centrality in Asian affairs. RCEP is important to ASEAN as it entrenches and expands its centrality in the management of economic and political security interests with its neighbours. Originally conceived for security purposes, ASEAN helps its

member states manage relations with its big-power neighbours – the United States, Japan, and China. It gives the region a buffer that the diverse group of Southeast Asian nations can project power beyond the sum of its parts.

Economic integration has been seen as important for managing political relations and contributing to security in Southeast Asia. Better connecting the existing regional economic and political cooperation arrangements has helped ASEAN and its partners navigate and manage the challenges to regional prosperity (Drysdale et al., 2023).

An important recent development alongside RCEP has been the ASEAN outlook on the Indo-Pacific. In response to a reframing of regional affairs by Canberra, Tokyo, and Washington away from an Asia-Pacific conception of regional cooperation to different versions of the Indo-Pacific idea, some of which had their origins in maritime security and were less open and inclusive, ASEAN proposed its outlook in late 2019 that appeals to ASEAN principles of multipolarity through inclusiveness and openness (Armstrong et al., 2019; Sukma, 2019). ASEAN was able to gain support for its conception of the Indo-Pacific that embeds multilateral principles with not only Australia, Japan, and the United States supportive of the idea but also China and other East Asia Summit members. ASEAN also explicitly included economic integration and inclusive regional architecture (the arrangements for cooperation) at the core of its Indo-Pacific idea alongside the security aspects that Japan and Australia's Indo-Pacific initiatives emphasised.

6.4 Managing the China Relationship

Like Japan and many other countries that were negotiating both the TPP and RCEP, in Australia, the TPP attracted political attention while the RCEP negotiations received very little public attention or scrutiny. Reporting of RCEP increased as the agreement concluded in late 2019.

Although the RCEP agreement was incorrectly portrayed by former US President Barack Obama and much of the media as China-led, Australia made clear that the agreement was ASEAN-led. ASEAN was the hub, and no matter how much larger the Chinese economy was than any other single RCEP member, it was only one of the five ASEAN+1 FTA partners.

The conclusion of the RCEP negotiations and the 2 years that followed through its signing and ratification coincided with an acceleration of the deterioration of Australia's relationship with China,⁶ by far its largest trading partner accounting for 40% of its exports and one-quarter of its imports. The fact that the bilateral relationship between Australia and China did not derail Australia's support for RCEP may be partly due to the agreement's not receiving a lot of public attention but is more importantly due to the agreement's being portrayed as an ASEAN-led agreement by successive Australian trade ministers. The centrality of ASEAN and the new trade opportunities it presented were sold successfully to the public.

On 16 November 2020, in response to a question about the conclusion of RCEP in relations to the deteriorating relationship with China, Trade Minister Simon Birmingham made clear the core of the agreement was ASEAN:

What we have made clear, including in the signing of this new regional agreement with those 10 ASEAN nations at its core, is that we continue to be open to dialogue with China at any time, our door is open, and the ball is very much in their court.

(Birmingham, 2020b)

This message was repeated by Minister Birmingham in other radio interviews in response to questions about China in RCEP after its signing in November 2020:

[T]his is a trade deal that is important because, as you say, it's a 15-nation trade agreement, and at the centre of it are the 10 Southeast Asian economies, who when you put them together, are our second largest trading partner collectively and [have] some of the strongest growth potential in terms of new export, new economic opportunities. And so we're in this very much because of the leadership of the ASEAN nations and our desire to make sure that we support them as being seen through not only to the prosperity of our region, but also to the peace and stability of our region.

(Birmingham, 2020c)

Although RCEP does not include labour and environment standards, or disciplines on state-owned enterprises, it does lock its members into new rules in e-commerce, intellectual property, and government procurement, for example, and entrenches market openings in services trade and foreign investment. China for the first time signed onto 'negative list' commitments on foreign investment in non-services sectors such as manufacturing and mining. RCEP is also the first time that China (and ASEAN) signed onto 'negative list' commitments on foreign investment in services sectors. RCEP requires those parties initially utilising positive listing (China, New Zealand, and six ASEAN Member States – Cambodia, Lao People's Democratic Republic, Myanmar, the Philippines, Thailand, and Viet Nam) to complete their transition to negative list services schedules no later than 6 years after RCEP's entry into force (i.e. 2028 for the non-CLM⁷ parties) and no later than 15 years in the case of CLM parties.

Having the Chinese economy sign on to new rules and disciplines and agree to liberalisation in RCEP help other countries in the management of economic relations with China. It also further integrates the Chinese economy into the regional and global economy, shaping and constraining political behaviour. A big test along these lines will be on China's bid to

enter the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). On China's entry to the TPP, former Trade Minister Robb explained in 2014 that 'if they sign up to the same rules, the same ambitions for reducing protection, they will be able to join' (Kerin, 2014). That approach will be tested during negotiations since bilateral relations have deteriorated significantly since then. Trade Minister Tehan reiterated the position that Robb outlined, with the additional requirement that Chinese trade sanctions would need to be dropped for the consideration of entry to the CPTPP.

From earlier on in the negotiations, Australian political leaders were emphasising the role of ASEAN and building on AANZFTA. On the occasion of the launch of the RCEP negotiations in November 2012, Australian Prime Minister Julia Gillard said in a statement:

RCEP will build on the high-quality free trade agreement that Australia already has with ASEAN and New Zealand. It will complement Australia's participation in bilateral trade negotiations and in Trans-Pacific Partnership (TPP) negotiations.

(Gillard, 2012)

The Joint Statement by Prime Ministers Tony Abbott of Australia and John Key of New Zealand on 28 February 2015 explained:

Both countries are also committed to progressing the Regional Comprehensive Economic Partnership (RCEP) negotiations alongside ASEAN, China, India, Japan and Korea. The Prime Ministers agreed they will continue to push for a modern, comprehensive, high quality agreement which significantly builds on . . . the ASEAN – Australia – New Zealand Free Trade Area (AANZFTA).

(Abbott, 2015)

That message was echoed in a press release by the Australian Trade and Investment Minister Dan Tehan when RCEP came into force on 1 January 2022:

RCEP will enhance Australia's economic engagement in the Indo-Pacific through strengthened trade rules that build on the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA) and complement Australia's bilateral agreements with RCEP parties and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). RCEP will further strengthen Australia's trade relationship with ASEAN at a crucial point in ASEAN's economic development.

(Tehan, 2022)

Then Australian Minister for Trade and Investment Andrew Robb also recognised the importance of RCEP in the context of rising protectionism globally when he explained:

[T]here are clearly pressures around the world but the strongest area in the world is ASEAN plus related countries around the ASEAN, so we clearly understood that and there is a determination to continue with all of these various agreements so we can maintain this growth and prosperity.

(Channel News Asia, 2015)

The process of negotiating RCEP helped Australian ministers and the government appreciate the importance of ASEAN and ASEAN-centred institution building.⁸

RCEP was designed by ASEAN policy strategists to buttress regional trade reform and lift Asia's growth potential in the global economy by building on, and consolidating, the achievement of the ASEAN+1 FTAs. RCEP is tightly aligned with ASEAN's multilateral goals and multipolar characteristics, a feature that would allow progress with economic cooperation regionally, despite bilateral political tensions.

The deterioration of Australia's economic and political relationship with China makes the RCEP framework potentially more important for facilitating the rebuilding of mutual trust and confidence. The difficulty in making progress in a bilateral setting means that cooperation in a broader setting with other countries has the potential to help alleviate economic tensions and foster cooperation on shared interests of the RCEP group such as recovery from the coronavirus pandemic and facilitating vaccine and health supply chains. The economic cooperation agenda that would facilitate these discussions is detailed later in this chapter.

Chinese trade restrictions on a range of Australian goods in the late 2020s and the concentration over 40% of Australian exports on the Chinese market led to increasing debate about diversifying Australian trade from around 2018. RCEP was seen as part of that strategy by some, by opening up services markets in ASEAN (Australia Financial Review, 2020). That is despite the one rule of origin and 'cumulation' – where products originating in one country can be further processed or added to the value of products originating in another country, just as if they had originated in the second country – deepening supply chains that include China, the largest RCEP member. A more deeply integrated East Asian economy as a result of RCEP with China as a central element was not seen as inconsistent with the rhetoric of diversifying trade away from China. China may not continue to play the final assembly role of production networks and is already supplying higher value-add input into the value chains. Diversifying trade away from China is equivalent to diversifying away from East Asian supply chains.

6.5 Strengthening Regional Architecture

Australia has actively participated in regional arrangements, including spearheading the creation of APEC and proposing new regional arrangements like the AEC, to help project its economic and strategic interests in Asia. The overriding goals have been to keep the United States engaged in the Western Pacific, maintain open markets in East Asia, and manage stable relations with large Asian powers. APEC was created to help manage the rise of Japan and create a framework for economic and political cooperation. The East Asia Summit and RCEP provide new arrangements to help manage the China relationship. RCEP was also a way to integrate India into the East Asian economy although thus far without success.

After the Asian financial crisis in 1997 and 1998, Asian economic cooperation deepened around the ASEAN+3 (China, Japan, and Korea) framework that left Australia out. During the 2000s, there was debate and competition in the region about developing an ASEAN+6 grouping to include Australia, India, and New Zealand, and whether the region should pursue an East Asian Free Trade Agreement amongst the ASEAN+3 grouping or a Comprehensive Economic Partnership in East Asia agreement with the ASEAN+6 grouping. ASEAN, Australia, and New Zealand agreed to start negotiations for an agreement in 2004, which they managed to conclude in 2010 in the form of AANZFTA. Having a 'bilateral' agreement like AANZFTA would end up being a prerequisite for joining the RCEP negotiations in 2013.

Some ambivalence towards ASEAN in the Australian government's economic and security strategy was a product of the difficulty of the Australian government engaging ASEAN as a collective and the slow pace of the consensus-driven decision-making process. By the mid-2010s, that had significantly shifted to an Australian appreciation of ASEAN-centred institutions and cooperation in the region with its convening power around the East Asia Summit and the RCEP negotiation process. By 2012, when RCEP was first proposed by Indonesia at the ASEAN Economic Ministers' Meeting, Australia was ready to participate in negotiations, given it was an ASEAN Dialogue Partner and had an existing bilateral economic agreement with ASEAN.

RCEP does not include the United States, Australia's security ally and guarantor. The importance of that trans-Pacific relationship was reflected by Trade and Investment Minister Andrew Robb's emphasis of RCEP as an agreement being negotiated in parallel to the TPP and both agreements as a pathway towards a Free Trade Area of the Asia-Pacific.

The then Trade Minister Robb said in 2014 that the:

RCEP is a mirror image of the TPP and it does include some common members like ourselves, the New Zealanders and a few others. My hope would be that these two trade groupings, which are ambitious and have open architecture, could lead to something which came together as the basis for a more regional approach.

(23 July 2014)

He then said in 2015 that:

RCEP would set the region up for some enormous opportunities in the years ahead on account of an exploding middle class. Together with the TPP this would lay the groundwork for helping to realise the ambition of a free trade area across the Asia Pacific.

(Earl, 2015)

With the US retreat from the TPP in 2017, Australia, along with Japan, was able to exercise joint leadership in concluding the CPTPP and salvage the agreement that same year with the remaining 11 members and contribute to further market opening and new rules for international commerce. The CPTPP kept open the possibility of a US return to the TPP, while RCEP was concluded in late 2019, signed in late 2020, ratified by most countries in late 2021, and came into force on 1 January 2022.

Trans-Pacific economic cooperation with the United States continues through APEC and various bilateral and global processes, but US absence in the TPP leaves a large gap in its role as a rule maker and in its ability to influence outcomes in East Asia. The Biden administration's Indo-Pacific Economic Framework aims to remedy that and there are discussions of leadership in digital economy rules, but a strategy is yet to be articulated (White House, 2022).

Trans-Asian economic cooperation with India and South Asia failed to progress with India's withdrawal from RCEP in late 2019. That was a significant missed opportunity for India and East Asia. Australia has since restarted negotiations on a bilateral economic agreement with India.

Australia had a strong interest in India's membership of RCEP beyond the bilateral relationship. A bilateral deal would have limited effect in opening up the Indian market, beyond giving Australia some narrow preferential access, instead of acting as leverage for larger market-opening reforms. A bilateral agreement with India would likely have been complementary with RCEP by delivering greater market access in areas directly of interest to Australia, while the broader agreement would help open up the Indian economy. Despite the disappointment from India's retreat from RCEP, Australia's interest was for the agreement to conclude with the remaining 15 members. Japan wavered on proceeding with the remaining 15 members, with public statements and a diplomatic effort in Southeast Asia that would have stalled the agreement (Bloomberg, 2019). India was seen as a counterweight against China's influence, and without India's participation, China was seen as too dominant in RCEP. Japan ultimately agreed that holding up the entire agreement because of India's failure to sign on was not in its strategic interests, as Australia and ASEAN were firm on the overriding importance of RCEP even with absent India.

Australian Prime Minister Scott Morrison was unequivocal and made it clear that the door will remain 'wide open' for India to join RCEP (Economic Times, 2019). Trade Minister Birmingham explained:

[W]e have to make sure that progress is realised amongst the 15 nations who are there without India. These make it easier for

Australian businesses to do business through the region and that is what allows us to keep growing our exports.

(Economic Times, 2019)

RCEP door has been left open for India, just as the TPP door has been left open for the United States. East Asian economies will continue to court both transregional powers, and the ASEAN-centred processes have the best chance at arrangements with the United States and India that are multilateral in character. As of May 2022, the UK, China, and Taiwan have submitted formal bids to join CPTPP with Korea deciding to do so imminently. Hong Kong and Bangladesh have indicated interest in joining the RCEP.

RCEP was designed by ASEAN policy strategists to buttress regional trade reform and lift Asia's growth potential in the global economy. The innovation and significance of RCEP for regional architecture are in its strengthening of ASEAN, entrenchment of the AEC process, consolidating four ASEAN+1 agreements, and bringing Northeast Asia into a binding agreement. It is also important because of its scale and conclusion at a time of rising protectionism and weakening of the WTO. At the time of its conclusion and ratification, RCEP was the only active, credible multilateral endeavour anywhere in the world, positioned to deliver a significant pushback on the retreat from globalisation and the advance of protectionism.

The RCEP is not simply another free trade and investment arrangement, however. It incorporates a cooperation agenda which is an essential element in building capacity for economic reform and in mutually reinforcing regional development in Southeast Asia over time.

6.6 The Economic Cooperation Opportunity

RCEP is the first region-wide binding agreement for East Asia with tariff cuts and new rules made legally binding. The modes of cooperation in APEC and the ASEAN processes like the AEC were voluntary and non-binding. Like the G20, they relied on forging consensus followed by unilateral action backed by peer support and peer pressure. That meant some countries would not keep pace with commitments, but it has proven a more sustainable model for integration, with East Asia becoming one of the most economically interdependent regions in the world driven by complex supply chains resulting in some of the world's highest intra-regional trade shares. Intra-ASEAN trade shares are relatively low compared to those of other regions, but ASEAN has used the AEC and regional processes to integrate into the global economy, especially with its large neighbours in Northeast Asia (Pangestu and Armstrong, 2021).

For East Asia, open regionalism was a way to ensure there was no region-wide preferential treatment that discriminated against large and important partners in North America or Europe. APEC entrenched that process across the Pacific. Many East Asian countries could not agree to preferential arrangements with neighbours with unresolved history or uneasy political relations at the expense of allies or the rest of the global economy (Armstrong and Drysdale, 2011).

The economic cooperation agenda in RCEP builds on and extends ASEAN processes to help countries implement the agreement, recognising the diversity of levels of development and capacity. That stands in contrast with other agreements that simply expect countries to meet the agreed commitments. The cooperation agenda in RCEP goes well beyond countries implementing the agreement to expand cooperation to new areas where principles of cooperation and interaction can be built and consensus forged. It provides a framework for deeper economic and political cooperation around reform, new rules, and be used creatively to engage other countries, including India.

The experience in economic cooperation has developed through ASEAN, APEC, and AANZFTA. These arrangements include mechanisms that allow officials, and to a lesser extent businesses and other stakeholders, to interact routinely, to build familiarity and understanding, and ultimately to build trust. Structured economic consultations and cooperation on a continuing and regular basis will be a feature of RCEP that goes beyond the agreements that define traditional FTAs.

The economic cooperation in RCEP has the potential to be deeper than that in APEC, focused on an East Asian agenda. The presence of the United States, the Russian Federation, and others means the agenda is much broader in APEC, and cooperation in East Asia focused on issues of common interest need not detract from trans-Pacific interests of RCEP members.

The Australian government has been an active leader in economic cooperation in forums like APEC. The experience in AANZFTA of successful capacity-building and technical cooperation support for ASEAN in areas like competition policy helped to build support for enshrining economic cooperation as one of the RCEP's pillars. But the economic cooperation in AANZFTA demonstrated the value of experience sharing and deeper cooperation beyond one-way capacity building (Healey, 2017). The Australian government has committed A\$46 million to a Regional Trade for Development Initiative for elevating economic cooperation in AANZFTA and RCEP (Birmingham, 2020d).

Beyond capacity building and technical cooperation, the economic cooperation agenda makes the RCEP agreement a 'living agreement' able to address issues of shared interest and priority as they evolve. There is an opportunity to sort through some of the most important issues that confront regional economic diplomacy today. Armstrong and Drysdale (2022) propose coordination of pandemic recovery factors such as travel protocols, digital economy, infrastructure investment principles and standards, dispute mediation, energy transition, supply chain resilience, and sovereign debt management as potential issues from which to choose for initial cooperation. The agenda can be flexible around pressing issues of common interest, backed up by four joint committees that report to ministers.

The economic cooperation agenda in RCEP will be supported by secretariat and regular ministerial level and leader-level meetings around the ASEAN plus summits. That has substantial potential to reduce political uncertainties

and build a foundation for political cooperation. Sharing reform experiences and building confidence and trust through economic cooperation necessarily have a payoff for political cooperation.

The 15-member grouping and the cooperation agenda provide a framework for making progress on shared interests between countries that are experiencing difficult bilateral political relations. Australia, China, Japan, and Korea, for example will be able to cooperate on shared regional issues of importance despite tensions that make bilateral cooperation difficult.

There are many politically difficult relationships embraced within the RCEP membership that are likely to surface from time to time. These are not only most obvious in Northeast Asia but also currently present between Australia and China. Managing to conclude the RCEP agreement despite the political differences within the membership, and during a once in a lifetime pandemic, and in the face of US–China strategic competition that all act as significant headwinds is a testament to ASEAN and its centrality in regional cooperation.

The dispute settlement provisions in RCEP can complement the WTO's dispute settlement system and has the opportunity to strengthen one of the WTO's most important features. Ministers and leaders in RCEP have the opportunity to promote and support initiatives like the Multiparty Interim Appeal Arbitration Arrangement to all RCEP members, while the WTO dispute mechanism is in abeyance (only Australia, China, New Zealand, and Singapore are currently participants amongst the RCEP members).

While RCEP is a departure from open regionalism with preferential tariffs and other arrangements that discriminate against non-members, RCEP's institutional setting within ASEAN will reinforce its inclusive character and encourage its multilateral orientation and role. Progress on rules and reforms that result from the economic cooperation in RCEP is likely to be non-discriminatory. The economic cooperation agenda provides a platform for multilateralising RCEP over time, just as ASEAN multilateralised the preferences in the ASEAN FTA (Hill and Menon, 2014). Just as the ASEAN members reduced their most favoured nation tariffs to the preferential tariff rates in the ASEAN FTA, RCEP can extend the provisions to non-members over time.

RCEP is the world's largest regional agreement and adds significant confidence to the global economy at a time when global trade and the WTO are under threat. If RCEP is able to multilateralise over time, that would further open up East Asian markets to the rest of the world and add further confidence.

6.7 Conclusion

RCEP helps to secure Australia's economic, political, and strategic interests internationally. Australia's economic engagement is concentrated in East Asia, and the RCEP agreement helps to keep the East Asian markets open, more predictable with new rules and commitments. RCEP also elevates political cooperation with ASEAN and Northeast Asian partners because of the

regular ministerial meetings and annual leaders' level meetings alongside ASEAN-chaired meetings that it incorporates.

ASEAN and its centrality have become more important for Australia and are increasingly being appreciated as vital to its interests in the region. Australia now has an annual summit with ASEAN leaders. RCEP was sold to the Australian public as an ASEAN-led and ASEAN-centred agreement, involving significant regional economies. The agreement and its economic cooperation agenda can help Australia manage its difficult relationship with China across issues of shared interest from pandemic recovery, new rules and disciplines, and continuing market-oriented reforms. The new rules can be significantly upgraded over time through consensus-building in the cooperation framework. And there will be an opportunity to gradually multilateralise RCEP consistently with East Asia's approach to open regionalism.

RCEP remains open to India, an important economic and strategic partner for Australia. It is also a pathway towards the Free Trade Area of the Asia-Pacific and better connecting the trans-Pacific economies. The trans-Pacific and trans-Asian economic relationships remain plagued by uncertainty, but the RCEP economic cooperation agenda could develop into a framework for engaging non-members like the United States and India around shared interests. RCEP brings a significant degree of certainty to East Asian economic and political affairs.

Australia's interests in an open multilateral trading system face major challenges and uncertainty from pandemic recovery, great power competition, and a weakened WTO. RCEP helps to secure those interests in East Asia, which is already a major centre of the global economy.

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Notes

- 1 See for example Reuters (2016).
- 2 See for example New York Times (2020).
- 3 See direct quotes from Australia's former Trade Ministers Simon Birmingham (Birmingham, 2020b) and Dan Tehan (Tehan, 2022).
- 4 The Cairns Group (Cairns Group of Fair Trading Nations) is an interest group of 19 agricultural exporting countries, composed of Argentina, Australia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Pakistan, Paraguay, Peru, the Philippines, South Africa, Thailand, Uruguay, and Viet Nam. The Cairns Group seeks to liberalise global trade in agricultural produce.

- 5 Joint Standing Committee On Treaties Inquiry into the Regional Comprehensive Economic Partnership Agreement, Monday, 10 May 2021.
- 6 The political relationship between Australia and China deteriorated throughout 2020 and 2021 with all political communications frozen, Chinese trade sanctions on Australian goods, and mutual rhetorical hostility from both governments. The bilateral relationship started to deteriorate from around 2017. See Chubb (2022) for an explanation of the securitisation of 'China influence' in Australia that explains the hardening of the Australian position.
- 7 CLM stands for Cambodia, Lao PDR, and Myanmar as a group.
- 8 Interview with Mugliston and Church, 29 September 2021.

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7 China and the Regional Comprehensive Economic Partnership

An Economic and Political Perspective

Zhang Yunling

7.1 Introduction

East Asia became an economic region from the 1970s formed by the ‘flying geese’ model led by Japan and followed by the ‘four dragons’, that is Singapore, the Republic of Korea (henceforth, Korea), Hong Kong, and Taiwan, and then joined by Malaysia, Thailand, and the Philippines. Based on the reform and opening-up policy and integration with East Asia, China became an important production centre in the region and an active player in regional affairs. China joined the Asia-Pacific Economic Cooperation (APEC) forum in 1991 and the Association of South East Asian Nations (ASEAN)-led East Asia dialogue (ASEAN plus China, Japan, and Korea) in 1997 after the 1997 Asian financial crisis. China initiated to negotiate a free trade agreement (FTA) with ASEAN as a group in 2001, and a formal agreement was signed the following year to start the negotiation process, which was concluded in 2010.

The China–ASEAN FTA (CAFTA) was a pioneer to drive more ‘ASEAN+1’ FTAs in East Asia that created a complex interaction of different rules in the region. With this background, to build an integrated framework for East Asia is important for regional cooperation. A feasibility study group for the East Asia FTA (EAFTA, ASEAN+3) was established to provide a policy report to the East Asian leaders. Another study group was formed for the Comprehensive Economic Partnership in East Asia (CEPEA, ASEAN+6). Each group presented its study report to the leaders of ‘ASEAN+3’ and the East Asia Summit (EAS), respectively. ASEAN and other countries in East Asia agreed in 2012 to start negotiations for the Regional Comprehensive Economic Partnership (RCEP). The RCEP negotiations were concluded at the end of 2020 and came into force on 1 January 2022. The coming into force at time of the agreement against the backdrop of the ongoing COVID-19 pandemic and increasing protectionism shows that in the face of challenges, East Asian countries choose cooperation in the spirit of partnership.

As one of the world’s major economic centres, East Asia had no regional-based FTAs, while the European Union and North America had already established theirs in the 1990s. RCEP plays an essential role in integrating the East Asian market based on opening up and rule and standard

making. It will help East Asia to transform its economic structure and build a new engine for future economic development. Currently, the production network in East Asia is export oriented with North America as the major market, which is vulnerable. East Asia needs to build a strong foundation for regional economic development by improving the regional environment and generating intra-regional dynamics.

COVID-19 has changed the economic environment as each country adopted restrictive measures to control the pandemic, including restricting trade transactions and personal travel, as well as implementing protectionist policies in the name of economic and social security. RCEP gives a clear and strong signal to the region and the world that East Asian countries are determined to keep the market open, which helps to build the region's resilience and dynamics through a cooperative post-pandemic economic recovery process and contribute to the recovery and growth of the global economy.

China has been active and supportive in regional networking building in APEC, 'ASEAN+1', 'ASEAN+3', and RCEP. As China is a centre for regional production and supply chain networks, it is beneficial to China to participate and promote regional networking. China's participation in RCEP demonstrates China's resolve in implementing and promoting a new round of opening up. China will have remarkable gains from RCEP.

China has adopted a new 'dual circulation' development strategy that intends to mobilise the domestic market potential and enhance the domestic technology innovations. The key for the dual circulation strategy is to mobilise domestic capacity to support economic growth and at the same time to establish close connections between domestic demand and overseas markets. By participating in RCEP, China's role in the regional production networks and supply chains becomes more important as China will import more and invest more in an open and rules-based regional market. At the same time, China will benefit from closer integration as a member of RCEP. RCEP becomes more important for China to be a part of a regional grouping in the face of the exclusive Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Indo-Pacific initiative.¹

7.2 China's Strategy for RCEP

Since 1978 when China started its reform and opening-up agenda, due to its special advantage in low labour costs as well as government pro-market policies and incentives, China gradually became one of the most attractive places for foreign direct investment, for the domestic market, and for the re-export production base. By the late 1990s, China became a key production centre for the Asia-Pacific, especially for East Asia. For China, it is essential to join the international economic system, like the World Trade Organization (WTO) and regional economic agreements, like FTAs. After joining the WTO, China began to make FTAs a key strategy.

7.2.1 *FTAs as a Strategy*

The first initiative is to promote CAFTA. CAFTA started with a comprehensive economic cooperation framework in 2002, which was concluded in 2010. ASEAN+3 leaders agreed to initiate the East Asia FTA (based on ASEAN plus China, Japan, and Korea) in 2004. China gave strong support as it believed it would enhance regional cooperation and make an expanding market for China. Chinese leaders committed to organise an expert group to conduct the feasibility study on the EAFTA with the participation from 'ASEAN+3' members.² The expert group report on the EAFTA was presented to the Economic Ministers' meeting in 2006. Later, China assigned an expert to participate in another feasibility study on CEPEA based on the ASEAN+6 (ASEAN plus China, Japan, Korea, Australia, New Zealand, and India) framework, and the report was presented to the ASEAN+6 Economic Ministers' meeting in 2008. The Chinese expert also participated in the EAFTA phase II study led by Korea, and the report was presented to the ASEAN+3 Economic Ministers' meeting in 2009. At the same time, China also actively promoted China, Japan, and Korea (CJK) FTAs as these three economies are the centre for East Asia, and especially as the CJK FTA. The CJK FTA could be a facilitator for the East Asia FTA. The academic studies were conducted by experts from China, Japan, and Korea from 2003. Based on the improved understanding and consensus, China, Japan, and Korea established an official expert group to conduct the feasibility study on the CJK FTA in 2010. The negotiation for the CJK FTA started in 2012, and an agreement on investment promotion, facilitation, and protection for China, Japan, and Korea was started in the same year.

In 2012, ASEAN decided to launch the RCEP negotiations. China supported ASEAN's leading role in coordinating the negotiations. Although China favours EAFTA, it quickly adjusted its policy when ASEAN decided to launch RCEP based on ASEAN+6. This shows that China has adopted an active, flexible, and pragmatic strategy in participating and promoting the regional arrangements in East Asia.

7.2.2 *Importance of RCEP*

While East Asia had made no progress on either the EAFTA or the CEPEA, the United States launched the TPP in 2009.³ The TPP included Japan as well as four members of ASEAN but excluded China. This urged ASEAN to take action to start RCEP bringing ASEAN and other East Asian countries together. In East Asia, the multiple 'ASEAN+1' FTAs create a 'spaghetti bowl effect' because there are so many different rules and standards. RCEP intends to build up an integrated framework through new negotiations.

RCEP is the most significant outcome of East Asian economic integration aimed at establishing a modern, comprehensive, high-quality large regional FTA. The agreement covers comprehensive areas including Initial Provisions

and General Definitions, Trade in Goods, Rules of Origin, Customs Procedures and Trade Facilitation, Sanitary and Phytosanitary Measures, Standards, Technical Regulations, Conformity Assessment Procedures, Trade Remedies, Trade in Services, Temporary Movement of Natural Persons, Investment, Intellectual Property, Electronic Commerce, Competition, Small and Medium-sized Enterprises, Economic and Technical Cooperation, Government Procurement, General Provisions and Exceptions, Institutional Provisions, Dispute Settlement, and Final Provisions, as well as four Market Access Annexes. RCEP provides a mega framework to integrate trade and economic rules within the region by bringing together five ASEAN '10+1' FTAs with China, Japan, Korea, Australia, and New Zealand as well as India.⁴

RCEP deepens regional industrial and value chains by harmonising the rules of origin and promoting cross-border logistics by facilitating customs procedures, as well as enhancing the transparency of investment policies by adopting the negative list approach to advance investment liberalisation.⁵ For merchandise trade, over 90% of goods will be eventually zero tariff. Services trade and investment are much more open than existing 10+1 FTAs. RCEP also includes new topics such as intellectual property, e-commerce, competition policies, and government procurement. RCEP takes the inclusive approach by according the least developed countries special and differential treatment that is helpful for East Asia to build an inclusive and balanced development model.

China, Japan, and Korea are the major economies of East Asia. RCEP provides a broad regional base for China, Japan, and Korea to build their open economic network. The three countries have not established their FTA yet, although negotiations were started the same year as the RCEP negotiations. China is the largest trading partner for Japan and Korea, and both nations are amongst China's top five trading partners. Despite the volume of trade flowing between these countries, China and Japan had not previously signed an FTA. As a result, tariffs were determined by the most favoured nation treatment standard stipulated by the WTO. RCEP changes this. Ultimately, China, Japan, and Korea may gain far more from this agreement than ASEAN through the new linkages encouraged by RCEP's tariff reductions (Graham, 2021). RCEP will give them an opportunity to establish the FTA for a higher level that will help RCEP to be advanced.

The world economy is facing serious challenges from the emerging trade and investment protectionism, unilateralism against other parties, and the COVID-19 pandemic that caused a slowdown in growth, uncertainty, and erosion of confidence. RCEP will boost the confidence of East Asian countries as well as of the world business community in keeping the market open and cooperative, which is crucial to boost economic growth. RCEP sends a strong signal that East Asian countries support liberalisation and cooperation in both the regional arrangements and the multilateral trading system. Also importantly, East Asian countries insist on following an inclusive doctrine to bring the countries together with great diversity in both political systems and economic levels.

The RCEP free trade area is a new milestone in regional economic integration in East Asia. It will help to improve the overall economic environment in the region by reducing business costs and the trade creation effect. RCEP will also gradually bridge the development gap amongst its members, promote coordinated and balanced regional development, and foster a new pattern of integrated development for an open regional economy by stepping up economic and technical assistance to developing and least developed economies.

The RCEP members' economic structures are highly complementary, and they will help to enhance regional industrial, supply and value chains by eliminating barriers of trade in goods, services, and investment, as well as harmonising the rules and standards and facilitating customs procedures, inspection, and quarantine requirements. It is expected that RCEP will increase 0.86% of gross domestic product (GDP), 18.3% and 9.63% of export and import, respectively, and 1.47% of investment for East Asia by 2035. East Asia will keep its dynamics and be the growth centre for the world economy.⁶

7.2.3 China's Endeavour

RCEP is a major progress made by China's endeavour to implement its free trade area strategies. RCEP will become an important platform for China to expand its opening up to the outside world. A huge integrated market under RCEP Agreement will release enormous potential and further promote intra-regional trade and investment flows, which will help China further optimise its foreign trade and investment architecture, bring domestic rules in line with high-standard international trade and investment rules, and make institutional innovations to support an open economy of higher standards through more comprehensive, in-depth, and diversified opening up.

RCEP will help Chinese firms in all sectors to further engage in market competition and enhance their ability to allocate resources in both the international and domestic markets. This will help China facilitate domestic innovation, reform, and development through greater opening up; continuously transform and upgrade various sectors; consolidate its position in regional industrial and supply chains; provide effective support for virtuous flows in the national economy; move faster to foster new strengths in international economic competition and cooperation; and promote high-quality economic development.

RCEP will add much more substance to China's FTA network. Moving faster to implement the FTA strategies is an important element in China's new round of opening up. After signing RCEP Agreement, China has a total of 19 free trade agreements signed with foreign countries and 26 free trade partners. China and Japan have established free trade relations through RCEP Agreement, which marks the first time for China to sign a free trade agreement with one of the world's top 10 economies and represents a major breakthrough in the implementation of its FTA strategies. With RCEP, the trade between China and its free trade partners will account for a larger share of about 35% of China's total foreign trade. The agreement will greatly increase the value of China's FTA network (MOFCOM, 2020).

RCEP gives China a unique opportunity to engage a mega FTA. The US has launched a comprehensive strategic competition against China, and for that, it has made lots of measures to exclude China ranging from unilateral sanctions and decoupling to creating the ‘reliable supply chains’. The negotiation of the China–US investment agreement ended with no sign to resume in the near future, and a ready China–EU investment agreement was suspended due to political disputes. By providing common rules and standards, RCEP will enhance the real economic linkages amongst the member economies and enhance the spill-over effect of China’s economic potentials to other economies. It is expected that RCEP will increase 0.35% of GDP, 7.59% of export, and 10.55% of imports for China by 2035.⁷ By establishing an open regional framework, RCEP will strengthen the supply chain synchronisation amongst the regional members, which has been disrupted by the recent COVID-19 pandemic and US decoupling actions.

7.3 China and RCEP Negotiations

7.3.1 Gradual Approach

RCEP is considered as a high-standard and modern agreement including both traditional areas and a list of new areas. But at the same time, RCEP has its own approach, that is a gradual and realistic approach to move to the final goal as a high-standard and modern agreement.

RCEP is based on five ASEAN+1 FTAs, but it is a new agreement with a higher level of liberalisation and broader scope of subjects. Although the existing bilateral and ASEAN+1 FTAs continue to be effective, every member must adhere to RCEP rules.

While keeping high standards as a goal, RCEP takes inclusiveness and comfortability as the basic line by providing special and differential arrangements to the less developed members, and different levels of liberalisation commitments for different members are allowed according to their capability and internal conditions. For example while taking the negative list approach as the basic guideline, allowing some members to take the positive list approach as a start and adopt the negative list approach within a period of time.

Due to the complexity of RCEP members’ economies and their different interests, the negotiation process was hard. Originally, RCEP’s negotiations should have been concluded in 2015, but only the agreement for market access of trade in goods was reached. The negotiations slowed down due to the difficulties. The first RCEP leaders’ meeting was held in 2017, and the leaders made clear that RCEP should be inclusive, and they committed to concluding the RCEP negotiations by 2020. As stated by the leaders,

While this negotiation continues to be a complex and challenging task, we reaffirmed our commitment to achieve a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement negotiated as a single undertaking that would support an open and enabling trade and investment environment in the region,

and at the same time, RCEP should take into consideration the different levels of development of the participating countries and include appropriate forms of flexibility including provision for special and differential treatment, plus additional flexibility to the least-developed ASEAN Member States, consistent with the existing ASEAN+1 FTAs, as applicable (Xinhua, 2017). With strong support, the RCEP negotiations achieved fast progress, and all major issues were solved by the end of 2019 that paved the way to conclude them on time in 2020. Although India quit RCEP in 2019, RCEP will welcome India when it is ready.

7.3.2 China in the Negotiations

Although China supports a modern and high-standard RCEP, it favours a gradual approach, that is starting with an inclusive and realistic agreement and moving forwards step by step. During the negotiation rounds, the Chinese team worked hard to negotiate its commitments with every member.⁸ The market access arrangements are mostly based on bilateral negotiations, with two key factors to be considered. One is the different existing FTAs, and another is different RCEP members. In general, China's commitments of liberalisation are higher than the existing FTA agreements for trade in goods, services, and investment.

China takes RCEP as a pressure point and also a good opportunity to conduct the deepening reform and opening up as it is a high-quality mega agreement. Premier Li Keqiang held a special State Council meeting in February 2021 on the domestic efforts for RCEP to take effect and get implemented and called for deepening reform and opening up. He emphasised the need to speedily push forward the reform of related domestic management mechanisms, step up the formulation of domestic management regulations on origin and implementation guidelines, refine work procedures, and make targeted technical preparations to ensure that the agreement can be executed on the ground as soon as it takes effect (State Council of the People's Republic of China, 2021). China is the first country that ratified RCEP agreement, and the central and local government agencies have made serious preparations ranging from publishing an official introductory text book, making action plans, to organising training classes for local officials and the business community.⁹

7.4 Evaluation of China's Commitments¹⁰

7.4.1 Trade in Goods

According to RCEP agreement, 90% of trade in goods will be liberalised within about 20 years. Singapore committed zero tariff from start, but some other countries need more than 20 years to realise their commitments, for example, Indonesia and Viet Nam will need 23 and 25 years, respectively, and China and Korea will need 35 years to realise their commitments.¹¹ China's

Table 7.1 Final Commitments of Liberalisation (Trade in Goods, 0% Tariff Items)

<i>Member</i>	<i>ASEAN</i>	<i>China</i>	<i>Japan</i>	<i>Korea</i>	<i>Australia</i>	<i>New Zealand</i>
China	90.5%		86%	86%	90.5%	90%
Japan	88%	88%		81%	88%	88%
Korea	90.7%	86%	83%		90.5%	90.6%
Australia	98.3%	98.3%	98.3%	98.3%		98%
New Zealand	91.8%	91.8%	91.8%	91.8%	91.8%	

Abbreviation: ASEAN = Association of Southeast Asian Nations.

Source: Yu et al. (2021)

Table 7.2 ASEAN Final Commitments of Liberalisation (Trade in Goods, 0% Tariff)

<i>Member</i>	<i>China</i>	<i>Japan</i>	<i>Korea</i>	<i>Australia</i>	<i>New Zealand</i>	<i>Average</i>
Singapore	100%	100%	100%	100%	100%	100%
Brunei	98.2%	98.2%	98.2%	98.2%	98.2%	98.2%
The Philippines	89%	91.1%	90%	91.3%	90.5%	90.6%
Malaysia	90.2%	90.2%	90.2%	90.2%	90.2%	90.2%
Indonesia	89.5%	89.5%	89.5%	90.8%	91.5%	90.2%
Thailand	86.3%	89.8%	90.3%	91.3%	91.3%	91.3%
Viet Nam	85.6%	86.7%	86.7%	89.6%	89.6%	87.6%
Cambodia	86%	86%	86%	86%	86%	86%
Myanmar	86%	86%	86%	86%	86%	86%
Lao PDR	86%	86%	86%	86%	86%	86%

Abbreviation: ASEAN = Association of Southeast Asian Nations

Source: Yu et al. (2021)

commitments are from 86% to 91%. China's commitments to ASEAN, Australia, and New Zealand are higher than Japan and Korea as China has FTAs with ASEAN, as well as Australia and New Zealand¹² (Tables 7.1 and 7.2).

China and Japan are the largest two economies in RCEP, and they have not established a bilateral FTA. RCEP provides a mega FTA framework for them to make the commitments. The China's ratio of zero tariff to Japan will be raised from the current 7.6% (tariff items, most favoured nation) to 86%, while Japan's ratio of zero tariff to China will be raised from 4.3% to 88% (Table 7.3).¹³

It is expected that the liberalisation level will be higher than the commitments under RCEP if they could establish either a bilateral FTA or a trilateral FTA of China, Japan, and Korea.¹⁴

7.4.2 Service Liberalisation

In general, RCEP commitments on service liberalisation are higher than those in the WTO's General Agreement on Trade in Services and also higher than

Table 7.3 Tariff Reduction Commitments Between China and Japan in RCEP

<i>Tariff level</i>	<i>China to Japan</i>		<i>Japan to China</i>	
	<i>Items</i>	<i>Import share</i>	<i>Items</i>	<i>Import share</i>
0% now	25%	35%	57%	65%
0% by 11 years	72%	49%	75%	72%
0% by 16 years	83%	70%	87%	90%
0% by 21 years	86%	79%	88%	93%
Exception	13.6%	15%	12%	7%

Source: Yu et al. (2021)

those in the ASEAN+1 FTAs. There are two approaches: the positive list and the negative list. While eight countries (China, New Zealand, the Philippines, Thailand, Viet Nam, Lao PDR, Cambodia, and Myanmar) adopted the positive list, the other seven members adopted the negative list.¹⁵

China's commitments on service liberalisation are substantial, covering 128 items based on the United Nations Central Product Classification focusing more on services for commerce, telecommunication, finance, and transportation. China committed to liberalise a further 22 service sectors based on those for its WTO accession, including research and development, management service, air service, and manufacturing service, and China raised the liberalisation levels of 37 sectors for the WTO accession. However, China's commitments for service and investment liberalisation in RCEP are lower than its commitment in its domestic experimental free trade zone and that means there are still large space for further liberalisation.

7.4.3 *Investment Liberalisation*

In general, the commitments of the investment liberalisation are higher than those of the existing ASEAN+1 FTAs. The negative list approach was adopted by all members, but seven countries (Japan, Australia, Korea, Brunei, Singapore, Malaysia, and Indonesia) adopted the negative list approach for all sectors, whilst eight countries (China, New Zealand, the Philippines, Thailand, Viet Nam, Lao PDR, Cambodia, and Myanmar) for five sectors (manufacture, agriculture, forestry, fishery, and mining). Due to the sensitivity and complexity of the investments, the commitments for every member are various.

China's commitments for investment liberalisation are similar to those for service liberalisation. It is the first time China has adopted the negative list approach and pre-establishment national treatment in RCEP for making an FTA.¹⁶ For some sectors, like seed, fishery, telecommunication equipment, the commitments for liberalisation are similar to those for the domestic free trade zones.¹⁷ Some of them, like cars (except new energy cars), medicine (mainly for Chinese traditional medicine), tobacco, are not different from the domestic regulations.

Table 7.4 Intellectual Property Rights Agreements in China's Free Trade Agreement

<i>Free trade agreement</i>	<i>Intellectual property rights coverage</i>
China–ASEAN	No
China–Singapore	No
China–New Zealand	TRIPS and other agreement both sides signed
China–Australia	TRIPS and other agreement both sides signed
China–Korea	TRIPS and other agreement both sides signed
RCEP	7 agreements listed

Abbreviations: ASEAN = Association of Southeast Asian Nations, TRIPS = Trade-Related Aspects of Intellectual Property Rights.

Note: See RCEP chapter on IPR. Except for the Marrakesh Treaty, China signed the other six agreements required by RCEP. There should be no problem for China to sign the treaty.

Source: Yu et al. (2021)

7.4.4 *New Areas*

RCEP's intellectual property rights (IPR) chapter covers comprehensive items and provides higher-level IPR protection than the Trade-Related Aspects of Intellectual Property Rights, and it takes in the CPTPP's IPR chapter and also part of the Anti-Counterfeiting Trade Agreement. For China, it is the most comprehensive coverage in its existing FTAs. However, in digital areas, China needs to do more work on IPR protection (Table 7.4).

RCEP has established high-level rules for electronic commerce (e-commerce) that will play an important role in facilitating e-commerce in East Asia. The rules include mainly non-paper trade, e-recognition and e-signature, online consumer rights, private information, online trade supervision cooperation, tax-free electronic transformation, etc. China will for the first time commit the rules for electronic transformation and computer installation, although its domestic regulations need to be further improved in order to accord with RCEP rules.

RCEP has established comprehensive and high-level rules for competition policy covering legislation, law enforcement cooperation, consumer right protection, etc. China has accomplished its domestic regulations and laws that accord with RCEP rules. As for law enforcement cooperation, China has no problem in this area as it has signed cooperation agreements with many countries including some RCEP members like Japan.

China has agreed for the first time on government procurement rules in its FTAs including principles, transparency cooperation, inspection, etc. In the existing bilateral FTA agreements, government procurement is only listed as bilateral cooperation not as rules to be implemented. However, China's government procurement policy is still in process. China joined the Agreement on Government Procurement (GPA) under the WTO as an observer in 2002 and joined the negotiations from 2007 with increasing commitments covering local government procurement, but it is still not yet a full member of the GPA. RCEP's

commitments on government procurement are lower than the GPA 2012 rules. As China has not joined GPA 2012, it gives room for future negotiations.

Dispute settlement rules are very important for FTAs. RCEP has a chapter for dispute settlement that accords with the existing bilateral FTAs. China's domestic regulations in general accord with RCEP rules.¹⁸

China will use RCEP as an opportunity to facilitate domestic reform. China has set up several domestic free trade zones as an experiment. Many commitments in RCEP actually accord with those adopted in these free trade zones, which means that the regulations for domestic free trade zones will be extended to all of the country. China will continue reforms in areas relating to the market system and opening-up policies. On 23 December 2021, just before RCEP came into force, Premier Li Keqiang emphasised that Chinese companies should use RCEP as an opportunity to enhance the ability for competition in an open market environment and adopt the high-level rules and standards.¹⁹ As stated by the State Council, the deal will boost China's efforts to stabilise foreign trade and investment, promote industrial upgrading, and help the country set up economic and trade rules that are compatible with high-quality international standards (State Council of the People's Republic of China, 2022).

7.5 Political Dimension of RCEP

RCEP shows the confidence and will of East Asia in facing the challenges from the COVID-19 pandemic and emerging protectionism and political discrimination. There are several serious challenges to the world and regional economic development. The pandemic has caused the most serious threat to the world with millions of people dying. The broken supply chains due to the measures taken for dealing with the pandemic, as well as emerging protectionism by the anti-globalisation movement, political conservatism, etc., have changed the economic environment from positive to negative. RCEP shows the political will of East Asian countries to insist on openness and cooperation that are crucial for the post-pandemic economic recovery and the longer future dynamics of East Asia.

East Asia as an integrated economic region started in the 1970s with the flying geese model led by Japan followed by the four dragons and then some other Southeast Asian countries like Malaysia, Thailand, the Philippines, and Indonesia. China's rise changed the regional production structure from a linear supply chain into a network that expands the regional economic space. ASEAN-led 10 + 1 FTAs help to reduce the barriers of inter-regional trade and investment, but they also create so-called 'spaghetti bowl' effects, that is different rules interacting together. RCEP as a mega-regional agreement created an integrated rules-based open market space that helps to establish an integrated regional production and supply chain network. Based on this network, East Asia will be an open and rules-based economic space with great potential of technological innovations, financial assets, and inter-regional demand.

Politically, RCEP plays a special role in bringing East Asian countries together with diversified ethnicity, cultures, religions, as well as political systems. ASEAN is the pioneer in building such a new regional identity that makes the Southeast Asian region united and prosperous. The value of ASEAN as a regional organisation lies in building an inclusive regional platform for all members to participate in and benefit from. By working together and sharing interests under RCEP framework, East Asia as a region will be more integrated and supported by the multi-layered cooperation institutions like ASEAN 10+1, ASEAN 10+3, the EAS, as well as the Chiang Mai Initiative, the ASEAN+3 Macroeconomic Research Office, which will be helpful to improve overall relations. The relations amongst East Asian countries are complicated, ranging from the historical legacy, current disputes, as well as big power competition, etc. The integrated economic interests based on the regional institutions and cooperative agendas provide the foundation and consolidated efforts to make the region stable and peaceful through sound bilateral relations and regional trade arrangements.²⁰

China does not end its efforts with RCEP. It is keeping its openness by applying to join the CPTPP and the Digital Economy Partnership Agreement established by New Zealand, Singapore, and Chile. China has lots of work to do to implement RCEP agreement by deepening its structural and institutional reforms. China is taking concrete measures to make its domestic laws, regulations, and policies accord with RCEP and to take advantage of the opportunity to promote its economic engagement in East Asia. Additionally China, as the largest economy in East Asia, will play a central role in keeping the region dynamic. China will enhance its role by strengthening the efforts in developing its agendas like the Belt and Road Initiative and the Asia Infrastructure Investment Bank. Infrastructure building is essential for East Asia to improve the development environment and the efficiency of supply chains.²¹

However, the challenges for China and East Asian partners are: (i) how to rebuild the supply chains that are either weakened or broken by the pandemic; (ii) how to overcome the new barriers created by government policies in the name of national security in both trade and investment areas; and (iii) how to overcome the new divisions created by the US policy under its comprehensive strategic competition with China that has led to the exclusive arrangements in East Asia.

7.6 Conclusion

RCEP is essential to East Asia in facing the new challenges. China is the largest economy in East Asia and plays a key role in networking the regional production and supply chains. The foundation of RCEP is rules-based economic networking and sustainable dynamism. China supports the global-based multilateral system and regional integration and cooperation. RCEP is a unique opportunity for China to deepen its reform and opening up and enhance close relations with East Asian countries.

In facing the changing situation, it is crucial for East Asia to insist on the principles of openness and inclusiveness. While only openness makes East Asia attractive and dynamic, only inclusiveness can make East Asia an integrated region. RCEP plays the role of sharing the spirit of openness and inclusiveness in East Asia.

Notes

- 1 The TPP had a clear strategic design to exclude China, and although the CPTPP is considered to be a successor of the TPP, China openly announced that it has a strong interest to join it. Nevertheless, it seems that it would be difficult for all CPTPP members to accept China.
- 2 Chinese Premier Wen Jiabao announced that China would like to lead the expert group for EAFTA feasibility study during the ASEAN +3 leaders' meeting in 2004.
- 3 President Obama announced in November 2009 the United States' intention to participate in the Trans-Pacific Partnership (TPP) negotiations to conclude an ambitious, next-generation, Asia-Pacific trade agreement that reflects US economic priorities and values (Office of the United States Trade Representative, n.d.).
- 4 India decided to quit the RCEP negotiations; however, RCEP members would welcome India to join in the future.
- 5 Some members including China start with the positive list approach, but they will move to the negative list approach within a few years after RCEP is implemented.
- 6 See the evaluation on the impact of RCEP: <http://finance.sina.com.cn/tech/2022-01-05/doc-ikyakumx8362208.shtml>
- 7 See evaluation on the impact of RCEP: <http://finance.sina.com.cn/tech/2022-01-05/doc-ikyakumx8362208.shtml>
- 8 At the State Council executive meeting, Premier Li Keqiang urged Chinese-related departments to complete the follow-up work of RCEP agreement in order to conclude the negotiation by the end of 2020 (State Council of the People's Republic of China, 2019).
- 9 All-level government apartments from the provincial to the municipal are asked to make plans for implementing and utilising RCEP. For example one can find the action plan for Shandong Province from the website: see www.mofcom.gov.cn/article/i/jyjl/j/202104/20210403051666.shtml
- 10 This section is based on the document of RCEP agreement (ASEAN Secretariat, n.d.) and the analysis of Yu et al. (2021).
- 11 For most of the tariff items, China and the Republic of Korea will realise their commitments within 20 years. But due to the structural differences, the liberalisation ratios are relatively low, and 86% tariff items are to be zero finally.
- 12 China's commitments in RCEP with Australia, New Zealand, and Republic of Korea are lower than in their bilateral agreements that leave space for RCEP to be improved in the future.
- 13 Agriculture products are the sensitive ones. Japan's liberalisation commitments for agriculture products to China will be raised from the current 35.8% (most favoured nation) to 56.4%, while China's commitments will be raised from 7.2% to 86.2% by 2043. All results are based on the analysis of Regional Comprehensive Economic Partnership Agreement.
- 14 See also Table 2-1-7 in Yu et al. (2021). RCEP provides a legal framework for China and Japan to open their market as they have no bilateral trade agreement. See Watanabe (2022).
- 15 China, New Zealand, the Philippines, Thailand, and Viet Nam committed to adopt the negative list approach within 6 years, but Lao PDR, Cambodia, and Myanmar within 15 years.
- 16 China also adopted these in the China-European Union Bilateral Investment Treaty, but it was suspended by the European Union.

- 17 China set up several domestic free trade zones for higher liberalisation experiment.
- 18 As for transparency, in some points, Chinese domestic regulations are different from RCEP requirement that may be room for further negotiation and be settled by the improvement of China's domestic regulations.
- 19 Li Keqiang chaired the State Council meeting, <https://baijiahao.baidu.com/s?id=1719975157045328998&wfr=spider&for=pc>
- 20 It is considered that RCEP can bring huge strategic benefits to China (Su, 2022).
- 21 However, some are worried that China will use RCEP to strengthen its influence in the region. For example as argued by Robert Ward, RCEP is a significant geopolitical win for China. The deal reinforces the economic interdependence of Asia. Tighter integration will thus bring the region closer into China's economic orbit. Beijing will use its economic heft as by far the region's largest economy to exert influence on regulations and standards setting within the bloc, as it is already explicitly trying to do in the countries included in its Belt and Road Initiative. See Ward (2020).

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8 Japan and the Regional Comprehensive Economic Partnership (RCEP)

Mie Oba

8.1 Introduction

Sixteen countries – the 10 Association of Southeast Asian Nations (ASEAN) Member States, Japan, China, the Republic of Korea (hereafter, Korea), Australia, New Zealand, and India – announced the start of the Regional Comprehensive Economic Partnership (RCEP) negotiations in November 2012. The initial aim was to conclude the agreement by 2015, but the negotiations were complex, and their conclusion was repeatedly postponed. In addition, India withdrew from the negotiations in November 2019. At the end of 2020, RCEP was signed by 15 countries, excluding India. Subsequently, Japan, China, Brunei Darussalam, Cambodia, the Lao People’s Democratic Republic, Singapore, Thailand, and Viet Nam completed their ratification. RCEP entered into force in January 2022.

Despite India’s withdrawal, RCEP is a free trade agreement (FTA) of a scale that stands out from the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the European Union (EU)–Japan Economic Partnership Agreement. The member countries of RCEP have a combined population of 2.27 billion (about 30% of the world’s population) and gross domestic product (GDP) of \$25.8 trillion (just under 30% of the world’s GDP). It is also attracting attention as the first FTA concluded by Japan, China, and Korea.

RCEP is part of an ASEAN-centred architecture – a framework for the ASEAN-centred economic integration of the six partner countries that had concluded ASEAN+1 bilateral FTAs in the 2000s and ASEAN. Negotiations were also conducted under the principle of ‘ASEAN centrality’, with the representative of the ASEAN Member States (AMS) always serving as chair (Fukunaga, 2014; Drysdale and Armstrong, 2021). With respect to ASEAN centrality, Japan played a leading role in developing discussions on East Asian regional integration in the RCEP negotiations. Moreover, Japan greatly influenced the direction of the negotiations.

This chapter aims to clarify the role of Japan in the process leading up to the establishment of RCEP. Section 8.2 discusses what and how Japan’s strategy in East Asia/Asia-Pacific has changed since the end of the 1990s and depicts how

changes in Japan's strategy led to Japan's active stand to take a principal role in the launch of the RCEP negotiations. Section 8.3 clarifies the transformation of Japan's trade policy and policies towards Asia, which made Japan engage proactively in the regional FTAs. This section focuses on the complex situations in which several regional FTAs have been discussed and examined since the mid-2000s, and how and why Japan was involved in them. Section 8.4 clarifies Japan's initial goals, which it wanted to accomplish in RCEP, while considering Japan's involvement in other regional integration frameworks, including the Trans-Pacific Partnership (TPP) and Japan–China–Korea FTA (CJK FTA). Section 8.5 reviews the RCEP negotiations over 8 years and clarifies Japan's involvement in them. This section also indicates how the importance of RCEP for Japan and other participant countries changed after the withdrawal of the United States from the TPP, and how Japan had a strong influence on certain changes in the characteristics of RCEP. The final section clarifies what Japan accomplished through the RCEP negotiations. It also outlines tentative prospects as to how RCEP can and will shape the regional order in East Asia/Indo-Pacific.

8.2 Japan's Policy Shift towards East Asian Regional Integration

Japan has been a unique Asian power. It is the only country to have been an imperial power before and during World War II and to have invaded and expanded its imperial domain in East Asia. This negative historical legacy often became an obstacle to maintaining stable relations between Japan and its neighbouring Asian countries in the post-war era. Severe issues remain between Japan and China, and Korea. On the other hand, Japan has had a substantial economic presence, particularly as the second-largest economic power since the end of the 1960s, and used its economic advantages to expand its political leverage in East Asia, including China, Korea, and Southeast Asian countries. In addition, the Plaza Accord in 1985 accelerated Japan's foreign direct investment (FDI) in East Asia, and regional economic integration was further driven by Japanese multinational corporations (Hatch and Yamagata, 1996).

While Japan's economic presence in Asia and the resulting political influence were significant, Japan's policy towards Asia was limited to bilateral forms such as the promotion of trade and investment in and development assistance towards individual countries – without a region-wide vision – except for some cases like the Asia-Pacific Cooperation proposal, which led to the establishment of the Asia-Pacific Economic Community (APEC) in November 1989. In addition, the Government of Japan supported trade liberalisation on a global scale using the General Agreement on Tariffs and Trade (GATT). It retained a reluctant attitude towards regional integration with formal schemes such as the European Community. While Japan had supported and enjoyed the liberal international economic order sustained by the US since the late

1940s, the government did not indicate its intention to be proactive in constructing the regional economic order.¹

However, Japanese policies towards its Asian neighbours have changed since the late 1990s.² First, Japan began pursuing the conclusion of FTAs (Munakata, 2001). Until the end of the 1990s, Japan's trade policy pillar was to engage global liberalisation through the GATT/World Trade Organization (WTO). However, Japan changed its trade policy in the late 1990s. It positioned the promotion of the FTAs as a pillar of its trade policy in the late 1990s and began initiating negotiations with several countries. The conclusion of the Japan–Singapore FTA in 2002 was the first fruit of the policy change. After that, Japan concluded FTAs with Southeast Asian and Latin American countries during the 2000s.

Two main factors pushed Japan to change its policy regarding FTAs. First, accelerating economic globalisation forced Japan to construct a new trade policy to achieve economic development. After the collapse of the 'bubble economy' in the early 1990s, Japan faced a severe issue – how to revitalise its economy. As globalisation brought countries' economies closer together, Japan needed to liberalise trade and investment to revive its economy. As Baldwin (2016) argued, the revolution of information and communication technology (ICT) transformed globalisation into the 'new globalisation' in which the 'second unbundling' occurred.³ Under the new globalisation, Japan had to search for a new strategy to revitalise its economy. The reduction and elimination of tariff and non-tariff barriers could impose sweeping restructuring of the Japanese economy, which was indispensable for its revitalisation.

Second, trade liberalisation negotiations in the WTO were difficult due to disagreements amongst member countries on many issues, especially between developed and developing countries. On the other hand, FTAs, whose membership was limited, could be appropriate tools for Japan to reduce and eliminate tariff and non-tariff barriers. Besides, creating rules to facilitate FDI was significant to keep and expand the production networks led by Japan's multinational corporations in East Asia. Against this backdrop, Japan eagerly promoted the negotiation of FTAs while retaining its support for global trade liberalisation by the WTO.

The second change in Japan's policy towards Asia is that Japan began promoting East Asian regionalism. The embryonic orientation of East Asian regionalism emerged in the early 1990s. The East Asian Economic Group (EAEG) proposal by Malaysia's Prime Minister Mahathir Mohamad is the most obvious example. After the Asian financial crisis in 1997, the movement for East Asian regionalism gained momentum. Japan played a leading role in advancing this momentum, such as by proposing an Asian Monetary Fund in 1997 and the new Miyazawa Initiative in 1998. These efforts resulted in regional financial cooperation being formalised in bodies such as the Chiang Mai Initiative, as part of the ASEAN+3.⁴

The East Asia Vision Group (EAVG), which was agreed to be established at the Second ASEAN+3 Summit, proposed an East Asian community concept in its final report in 2001 (EAVG, 2001). The report also proposed the

East Asian Free Trade Area (EAFTA) and the East Asia Summit (EAS) as concrete and long-term measures to realise an East Asian Community. In January 2002, Prime Minister Junichiro Koizumi proposed the ASEAN–Japan Comprehensive Economic Partnership and the concept of an ‘expanded’ East Asian Community that would include Australia and New Zealand as members of ASEAN+3 in his policy speech in Singapore (Koizumi, 2002). While ASEAN+3 had already shown the idea of an East Asian community comprising Japan, Korea, China, and 10 AMS, Japan reiterated a broader regional community vision, which Koizumi’s speech had indicated.

Increased discussion about an East Asian Community and the promotion of cooperation in the region led to the establishment of the EAS in 2005, whose members were Japan, China, Korea, Australia, New Zealand, India, and the 10 AMS. Japan engaged deeply in the debates on launching this new regional framework and the vision of an East Asian Community concept.

Third, Japan’s FTA policy became deeply connected with the promotion of East Asian regionalism. In the first few years after it started pushing for FTAs, Japan promoted bilateral FTAs mainly with Latin American countries and AMS. The FTAs with Latin American countries were motivated by purely economic interests – primarily, the expansion of market access. On the other hand, Japan’s motivation for FTAs with Southeast Asian countries was a mixture of economic and strategic considerations. The economic consideration was mainly to keep and expand the cross-border production networks led by Japanese multinational corporations in Southeast Asia. Japan’s promotion of FTAs with Southeast Asian countries also contained the strategic motivation to keep and expand its political leverage over this region and East Asia.

In addition, the conclusion of an FTA with ASEAN became a critical issue for Japan. China, Korea, Australia, New Zealand, and India also sought to conclude an FTA with ASEAN. Japan proceeded to negotiate individual bilateral EPAs with AMS and an FTA with ASEAN as a whole in parallel.⁵ Following the FTAs with Singapore, Japan concluded bilateral FTAs with other AMS such as Malaysia, Thailand, Indonesia, Brunei, the Philippines, and Viet Nam. In addition, negotiations for the ASEAN–Japan Comprehensive Economic Partnership started in April 2005, and the agreement was signed in 2008.

Furthermore, Japan’s Ministry of Economy, Trade and Industry (METI) proposed the concept of the Comprehensive Economic Partnership for East Asia (CEPEA) at the EAS Economic Ministers’ Meeting in August 2006. The vision of CEPEA indicated that East Asian regional integration should include the ASEAN+3 and an additional three countries, such as Australia, New Zealand, and India. The members of this envisioned group were the same countries that later participated in the launch of the RCEP negotiations. This proposal also indicated that Japan began seriously encouraging regional integration with a formal scheme like FTAs, rather than purely private sector-led economic interdependence in East Asia.

Three factors were pushing Japan to change its policy towards Asia. First, globalisation had deepened, expanded, and become more complex since the early 1990s. The end of the Cold War expanded the market-driven economy

to cover the world, including the former Soviet Union and Eastern European countries, which had planned economies under communist regimes. As Baldwin (2016) argued, the information technology revolution brought about a new globalisation in which economies of all nations, including developed and developing countries, had been deeply connected through the increasing inflow of goods, capital, and people.⁶

Japan's METI was especially conscious of how the Japanese economy could regain vitality and survive amid the new globalisation. Japan could take the initiative to expand and deepen regional economic integration in East Asia. The Global Economic Strategy, released in April 2006, is an excellent example of this concern within METI (2006). This report argued that East Asia is becoming a global growth centre, increasing its presence as a production base, market, and investment destination. Based on the premise that economic integration driven by direct investment is developing in the region, this report proposed the idea of the East Asia EPA as a framework to expand and deepen such integration and realise 'seamless economic integration'.

Second, regionalism in Europe and North America had been activating since the 1980s in the form of the EC's revitalisation and the beginning of a movement towards the North American Free Trade Agreement (NAFTA). After the end of the Cold War, regionalism and regional economic integration with formal schemes like FTAs increased worldwide. Such situations moved Asian countries, including Japan, to examine the feasibility and benefits of FTAs and regional economic integration with formal schemes.

Third, the power structure shaping the geopolitical situation in East Asia had changed since the late 1990s and advanced in the 2000s. This change led to the transformation of the characteristics of Japan's policy towards this region. The most prominent cause of the transformation of the power structure was the rise of China, which had a high economic growth rate almost every year from the early 1980s, and its GDP reached \$1.21 trillion in 2000. This figure was about one-third of that of Japan (\$4.97 trillion) in the same year, while China's GDP had been just \$360.86 billion (about 12% of Japan's GDP of \$3.13 trillion) in 1990.⁷ The size of the gap between these two economies had been rapidly diminishing. In addition, China began translating its economic power into expanded political influence in East Asia. It attempted to enhance its ties with ASEAN through the China-ASEAN FTA and by signing the Treaty of Amity and Cooperation in Southeast Asia.

Against this background, the competition between Japan and China for leadership in East Asia became apparent around 2000, and the growing importance of the 'China factor' in Japanese diplomacy, in general, became a significant motivation for concluding EPAs with ASEAN. In particular, the agreement reached between China and ASEAN on the conclusion of an FTA within the next 10 years had a significant impact on Japanese government officials. In addition, Japan's proposal of an expanded East Asian Community attempted to balance China's influence. By bringing in Australia, New Zealand, and India, democratic countries that shared values such as democracy

and the rule of law, Japan hoped to make a regional community in East Asia based on more universal values. Later, as establishing the EAS to build an East Asian Community became a political agenda in the region, Japan tried to bring Australia, New Zealand, and India into the +6 membership.⁸ While China and Malaysia supported holding the summit as +3, Indonesia and Singapore were sympathetic to the Japanese side. The EAS was finally held with the +6 members in December 2005.

During the Clinton and Bush administrations in the US in the 1990s and 2000s, the US–China relationship was relatively stable. Although some sparks of confrontation existed, the Clinton administration maintained ‘engagement’ with China and treated China as a ‘strategic partner’. The Bush administration defined China as a ‘strategic competitor’, not a ‘partner’, at the start of its administration. Still, after the terrorist attacks in the US in September 2001, it emphasised the importance of collaboration with China. The orientation of engagement with China was more influential in the government than the ‘China threat’ argument.

Furthermore, after the terrorist attacks, the Bush administration focused more on the Middle East and less on Asia. Against this backdrop, Japan needed to strengthen its relationship with the US to gain an advantage in the strategic competition with China and to attract US attention to Asia even more so than before. On the other hand, Japan’s proactive engagement in East Asian economic integration through CEPEA seemed to be partly led by the intention to retain US economic and strategic interest and attention in East Asia.

In addition, Japan’s METI regarded US engagement in Asia as crucial because the US market was critical for absorbing exports from East Asia, which had accelerated the economic development of the region. It also regarded economic partnership with the US to be essential to encourage Japan’s technological innovation, which is indispensable for the revitalisation of the Japanese economy.

8.3 Japan and the Movement towards the Realisation of Regional FTAs

CEPEA, or ASEAN+6, proposed by Japan, was one of several regional integration frameworks that emerged in the 2000s. As mentioned earlier, the EAFTA or ASEAN+3 had already been proposed, and China and Korea supported it. In addition, the discussion of regional economic integration within the APEC forum in 2003 and the APEC Business Advisory Council (ABAC) proposed the idea of a Free Trade Area of the Asia-Pacific (FTAAP) in November 2004. The FTAAP aimed at the regional integration of all APEC member economies, which looked like a long-term goal. On the other hand, four APEC member countries (Singapore, New Zealand, Chile, and Brunei) concluded the Trans-Pacific Strategic Economic Partnership (P4) in June 2005, which entered into effect in November 2006. The P4 aimed at accomplishing high-standard and comprehensive trade liberalisation. Although it comprised

only small countries, the conclusion of the P4 stimulated the movement to promote regional FTAs in Asia.

With China pushing for the EAFTA and Japan pushing for CEPEA, the confrontation between the two countries over promoting East Asian regional economic integration continued for several years. The ASEAN+3 Economic Ministers Meeting (AEM+3) set up a joint expert group for a feasibility study on the EAFTA. The group, initiated by China, had its first meeting in April 2005 in Beijing and announced its final report at the AEM+3 in August 2006. A Phase II Study on the EAFTA was set up and announced its final report in June 2009.

In reaction to the advancement of an examination of the feasibility of the EAFTA by a joint expert group, Japan, which had proposed CEPEA in June 2006, suggested a Track Two Study Group on CEPEA in August 2006 (METI, Trade Policy Bureau, Economic Partnership Division, 2008). Due to Japan's strong support, setting up the Track Two Study Group on CEPEA was agreed upon at the EAS Summit in January 2007. The final report of the group was reported to the Fourth EAS on 8 November. Phase II of the study group began in November 2008 and submitted its final report in July 2009 (Track Two Study Group on CEPEA, 2009). In 2009, it was agreed to start government-level consultations between CEPEA and the EAFTA in parallel, and the talks began in 2010.

The controversy between pro-EAFTA countries, such as China and Korea, and pro-CEPEA countries, led by Japan, was reflected in the Sino-Japanese competition over leadership for constructing a new economic order in East Asia. However, while disagreeing on membership, policymakers in Japan and China were becoming increasingly aware of the need for some form of regional FTA during the heating-up arguments over these competing concepts.

It should be noted that China, Japan, and Korea had been examining the feasibility of a CJK FTA since the early 2000s at the non-governmental level, in parallel with the controversy over the EAFTA and CEPEA. The representative institutes of these three countries started an informal joint study in 2003 to examine the feasibility of the CJK FTA. At the trilateral summit in October 2009, the final report of the informal study was published, and the countries' leaders agreed to set up a formal study at the governmental level, which began in May 2010. The CJK FTA studies indicated that policymakers in Japan and China considered that a framework that included them was necessary to enhance regional integration in East Asia.

The advancement of the examination of regional integration in East Asia, such as the EAFTA, CEPEA, and CJK FTA, brought about a change in US policy towards the regional multilateral trade framework. The Bush administration was concerned about being excluded from regional economic integration in East Asia, and regarded the FTAAP, discussed at APEC in 2006, as the scheme that the US could join and began to support it. In addition, the Bush administration began to hint at its intention to join the original TPP (P4 Agreement).

The Obama administration carried over Bush's policy of joining the TPP. In March 2009, President Obama announced that the US would officially join the TPP. Negotiations for the TPP were launched in 2010 by the US, P4 members, Australia, Viet Nam, and Peru. Malaysia, Canada, and Mexico subsequently joined.

Japan considers that the US should have shown a commitment to deepening its involvement in East Asia through the TPP. As argued in the previous section, Japan needed to strengthen its relationship with the US. The more Japan became aware of China's rising power, the more it recognised the importance of the US as an ally in checking it. In addition, some officials of the METI preferred the idea of formulating more advanced rules through an arrangement with the US and other developed countries, aimed at upgrading Japanese industries and the innovation required for this. From this point of view, the promotion of East Asian regional integration did not fully fulfil this purpose. It mainly aimed to provide assistance to developing countries in their economic development. While CEPEA aimed to deepen the production networks already in place, originally it was not so expected to achieve the kind of progressive liberalisation and rule-making that would stimulate innovation in Japan.⁹

Some voices in the Japanese government believed that Japan should be encouraged to join the TPP, allowing Japan to conclude an economic agreement with the US. However, it was judged to be politically very difficult, given the strong opposition from the agricultural sector.

Several FTAs were examined and sought to be realised; Japan had made its policy clear to seek involvement in all these FTAs. In November 2010, the Kan Naoto administration adopted the Basic Policy on Comprehensive Economic Partnership as a cabinet decision (Government of Japan, 2010). The basic policy regarded Japan's involvement in the various FTAs as a critical concrete measure to cope with the decline of Japan's status in the structural transformation of the world economy due to the rise of emerging countries and insisted that Japan had to open its economy and undertake domestic reform to revitalise its economy. It positioned Japan's involvement in the examination of the various FTAs – bilateral FTAs with Australia, Peru, and Korea and regional FTAs, including the CJK FTA, EAFTA, and CEPEA – while mentioning the realisation of the FTAAP as a long-term goal (*ibid*).

On the other hand, the launch of the expanded TPP negotiations raised concerns, mainly in China and AMS. China was alarmed by the progress of the TPP negotiations – a high-level and comprehensive economic liberalisation in which it would be challenging to participate. AMS feared that the participation of some AMS in the TPP negotiations would dilute the ASEAN centrality. They were also increasingly concerned about advancing trilateral cooperation, including the CJK FTA. At least in the early years, the Hatoyama administration was seen as trying to promote the building of an East Asian Community in a way in which Japan, China, and Korea took leading roles.¹⁰ In addition, as

mentioned earlier in this chapter, the examination of the CJK FTA advanced from the informal to the formal/governmental level. ASEAN was inclined to interpret the advancement of the trilateral cooperation as a potential threat to its centrality.

China's concerns led to a softening of its stance towards Japan. In addition, tension between Japan and China due to the Chinese fishing boat collision incident in 2010 had been relaxed in 2011. Against this backdrop, the two countries agreed to unify their East Asian economic integration ideas substantially. Following that agreement, in August 2011, Japan and China proposed the joint initiative to accelerate the building of an EAFTA and CEPEA. The joint initiative included the establishment of new working groups in the three areas of goods, services, and investment; the reporting of the results of their deliberations to the Leaders' Meeting in 2012; and the considerations to be conducted by ASEAN+6 members.

From ASEAN's standpoint, a regional FTA with the +6 members would have been a desirable situation. Already in the process of establishing the EAS, some AMS (Singapore and Indonesia) preferred the +6 members' East Asia. Singapore supported Japan's insistence on the +6 from the standpoint of emphasising economic ties with India, while Indonesia supported the +6 from the perspective of relativising the presence of China. In addition, the ASEAN-India FTA and ASEAN-CER (Common Economic Region) FTA entered into effect in January 2010.¹¹ Against the backdrop, the +6 members' FTA became more 'natural' than the +3. So, after the compromise between Japan and China on the membership issue in August 2011, ASEAN began to promote a regional ASEAN+6 FTA.

The ASEAN Economic Ministers' Meeting in November 2011 formed an ASEAN+6 regional economic bloc. The 19th ASEAN Summit finalised the decision and agreed to establish working groups in the above three fields. ASEAN proposed a new framework, known as RCEP, for promoting East Asian economic integration. It was also affirmed that ASEAN would lead the RCEP negotiations. In November 2012, the leaders of ASEAN and the six partner countries declared the start of RCEP negotiations.

While examining regional FTAs, Japan adopted a policy to engage in and promote them. For example Prime Minister Noda said in his policy speech in October 2012, around the declaration of the start of the RCEP negotiations, that:

The goal of realising the Free Trade Area of the Asia-Pacific (FTAAP) is one that is already held in common both within Japan and Overseas. We will continue to promote high-level economic partnerships as free trade and investment bring abundance to each country and exert leadership in formulating new rules that will strengthen our mutually beneficial relationships in the region.

(Noda, 2012)

To achieve this goal, he said that Japan should promote various FTAs like the TPP, CJK FTA, RCEP, Japan–Australia FTA, and Japan–EU FTA (*ibid.*). In short, he regarded the FTAs as measures to construct a new order by making common rules on trade and investment amongst regional powers.

8.4 Japan's Initial Goals in RCEP

The start of TPP negotiations and the advancement of trilateral cooperation, including the CJK FTA, functioned as a catalyst, and the situation rapidly developed into the beginning of RCEP negotiations. Representatives from the 16 member countries held the first RCEP negotiation meeting in May 2013. In addition to the plenary session, they launched talks on goods, services, and investment at the working groups. The second Abe administration of the Liberal Democratic Party started due to the outcome of the lower house election at the end of 2012 as the RCEP negotiations began to take shape.

The second Abe administration continued the policy of participating in RCEP, aiming to join the TPP and seeking to advance Japan's involvement in regional FTAs. It announced the Japan Revitalization Strategy in June 2013 (Government of Japan, 2013), which indicated a concrete roadmap to reform Japan's economy and strengthen its international competitiveness. The Japan Revitalization Strategy mentioned the promotion of various FTAs as a critical measure to undertake the strategy of growth outreach, one of the pillars of the Strategy. The strategy of growth outreach aims to stimulate the Japanese economy through aggressive expansion of Japanese companies into global markets and an increase in inward direct investment, based on the recognition that the global market is undergoing significant change and competition is intensifying due to the rise of emerging economies. To achieve this goal, the plan called for removing institutional barriers to cross-border business through the conclusion and expansion of FTAs and investment agreements, Japan's globalisation, and creating a business environment conducive to international deployment. The strategy set the goal of increasing the FTA ratio of trade from 19% at that time to 70% by 2018. From this point of view, the strategy positioned the promotion of the TPP, RCEP, CJK FTA, Japan–EU FTA, and other FTAs with major powers in the world as critical instruments.

The Abe administration achieved Japan's participation in the TPP negotiations in July 2013. It prioritised the TPP over RCEP.¹² One of the reasons why Japan prioritised the TPP was that it aimed to create a high-level, comprehensive set of rules for trade and investment liberalisation and facilitation, which would more directly contribute to Japan's economic recovery and technological innovation. For this, Japan prioritised such an FTA as a coalition of like-minded countries led by developed countries. The preference for the TPP was also in line with revitalising and expanding the Japanese economy under Abenomics. Japan's emphasis on FTAs with developed countries is also reflected in its efforts to promote an FTA with the EU. The

start of negotiations for an FTA between the EU and Japan was agreed at the EU–Japan teleconference in March 2013. Another reason was that the TPP required political sophistication and prudence in domestic politics because of its more politically sensitive content, particularly considering the liberalisation of agricultural products.

In addition, some elements of Japan's Abe administration and policy circles stressed the strategic significance of the TPP, which the US joined. Further expansion of the Chinese economy, its political leverage, and the deterioration of the Sino–Japanese relationship over the Senkaku Islands/Diaoyutai Qundao pushed Japan to try to strengthen the tie with the US to balance China. Furthermore, the Xi Jinping regime began in earnest in China in 2013. It announced various initiatives that could lead to establishing a new order, such as the Belt and Road Initiative (BRI) and the Asian Infrastructure Investment Bank (AIIB). China's presence in the region was more visualised than before. In Japan's diplomacy in general, dealing with China had become increasingly troublesome. At least in the early years of the Abe administration, foreign policy was strongly tinged with checks and balances against China. Against this backdrop, the TPP had a strategic meaning for some of Japan's policymakers and intellectuals to tighten the US–Japan relationship to keep and enhance the liberal international order while balancing China.

Even if the TPP had been a higher priority, RCEP was an essential framework for Japan to achieve some of its goals. First, Japan intended to integrate the ASEAN+1 FTAs that ASEAN has already concluded with Japan, China, India, Korea, Australia, and New Zealand into one FTA – not only by eliminating tariffs but also by harmonising rules and procedures. This would promote the liberalisation and facilitation of trade and investment and further deepen regional economic integration in East Asia, where Japanese multinational corporations already deployed supply chain networks (METI, 2013: 64). Japanese business communities, especially the manufacturing sector, regarded RCEP as essential to maintain and expand their supply chains in the region. So, Japan's manufacturing sector tried to encourage RCEP. The Japan Business Federation (Keidanren) announced a policy proposal, calling for the early realisation of a high-quality CJK FTA and RCEP in May 2013, and listed the topics RCEP should contain for trade in goods, rules of origin, customs procedures, trade remedies, investment and trade in services, intellectual property rights, and others (Keidanren, 2013b).

Second, RCEP could provide an FTA with China and Korea for Japan. While these three economies had been deeply interdependent through trade and investment, their economic interests did not always coincide. For example Japan and Korea had industrial competitiveness in similar manufacturing sectors such as automobiles and electronics (Yoshimatsu, 2016). In addition, Japan, on the one hand, and China and Korea, on the other hand, had historical and territorial issues. Negotiations for the CJK FTA started in March 2013, but talks were slow.

Despite this background, Japan's METI regarded an FTA with China and Korea as beneficial because it could expand the market access of Japanese

industries and facilitate the environment for Japanese FDI, which could secure and expand the supply chains led by Japan's multinational corporations in East Asia. In addition, Japan's business community had higher expectations for a CJK FTA than for RCEP as a framework that would benefit them more directly in terms of market access and enable broad rule-making. The policy proposal by Keidanren in 2013 mentioned earlier indicated their high expectations for the CJK FTA. It listed the topics the CJK FTA should cover as domestic regulation, competition policy, energy and mineral resources, and environment, in addition to the topics listed for RCEP (Keidanren, 2013b).

Japan had already concluded or started negotiating FTAs with members of RCEP, other than China and Korea. It had concluded FTAs with India and ASEAN, and the FTA with Australia was under negotiation at the time of the RCEP negotiations.¹³ New Zealand and Japan participated in the TPP negotiations. Despite the severe political tensions with China and Korea, Japanese industrial sectors eagerly desired an FTA with these countries.

Third, RCEP is vital to create an environment for Japanese companies to expand into emerging markets in East Asia. Japanese firms had already been expanding into East Asia, especially China and ASEAN, establishing industrial clusters, and deploying supply chains. As their economies continued to develop, Japan expected China and the ASEAN region to become even more promising as production bases and consumer markets (METI, 2013). RCEP was also in line with METI's intention.¹⁴

Fourth, the inclusion of India in the regional FTA lived up to the expectation of the Japanese industrial sector. The Japan–India FTA had entered into force in August 2011. The Japanese business community had high expectations for India as a market and for its potential as a future investment destination to expand its supply chains and was eager to tighten economic cooperation through the Japan–India FTA (Keidanren, 2013a). Under the Modi administration, which took office in 2013, India announced the Make in India policy to attract FDI to India to develop its manufacturing industries and welcomed the expanding cooperation with Japan. The India–Japan Business Forum, which comprised businesspersons from both countries, agreed that RCEP would ‘contribute toward the expansion of production networks and strengthen supply chains in the region through liberalization of trade in goods and services and investment and standardization of rules of origin (ROO)’ (Keidanren, 2014).

For Japan, RCEP is part of its strategy towards ASEAN. In addition to these economic goals, as mentioned earlier, RCEP contained strategic goals from Japan's point of view. First, RCEP was a measure to expand Japan's leverage in East Asia. At the same time, the transformation of the regional power structure was more visible due to the change in the balance of power between the US and China in the 2010s. As well as promoting the TPP negotiations, tightening relations with ASEAN and India was critical. Securing a solid partnership with ASEAN has been emphasised by significant countries in the region since the 2000s from the perspective of exerting political influence in East Asia, and governments have sought to strengthen cooperation with ASEAN

through the signing of the Treaty of Amity and Cooperation in Southeast Asia, ASEAN+1 FTAs, and the establishment of strategic partnerships.

In addition, many people in Japan's policy circles regarded India's joining RCEP as of further strategic significance because they expected India to dilute China's leverage in East Asia. They tended to expect India to be a partner to balance China. From the mid-2000s, Japan and India had enhanced security cooperation, intertwined with economic cooperation such as the promotion of the India–Japan FTA.

Deeply related to setting economic and strategic goals, Japan also had normative goals in promoting RCEP. From the 2000s, Japan's diplomacy began to seek normative goals by mentioning the importance of liberal values and norms like democracy, the protection of human rights, good governance, the rule of law, and the market economy and to behave as a 'proactive promoter' in building a new regional order.¹⁵ Concerns about the rise of China and the prospect of transformation of the regional order pushed Japan to act as a proactive player, instead of a passive player which had just enjoyed the existing order sustained by the US hegemony. The 'Arc of Freedom and Prosperity' and 'Expanding Asia' concepts proposed by the first Abe administration in 2007 showed the transformation of Japan's diplomacy into value orientation that sought to secure rules-based order. From this point of view, CEPEA was not merely an economic framework but a normative tool to construct an appropriate order in East Asia.

8.5 RCEP Negotiations and Japan

The RCEP negotiations were not concluded and signed until November 2020, 8 years after the talks began. The goals to be achieved in Japan's RCEP negotiations, listed in the previous section, were maintained until the conclusion of the discussions. However, the degree to which Japan emphasised them and the importance of RCEP itself changed over the 8 years. What brought about changes in the degree of significance of RCEP for Japan were the weakening of the TPP following the US withdrawal in January 2017 and the rise of protectionism in the world. In the face of these events, Japan's policy circles and business community recognised the importance of RCEP as a framework to sustain the free and open economic order. In addition, the deepening of the conflict between the US and China during that period, and its exposure under the Trump administration, complicated the position of RCEP – an FTA that includes China – in Japan's foreign policy.

8.5.1 *The Characteristics of the RCEP Negotiations from Japan's Viewpoint*

China's Xi Jinping administration came to power in 2013. Xi Jinping's will to form a new regional order became even more apparent as he promoted an aggressive foreign strategy, advocating such initiatives as the BRI and the AIIB.

As a result, the argument that the TPP was a US-led framework while RCEP was a China-led one became prevalent in the media and elsewhere. This oversimplified the complex realities around the multilateral talks, especially regarding RCEP, as the RCEP negotiations were being conducted on the basis of the centrality of ASEAN (Fukunaga, 2014; Oba, 2016). With respect to ASEAN centrality, Japan sought to make efforts to promote the RCEP negotiations.

The RCEP negotiations provided Japan with a type of ‘two-level game’.¹⁶ Japan’s scheme for RCEP negotiations was a four-ministry structure – the Ministry of Foreign Affairs (MOFA); METI; the Ministry of Finance; and the Ministry of Agriculture, Forestry, and Fisheries. Each of these four ministries sent a trade negotiation committee lead (TNC lead) to the TNC, which conducted negotiations with each member country’s TNC lead. The ministerial representative of Japan was the Minister of Trade and Industry. Still, Japan’s negotiation scheme was plural and bottom – up in contrast with the TPP negotiation scheme, in which a TPP Headquarters at the Cabinet Secretariat Office was set up to promote the negotiations through top-down political leadership. While the involvement of these four ministries in the talks was necessary for FTAs to facilitate negotiations in a wide range of fields, the facilitation amongst the ministries on RCEP matters was sometimes time consuming and labour intensive in the absence of top-down coordination as in the TPP negotiation scheme.¹⁷

On the other hand, the impact of the RCEP negotiations on domestic politics was not so strong because none of the member countries expected to achieve high-level liberalisation in RCEP. So, Japan’s agricultural sector, which had vehemently opposed the TPP, did not take a hard attitude towards RCEP. In addition, manufacturing industries encouraged the RCEP negotiations, as indicated by Keidanren’s proposal in 2013.

8.5.2 The Difficulties and Stagnation of the Negotiations

Nevertheless, negotiations amongst RCEP member countries proved difficult and protracted. Initially, the goal was to complete the talks by the end of 2015, but it took almost 2 years to agree on the modality for the initial trade in goods offer (METI, 2014). During this process, there was a confrontation between Japan, which aimed to liberalise at the highest possible level based on the five ASEAN+1 FTAs, and China, which wanted to conclude the negotiations as soon as possible with a lower level of liberalisation.¹⁸ Furthermore, India took an extremely conservative attitude towards the liberalisation of trade in goods from the beginning. As mentioned earlier, India’s participation in RCEP was critical to Japan’s economic and strategic goals. However, India was an extremely troublesome presence in the negotiations.

As a result of the complex negotiations, member countries announced that they agreed on the level of the initial offer for trade in goods at the third RCEP ministerial meeting in August 2015. Specific negotiations in the three areas – trade in goods, trade in services, and investment – began in

October 2015 (METI, 2016). In addition to these areas, the RCEP negotiations started discussions on intellectual property, competition, economic and technical cooperation, legal and institutional matters, electronic commerce (e-commerce), technical barriers to trade, phytosanitary quarantine, rules of origin, trade facilitation, finance, and telecommunications. There were also growing expectations amongst the Japanese business community for RCEP to improve market access, including liberalisation and facilitation of trade in goods and investment, as well as for RCEP to establish rules in various areas related to economic activities, including competition policy and e-commerce. Keidanren's new policy proposal for the CJK FTA and RCEP, announced in May 2016, indicated such expectations from the Japanese business community (Keidanren, 2016). However, the negotiations were not concluded by the end of 2016, and the conclusion deadline was postponed.

On the other hand, the TPP negotiations reached a significant agreement at the end of 2015, and 12 member countries signed it in February 2016. The signing of the TPP brought about high-quality liberalisation and rule formation in a wide range of fields. In addition, the bilateral FTA between China and Korea reached an agreement in 2014 and entered into effect in December 2015. Amid these developments, RCEP negotiations appeared to be stalled. The Japanese government continued negotiating RCEP, and the business community continued to set out its expectations and desires.

8.5.3 Change of Direction of RCEP and Japan

In the mid-2010s, the rise in protectionism and unilateralism, with its attendant exclusionism, became apparent worldwide. A referendum in the UK resulted in a victory for those who wanted to leave the EU. In continental Europe, far-right anti-immigration parties emerged, and anti-globalisation and the anti-EU movement became more prominent. Moreover, in the US presidential election, Donald Trump made one of his pledges to withdraw the US from the TPP. Initially seen as a bubble candidate, Trump became the Republican candidate and won the election. The sequence of events in Europe indicated that the liberal international order was on the verge of a crisis.

At the end of 2016, there was concern in Japan and other countries as to whether Trump would carry out his campaign promise to withdraw from the TPP. In effect, he undertook the US withdrawal from the TPP as soon as he took office. This greatly shocked the Japanese government and business community. At first, the government tried to convince the Trump administration to return to the TPP. After determining that this was impossible, at least in the short term, it initially tried to dismiss the TPP without the US as meaningless. Later, however, Japan changed its stance, saying that the TPP was necessary to maintain a free and open economic order even in the absence of the US. After that, Japan showed leadership in leading the renegotiation of the TPP without the US. Japan's leadership led to the signing of TPP11, or CPTPP, in March 2018, which entered into force in December 2018.

Very significantly, Japan's assessment of RCEP also changed as it faced challenges to the free and open economic order in the region. With the future of the TPP uncertain, many in the Japanese government and business community recognised RCEP as a more critical measure to sustain and enhance a free and open economic system, which was one of the main pillars of the liberal international order. The improvement in Japan–China relations since the spring of 2017 also encouraged Japan to play a role in advancing the RCEP negotiations (RCEP, 2017).

Notably, Japan took the initiative to transform RCEP into a higher level of rules beyond market access. At the RCEP Intersessional Ministerial Meeting in Viet Nam, Minister of Trade and Industry Seko Hiroshige proposed starting to identify critical elements that would contribute to well-balanced progress of the overall negotiations – not only in market access but also on rules such as e-commerce and customs procedures (Nagai, 2020). As the US left the TPP, which had established a high level of rules in various fields, and its centripetal force was declining, there was a growing awareness that RCEP should play an alternative role, even if it was not wholly possible. The RCEP participants endorsed the inclusion of critical elements in the RCEP negotiations at the ministerial meeting in September 2017. In November 2017, the RCEP summit was held, and a joint statement was announced (RCEP, 2017: para. 4). The joint statement made three pillars of the RCEP negotiations transparent: market access, rules, and cooperation. It then outlined the characteristics of RCEP by indicating 18 areas in which talks were under way.

The business community also supported the transformation of RCEP. As seen in the Keidanren proposal in 2017 mentioned earlier, Japan made clear its role in the RCEP negotiation as a 'driving force' of the creation of rule setting for a free and fair economy in the region.

The Growth Strategy 2018, approved by Cabinet in June 2018, emphasised the importance of creating rules for a new regional order through regional FTAs including RCEP and Japan's responsibility as a driving force to accomplish them:

In order to expand a free and fair markets not only in Asia-Pacific region, but across the world, the Government makes efforts to the early entry into force of TPP 11 signed on March 8 this year and furthers the discussion on expansion of its member countries/regions. Moreover, the Government aims at early signing and entry into force of the Japan–EU EPA whose negotiations were concluded in December last year. The Government promotes strategically and expeditiously the economic partnership negotiations including RCEP and Japan-China-Republic of Korea FTA. Playing central roles in building such wide-area new economic order, Japan, as the standard-bearer of free trade, aims to take the lead in establishing comprehensive, balanced, and high-level global rules.

(Government of Japan, 2018: 129–30)

The relationship between RCEP and the Free and Open Indo-Pacific (FOIP) in Japan's economic diplomacy was complex. The FOIP, proposed by Prime Minister Abe in August 2016 in Nairobi, Kenya, was regarded as the ideal balance against China. Gradually, Japan's MOFA and Prime Minister Abe suggested the possibility of cooperation with China's BRI initiative rather than balancing China, as Japan–China relations had been improving since about May 2017 when Nikai Toshio, Secretary General of Liberal Democratic Party, participated in the 1st One Belt One Road Forum held in Beijing. However, most documents published by Japan's MOFA did not mention the promotion of the RCEP negotiations in the context of the FOIP, as it posited the TPP/CPTPP negotiations as the critical measure to sustain and enhance the rules-based international economic order in the Indo-Pacific.¹⁹

8.5.4 Conclusion of the RCEP Agreement

The RCEP Leaders' Meeting in November 2018 announced that negotiations had reached agreement in seven chapters, including customs procedures, trade facilitation, and government procurement (RCEP, 2018). However, negotiations on the other chapters, like market access for goods, service, intellectual property rights, and e-commerce, were still difficult to conclude.

India's withdrawal from the RCEP negotiations in November 2019 shocked governments and business communities in the other member countries. As India's domestic economy cooled down, there was growing criticism from domestic manufacturers and others that India's trade deficit with RCEP-negotiating countries, including trade with China, was increasing. The Modi administration could not ignore such criticism.

The Joint Leaders' Statement on RCEP just after the RCEP Summit in November 2019 said the 15 RCEP-participating countries (not 16) had concluded text-based negotiations for all 20 chapters and all market access issues (RCEP, 2019). This phrase indicated that negotiations had advanced but could not be finalised and extended again.

Japan desperately tried to stave off India's withdrawal. The Minister of Trade and Industry, Kajiyama Hiroshi, visited India in December 2019 and met with Shri Piyush Goyal, the Minister of Commerce and Industry, and exchanged views on the possibility of India's participation. However, on the same day as the meeting with Minister Kajiyama, Minister Goyal clearly said in the Indian Parliament that India would not join RCEP due to the swelling trade deficit with some member countries (Nikkei Shinbun, 2019). After that, the Japanese government tried to persuade India to return to RCEP, but Japan's efforts did not succeed, and the Modi administration did not change its decision to withdraw from RCEP.

What ultimately brought about the conclusion of RCEP was the economic fallout from the coronavirus disease (COVID-19) epidemic and the parallel escalation of the US–China confrontation, which further clouded the regional picture. The global spread of COVID-19, which started at the end of 2019

and went into full swing in 2020, blocked the movement of people and triggered self-centredness and protectionism in many countries. The escalation of Sino-US strategic competition created concerns about the decoupling. In the midst of all this, Japan and other countries perceived that the free and open economic order was further upset and were concerned about its negative impact. This concern provided a tailwind to encourage the conclusion of the RCEP negotiations. Finally, in November 2020, the talks were concluded, and RCEP was signed and entered into effect in January 2022.

8.6 Conclusion

For Japan, RCEP is one of the fruits of its strategy in East Asia/Asia-Pacific since the mid-1990s to protect and increase the interests and advantages of Japanese business and retain Japan's political leverage in this region. Under the strategy, Japan has taken a regional approach in addition to a bilateral approach. Simultaneously, Japan has prioritised the rule-setting approach and demonstrated its commitment to contribute to preserving and enhancing the rules-based liberal economic order in the region. As mentioned earlier, the importance of RCEP for Japan had been secondary to that of the TPP. However, after the US withdrawal from the TPP, RCEP was seen as an essential framework for establishing a rules-based regional order in the Indo-Pacific region. Although it was after India's withdrawal from emphasising the maintenance of order, Japan simultaneously pursued the conclusion of negotiations and the establishment of high-level rules, achieving some success. Ultimately, the havoc brought about by the pandemic and the sense of crisis in the traditional liberal international order caused by the intensifying strategic competition between the US and China drove the conclusion of RCEP.

Japan accomplished its initial goals for RCEP. According to Petri and Plummer (2020), Japan will derive tremendous economic benefits from RCEP. RCEP provides FTA ties amongst Japan, China, and Korea, while the CJK FTA negotiations have not yet been concluded. Further, the RCEP negotiations brought about a higher level and more comprehensive rules on economic activities than Japan had expected at the beginning of the talks. RCEP contains a broader range of rules than Japan's circle of policymakers and business community had initially expected.

The importance of RCEP will grow for Japan and Asia's economic order. First, emerging and developing economies such as China and ASEAN are gaining more weight in the world economy. Beyond market access, RCEP is critical because it sets rules for various areas of economic activity for its member countries. Second, the prospect of the CPTPP is ambiguous. Given its current domestic political situation, the return of the US to the TPP is unlikely. Besides, both China and Taiwan are applying to join. With the escalation of the China-US rivalry, the participants in the CPTPP are facing a difficult decision. Instead, RCEP, which emphasises inclusiveness, will take a role in sustaining free and rules-based economic order in the region.

Related to this point, the US and China are seeking to enhance the resilience of their supply chains through protectionism, including tightening export controls. Ironically, as the strategic competition between the US and China escalates and leads to a surge in protectionism, the economic and strategic importance of RCEP – an FTA that incorporates China – is becoming more significant as a measure to counter unilateralism and protectionism.

Finally, this means that RCEP requires elements that address globalisation's adverse effects and pitfalls in areas such as the environment, labour rights, and reducing the disparity between the rich and poor. Coping with these issues is necessary not only for RCEP but also for other FTAs, WTO negotiations, and future rule-making regarding trade and other economic activities. The first RCEP joint committee, held in April 2022, established four committees on goods, services and investment, sustainable growth, and the business environment. RCEP member countries should continuously review and improve the rules set in RCEP, and Japan should take the initiative in this process.

Notes

- 1 In the post-war era, some Japanese leaders, policymakers, and intellectuals proposed regionalism and regional grouping ideas, with an orientation towards building a new regional order. See Oba (2004).
- 2 For details on the transformation of Japan's trade policy towards Asia, see Solís (2017), Chapter 8; Katada (2020).
- 3 For details on the concept of a 'new globalization' and the 'second unbundling', see Baldwin (2016).
- 4 For more on this process, see Oba (2014).
- 5 Within Japan, however, the line on concluding an FTA/EPA with ASEAN was divided. The Ministry of Foreign Affairs (MOFA) argued that bilateral EPAs with individual AMS were desirable. The Ministry of Economy, Trade and Industry (METI) insisted on an EPA with ASEAN as a whole. MOFA emphasised traditional bilateral diplomatic relations, while METI had been developing industrial cooperation with ASEAN as a whole since the 1990s and had an orientation towards economic integration and development region-wide Solís (2009).
- 6 For details on the information technology revolution and the rapid advancement of globalisation, see Baldwin (2016).
- 7 This chapter uses GDP data from World Bank Open Data (World Bank, n.d.)
- 8 Regarding the background of Japan's proposal for the +6 membership, see Oba (2007, 2017) and Terada (2010).
- 9 Interview with a former METI government official, 15 November 2021.
- 10 When I met several ASEAN diplomats in September 2009, they expressed their concern about Hatoyama's stance of seeking the trilateral country-led East Asian Community.
- 11 The CER is composed of Australia and New Zealand.
- 12 While in opposition, the Liberal Democratic Party had vehemently opposed Japan's participation in the TPP, which the Democratic Party of Japan administrations were trying to promote. However, they switched their stance towards the TPP and eagerly attempted to join the TPP negotiations.
- 13 Japan began negotiations with Australia in 2007, and the FTA was concluded in 2014.
- 14 Interview with a former METI official, 15 November 2021.

- 15 For the value-oriented elements of Japan's diplomacy since the 2000s, see Jinbo (2018).
- 16 For two-level games, see Putnam (1988).
- 17 Shinoda (2022); for Japan's scheme for the TPP, see Terada (2019: 1050).
- 18 Interview with a former METI government official, December 27, 2021.
- 19 *Gaiko Seisbo 2021 (Diplomatic Bluebook 2021)* posited RCEP in Japan's substantial efforts to promote the FOIP. It mentions RCEP as one of the efforts 'Jiyuu de Kosei na keizaiken wo hirogeru tameno ruru dukuri (rule-making to expand free and fair economic area)' (MOFA, 2021: 27).

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9 The Regional Comprehensive Economic Partnership Agreement and Europe

Impact and Implications

Hanns Günther Hilpert

9.1 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, the Philippines, Singapore, Thailand, and Viet Nam) as well as Australia, China, Japan, New Zealand, and the Republic of Korea (henceforth, South 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, South Korea, India, and 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 settlements.

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 Trans-Pacific Partnership (CPTPP) probably being 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's) 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 chapter 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 chapter 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 two 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.

9.2 EU's Trade Policy Changing Course

9.2.1 Internal and External Challenges

The EU's policy towards external trade has come a long way. Until the early 1990s, the 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. 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 While the flattening of global trade growth could have negative consequences for economic growth, the potential 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, and public procurement restrictions. 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. 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 (Rudloff, 2017; Young, 2017).

Fourth, the multilateral trading system centred on the WTO is in a severe systemic crisis. While 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 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

9.2.2 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 practice, 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 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 a 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 also 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.

9.2.3 Policy Changes along Evolving EU Trade Strategies

In the three 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, and 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, that is 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, South 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, South 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). While the general liberal orientation was upheld, a values-based

trade policy was announced, which should 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 left the EU after a majority voted in favour of its 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 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, South 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.

9.2.4 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.

9.2.4.1 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 not only 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.

9.2.4.2 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, for example 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

9.2.4.3 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, 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. While 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).

9.2.4.4 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 South 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).

9.2.4.5 Multilateral System at the Centre

In recent decades, the EU has fundamentally changed from being a defensive mercantilist player in the GATT system to being 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 United States' 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, 2021c).

9.3 The EU's Trade Policy's Pivot to Asia and the Indo-Pacific

9.3.1 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 to be 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. Topics for the summits were not strategically chosen, but were 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).

9.3.2 *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 businesses have clearly recognised Asia's economic opportunities and have pounced on its growing markets.

As Figure 9.1 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

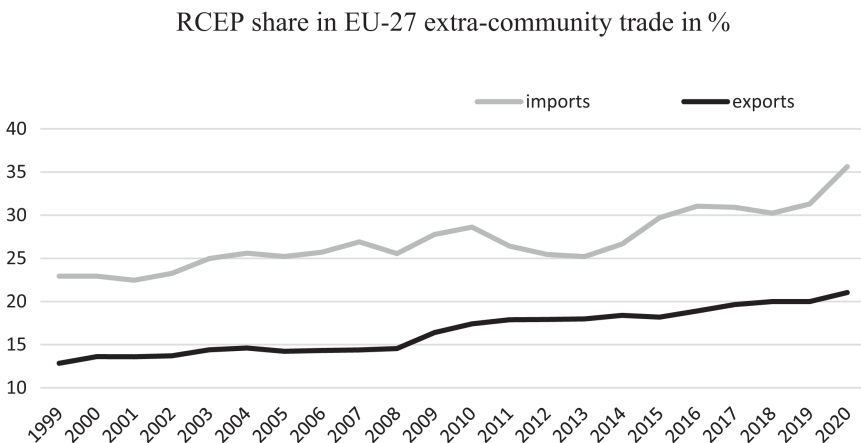


Figure 9.1 Trade in Goods between EU-27 and RCEP-15, 1999 to 2020; RCEP share in EU-27 extra-community trade in percentage

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.

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 9.2 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.

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 9.3). 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.

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 that 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

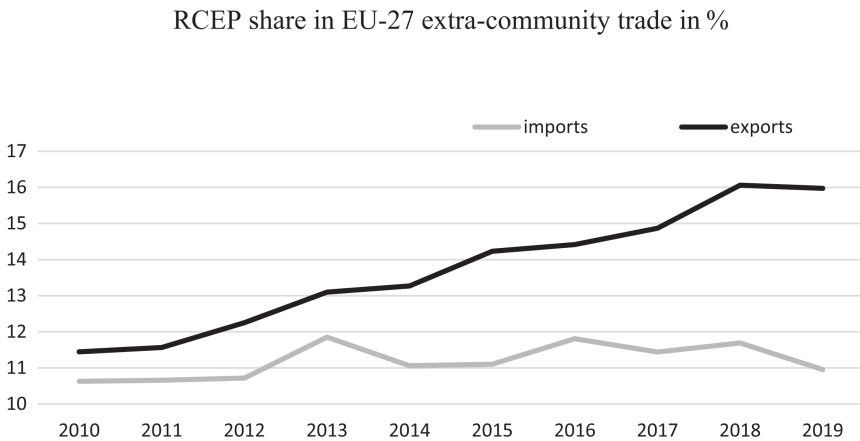


Figure 9.2 Trade in Services between EU-27 and RCEP-15, 2010 to 2019; RCEP share in EU-27 extra-community trade in percentage

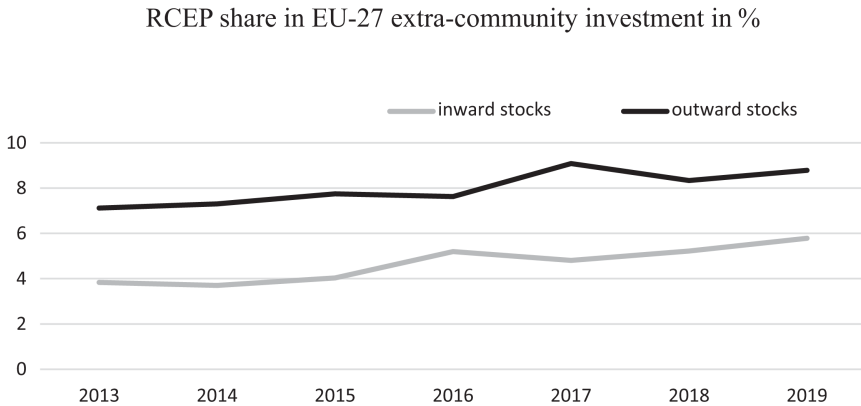


Figure 9.3 EU-27 Direct Investment Stocks with RCEP-15, 2013 to 2019; RCEP share in EU-27 extra-community investment in percentage

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, that is 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.

9.3.3 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 a strategic cooperation with ASEAN or strategic partnerships with Japan, South 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.

9.3.4 The Influence of the EU Member States

As already noted earlier, 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 a 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 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 a 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 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 were 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.

9.3.5 *The EU's Trade Policy with RCEP Member Countries and the Indo-Pacific*

9.3.5.1 *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 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 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 of Preferences (GSP)+ commitments¹⁷ 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.

9.3.5.2 *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 multifaceted framework agreement in 2017, raising bilateral relations to a 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.

9.3.5.3 *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 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.

9.3.5.4 *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 4 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

9.3.5.5 South 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

9.3.5.6 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

9.3.5.7 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 and India as a huge market with an 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

9.3.5.8 *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, which 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 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.

9.4 RCEP: Opportunities and Risks for Europe

9.4.1 *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 sidelined 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 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, 2020). Several EP members, fearing that the EU would be sidelined, criticised the lack of progress in EU trade policy, especially with regard to ASEAN (Siebenhaar, 2020).

9.4.2 RCEP's Impact on Europe

9.4.2.1 Economic Impact: Static and Dynamic Effects

By liberalising tariffs and harmonising rules of origin, the RCEP agreement not only 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 into force. However, discriminatory tariff

dismantling in trilateral trade between Japan, South Korea, and China could hurt European exporters. The situation is particularly worrying with regard to China, as Japan and South 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 South 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 South Korea and Japan under the bilateral KOREU and JEEPA agreements will erode in the coming years (Matthes and Kolev, 2020).

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 to be 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 in 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 (South Korea, Japan, New Zealand, Singapore, and Viet Nam) or are about to do so (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 pose 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.

9.4.2.2 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 and 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 (Hilpert, 2021).

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, South 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, South 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 being 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 of their responsibility to the multilateral system and to remain faithful to their obligations from the WTO and the RCEP agreement.

9.4.3 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), while 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, a close cooperation with like-minded actors in the Indo-Pacific region, including Japan, South 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, the pressure has increased on the Commission both from member states and the EP to reach a negotiated conclusion 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 regional ones. 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 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 7 of the 11 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 an 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

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.

Notes

- 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, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, and Sweden. The United Kingdom 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 chapter 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 For a technical analysis, see Constantinescu et al. (2015).
 - 3 Global Trade Alert is an independent trade policy monitoring initiative, see <https://globaltradealert.org>
 - 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.
 - 6 See for example Hilpert and Park (2022); Siles-Brügge (2011).
 - 7 For a critical look at the EU's trade policy review, see Erixon (2021).
 - 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).
 - 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.
 - 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).
 - 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.
 - 16 On the current state of negotiations, see the EU's news website, <https://trade.ec.europa.eu/doclib/press/index.cfm?id=1620>
 - 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.
 - 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).
 - 22 For an analysis of EU–India trade policy relations, see Poitiers et al. (2021).
 - 23 See for example the voices cited by Deutsche Welle (2021).
 - 24 See for example Gabriel and Scharping (2022) and Politico (2020).
 - 25 See for example Bastian et al. (2021); Bouissou (2021).
 - 26 See the answer given by Executive Vice President Dombrovskis on behalf of the European Commission (to the European Parliament) (Dombrovskis, 2021).

- 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.
- 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).
- 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'.
- 30 On the role of ASEM, see Bungenberg and Hazarika (2017).
- 31 For convincing arguments in favour of EU accession to the CPTPP, see Draper and McDonagh (2021) and Nicolas (2021).

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10 Heyday of Asian Regionalism?

The Implications of the Regional Comprehensive Economic Partnership for the United States

Mireya Solís

10.1 Introduction

The United States has long defined itself as a Pacific power with a strong set of economic and security ties to Asia. The US has played a major role in the region's evolution in its role as security guarantor of allies, champion of freedom of navigation and rule of law, and founder of Bretton Woods institutions (World Trade Organization, International Monetary Fund, World Bank) that enabled Asia's outward economic growth model. Traditionally, the United States has frowned upon Asian-only regional integration initiatives, worried that they would result in 'lines drawn across the Pacific' and diminish the US presence. The rise of China – with its growing economic pull regionally and globally – and the deterioration of bilateral relations with the onset of strategic competition have intensified US concerns with marginalisation from the Asian economic architecture.

Trade diplomacy had been front and centre to US efforts to remain vitally connected to Asian markets and shape the terms of economic integration. With the stagnation of the multilateral trading system and the boom of preferential trade negotiations, US policymakers increasingly relied on free trade agreements to open new markets and devise new rules on trade and investment activities. The Trans-Pacific Partnership (TPP) negotiations marked an ambitious undertaking for the United States to lead a group of nations representing close to 40% of the world gross domestic product (GDP) in an effort to slash tariffs across the board and codify new disciplines tackling new forms of protectionism and addressing frontier issues such as the digital economy. The TPP project also had a foreign policy component since one important objective was to reassure allies and partners of the United States' staying power in the region and to shape the economic rulebook at a time of a power shift in Asia.

While TPP negotiations were unfolding amongst the 12 members, another large trade negotiation was launched in late 2012: the Regional Comprehensive Economic Partnership (RCEP) comprising 16 nations. At that time, concerns that RCEP could displace the United States from the regional integration process were low, given that the Obama administration was fully engaged in forging a mega-trade deal with a high-quality free trade agreement

(FTA) template in the TPP. In contrast, the RCEP negotiations were expected to move slowly and to produce more modest liberalisation outcomes.

Realities in the ground have since shifted in dramatic ways. Reflecting a profound change in the domestic politics of trade policy, the Trump administration withdrew the United States from the TPP. Against difficult odds, the remaining 11 nations relaunched a new Comprehensive and Progressive TPP (CPTPP). While the CPTPP has largely maintained the trade and investment disciplines of the US champions, its reconstitution also underscores the ability of other countries to pool efforts in the absence of the United States. The US departure meant that when the RCEP talks finally concluded (*without* India), they gave birth to the world's largest preferential trade agreement. Both the CPTPP and RCEP have acquired new economic and geopolitical significance, given the intensification of great power competition and protectionist pressures.

For the United States, the risk of marginalisation from the Asia-Pacific regional architecture now looms larger than ever. It is not party to the two mega trade agreements, trade promotion authority has expired, and the Biden administration has not signalled that a worker-centred trade policy will include ambitious trade liberalisation. It is in this domestic political environment and geopolitical context that this chapter explores the implications of RCEP for the United States' positioning in the regional economic architecture. The chapter will touch on the evolution of US trade policy in the region (the TPP interlude and post-TPP developments), will zoom on the expected impact of RCEP for members and non-members (in terms of gains from trade and rule setting), and will discuss possible pathways for the United States to recoup lost ground.

10.2 From TPP to 'America First': Dashed Hopes for United States Trade Leadership in Asia

10.2.1 Engaging with Asia on Trade

Asia's economic dynamism, the network of security alliances essential to the US' forward presence in the region, and, more recently, the growing concerns over a more powerful and assertive China have elevated the region to the top of the US national security strategy. A long-standing concern for the United States has been to avoid exclusion from Asian regionalism and to play a proactive role in shaping the terms of deeper economic integration. In pursuit of this goal, US trade diplomacy has adopted different approaches over time, from open regionalism with the establishment of the Asia-Pacific Economic Cooperation (APEC) forum in 1989, to the pursuit of bilateral trade agreements in a process of 'competitive liberalisation', and the high-stake negotiation of a mega-trade agreement in the TPP.

The decision by the outgoing Bush administration to seek entry into a small trade agreement (the P4, consisting of Brunei Darussalam, Singapore,

Chile, and New Zealand) would have major implications for the course of US Asia policy and the outlook for regional integration. The new direction in US trade policy derived from the desire to overcome some of the limitation of open regionalism and bilateralism. After a promising beginning, APEC faced its first major crisis in the 1998 Early Voluntary Sectoral Liberalisation (EVSL) spat which reflected important disagreements as to whether the body would become a trade negotiation or a coordination forum (Ravenhill, 2007). Doubting that meaningful trade outcomes could be achieved, the United States became less engaged in the APEC process. But US trade bilateralism also had shortcomings. While trade deals were struck with Singapore, Australia, and the Republic of Korea (henceforth, Korea); each negotiation was time consuming and required significant amounts of political capital to obtain Congressional ratification. The US–Korea free trade agreement (KORUS), in particular, faced political headwinds requiring a renegotiation which delayed entry into force by 5 years. Moreover, trade negotiations with developing Southeast Asian nations made little progress, given the lack of appetite for the demanding World Trade Organization (WTO) plus commitments that the US insisted on for its ‘gold standard’ FTA template. Bilateral talks with Malaysia and Thailand were eventually abandoned (Solís, 2012).

At a time when the US bilateral trade strategy appeared insufficient, Asia-only integration initiatives were gaining traction. Concerns over an emerging noodle bowl of trade deals in the region increased the appetite for region-wide trade initiatives that could prevent the fragmentation of trade governance. China and Japan developed regional blueprints anchored on institutions predicated on the principle of Association of Southeast Asian Nations (ASEAN) centrality (ASEAN +3 [ASEAN plus China, Japan, Korea] and the East Asia Summit). While China endorsed an ASEAN+3 grouping, Japan advocated a broader membership with the ASEAN+6 formulation (with the addition of Australia, New Zealand, and India) (Solís and Wilson, 2017). Neither of the initiatives championed by the Asian giants contemplated a role for the United States. Concerned with these developments, in 2006, the US government endorsed the Free Trade Area for the Asia-Pacific (FTAAP), whose realisation nevertheless appeared a distant possibility. Sceptics noted the obstacles of reconciling the wide preferences of APEC members and the political difficulties in the United States of a negotiation that incorporated China, given concerns over the large trade deficit (Aggarwal, 2010).

In the renamed Trans-Pacific Partnership, the United States found a more effective platform to advance its trade leadership ambitions. Because the P4 countries embraced an ambitious agenda for trade liberalisation (eschewing sectoral exclusions) and the adoption of WTO+ rules, there was more affinity with the US vision. The bet, however, was that US participation would encourage other countries to join, making the TPP a far more consequential trade agreement. This dynamic played out with the TPP eventually comprising 12 members (Japan was the last entrant in 2013) representing around 40% of world GDP. The TPP’s significance rested on not only its economic heft but

also its intended geopolitical clout. The trade agreement was a pillar of the Obama administration's pivot to Asia, with the stated goal of reassuring partners and competitors alike of the staying power of the United States.

In closing the TPP negotiations in 2015, negotiators struck a comprehensive and ambitious agreement eliminating 99% of tariffs and incorporating a rulebook that covered frontier issues such as the digital economy and disciplines on state-owned enterprises (SOEs). But just as the United States had been the key engine to the TPP talks, it became its Achilles' heel. Years of disinvestment in a social safety net capable of facilitating labour adjustment to economic change, ever more fractious trade politics in the American Congress, and the implausibility of passing a mammoth trade agreement in the year of a heated Presidential campaign doomed the American chances in the TPP. President Obama's last ditch attempt to shore up support for the TPP by highlighting its strategic rationale – the ability of the US, not China, to write the rules of the game – did not move the needle in the political battle to rescue the trade agreement.

The TPP project proved resilient to America's inward turn. After a period of uncertainty, the remaining 11 members – with Japan as the largest remaining economy playing a critical stewardship role – rescued the agreement and renamed it the Comprehensive and Progressive TPP (CPTPP). The 11 members agreed to retain the ambitious tariff-slashing schedules and suspended 22 narrowly defined provisions (mostly in the intellectual property chapter and regarding the scope of the investor–state dispute settlement system). In ambition and depth, the CPTPP stayed true to its original design, but it also sent a powerful message to the United States: the ability of members to move forward without US participation.

10.2.2 'America First' Trade Policy

The arrival of Donald Trump to the presidency marked a profound shift in US trade policy. Not least because one of his first acts in office was to make good on his campaign promise to withdraw the country from participation in the TPP. But the transformation went deeper, given Trump's profound scepticism of international trade, his rejection of multilateralism and fixation on bilateral deficits to measure trade policy outcomes, and his embrace of unilateral tariffs as the tool of choice in achieving his administration's trade objectives.

The rethink on trade has been influenced by a profound shift in American policy circles regarding the merits of the policy of engagement vis-à-vis China. The insertion of China into the world economy did not result in domestic political opening. Instead, there is growing concern over China's authoritarian tilt under Xi, a diminished appetite for domestic economic reform, and China's assertive international behaviour (Campbell and Ratner, 2018). Trade figured prominently in the 2016 presidential debate with a focus on the 'China shock', in other words, the view that a flood of cheap Chinese imports had eliminated close to a million factory jobs in middle America during the decade after

China's WTO accession (Autor et al., 2016). American disquiet has grown with China's bid for high-tech supremacy based on a state capitalism model that combines hefty subsidies, preferences to SOEs, and the protection of strategic economic sectors.

The opening salvo in the new normal of strategic competition with China during the Trump administration was the initiation of a 301 investigation on China's intellectual property and technology practices. To instigate change on China's market-distorting policies, the US imposed punitive tariffs. The tit-for-tat trade war escalated quickly, and by the fall of 2019, the United States applied duties on \$360 billion worth of Chinese imports, and the Chinese government counter-tariffs affected \$110 billion worth of US products. Economic relations deteriorated further with the tightening of tech restrictions. Concerned with the leakage of critical technology and the national security risks posed by the overseas expansion of Chinese telecom and technology firms, the United States tightened its national security screening of foreign direct investment and its export controls on dual-use technologies. Chinese telecom giant Huawei and several other Chinese tech firms have been placed on the Entity List, curtailing access to the most advanced chips and other components if they are manufactured with US technology and equipment. China has readied countermeasures by tightening its export control law (NikkeiAsia, 2020) in December 2020 and anti-foreign sanction law (Atlantic Council, 2021) in June 2021. The prospect of fragmentation of high-tech supply chains is much higher today, even if wholesale decoupling of the largest economies in the world is not likely.

The Trump tariffs were not trained exclusively on a strategic competitor but were directed as well to partners and allies. Reviving the little-used section 232 of the 1962 US Trade Act, the Trump administration invoked 'national security' to apply a 25% tariff on \$10.2 billion of steel imports and a 10% tariff on \$7.7 billion of aluminium imports. The unilateral duties affected mostly goods from allies in Europe and Asia and the North American Free Trade Agreement (NAFTA) partners – Canada and Mexico – since Chinese exports in these sectors had already diminished due to the application of trade remedies. Canada and the European Union (EU) retaliated in kind and initiated WTO proceedings. Far greater harm was feared if the Trump administration was to make good on its threat to impose a 25% tariff on \$208 billion of automobile imports (Solís, 2019).

A distinctive trait of America First trade policy was the use (or threat of use) of unilateral tariffs to renegotiate terms of existing trade agreements or to pursue new bilateral negotiations. United States Trade Representative, Robert Lighthizer, agreed to exempt Korea from the metal tariffs in exchange for an export quota that curbed Korea's steel shipments to the United States by one-third (Straits Times, 2018). And revisions to the KORUS FTA pushed back the date of US tariff elimination on Korean automobiles by 20 years to 2041. A much broader renegotiation of the NAFTA ensued, which resulted in

a renamed US–Mexico–Canada trade agreement (USMCA). On the positive side, the old NAFTA was modernised by incorporating many of the disciplines that the United States had advocated in the TPP on e-commerce and intellectual property. But there were new provisions that lowered the quality of the trade agreement: tighter rules of origin in the automobile sector, managed trade provisions with side letters on Mexican and Canadian export quotas in case the 232 auto tariffs materialised, and a clause stipulating that subsequent negotiations with a non-market economy could constitute grounds to be dropped from the USMCA.¹

The Trump administration signed phase 1 agreements with Japan and China. With the entry into force of the CPTPP, US producers began to feel the pinch of exclusion from this trade agreement. Beef and pork producers, in particular, faced stiff competition in the Japanese market from the CPTPP producers who could avail themselves of the tariff preferences. The bilateral negotiations were in large part a damage-avoidance exercise: forestalling the imposition of the 232 auto tariff. The United States and Japan negotiated without delay two agreements – on market access and the digital economy – which were ready by September of 2019. The United States refused to liberalise the automobile sector, and Japan also withheld some agricultural concessions (e.g. rice). The digital agreement replicated the TPP chapter with some additions (e.g. allowing free data flows on financial services and forbidding forced transfers of algorithms and encryption keys). The bilateral deals with Japan did not approximate only the potential of US–Japan cooperation under the original TPP agreement with its deeper market-opening commitments but also the full-fledged cooperation on trade and investment disciplines and the ability to disseminate these standards regionally and in collaboration with countries at different levels of development.

The phase 1 deal with China announced in late 2019 pulled both nations from the brink of more damaging trade conflict. For an administration fixated on the bilateral trade deficit, China's purchasing commitments of American products to the tune of \$200 billion in 2 years were the top priority. Although China made some commitments to better protect intellectual property and confirmed the liberalisation of foreign direct investment in financial services, the phase 1 deal left China's expansive industrial policy untouched. There were no curbs on subsidisation, no disciplines on SOEs, and no concessions on China's digital protectionism. Neither the United States nor China brought the tariff walls down.

The Trump administration failed to achieve the central (and misguided) objective of its trade policy: to eliminate the bilateral trade deficit. Quite the opposite, the US trade deficit expanded (Chicago Tribune, 2019), and US consumers (not Chinese producers) absorbed the costs of the tariffs. US standing in the region took a hit with the loss of credibility from abandoning TPP and the heavy toll on third parties from the US–China tariff and tech restrictions, plus the resort to unilateral national security tariffs on friendly nations.

The indiscriminate resort to tariffs eroded the chances of working with other countries in crafting a coordinated response to China's mercantilist trade policies. America First left the United States ill-prepared to the advances in Asian regionalism.

10.3 RCEP: Implications for the United States

10.3.1 *A Snapshot of RCEP*

The entry into force of RCEP on 1 January 2022 will culminate in an almost decade-long negotiation process. There were many ups and down along the way. India's decision to leave the grouping – out of concern about the trade balance with China and the weak pro-liberalisation coalition at home (Elms, 2021) – just as negotiators were close to wrapping the talks in late 2019 was a severe blow. Even without India, RCEP is the world's largest trade agreement representing about 30% of world GDP, global population, and total trade flows. The significance of RCEP can be appreciated in other ways: it constitutes China's first mega-trade agreement, it creates for the first time preferential trade flows amongst the three largest Asian economies (China, Japan, and Korea); and the principle of ASEAN centrality is enshrined in the world's largest trading bloc.

The original objective of RCEP was to rationalise the string of ASEAN+1 FTAs with Dialogue Partners into a single-trade agreement that could provide consistent trade rules and cut back on the red tape of disparate commitments, thereby delivering greater efficiency gains. Judged by that yardstick, the RCEP outcomes are mixed. On the one hand, there is no common approach on tariff schedules, with some members extending the same tariff commitments to all participants, while others keeping customised tariff schedules. Investment liberalisation will follow a negative list for all members, but in the area of services liberalisation, some countries will adopt a negative list, while others will follow a positive list – albeit with the commitment to transition to a negative list approach in 6 years (ADB, 2020).

RCEP's overall tariff elimination in goods stands at 91% (compared to the CPTPP's 99%) to be accomplished in 20 years, and there are significant carveouts for agriculture. While intra-ASEAN trade is already largely duty free with the 2015 establishment of the ASEAN Economic Community (Shimizu, 2021), the RCEP's tariff liberalisation amongst the three Northeast Asian countries leaves significant room for improvement. Japan will eliminate 86% and 81% of tariffs vis-à-vis China and Korea, respectively; and China and Korea will reciprocate by slashing duties on 86% and 83% of Japanese exports, respectively (Kimura, 2021). Estimates are that 65% of services will be liberalised in RCEP (Cimino-Isaacs et al., 2021).

In terms of rules, RCEP has broader coverage than the ASEAN+1 FTAs, but some of these commitments are shallow, at times non-enforceable, and will not be applied uniformly due to special and differential treatment provisions. The

inclusion of a government procurement chapter is a novelty, although most of the content is geared towards improving transparency. The e-commerce chapter has attracted most attention. Signatories have committed to the duty-free status of online transmissions and pledged not to require localisation of computing facilities or to restrict cross-border transfers of data (Gao and Shaffer, 2021). The parties also agreed to the adoption of privacy protection measures in order to improve data governance. RCEP's digital commitments, however, are much weaker than CPTPP's despite the language on data mobility. In RCEP, the parties retain full discretion in curbing international data transfers by invoking a public policy objective or essential national security interests. It is not necessary to demonstrate (as in the CPTPP) that the restrictions in fact serve a legitimate policy goal and are not unduly prohibitive (Streinz, 2021). Furthermore, the whole chapter is carved out from enforcement.

A defining trait of RCEP is its commitment to supply chain trade. The rules of origin – determining which goods can benefit from duty preferences – are lenient and flexible. Regional content of 40% and the application of cumulation rules will allow exporters to further integrate their operations across the 15 member nations and trade freely. As economist Fukunari Kimura (2021) observes, RCEP is a recommitment to the 'Factory Asia' model that propelled regional growth and elevated living standards. This explains why ASEAN has remained steadfast in its support for RCEP despite concerns that some trade diversion in favour of Northeast Asia may ensue (Kimura, 2021). The creation of a secretariat to oversee implementation and help drive updates to the agreement plus accession protocols for new members to join 18 months after entry into force² give room for RCEP to increase its depth and reach.

10.3.2 Implications for the United States

During its long gestation – close to a decade from start to finish – the RCEP's significance for the United States evolved. When the RCEP talks first got underway in late 2012, the United States was centrally involved in the negotiation of large transregional trade agreement with the aim of cementing the US place in the dynamic Asian economy and influencing the direction of regional integration with rules and standards the United States championed. In other words, the United States was well positioned with its lead on TPP to partake in the dynamics of competitive regionalism (Solís et al., 2009). This is no longer the case. Despite his predilection for a pugilistic trade policy, President Trump's withdrawal of the US from the TPP amounted to 'unilateral disarmament', giving up the opportunity to advance the US' economic integration blueprint. The geopolitical context and the international trading system have also experienced significant changes over the last few years. The intensification of US–China strategic rivalry and the havoc wreaked by the pandemic on national economies and supply chains have resulted in a barrage of protectionist measures and growing calls to re-shore industrial activity. The two mega trade agreements – the CPTPP and RCEP – acquired new meaning: as a safe

harbour for middle powers to advance trade liberalisation and provide regulatory certainty for supply chains.

With this broader context in mind, the implications of RCEP for the United States are at least threefold: growing marginalisation from intra-Asian trade, diminished rule-making capabilities as alternative standards disseminate widely in the region, and lessened diplomatic clout as the United States appears incapable of formulating a compelling economic strategy that can vie for regional influence.

Petri and Plummer (2020) provide useful estimates of the income and trade effects of protracted US–China trade conflict, the CPTPP, and RCEP. A sustained trade war generates significant income losses by 2030 for China in particular (\$304 billion), the United States (\$23 billion), and Asia as a whole (\$289 billion). The CPTPP and RCEP help Asia to recoup these losses (generating income gains of \$53 billion and \$179 billion), but neither China nor the United States is made completely whole by the efficiency gains generated by the mega trade agreements. Exclusion from the CPTPP generates income losses of \$12 billion and \$28 billion for the United States and China, respectively. RCEP generates income gains for the United States (as it benefits from efficient Asian supply chains) of \$10 billion, and for China the payoff is tenfold: \$100 billion. RCEP then is an important instrument for China to mitigate the negative effects of its trade conflict with the United States; but the United States cannot avail itself of the CPTPP to cut losses. Importantly, RCEP will diversify trade away from the United States in favour of intra-Asian commerce. Trade amongst the RCEP members is estimated to grow robustly by \$428 billion in 2030, but US trade with these economies will only augment by \$21 billion.

A key objective of US foreign economic policy has been to shape and disseminate the rules of trade. In the original TPP, American negotiators pushed for a comprehensive rulebook with deeper commitments on IP protection, labour and environmental standards, and cutting-edge disciplines on digital trade and disciplines on SOEs. After exit from the TPP, the US incorporated many of these disciplines in upgraded agreements (USMCA) or new bilateral ones (US–Japan deal), but it lost ground in disseminating them further amongst Asian countries at different levels of development. Instead, RCEP is likely to gain traction as an alternative FTA model that does not incorporate labour and environmental rules, extensively applies special and differential treatment provisions, and has more modest commitments in other areas such as government procurement. The dissemination of an FTA template that does not curb state capitalism practices or makes broad allowances for data transfer restrictions is of greater concern for the United States in the current geopolitical environment.

The inability of the United States to reconcile its domestic politics with a proactive trade posture has diminished its standing in the region. Both Republican and Democratic administrations have attached utmost priority to Asia, as seen in the strategies of the ‘Pivot to Asia’ and the ‘Free and Open Indo-Pacific’.

But the economic pillar has faltered. A US Asia strategy that relies on the US network of alliances, its formidable military resources, and a set of defensive economic measures is insufficient to compete for influence in Asia: a positive economic agenda is required. As such, one potential consequence of RCEP has not yet materialised: to increase the impetus of the United States to re-join the TPP project.

10.4 What Role for the United States in the Indo-Pacific?

The contours of the Biden administration's trade policy show important differences and continuities from the 'America First' trade policy of the preceding administration. In sharp contrast to the Trump years, the promotion of multilateralism and the renewal of alliances are back to the lexicon and practice of US foreign policy. There are a growing number of initiatives to pool efforts with like-minded countries on infrastructure finance (the Group of Seven's Build Back Better for the World) and on supply chain resilience and tech standards (both through the Australia–India–Japan–US Quad meetings and the newly established Trade and Technology Council with the EU), as well as efforts to solve disputes from the 232 tariffs on metals with the EU and Japan. Placing worker welfare (including funding social policy programmes at home) and climate change at the centre of trade policy does mark departures from the Trump administration. The shift is evident in campaigns to ban forced labour in trade agreements and the talks with the European Union for a future framework on green steel that contemplates using emission standards to restrict market access (New York Times, 2021).

In other areas, there is little change from one administration to the next, and none are more important than trade policy towards China and the WTO's dispute settlement system. United States Trade Representative, Katherine Tai's much anticipated speech in October 2021 (CSIS, 2021) on the Biden administration's China trade policy revealed fundamental continuities: ensuring that China delivers on its purchase commitments, the keeping the tariffs covering almost two-thirds of imports from China, and no specifics on the formula to pursue structural reform talks with China (New York Times, 2021). The Trump administration brought the Appellate Body to a halt by refusing to appoint new members citing concerns with judicial activism (Bown and Keynes, 2020). As trade frictions rise, the atrophy of the WTO's enforcement arm is a serious concern. Like her predecessor, USTR Tai has not offered concrete proposals that would satisfy the US reform demands in order to restart the Appellate Body operations.

Coordination with allies has been complicated by the Biden's administration endorsement of managed trade practices and unilateral tariffs (embodied by the phase I deal with China), Buy America clauses, and plans for discriminatory measures to onshore supply chains. The White House supply chain review report issued on June 2021 shows these contradictory impulses at work. On the one hand, there is a push for ally-shoring by developing trusted

supplier networks, promoting diversification, and coordinating on science and technology. On the other hand, the report's recommendations include an expansion of Buy America preferences, the establishment of a trade strike force to deal with unfair foreign practices, and consideration of a 232 investigation on neodymium magnets that could result in the imposition of national security tariffs (White House, 2021). The compromise solution with the EU on the 232 duties on metals did not result in the restoration of the status quo ante but of managed trade through tariff-rate-quotas. A similar compromise was reached with Japan on February 2022 lifting the 232 tariffs in exchange for tariff-rate-quotas, although there was no indication that Japan would join the US and EU in designing a Green Deal on Steel focusing on the carbon intensity of traded steel products.

As many industrialised countries are stepping up plans to boost domestic manufacturing capacity of semiconductors, avoiding a subsidy war amongst allies is a growing preoccupation. For instance, many important trade partners raised concerns about Biden administration's proposed tax credits for electric vehicles that contain US-made batteries, employ US union workers, and are assembled in the US.³ The Biden administration took heed of some of these concerns in the revised plans for EVs tax credits in the Inflation Reduction Act.

Another point of continuity across administrations is the lack of interest in pursuing a comprehensive regional trade agreement. Not even the prospect of CPTPP enlargement has moved the needle. While the UK has joined the grouping, the list of prospective members is growing: China, Taiwan, Costa Rica, and Ecuador. The Chinese bid will be a huge test for the CPTPP. The CPTPP contains provisions that go at the heart of China's state-led economic model, and no such strictures are present in RCEP (SOEs, labour standards, enforceable digital provisions). The stakes are high because either China is willing to engage on deep structural reform or it will aim to negotiate extensive carveouts and prolonged implementation periods. If the latter scenario were to unfold, China's accession could erode the high standards of the CPTPP. The reactions of the existing CPTPP members have been mixed, some expressing enthusiasm (Singapore, Malaysia [South China Morning Post, 2021]), while others are taking a more cautious position emphasising that standards will not be lowered and the track record of compliance with rules-based trade is important (Japan [Asia Financial, 2021], Mexico [NikkeiAsia, 2021] Australia [The Guardian, 2021]). Unanimous consent is required for admission.

While China's CPTPP accession request could be a game changer, the Biden administration has opted instead for an Indo-Pacific Economic Framework (IPEF) to cover the areas of fair and resilient trade, supply chain resilience, labour standards, digital economy, climate, infrastructure, taxation, and anti-corruption (NikkeiAsia, 2022). Administration officials have made it clear that it will not be a traditional trade agreement with market access negotiations at its heart (Reuters, 2021b). It is not clear that this economic framework can incorporate enforceable obligations, and because it bypasses

the need for Congressional approval, its longevity could be limited (Brock et al., 2021). A loose economic framework, however, will not be enough to restore US leadership in the region. We seem to have come full circle in the long arc of Asia-Pacific regionalism but with a significant twist: the United States is now more inclined to champion a soft law approach on international economic issues, even though in the past, it doubted such flexibility could produce tangible outcomes (e.g. the EVSL spat mentioned earlier). In contrast, Asian countries are now far more comfortable and adept in pushing forward an agenda of binding trade liberalisation partaking in mega trade agreements.

The launch of the IPEF during President Biden's trip to Japan in late May 2022 proved more successful than initially anticipated with 13 other nations joining the effort: India, Indonesia, Malaysia, Thailand, Viet Nam, the Philippines, Brunei, Singapore, Japan, Korea, Australia, New Zealand, and Fiji. While agreements have been reached in three pillars, the trade facilitation pillar covering labor standards and digital economy rules is in limbo.

10.5 Conclusion

Asia's trade architecture is at an inflexion point. International economic relations are under strain, given the rise of geopolitical tensions and the disruption of supply chains due to the global pandemic. Whilst the WTO has struggled to update its rules and address these challenges, regional integration in Asia has continued to make strides with the launch of RCEP and the ongoing negotiations to enlarge the Comprehensive and Progressive TPP with the addition of new members. Historically, the United States has been a major player in shaping the rules of trade and investment regionally and globally. However, the United States is not championing trade liberalisation but has advocated instead a new IPEF. The significance of the issues covered in the IPEF (digital economy, supply chain resilience, green infrastructure) is not in question. But there are concerns about the US ability to advance its standard-setting agenda without offering market access benefits. Because the IPEF lacks a trade liberalisation component, it will remain an imperfect vehicle to anchor the United States to the region as RCEP and the CPTPP make strides.

Consequently, the risk of US marginalisation from the Asian regional economic architecture has never been so stark. The exit from TPP is a self-inflicted wound, product of decades-long under-investments in worker skilling programmes, and a safety net capable of increasing social resilience to economic change. The repair work ahead is sizable. It will require parallel work on domestic social policy and a proactive trade strategy, in addition to a meaningful coordination with allies and partners to reduce vulnerabilities without succumbing to economic nationalism. While an immediate return to the TPP project is not politically feasible at this juncture, there are immediate steps the United States could take to regain the initiative on trade. These include renewing trade promotion authority, offering a blueprint for Appellate Body reform at the WTO, and the launch of bilateral and plurilateral negotiations

that comprise market access commitments (e.g. a trade negotiation with Taiwan and a plurilateral digital agreement) that could serve as stepping stones towards a full-fledged trade strategy. Only then will the US be back.

Notes

- 1 Since the USMCA passed with a rare bipartisan vote, it is likely that in any future bid for CPTPP membership, the United States would seek amendments to expand labour and environmental provisions and tighten auto rules of origin in order to cultivate Congressional support. For an analysis of TPP options for the United States, see Cutler (2020).
- 2 This waiting period does not apply to India.
- 3 A group of 25 ambassadors sent a letter in late October to President Biden, noting that the proposed tax incentives for electric vehicles violate trade rules. See Reuters (2021b).

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11 The Role of the Economic Research Institute for ASEAN and East Asia (ERIA) in Promoting the Regional Comprehensive Economic Partnership (RCEP)

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11.1 Introduction

This chapter analyses how international institutions or non-governmental entities can support free trade agreements (FTAs). To fulfil this objective, it studies the role of the Economic Research Institute for ASEAN and East Asia (ERIA), an international organisation established in 2008, before, during, and after the negotiation process for the Regional Comprehensive Economic Partnership (RCEP).

The RCEP is a mega FTA which aimed to unify the existing Association of Southeast Asian Nations (ASEAN)+1 FTAs – the ASEAN–China Free Trade Area, ASEAN–Korea Free Trade Area, ASEAN–Japan Comprehensive Economic Partnership, ASEAN– Australia–New Zealand Free Trade Area, and ASEAN–India Free Trade Area. The launch of the RCEP negotiations was announced at the 21st ASEAN Summit in November 2012, and negotiations were completed in November 2020 by 15 participating countries, following India’s withdrawal. The process of the RCEP negotiations was based on the principle of ‘ASEAN centrality’, which was clearly stated in the Guiding Principles and Objectives for Negotiating the RCEP (RCEP, 2012). ASEAN has also proceeded with ASEAN-wide high-level economic integration, known as the ASEAN Economic Community (AEC). The formation of the RCEP and the creation of the AEC are considered as the same regional policy challenges for ASEAN, and ERIA’s main role is closely involved with these ASEAN challenges.

The East Asia Summit (EAS) Leaders agreed to establish ERIA at the Third EAS in 2007 (ASEAN, 2007). ERIA was officially inaugurated as a full-fledged international research organisation in June 2008 at its first governing board meeting at the ASEAN Secretariat in Jakarta (Nishimura, 2017). Its establishment was first proposed because of the need for an ‘East Asia version of the Organisation for Economic Co-operation and Development (OECD)’ in ‘the Global Economic Strategy’ by the Ministry of Economy Trade and Industry (METI) of Japan in August 2006 (METI, 2006: 4), together with

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the initiative for the East Asia Economic Partnership Agreement, later known as the Comprehensive Economic Partnership for East Asia (CEPEA). One of ERIA's expected functions was to promote regional economic integration by providing intellectual input. The East Asia Economic Partnership Agreement proposed forming a region-wide economic area composed of the ASEAN+6 member countries – that is the 10 ASEAN Member States (AMS); the Plus Three countries (China, Japan, and the Republic of Korea (henceforth, Korea)); Australia; India; and New Zealand. As Terada (2013) mentioned, the idea of establishing ERIA differentiated Japan's proposal from China's proposal for an East Asia FTA with ASEAN+3 membership. Japan promoted East Asian regional integration under the framework of ASEAN+6 (which had the same members as the EAS at that time). Since the establishment of ERIA, the RCEP agenda has been closely related to ERIA's research and policy activities supporting regional economic integration in ASEAN and East Asia.

Looking back on the history of ASEAN, the 'track two mechanism', mostly developed by think tank scholars and at academic workshops or meetings in the region, has played a significant role in building regional trust (Acharya, 1998; Jones and Smith, 2007).² The track two mechanism provides a testing ground for ideas which are too sensitive to be placed on the intergovernmental agenda (Acharya, 1998: 76). As this chapter mentions later, ERIA's involvement in the RCEP was similar to the track two mechanism; however, it also encouraged the decision-making of the ASEAN+6 member countries to start the RCEP negotiation process.

In this chapter, we touch upon ERIA's role in supporting the RCEP launch and negotiations. Although ERIA was not an official party to the negotiations, it was involved in the RCEP process by providing specialist capacity and knowledge. We describe ERIA's activities related to the RCEP and their changing characteristics at each phase of the negotiating process: (i) before the launch of negotiations, (ii) during the early stage of negotiations, (iii) during the later stage of negotiations, and (iv) during the implementation phase after the conclusion of the agreement. We investigate ERIA's contribution to the RCEP negotiations and, more generally, the role of international institutions in supporting the negotiation of economic partnership agreements. We conduct this research by using the official documents and website information of the ASEAN Secretariat, relevant ministries of the RCEP-participating countries, and ERIA. We also conduct interviews with officials related to the RCEP negotiations and ERIA activities to enrich the research results.

11.2 Review of Previous Studies and Research Design

11.2.1 *International Institutions from the Perspective of International Relations*

In the field of international relations, scholars have studied international institutions such as international organisations (IOs) and international non-governmental organisations from the viewpoint of what roles non-state

actors play in global governance (Barnet and Finnemore, 1999; Keohane, 2011; Nasiritousi et al., 2016). A vast amount of research analyses the role of non-governmental institutions by ‘understanding why these phenomena exist, how they function, and what effects they have on world politics and other outcomes of concern’ (Martin and Simmons, 2013: 326). Moreover, Gutner and Thompson asserted that studies of international organisations in international relations need to focus on ‘why states create institutions, how they pursue their interests through institutions, and whether and how IOs “matter”’ (Gutner and Thompson, 2010: 228). Furthermore, Barnet and Finnemore (1999) pointed out that international organisations are autonomous from their member states and can have independent effects on the world.

International institutions are generally considered to play agenda-setting and normative roles through discussions amongst state representatives (Cogan et al., 2016: xii). To support the setting of global agenda and norms, an important function of international organisations is gathering and providing information (Coicaud and Le Blanc, 2016).³ Furthermore, the functional approach of international institutions emphasises the provision of specialist abilities and knowledge to develop international policymaking (Nasiritousi et al., 2016). The epistemic community – the concept by Haas (1992: 2) about the role the network of knowledge-based experts plays in ‘articulating the cause-and-effect relationship of complex problems, helping states identify their interests, framing the issue for collective debate, proposing specific policy, and identifying salient points for negotiation’ – also encourages the international field’s decision-making process.

General Background of ERIA in East Asia Economic Integration

Some researchers have studied ERIA from the viewpoint of East Asian economic integration and development. Katada (2020) highlighted the Japanese initiative of regional development cooperation through research think tanks – the Asian Development Bank Institute and ERIA – to make ‘visible intellectual contributions to regional development and economic efforts’ (Katada, 2020: 150). Yoshimatsu (2014) pointed out the importance of ERIA’s information provision function, which contributes to the development of FTAs in ASEAN and East Asia. He claimed that ERIA contributed to overcoming ‘a major hurdle to the formation of a regional FTA in East Asia’, which ‘was how to coordinate the diverse contents of the existing ASEAN+1 FTAs into a unified FTA’ (Yoshimatsu, 2014: 60). Terada (2013: 69) pointed out the importance of the utilisation of ERIA for economic cooperation and technical assistance by referring to the CEPEA study group report (CEPEA, 2009).

ERIA has conducted extensive research related to the ASEAN and East Asia region. It formed the Research Institutes Network, which consists of the 16 research institutions of each ERIA member country (ERIA, n.d.-b). To conduct ERIA research projects, the Research Institutes Network helps conduct country research and obtain information and research findings from individual member countries (Yoshimatsu, 2014: 61). Therefore, the network function

helps enrich the scientific research outcomes and create a consensus amongst the researchers of member countries for desirable policy directions through the research activities. This function is consistent with the discourse of the epistemic community mentioned earlier.

As a general history of ERIA, Nishimura (2014, 2017) covered the development of ERIA holistically. However, these studies do not cover ERIA's relationship with the RCEP negotiations. To the best of our knowledge, our study is the first research that provides a case study of ERIA and the RCEP negotiation process.

11.3 Timeline of RCEP Negotiations and ERIA's Contribution

Here, we describe ERIA's role in the RCEP negotiations by examining what ERIA did in the context of the RCEP timeline. Although ERIA's activity was not directly involved in the negotiating process of the RCEP agreement, ERIA provided the functions of gathering and providing information and supporting member states' decisions at each stage of the RCEP negotiation process – including the launch of negotiations, the progress of the specific chapters, and the implementation phase after the negotiations concluded.

The leaders of the 16 participating countries launched the RCEP negotiations on 20 November 2012 through a joint declaration. The declaration mentioned ASEAN centrality, as well as achieving 'a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement establishing an open trade and investment environment in the region to facilitate the expansion of regional trade and investment' and contributing 'to global economic growth and development' (ASEAN, 2012a). Before the leaders' declaration, the economic ministers of the RCEP-participating countries agreed on the 'Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership' in August 2012, which contained the direction and contents of the negotiation process (ASEAN, 2012c; RCEP, 2012).

The negotiation process started with the first round of negotiations and other working group meetings in Brunei Darussalam in May 2013. The first RCEP ministerial meeting was held on 19 August 2013 at the ASEAN Economic Ministers' Meeting. From the beginning of the negotiation process, 31 round of negotiation meetings, 8 Ministerial Meetings, 7 Intersessional round of negotiation Meetings, 11 Intersessional Ministerial Meetings, and 4 RCEP Summit meetings were held over almost 8 years. During the negotiation process, one of the critical moments was establishing the ASEAN Community at the end of 2015; another was the withdrawal of India from the RCEP negotiations in November 2019. The end of 2015 was the initial target for concluding negotiations, and the Indian withdrawal in 2019 was one of the consequences of the extension of the negotiation process.⁴

In this section, we divide the RCEP negotiation process into four parts: (i) before the launch of negotiations, (ii) the early stage of negotiations,

(iii) the period of deepening negotiations, and (iv) the implementation phase after negotiations. The launch phase relies on the rationale of economic benefits emanating from the RCEP agreement. The later stage of negotiations requires more technical support for advancing the negotiations. The implementation phase also requires information and technical inputs for the smooth implementation of the RCEP, particularly in Cambodia, the Lao People's Democratic Republic (Lao PDR), Myanmar, and Viet Nam.

11.3.1 Before the Launch of RCEP Negotiations

During the launch phase, the important issue was how the RCEP was going to create economic benefits. As mentioned earlier, one of ERIA's roles is to support regional economic integration in East Asia. Since its establishment, ERIA has conducted extensive research on FTAs in the region. One of the most significant agenda items is to support the implementation of the AEC Blueprint 2015 and promote further economic integration in the ASEAN and East Asia region. The AEC is one of the pillars of the ASEAN Community, together with the ASEAN Political-Security Community and the ASEAN Socio-Cultural Community, and it aims to accomplish 'a single market and single production base' through various liberalisation and regulatory harmonisation in the ASEAN region. The RCEP aims at East Asian economic integration through an ASEAN-centred approach.

ERIA has worked to develop the AEC Scorecard, the Mid-Term Review of the AEC Blueprint 2015 (ERIA, 2012c), and input for the blueprint of the AEC beyond 2015 (Intal et al., 2014). The RCEP is an important pillar of the policy recommendations for establishing the AEC in 2015 to strengthen regional production networks and economic activities in the East Asia region rather than within ASEAN (ERIA, 2012c: 19). In the following subsection, we investigate ERIA's contributions to the development of the RCEP. The research on establishing the AEC and the RCEP is one of the important pillars of the policy recommendations to strengthen the regional economic architecture and ASEAN centrality.

11.3.1.1 ASEAN+ FTA Mapping Studies

ERIA started conducting FTA research based on a request by the ASEAN Secretariat in 2009 (Nishimura, 2014: 124). The FTA mapping study (2009–2011) analysed the difference between ASEAN+1 FTAs and ASEAN++ FTAs (later the RCEP). The results of the comprehensive mapping studies were reported at the 43rd ASEAN Economic Ministers' Meeting and Informal EAS Economic Ministers' Consultations (ASEAN, 2011a).

According to Nishimura (2014), before the launch of RCEP negotiations, ERIA presented the results of its analysis to four ASEAN Plus Working Groups including the Economic and Technical Cooperation Working Group (ETCWG). ERIA also presented the results of its research to the

working group on rules of origin (ROO) and made policy recommendations to the High-Level Task Force on ASEAN Economic Integration in July 2011 (Nishimura, 2014).

The overlapping of FTAs in an uncoordinated way may cause a higher business and administration cost, creating a phenomenon known as the ‘spaghetti bowl effect’ (Bhagwati, 1995). ROO are at the centre of such complexity, as they determine the country where a product is produced (Lee and Okabe, 2011). A producer in the ASEAN region has to decide which FTA’s ROO govern its international transactions with its customer company in the region. If multiple ROO are uncoordinated, the producers need to pay high costs to determine which ROO they should choose.

Based on requests from the ASEAN Secretariat, ERIA developed two FTA mapping studies (Findlay, 2010; Lee and Okabe, 2011). These studies concluded that the ASEAN+1 FTAs were uncoordinated and that ASEAN should take a central role in forming a more comprehensive regional economic agreement by combining the existing ASEAN+1 arrangements.

Another significant FTA study was Fukunaga and Isono (2013), which emphasised the importance of the RCEP in realising a fully liberalised region. The study pointed out that the existing ASEAN +1 FTAs (at that time) created a ‘noodle bowl’ situation because of the difference in tariff rates, definitions of ROO, service and investment limitations, and protection standards, which business operators absorb as costs (Fukunaga and Isono, 2013: 2). Although this was released after the start of the RCEP negotiations, the results of this study were reflected in ERIA’s policy recommendations and other projects.

It should be noted that ERIA published these two reports when the heads of AMS agreed on the ASEAN Framework of the RCEP at the 19th ASEAN Summit in 2011 (ASEAN, 2011a) and officially decided to launch the RCEP negotiations in 2012 (ASEAN, 2012b).

11.3.1.2 Mid-Term Review of ASEAN Economic Community (AEC) Blueprint

ERIA contributed to improving the AEC Scorecard and developing the Mid-Term Review of the AEC Blueprint (ASEAN, 2010, 2011a, 2011b).⁵ It participated in a preparatory meeting of the ASEAN Economic Ministers in November 2011 and made a presentation on the ‘ERIA Study to Further Enhance the AEC Scorecard Phase II’, which provided a new scoring method for applying evaluations from the business and academic sectors (Nishimura, 2014: 122; Aldaba et al., 2010; ERIA, 2011). ERIA developed the original scorecard mechanism for assessing AEC measures, including business sector evaluations. This research became the basis for developing the AEC project’s mid-term review. The mid-term review report reviewed the roadmap implementation for the AEC Blueprint, as requested by the ASEAN Economic Ministers.

At the 41st ASEAN Economic Ministers’ Meeting in 2009, the ministers requested ERIA to assist the ASEAN Secretariat in reviewing the AEC Blueprint 2015. After that, ERIA also worked to develop the Mid-Term Review

of the AEC Blueprint 2015, based on requests from the ASEAN Economic Ministers (ERIA, 2012c). The AEC Blueprint provides concrete actions to achieve ASEAN's transformation into a single market and production base by 2015.

Through the process of the Mid-Term Review of the AEC 2015, ERIA contributed to the RCEP. ERIA's engagement in the mid-term review project began when it received a letter from the Indonesian Minister of Trade, Mari Elka Pangestu, on 15 April 2011. The mid-term review (i) assessed the effectiveness of the measures adopted from the AEC Blueprint as well as the contribution of those measures to economic growth, employment, competitiveness, and social welfare within ASEAN and (ii) provided recommendations to enhance the implementation of the AEC Blueprint (ERIA 2012c: 1). Although the AEC and the RCEP came from a different context, as Kim (2022) analysed, these elements overlapped.

The mid-term review showed the RCEP's economic impact on the ASEAN region quantitatively using a dynamic Global Trade Analysis Project (GTAP) model. The simulation revealed that broad and deep integration of the ASEAN and East Asia region is more beneficial than limited ASEAN-wide integration. Tariff reductions in the ASEAN+6 benefit the AMS more significantly than tariff reductions limited to ASEAN. Moreover, the economic impacts of service sector liberalisation and improved trade facilitation are much more significant than tariff reduction. These results suggest the importance of the RCEP. The mid-term review also recommended deepening ASEAN integration with East Asia and ensuring ASEAN centrality by achieving a high-quality regional FTA under the RCEP (ERIA, 2012c: x).

The completion of the RCEP negotiations by 2015 was listed as one of the priority measures of the AEC for 2015, together with tariff and non-tariff measures (NTMs), trade facilitation, services' liberalisation and domestic reform, investment liberalisation and facilitation, connectivity and transport facilitation, SME development, and the Initiative for ASEAN Integration (ERIA, 2012c: 18). The Prime Minister of Cambodia, Hun Sen, stated that the RCEP negotiations were part of the effort to establish the AEC by 2015 and that ASEAN economic integration should be comprehensive to promote trade diversification in the region (Hun, 2012).

ERIA participated in the 8th AEC Council Meeting in August 2012 and the 44th ASEAN Economic Ministers' Meeting and presented the Mid-Term Review of the AEC Blueprint (ERIA, 2012b). The joint ministerial statements expressed their appreciation for the contributions of both the Mid-Term Review of the AEC and the comprehensive mapping studies to the implementation of the AEC Blueprint (ASEAN, 2012b; ASEAN, 2012d). The ERIA delegation participated in the ASEAN Business and Investment Summit in 2012 and officially distributed the Mid-Term Review of the AEC Blueprint Executive Summary (ERIA, 2012a). The completion of the RCEP by 2015 was proposed in the 10 preferential agenda of the Mid-Term Review of the AEC Blueprint.

At the 21st ASEAN Summit on 20 November 2012, the ASEAN+6 declared the launch of negotiations for the RCEP (ASEAN, 2012b). The completion of the RCEP was proposed by the end of 2015 – the same as the deadline for the ASEAN Community.

11.3.2 Early Stage of Negotiations and the Establishment of the AEC

The Guiding Principles of the RCEP were agreed on, and the negotiation process started in 2012. The Trans-Pacific Partnership (TPP), another mega FTA negotiation, was launched by 12 countries (Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Viet Nam) in 2013. Some countries engaged with both the TPP and the RCEP and used their resources to promote the TPP rather than the RCEP in the early stage of negotiations.⁶ The TPP also challenged ASEAN centrality because not all AMS participated in it. ERIA demonstrated the centrality of ASEAN and the importance of steadily implementing the AEC or ASEAN-wide economic integration. In this context, it performed an information-sharing function that positioned the promotion of the RCEP as an important part of this effort.

One of the continued contributions was the economic and technical cooperation (ETC) chapter of the RCEP. ERIA (2015) noted that its experts participated in the ETCWG in 2014 and made presentations (ERIA, 2015: x). The draft version of the study on ETC under the RCEP was submitted to the ETCWG in 2014, forming the basis of the final document (ERIA, 2015). The report suggested priorities for ETC activities and recommended providing the necessary capacity building for participating countries, particularly for Cambodia, the Lao PDR, Myanmar, and Viet Nam.⁷

11.3.2.1 ASEAN Rising

Based on the research conducted to develop the Mid-Term Review of the AEC Blueprint, ERIA started to contribute to the intellectual inputs of the Blueprint of the AEC beyond 2015 in 2013 (ASEAN, 2013b). The basic concept of the AEC beyond 2015 was compiled in the ‘Jakarta Framework on Moving ASEAN Forward Toward 2015 and Beyond’, which was noted during the ASEAN Summit in Bali in 2011.⁸ The 8th EAS Chairman’s Statement also highlighted ERIA’s contributions to East Asia’s economic integration, including the RCEP negotiations (ASEAN, 2013a).⁹

ERIA published *ASEAN Rising* in January 2014, stipulating the remaining issues that ASEAN needed to tackle after completing the AEC in 2015 (Intal et al., 2014).¹⁰ The book highlighted the importance of the RCEP in ASEAN centrality because of ASEAN’s role in facilitating negotiations under the ASEAN Economic Ministers (AEM) and stated that it ‘mitigated the rivalry of China and Japan’ on East Asian FTAs and the CEPEA by acting as a facilitator (ibid: 294). *ASEAN Rising* valued the importance of the RCEP in achieving a Global ASEAN and

[a] successful conclusion of the RCEP negotiations that effectively raise the regional integration initiatives in East Asia to a higher level while at the same time taking great consideration of the inclusiveness of RCEP given the wide gap in development levels of AMSs will be a major challenge for ASEAN.

(ibid.: 109)

The book also highlighted the importance of the open accession clause, which was also mentioned in the Guiding Principles of the RCEP, as the open accession clause (i) minimises the risks of trade diversion in the medium and long term, (ii) achieves the Free Trade Area of the Asia-Pacific through the pathway of the RCEP and the TPP, and (iii) increases the attractiveness of FTAs (ibid.: 301–2). By using the open accession clause, ASEAN can maintain ASEAN centrality (ibid.: 302).

ASEAN Rising was submitted to the ASEAN Economic Ministers' Meeting and the High-Level Task Force on ASEAN Economic Integration in 2014 for developing the post-2015 vision (ERIA, 2014). The foreign ministers' and summit statements expressed their appreciation of ERIA's contribution to realising the AEC and its support for the RCEP negotiations (ASEAN, 2014a, 2014b).

The matter of the AEC beyond 2015 was realised as the AEC Blueprint 2025 (ASEAN, 2015b). The blueprint took into account the recommendations of ERIA studies (ibid.: 1). The RCEP is listed under the FTA and comprehensive economic partnership policies in the Global ASEAN pillar (ibid.: 35). One of the critical concepts of the *ASEAN Rising* proposals was a 'responsive ASEAN' as the basis of the four AEC pillars – (i) single market and production base, (ii) competitive economic region, (iii) equitable economic development, and (iv) integration into the global economy – and the concept of responsiveness was reflected in the FTA section of the blueprint (Intal et al., 2014: 321).¹¹

To summarise the process of the RCEP negotiations and the contributions made by ERIA, we can evaluate that ERIA's contributions are closely related to the decision-making at the inception of RCEP negotiations (mapping studies) and promoting ASEAN centrality in terms of the realisation of the AEC (Mid-Term Review) and further regional economic integration and the importance of the AEC and RCEP (*ASEAN Rising*) through the function of information-sharing. These research results were frequently delivered to the policymakers and officials of ASEAN and East Asia through ASEAN working groups, Senior Economic Officials' Meetings (SEOMs), and Ministerial Meetings.¹²

11.3.3 Later Stage of the Negotiations Process: Anti-Globalisation and the Importance of Regional Integration

At the 2015 RCEP ministerial meeting in August, 'the Ministers emphasised that the RCEP Trade Negotiating Committee should expedite the negotiations to substantially conclude the negotiations by the end of 2015 with the remaining technical issues to be resolved as soon as possible in 2016' (ASEAN, 2015a).

However, no chapter working groups had concluded by the end of 2015, and it took an additional 5 years to finalise the negotiations. An important element at this stage was the anti-globalisation sentiment led by the Trump administration in the US in 2017. The completion and collapse of the TPP and the US–China trade conflict underlined the importance of strengthening regional FTAs in the countries participating in the RCEP. When the negotiations began, ERIA considered that technical support was necessary for the sectoral negotiation agenda. In addition to the research activities on the RCEP, technical support to the negotiations through capacity-building programmes and frequent communications with policymakers were implemented.

11.3.3.1 Establishment of the Policy Design Department

ERIA's cooperation expanded not only the research but also the dialogue with ASEAN trade negotiation officials. The establishment of the Policy Design Department (PDD) within ERIA in 2016 became the starting point for strengthening communications with the policymakers and officials of member countries of ERIA, particularly during the RCEP negotiations.¹³ The SEOM of the EAS Economic Ministers' Meeting and ERIA held a dialogue to discuss the AEC and mega FTAs in the East Asia region.¹⁴

The technical support that ERIA provided to the RCEP negotiations included holding a track 1.5 roundtable discussion amongst prominent academics in the region and RCEP negotiators on the sidelines of the Kobe RCEP roundtable negotiations (Nishimura, 2017).¹⁵ In line with the discussions at the Kobe roundtable, ERIA participated in informal ASEAN–METI consultations in Osaka in April 2017 and provided input as to how the academic research could contribute to the RCEP negotiations.¹⁶ ERIA introduced the concept of the two 'I' initiatives – an 'inclusive' and 'innovation-oriented' initiative – as a new model of regional economic partnership (METI, 2017).¹⁷

At the EAS Economic Ministers' Meeting in August 2017, the ministers acknowledged ERIA's contribution to the RCEP in terms of connectivity, small and medium-sized enterprises, and digital development (ERIA, 2017c). The statement of the ASEAN Summit and EAS commended ERIA's support to the RCEP negotiations and agreed upon the NTM, ASEAN Seamless Trade Facilitation, and the Master Plan of ASEAN Connectivity 2025 projects (ASEAN, 2017a, 2017b).

ERIA's PDD provided capacity-building programmes for Cambodia, the Lao PDR, Myanmar, and Viet Nam for the RCEP negotiations based on requests from these countries, such as the Cambodian Ministry of Commerce's request in May 2017 to understand the issues of the RCEP negotiations (ERIA, 2017d). A follow-up programme was held in September 2017, and the capacity-building programme listed the contents of customs procedures and trade facilitation, sanitary and phytosanitary measures, and ROO (ERIA, 2017a). These capacity-building programmes helped develop the skills of Cambodian negotiators and contributed to a smooth negotiation process.¹⁸

11.3.3.2 Research on Regional Economic Integration

Another important contribution of ERIA was research on regional economic integration in East Asia. One of ERIA's flagship projects was the NTM database project (ERIA, n.d.-a) in ASEAN (Ing et al., 2016) and East Asia (Doan and Rosenow, 2019). While the tariff rates in ASEAN are decreasing due to the efforts of the AEC, NTMs are increasing dramatically; harmonising NTMs within the region is therefore crucial for trade facilitation. In line with the NTM project, ERIA contributed to developing the ASEAN Seamless Trade Facilitation Indicators since 2017 (ASEAN, 2017b, 2017d) and calculating and reducing the trade transaction costs in ASEAN (ASEAN, 2020).

The importance of the RCEP to the regional integration process has been analysed from an academic perspective. Kimura and Chen (2016) insisted that deepening global value chains inevitably requires mega FTAs and that AMS and their Dialogue Partners should accelerate the RCEP negotiations.¹⁹ This research on trade issues in ASEAN and East Asia directly and indirectly supported the development of the RCEP negotiation process.

The ASEAN@50 project, a five-volume set of publications, was released in celebration of the 50th anniversary of the establishment of ASEAN in 2017 (ASEAN, 2017d; Nishimura, 2017). Volume 5 of this book project is the AEC 2025 and beyond. Sta Maria et al. (2017: 37) pointed out that the 'RCEP was designed to be a comprehensive and mutually beneficial economic partnership agreement that would involve broader and deeper engagement between ASEAN and its Dialogue Partners by significantly improving on their existing FTAs'.

The ASEAN Vision 2040 project, which was based on a request from the Ministry of Foreign Affairs of Thailand, was a future-oriented project to reveal the aspirations and expectations of the people of ASEAN in terms of regional, global, and technical development. The contents highlighted key areas of collective leadership and ASEAN centrality, harnessing the emerging Industry 4.0 to transform the ASEAN economies and enhance ASEAN resilience and developmental sustainability, realising a seamless ASEAN, engendering greater inclusivity and a more profound sense of community and belonging, and strengthening the ASEAN institutional ecosystem (ERIA, 2019). The core theme of the external relations – ASEAN centrality and collective leadership – was the basis for the Guiding Principles of the RCEP negotiations. The anchor role of ASEAN is critical to the success of the RCEP. It is crucial to succeeding in the multilateral cooperation amongst ASEAN and its external partners (ERIA, 2019: 4). 'The successful conclusion of RCEP strengthens ASEAN centrality and credibility as a platform for pushing forward the open and predictable multi-lateral trading environment upon which ASEAN's progress depends' (ibid.: 21).

Although neither the ASEAN@50 nor the ASEAN Vision 2040 projects directly analyse and highlight the importance of the RCEP negotiations, these publications state that a successful RCEP is the core of further ASEAN

integration towards the AEC 2025 and for maintaining the significant role of ASEAN for the dialogue and external partners.

In conclusion, during the later stage of negotiations, ERIA expanded its scope of contribution to policy-oriented engagement with policymakers in the countries participating in the RCEP negotiations, in particular the establishment of the PDD in 2016 (ASEAN, 2016). The NTM database and ASEAN Seamless Trade Facilitation Indicators became good tools to understand the regional integration process, including the AEC 2025. Capacity-building programmes were also used to encourage the negotiation process. The two flagship projects of this period (ASEAN@50 and the ASEAN Vision 2040) stressed the importance of the RCEP through the history and future perspectives of ASEAN and East Asia regional integration.

11.3.4 Post-Agreement Implementation Phase

ERIA's contributions to the RCEP negotiations continued until the conclusion of the negotiation process and were acknowledged at the ASEAN Economic Ministers' Meeting (ASEAN, 2019, 2020). With regard to the RCEP, ERIA conducted a capacity-building programme for ASEAN officials in the service sectors (ASEAN, 2020). Even after the end of the RCEP negotiation process in November 2020, ERIA conducted capacity development programmes on RCEP issues in various fields on harmonised tariff nomenclature, ROO, and e-commerce.²⁰ Therefore, the function of information-sharing changed to technical support through capacity building in this phase. Through technical cooperation, ERIA continues to contribute to implementing the RCEP smoothly even after the RCEP entered into force in 2022.

11.4 Discussion and Conclusion

This chapter analysed how international institutions engage in intergovernmental negotiations using the case study of ERIA with regard to the RCEP over more than 10 years of activities. Through the various economic analyses of regional economic integration in ASEAN and East Asia, ERIA has contributed to collaboration between regional policymakers and researchers, such as the Research Institutes Network, to understand the importance of realising deepening economic integration in the area, as the various ministerial and summit statements mentioned.

ERIA's contributions during the negotiation launch phase can be credited with analysing the economic impact and feasibility of implementing the RCEP in the 16 participating countries, which contributed to providing a rationale for establishing the FTA. The description of the RCEP in *ASEAN Rising*, which was reflected in the preparation of the AEC Blueprint 2025, shows that the RCEP is an important element in the creation of a Global ASEAN and confirms the centrality of ASEAN. In addition, *ASEAN Rising* performed

the function of providing legitimacy to political messages within and outside ASEAN in terms of confirming the centrality of ASEAN.

As it proceeded to the later stage of negotiations, ERIA expanded its role to include technical support. The PDD supported the negotiations and provided technical support for preparing ROO and trade facilitation negative lists through capacity-building programmes for RCEP negotiators in Cambodia and the Lao PDR, as well as facilitating negotiations amongst negotiators. The organisation of the track 1.5 dialogue also facilitated the function of encouraging discussion of the aspirations for and ideas of the RCEP amongst negotiators and academia. Unlike the ASEAN Secretariat, which performed the secretariat function for the negotiations, these activities can be evaluated as fulfilling the functions of providing information and technical support from a third-party perspective. ERIA served mainly as a forum to promote the basic premise of maintaining economic integration and free trade regionalism by encouraging both academia and officials in each member country to share their ideas with the ASEAN Secretariat (similar to the function of epistemic communities (Haas, 1992)).

The mapping studies, Mid-Term Review of the AEC 2015, and *ASEAN Rising* were directly reflected in the official documents of the RCEP and the AEC Blueprint. ERIA's engagement may be evaluated as the think tank of East Asia's regional economic integration to encourage the track two mechanism for the RCEP (e.g. use of the Research Institutes Network (Yoshimatsu, 2014)).

This case analysis not only provides examples that support the role of international organisations to which previous studies have referred, such as information-providing and decision-supporting functions, but also reveals changes in the specialist technical-providing function required at different stages of the negotiation process over a period of about 10 years – the launch of negotiations, progress in specific negotiations, and operational aspects after the negotiations are concluded.

Notes

- 1 The views expressed in the chapter are solely those of the author(s) and neither represent those of the organisation(s) to which the author(s) belong(s) nor ERIA.
- 2 The track two mechanism refers to the non-governmental and informal discussion process used to build confidence and promote mutual understanding and cooperation. The track two mechanism usually consists of scholars and experts on specific issues. The track one mechanism refers to intergovernmental discussion.
- 3 Coicaud and Le Blanc (2016: 665–69) listed nine categories of mandates related to the information-gathering functions of international organisations: (i) gathering and using information for compliance and enforcement; (ii) information related to international norm-setting; (iii) production and dissemination of raw data and information; (iv) production and use of information for reviewing, monitoring, and reporting; (v) production of information aimed at providing the basis for international action; (vi) information produced and disseminated by international organisations as conveners of international discussions; (vii) information produced for knowledge generation and capacity-building functions; (viii) public information;

and (ix) production and use of information relating to the international organisation's own actions and performance. They also propose six criteria for international organisations' information dissemination: legitimacy, economic efficiency, effectiveness, transparency and participation, relevance, and adaptability (Coicaud and Le Blanc, 2016: 679).

- 4 According to media reports, bilateral relations between China and India were one of the reasons for making early agreements difficult (India TV, 2017; Palit, 2019).
- 5 We appreciate ERIA's support in undertaking the Mid-Term Review of the AEC Blueprint and the improvement of the AEC Scorecard Monitoring System and Mechanism to facilitate the timely establishment of the AEC by 2015.
- 6 Oba (2022) pointed out that Japan prioritised the TPP over the RCEP because 'it aimed to create a high-level, comprehensive set of rules for trade and investment liberalisation and facilitation, which would more directly contribute to Japan's economic recovery and technological innovation'.
- 7 The ETC priorities that ERIA (2015) mentioned were (i) helping to build awareness and support for the RCEP; (ii) facilitating technical working group efforts to identify and address bottlenecks in implementing the RCEP commitments and sharing regional experiences and good practices related to implementing the RCEP commitments; (iii) facilitating the institution building and policy reform processes (especially in the lower-income countries) that would be needed to help reduce regional development gaps; and (iv) monitoring and evaluating the RCEP implementation and periodically reviewing ETC needs and priorities.
- 8 ERIA held a workshop for the AEC beyond 2015 for researchers and ASEAN Secretariat representatives (ERIA, 2013).
- 9 ASEAN (2013a: para. 34) stated that:

We also emphasised the importance of deepening economic integration through trade liberalisation initiatives such as RCEP aimed at narrowing the development gaps and maximising mutual benefits. In this regard, we appreciated analytical works and policy recommendations by the ERIA for maximising benefits of economic integration through coordinated cooperation among all EAS participating countries.
- 10 *ASEAN Rising* used more than 30 pages to explain why the RCEP was important for the achievement of the AEC 2015 and beyond, and how to implement the RCEP. It stated that ASEAN and the AEC could contribute to trade facilitation, services' liberalisation, and the lowering of non-tariff barriers (NTMs) with ASEAN Dialogue Partners. To implement the RCEP properly, it recommended a dispute settlement mechanism, the possibility of trade policy reviews, and an open accession clause to the implementation mechanism.
- 11 ASEAN (2015b: 36) stated that one of the agreed strategic measures to further integrate the AEC into the global economy is to 'Continue to review and improve ASEAN FTAs and CEPs to ensure that they remain modern, comprehensive, of high-quality and more responsive to the needs of businesses operating the production networks in ASEAN'.
- 12 Based on an interview with retired ERIA officials (11 December 2020, online).
- 13 The PDD was proposed at the Extraordinary ERIA Governing Board Meeting in Tokyo in March 2016 to bridge the gap between ERIA's research and policy support to the member countries of ERIA (ERIA, 2016a). Dr Rebecca Sta Maria, former Secretary General of the Ministry of International Trade and Industry of Malaysia, became the first head of ERIA's PDD (title: Senior Policy Fellow).
- 14 SEOM leaders expressed their need for policy recommendations to contribute to the mega FTAs (ERIA, 2016b).
- 15 Australian Department of Foreign Affairs and Trade (2017).

16 The ERIA representative, Dr Rebecca Sta Maria, said that:

We must strike while the iron is hot. We need to keep the growth momentum in East Asia. This is about the next fifty years – our negotiators must not look through the narrow lens of what’s in it for me today.

She added that the TPP had many good elements that should be considered for the RCEP (ERIA, 2017b).

17 ERIA’s presentation concepts were reflected in the joint media statement (ASEAN, 2017c).

18 Based on the authors’ written interview to an RCEP negotiator (see Chapter 12).

19 Kimura and Chen (2016) insisted that AMS and their Dialogue Partners should accelerate RCEP negotiations. At the time of publication, the negotiations had already lasted 4 years. This report pointed to the trend in mega FTAs, including the TPP, which resulted from global value chain governance in the world economy. Trade in the 21st century comprises trade in goods, trade in services, trade in parts and components, and more unrestrained cross-border movement of factors. This is mainly driven by international production fragmentation, characterised by an increasingly complex and widespread international production-sharing network. Against this backdrop, mega FTAs aimed to realise at-the-border liberalisation (including free trade in goods, trade in services, and foreign investment) and beyond-the-border economic reforms (including intellectual property rights enforcement). This report concluded that AMS benefitted from participating in international production networks and global value chains and that they must accelerate the pace in concluding the RCEP negotiations to maximise the benefit.

20 See ERIA (2022a, 2022b, 2022c, 2022d). The capacity-building programmes are mainly conducted with the Lao PDR and Cambodia.

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12 The Real Voices of Regional Comprehensive Economic Partnership Negotiators

Fusanori Iwasaki and Keita Oikawa

Introduction

This chapter contains the transcripts of written interviews conducted by the editors. The editors sent the same set of questions to each interviewee, who responded in writing. A total of 12 responses were received. The interviews included 8 questions and were conducted between November 2021 and January 2022.¹ This chapter serves as an original source for future researchers in the field, offering insights into the negotiation processes of RCEP and enhancing the understanding of its complexities and dynamics.

Following sections contain the results of written interviews.

Questions

1. What is your engagement with the RCEP process in your career? From when to when were you in the position?
2. What is the importance of RCEP in your country, East Asia region, and the world?
3. What do you think is the importance of ‘ASEAN centrality’ and ‘ASEAN unity’ in the RCEP? In your answer, please explain/indicate your definition of ASEAN centrality.
4. Reviewing the negotiation process of RCEP from the beginning (2012) to the signing (2020), how was the momentum in the negotiation between the RCEP member countries changing? Please indicate the degree of negotiation progress in a scale of 10 (1 (representing the beginning) to 10 (representing the signing)) in each year and possibly state the reasons for your scoring. In your answer, please indicate your perception of other RCEP member countries in terms of their contribution to the negotiation progress (e.g. Country X took the initiative in the Country Y market access negotiation). If progress or stalemate in the negotiation was due to factors in your country (e.g. persuading stakeholders (manufacturing, services, finance, agriculture sector, NGOs, citizen groups, or others) in your country), please also indicate them in your answer.

5. Reviewing the period of the RCEP negotiation from 2012 to 2020 (including the period when you did not engage in the negotiation), what do you think about the influences of other regional integration initiatives ((CP) TPP, APEC, BRI, Indo-Pacific, or others) on RCEP negotiations and vice versa? If changes in social and economic trends (the China–US conflict, digitalization, SDGs, the COVID-19 pandemic, or other developments) affected the RCEP negotiation, please refer to them in your answer. (If you think of other developments, please specify them.)
6. What is your perception of the result of the content of RCEP? Please indicate what your country wanted to realize in the agreement (market access or other items). If possible, please refer to other FTAs (CPTPP or others) for comparison. (If you think of other items, please specify them.)
7. What do you think about the likely impact of the enactment of RCEP agreement on other FTAs and regional cooperation frameworks (CPTPP, CJK FTA, Indo-Pacific, BRI, or others), global economy, and geopolitics (international order, the China–US conflict, or others) from now onwards? (If others, please specify.)
8. What do you think is the next step for RCEP – expansion of membership, including the return of India, deepening integration (improving the quality of the agreement), or others? Do you expect any next regional integration framework beyond RCEP (FTAAP or others)? (If others, please specify.)
9. If you have further comments and opinions, please share with us.

12.1 ASEAN and Brunei Darussalam

By Dato Lim Jock Hoi

Question 1:

My involvement in RCEP dates back to the early days before the negotiations officially launched in 2012, back when I was the Permanent Secretary at Brunei Darussalam’s Ministry of Foreign Affairs and Trade. From 2010 and 2011, the ASEAN senior economic officials had exchanged initial ideas on the future architecture of the RCEP.

From January 2018, I had the unique opportunity to support the RCEP negotiations in my capacity as the Secretary-General of ASEAN. It was also the time the negotiations came to a critical juncture, with the most contentious issues left unresolved. With the conclusion of RCEP negotiations at the top of each ASEAN Chair’s agenda, I took on a constructive role at the ministerial meetings, by creating and maintaining momentum of the RCEP negotiations, moderating views among the RCEP participating countries, gaining broadbase support from relevant stakeholders, coordinating efforts within ASEAN, ensuring continuous support to the RCEP Chair, and tabling possible “landing zones” until the negotiations were concluded and the RCEP Agreement signed in 2020. Following the signing of the Agreement on 15 November 2020, the ASEAN Secretariat continues to support

the RCEP process by facilitating the preparatory work for the entry into force of the Agreement and monitoring the ratification process by Parties to RCEP as I also act as the Depository of the Agreement as provided by Paragraph 1 of Article 20.5 of RCEP.

Question 2:

At the national level, RCEP is expected to provide business and employment opportunities by facilitating the expansion of trade and investment relations among its Parties; significantly contributing to the post-pandemic economic recovery efforts. RCEP is also expected to serve as a catalyst for structural transformation in the Parties to the agreement, particularly in the least-developed countries and within ASEAN, as it includes elements that were not included in other ASEAN FTAs not only on national level, but to a large extent, RCEP also catalyse the ASEAN Economic Community (AEC) building process.

For East Asia, the RCEP is significant as it is the first FTA that brings together China, Japan, and the Republic of Korea. The RCEP Agreement is expected to bring down approximately 92% of total tariff lines in all 15 Parties to zero in the next two decades. The RCEP also reinforces the regional economic integration by expanding common accumulative rules of origin, simplified customs procedures, trade facilitation, and coherent trade rules that would provide greater transparency, fairness, and predictability for businesses. These will, in turn, lead to a significant reduction of trade costs for ASEAN businesses, especially SMEs, and improve their global competitiveness. RCEP is expected to further integrate Small and Medium Enterprises (SMEs) in the region into the Regional Value Chain (RVC), thereby strengthening the RVC and helping the region up the ladder on the Global Value Chain (GVC). This has particular importance to the ASEAN region as SMEs represent the majority of businesses across ASEAN Member States, providing a critical source of employment opportunities. RCEP's impact also goes beyond the national and regional levels. On a global level, one study even goes far to suggest that RCEP could add up to USD 209 billion annually to world incomes, and USD 500 billion to world trade by 2030.² In terms of combined GDP, population, as well as trade and investment, the RCEP Agreement is considered the biggest FTA in the world. RCEP covers approximately 30% of the world's population, 30% of global GDP, a quarter of global trade in goods and services, and 31% of global FDI inflows.

Question 3:

ASEAN was the original initiator for the establishment RCEP as a part of its original workplan under the AEC Blueprint 2025 with a view to consolidating the ASEAN economic integration. From its conception, throughout

the negotiations, and to its current progress, RCEP continues to remain an ASEAN-led process. Until today, ASEAN continues acting a central role in monitoring the implementation of the Agreement. As part of its Global ASEAN Strategy, the RCEP ensures that ASEAN remains in the driving seat in the evolving regional trade architecture. The RCEP does not merely aim to iron out the differences in trade rules under existing ASEAN+1 FTAs and but also creates more comprehensive, ambitious, and advanced trade rules for ASEAN. Throughout the negotiation process, the ASEAN Member States closely coordinated their positions and collectively negotiated as a group with RCEP external parties. The final outcome of the RCEP demonstrated both the readiness of ASEAN to advance its economic integration process and the sophisticated balance of mutual interests between ASEAN and other RCEP external parties.

Question 4:

With 8 years and more than 30 rounds of regular rounds of talks, countless number of meetings participated by hundreds officials and experts from 16 countries, the RCEP negotiations proved to be far more complicated than any FTA negotiations that ASEAN has ever dealt with. Despite the twist and turns, we spared no efforts to advance progress wherever possible to keep the momentum. In fact, it is fair to say that RCEP participating countries successfully managed to create the momentum and political will rather than to wait for the momentum to come. Thanks to the tireless efforts of the RCEP Chair, RCEP parties, and the immense support of the ASEAN Secretariat's team, we carefully mapped out key challenges and prioritized our limited resources on resolving those challenges to unlock the impasse in each round of negotiations. In many circumstances where these challenges were intertwined, we had to work out comprehensive solutions through compromise packages. At critical stages of the RCEP negotiations, RCEP Economic Ministers, Indonesia as the Chair of the Trade Negotiating Committee, and the Secretary General of ASEAN had to work around the clock to secure those solutions that strike the right balance of interests among parties.

The Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership (RCEP), which was adopted in 2012, contributed in setting the course of the negotiations process as it built a corridor for the Negotiating Committee in performing negotiation for this agreement. After the start of the negotiations, the RCEP focused on setting out the possible areas for inclusions in the agreement. Ideas on chapters of the agreement were set forth by both ASEAN Member States and ASEAN Foreign Partners, and were discussed together. Throughout the negotiations, new areas were added upon the consideration of its necessity and relevance, such as competition, government procurement, and electronic commerce.

There was a period of time when priorities of the participating countries were varied, and existing domestic regulations were among their top priorities, resulting in challenges to get traction and progress in the negotiations. In addition, geo-political dynamics and trade tensions between some participating countries added to the lack of political push, causing difficulty in making progress.

Another challenge was the absence of FTA between some participating countries. This absence complicated the discussions on a modality for specific commitments. As for AMS, consolidating tariff commitments with a view to arriving at common concessions was also challenged by differences in trading patterns and sensitivities vis-à-vis non ASEAN participating countries. In addition, a gap of expectation and different levels of ambition among some negotiating parties were also creating big challenges. For instance, there were parties that pushed for the inclusion of CPTPP terms, while others were not ready.

However, two external drivers helped provide a sense of urgency to conclude the negotiations. First, the continuing trade tension among some parties. This situation urged ASEAN and ASEAN's other major partners to look for alternative ways to ensure global trade would continue to grow. Second, the pandemic that severely hit the global community. This unprecedented event finally brought home the need to keep markets open, bringing even greater reasons to conclude the negotiations.

Question 5:

Looking back at the negotiation process, the RCEP negotiations were influenced by new emerging economic trends. The negotiators aimed to make RCEP a highly relevant FTA that could help address these new emerging economic trends. As such, the negotiators were fully aware of the importance of including, in the RCEP, economic areas that have yet to gain tractions at the multilateral level (WTO), such as e-commerce, government procurement, and SMEs. Other FTAs and emerging new developments also indirectly and/or directly influenced RCEP negotiation as the Parties determined to make the RCEP relevant to the current economic situation.

RCEP is also expected to offset the economic loss caused by trade tensions between major economies. The entry into force of RCEP, therefore, comes at an opportune time where the region is still grappling with the economic fallout from the COVID-19.

The COVID-19 that started in early 2020 also presented an impetus to expedite the implementation of the RCEP Agreement to help the post-pandemic economic recovery process. As the economic fallout of the pandemic was becoming more apparent, Parties also accelerated their work to see the early entry into force of the Agreement, on 1 January 2022, and its timely implementation to help the post-pandemic economic recovery efforts. For this very reason, the implementation of the RCEP was identified as the

key element of the ASEAN Comprehensive Recovery Framework (ACRF) which was endorsed in 2020.

Moving forward, it is also important for Parties to the RCEP to maintain the relevance of the Agreement. Through a review, Parties can work to improve its coverage, and incorporate new economic areas relevant to future economic challenges, and expand the membership to other countries.

Question 6:

The RCEP is a modern, comprehensive, high-quality, and mutually beneficial economic partnership. RCEP's coverage on e-commerce, SME, and economic cooperation, among others, has made the Agreement highly relevant with the current global economic trend. RCEP also streamlines the myriads of trade rules under the previous ASEAN+1 FTAs, significantly reducing trade costs among Parties to RCEP and further facilitate the expansion of regional trade and investment. Upon entry into force of the Agreement on 1 January 2022, we are hoping for the full, inclusive, effective, and efficient implementation of the Agreement.

FTAs have different levels of scope and ambition. The RCEP reflects and provides the flexibility for the varying levels of development among RCEP Parties. It allows countries to improve their commitments when they're ready. To maintain its relevance, RCEP text provides room for future amendments. Should Parties to the Agreement see the need to amend the Agreement to maintain its relevance, adding new economic areas and/or improving existing commitments is possible.

Question 7:

The signing of the RCEP Agreement last year and its entry into force on 1 January 2022 demonstrates the Parties' commitment to open regionalism, and a rules-based multilateral trading system. The main purpose of launching the negotiations of the RCEP in 2012 was to streamline the different trade rules under different ASEAN+1 FTAs, eliminate non-tariff barriers, and to create a more favourable environment for investment. It is also worth mentioning that the RCEP is the first FTA that brings together China, Japan, and the Republic of Korea.

We also believe that RCEP will go hand in hand with other regional economic cooperation initiatives such as Belt and Road Initiative (BRI), Asian Infrastructure Investment Bank (AIIB), and the Indo-Pacific Economic Framework. While these initiatives are addressing specific challenges in infrastructure, financing, or other development issues, RCEP aims to accelerate economic integration in the region in an inclusive manner.

Question 8:

Parties to RCEP are focusing on ensuring the inclusive, effective, and efficient implementation of the Agreement. To this end, efforts are undertaken

at the domestic level and regional level. At the domestic level, Parties to RCEP are putting in place implementing laws and regulations to ensure smooth implementation at the national level. At the regional level, Parties to RCEP, supported by the ASEAN Secretariat, are establishing its institutional mechanism, including the establishment of the RCEP Secretariat. In parallel, RCEP's Parties, the ASEAN Secretariat, and the private sectors are intensifying RCEP public awareness campaigns as part of efforts to ensure a high utilisation rate of the Agreement.

As for the expansion of membership, India, as the original negotiating state, is welcome to accede to RCEP at any time from the date of entry into force of the Agreement. We have also received a number of expressions of interest to join RCEP. The Agreement itself will only be opened for the accession of new members 18 months after its entry into force on 1 January 2022, which would mean that the RCEP will be opened for accession in June 2023.

RCEP is ASEAN's manifestation of its commitment to inclusive and open regionalism. Going forward, RCEP will serve as a benchmark by which other ASEAN FTAs will be reviewed and upgraded, not only in terms of the scope of the issues covered or the scale of the commitment, but also in terms of introducing and addressing emerging global trends. These trends and challenges – such as digital economy partnership, cross-border trade of climate-related goods and services, trade and investment in digital creative products, and risks to supply chains – will need to be addressed in future FTA negotiations and reviews.

Lastly, we view the RCEP and the CPTPP as complementary building blocks to the next phase of regional integration, whether it will be the FTA of the Asia-Pacific or other platforms. The RCEP and the CPTPP provide different levels of commitments catering to countries with different levels of development. But neither is exclusive, and those countries that are willing to join both FTAs are free to do so. In fact, four other ASEAN Member States are also party to the CPTPP, and both FTAs have shared goals and objectives to facilitate cross-border trade and ensuring markets are kept open, and provide certainty and stability of rules that are much needed by businesses. Eventually, the ideal outcome for both is a closely integrated regional economy that is inclusive, sustainable, and relevant.

12.2 APEC

By Rebecca Maria

Question 1:

In 2011, I was part of the ASEAN SEOM that met informally, in Bali, with the then Indonesian Minister of Trade, Dr Mari Pangestu, to discuss how we could take forward the two proposals for deepening regional economic integration between ASEAN and her Dialogue Partners with whom ASEAN had FTAs. At that time, there were two competing proposals for this, namely ASEAN+6 (or Comprehensive Economic Partnership

for ASEAN and East Asia, CEPEA) and ASEAN+3 (East Asia Free Trade Area, EAFTA). CEPEA was driven by Japan, while EAFTA, China. It was then that we decided that an ASEAN+6 arrangement would be in ASEAN's interest. Wanting to break free of the Tug-of-War between CEPEA and EAFTA, we decided to call the arrangement the Regional Comprehensive Economic Partnership or RCEP. We subsequently worked on the guiding principles for RCEP negotiations. I was involved in RCEP from its conception through my retirement as of the Malaysian Ministry of International Trade and Industry Secretary-General in July 2016.

Question 2:

We must acknowledge that there was much skepticism around this initiative when we first started, with doubts over whether ASEAN would be able to get this over the line. There were also questions around the level of ambition of this agreement. However, to ASEAN's credit, the final agreement demonstrates that it is possible for countries of varying economic development to achieve a free trade agreement which is as inclusive as it is ambitious. RCEP includes appropriate forms of flexibility including provision for special and differential treatment, including embedding capacity-building and technical cooperation, as well as SME development. RCEP is the only mega agreement that explicitly includes measures that have the potential to bridge the development gap among its members. RCEP also builds on ASEAN's plus One FTAs. In this it helps to reduce the complexities for businesses as the rules are streamlined across ASEAN's FTAs with its Dialogue Partners. It also provides a basis for addressing issues that may emerge in the future.

Question 3:

ASEAN centrality is about process and policy. From a process perspective, it means ASEAN is in the driver's seat and is "calling the shots." This means operating on consensus, and speaking as one. The policy perspective is more of a challenge as it directly reflects ASEAN unity, its ability to articulate one voice on issues of, not just mutual benefit, but of differing policy stance and national interests. In 2007, with the ASEAN Charter in place, ASEAN began its working towards an ASEAN Community. This can only become a reality if the members of ASEAN 'Think ASEAN', and act in the interest of the region, even as they manage domestic concerns.

Question 4:

As with all negotiations, there will be points in the process when one party or another would surface a specific challenge. There was optimism at the start so I would give that a score of 8. However, as the reality dawned and we kept missing deadlines, it went down to 4 or 5. Towards the end, when

India left, it went down to 3 (from a political perspective) but possibly 8 for some of the negotiators as the albatross was taken off their backs!

In RCEP, the concept was easier than the negotiations. In concept it was about consolidating the ASEAN+1 FTAs, streamlining the rules to minimise the “spaghetti bowl” effect of FTAs. In reality, the challenges were:

- There were countries that did not have an FTA among themselves, so they had to have their own separate FTA negotiations;
- There was a Dialogue Partner that felt that it had not benefitted much from its FTA with ASEAN and was trying to use RCEP negotiations to resolve those market access issues;
- Social media and the noise from civil society posed a particular challenge to some AMS. A couple of AMS lacked the political will to make tough decisions in the face of such opposition;
- There were AMS that experienced change in governments in the course of the negotiations and with the change came policy stance towards FTAs. This caused the level of interest and participation from some of these members to dissipate.

Question 5:

- RCEP suffered constant comparison with TPP and later CPTPP. First, there was the perception that RCEP was China’s response to US-led TPP. This was an assertion that we had to constantly debunk;
- Social media and the negative impressions generated about FTAs in general, caused some level of distraction;
- Some anti-globalisation civil society groups worked with opposition politicians to make it very difficult for negotiators;
- The media from one Dialogue Partner kept releasing news about the state of play in the negotiations. This affected the “trust” among the negotiators and impacted some of the more sensitive aspects of the negotiations, driving a wedge among the negotiators.

Question 6:

For me the key benefit for Malaysia would have come from trade facilitation, specifically, the streamlining of ROOs. Of course, I would have also liked to see more ambitious disciplines in RCEP as was achieved in CPTPP. These include disciplines on government procurement, labour, and environment. Regardless, in general, I believe RCEP is an important achievement for ASEAN. The grouping was able to prove that it is possible to have an inclusive FTA which takes into consideration the level of economic development of the parties, and embedding flexibilities into the agreement so that the less developed members have the opportunity to grow and take advantage of the preferences negotiated.

Question 7:

I see these various agreements as complementary and help to build on each other. The ultimate goals of all these are trade facilitation and ensuring good regulatory practices, transparency, and predictability of rules and regulations. These surely will lead to improved business and investment environment, which bring benefits for all.

Question 8:

RCEP, CPTPP, the Pacific Alliance are all building blocks toward the Free Trade Area of the Asia Pacific, FTAAP, which remains our aspiration for the region. Any expansion of membership or consolidation, while very ambitious, would be good for the region and regional economic integration. If there's one thing this pandemic has taught us, it is the significance of the digital economy. So, the next step must be to work on digital economic integration, building on the work of the Digital Economy Partnership Agreement, in order to

- facilitate seamless end-to-end digital trade (e-invoicing, paperless trade, e-payments);
- enable trusted data flows (personal data protection, cross-border data flows, data-driven innovation), and
- build trust in digital systems (adoption of ethical AI, capacity-building for SMEs, on-line consumer protection, digital inclusivity).

12.3 Australia

12.3.1 *Australia 1*

By Milton Church

Question 1:

I was the Australian Deputy Lead Negotiator for the RCEP from 2012 to December 2017, and Lead Negotiator for the Goods Negotiations, overseeing the work of the Working Group on Trade in Goods and its four sub-working groups. I was also involved in the preparatory discussions prior to 2012 on next steps in regional economic integration that led to the launch of the RCEP negotiations. I retired from the Australian Public Service in 2018.

Question 2:

RCEP is important for Australia, the East Asia region, and the world through its role in strengthening the trade rules supporting an open world economy.

It builds on and consolidates the machinery of the ASEAN+1 FTAs through which ASEAN has led efforts in East Asia over the last 20 years to improve the institutional framework to support open trade and economic integration. By strengthening the rules and institutions supporting an open world economy in such an important growth area as East Asia, RCEP also supports the multilateral trading framework centred on the WTO.

One of the principal aims of the WTO is to provide greater certainty to business through clear commitments on tariffs and on other trade restrictive measures. RCEP reinforces the contribution of existing FTAs – both the ASEAN+1 FTAs and other bilateral and regional FTAs – in the East Asia region in going beyond the WTO's level of binding commitments. These WTO-plus elements especially relate to the ceiling bindings of developing countries' WTO tariff commitments as well as, to some extent, in relation to services access.

RCEP also goes beyond the WTO in its coverage of investment, which is important in supporting the global supply chains and international production networks that are vital to shaping the modern world economy.

The more certain trade environment, built successively through the establishment of the WTO and the negotiation of FTAs, including ASEAN+1 FTAs, has also supported extensive unilateral reform in the East Asia region. This open trade system has come under severe strain over the last decade due to the low growth environment post the 2008–09 global financial crisis and the increase in trade tensions promoted by the Trump administration in the US. The conclusion of the RCEP by such a significant group of countries – in terms of the GDP, population, and trade weight of its 15 Parties – is an important sign of continued commitment and leadership to maintain and enhance the rules-based trading system.

This aspect of RCEP complements the entry-into-force of the CPTPP at the end of 2018 when, following the departure of the US from the TPP, the remaining 11 Parties showed similar leadership by taking forward the results of the TPP negotiations through establishing the CPTPP.

CPTPP strengthened the open, rules-based system in both its commitments on tariffs, services and investment and its extensive commitments on improved institution building at the domestic level. RCEP has not gone as far as CPTPP in its strengthening of domestic institution building but is still a significant advance in this direction compared to previous FTAs in the region.

Question 3:

ASEAN centrality has been important in the initiation of RCEP and in its role in consolidating a broad institutional framework based on three concentric circles – the ASEAN Economic Community, the ASEAN+1 FTAs, and RCEP – all with ASEAN's own FTA as the common centre. The ASEAN Economic Community, the ASEAN+1 FTAs, and RCEP have been

evolutions from this common centre – aiming to strengthen the centre and to support its continuing reform by developing increasingly sophisticated links with major trading partners across the region. RCEP is an important evolution in this process as it has also contributed to a strengthened institutional framework between the region's major economies and not just between each of them and ASEAN. In this respect, ASEAN centrality has involved a key leadership role for ASEAN in institution building in the East Asia region.

However, ASEAN centrality was tested throughout the RCEP negotiations. There was often a sense that ASEAN Member States would look to promote national interests rather than seriously seek to pursue these interests through a common ASEAN position. This suggests weaknesses in ASEAN's institutional processes and leadership and that these processes need strengthening to give greater weight to the goal of ASEAN as a single market and production base, as well to the goal of equitable economic development. Implementation of RCEP could provide an opportunity to address these issues if ASEAN is prepared to make serious reforms: such reforms would need to be based on the clear understanding of the main idea of ASEAN centrality, that enhanced engagement with non-ASEAN partners should also strengthen domestic reform within ASEAN, including in its individual members. It is this dynamic – external engagement supporting and enabling internal reform – that has been key to the story of ASEAN centrality.

Question 4:

I will confine my comments to the years 2012 to 2017, as this was the period I was personally involved in the negotiations.

Throughout this period, it is difficult to distinguish between periods of sustained momentum and periods of blockage or loss of momentum. Instead, I consider that the RCEP negotiations were characterised by a tension between the following factors:

- Strong engagement at the technical and policy level by officials in most areas of the negotiations so that progress was sustained throughout this period even if this was at times primarily through information sharing and building the shared understandings essential for progress.
- Some countries adopting rigid approaches to the negotiating processes and sustaining this rigidity for prolonged periods, slowing down progress.
- Important efforts by some countries to work together on individual issues to develop compromise proposals or to explore innovative approaches aimed at breaking deadlocks in the negotiations.
- A strong conservatism in many areas by a range of countries, resulting in a tendency to resist innovation or seriously consider alternative

approaches. This conservatism could be reinforced by vocal industry sectors opposed to reform.

- A tendency to underestimate the importance of the negotiating process and allowing time for the participating countries to explore the often highly technical issues thoroughly and develop shared understandings. This could result in attempts to shut down debate and push for outcomes within unrealistic deadlines – but, paradoxically, by postponing serious engagement on the substantive issues these tactics generally resulted in prolonging the negotiations.
- A level of political commitment to RCEP that was sufficient to sustain progress throughout this period and find resolutions to the major roadblocks that periodically occurred, but which was not sufficient to achieve more ambitious outcomes.

All these factors were important in shaping the negotiating process, and they would manifest in different ways and at different times in each of the various negotiating groups. Therefore, there was considerable variety in the extent of progress made in each of the negotiating groups in each year of the negotiations.

One of the distinguishing characteristics of the RCEP negotiating process was that it was built on the existing ASEAN+1 FTAs – the RCEP participating countries were, indeed, defined by the fact that they had all concluded such +1 FTAs. As a result, the extent of liberalization achieved in the ASEAN+1 FTAs was a key starting point for the negotiations. This presented both opportunities and challenges for the conduct of the RCEP negotiations.

Two of the resulting challenges were: how to determine the starting point for the RCEP market access negotiations given differences in the levels of ambition between the different ASEAN+1 FTAs; and sensitivities that arose from the fact that several AFP Partners (China–Japan, South Korea–Japan, China–India, Australia–India, and New Zealand–India) did not already have FTAs between them.

It was in the tariff negotiations that these challenges were most evident, and there was a tension between:

- the aim of a best-practice regional FTA in which the same tariff commitments would apply to imports from all other FTA Parties when imported into any individual FTA Party; and
- the concerns of some of the AFP Partners about extending commitments they had agreed with ASEAN in the existing ASEAN+1 FTAs to those AFPs with which they did not already have FTAs.

This remained a challenging issue in all phases of the negotiations, but eventually a formulation was arrived at which would allow individual countries to impose differential tariffs on some imports from different RCEP partners. India's sensitivity on goods with China was central to its failure to join in the concluded package.

Another important challenge was that initially there was a tendency for ASEAN to prioritise the goods negotiations and to downplay the importance of ambition levels in other areas including services. Pressure from India was important in ASEAN accepting that a modern FTA must also adequately cover services. The fact that by 2014 China had come to see RCEP as central to its approach to regional economic integration, and to developing its bilateral economic relationship with India, deepened the pressure on ASEAN to accept the need for more ambition on services as part of the effort to ensure Indian participation in the outcome. As negotiations proceeded, it became clear that India was primarily focused on temporary movement of natural persons, but other countries maintained the pressure for all areas of services to be adequately covered.

It is important to put these challenges that characterized the RCEP negotiations into context: RCEP was a negotiation involving a quite diverse and significant range of countries, some with a history of tensions between them. ASEAN's initiative in getting such a group involved in a single negotiation was itself of strategic importance. One of RCEP's most significant achievements is in establishing a treaty-based framework for this group to continue to engage and work with each other.

It will be important for RCEP's Parties to reflect on the RCEP negotiating experience, seek to learn lessons from it, and use RCEP as a platform to intensify their understanding of each other and strengthen their ability to work together and cooperate. It is disappointing and a lost opportunity that India did not join in the conclusion of the negotiations, and therefore will not be a part of RCEP's framework for ongoing-engagement and cooperation. However, the Parties have acknowledged the strategic importance of India eventually joining RCEP and have committed to continued engagement with India to facilitate this including through Indian participation as an observer at RCEP meetings and in economic cooperation activities.

Question 5:

The TPP negotiations were an important factor: in strengthening political commitment to RCEP; in putting pressure on the RCEP negotiators to raise levels of ambition; and in enhancing the internal policy debate about the direction of regional integration in the countries that were participating in both the TPP and RCEP negotiations.

In all these dimensions, the TPP process was a "friendly" competitor to that of RCEP. The TPP made clear that there were alternative models to pursue enhanced economic integration in the region if RCEP failed – this may have been especially salutary in reinforcing ASEAN commitment to the process, as four individual ASEAN countries were participating in TPP. This made it very clear that an alternative model of further integration might proceed that did not have ASEAN-centrality at its core. If the ASEAN-centred

RCEP was not successful but TPP was, then there was a real risk that the ASEAN-centred architecture built up over the last twenty years would no longer play a key role in the future direction of regional integration.

The TPP was a significantly innovative negotiation especially due to the Obama administration's preparedness to rethink and update the FTA model pursued by previous US administrations. This was reflected, for example, in the strengthened institution-building dimensions of the TPP text – such as improved disciplines on transparency and enhanced governance, and the acceptance of that the FTA should be a “living agreement” that would continue to evolve and develop.

The withdrawal of the US from the TPP by the Trump administration in early 2017 called into question this friendly pressure of TPP on RCEP. However, the successful cooperation by the remaining 11 Parties to the TPP to maintain the agreement, resulting in the coming into force of the CPTPP, was highly significant in demonstrating that important regional actors could step in and replace US leadership to ensure this regional integration went forward.

The fact that the RCEP negotiation was launched in 2012 may itself have been an important factor in raising the ambition level of the TPP negotiations and galvanising the energy needed to achieve an ambitious outcome, as well as in the salvaging of the CPTPP following the exit of the US. In this respect, RCEP and TPP/CPTPP should be seen as two parallel and mutually reinforcing processes which have together delivered a much stronger framework for regional economic integration.

APEC was an important contributor to the RCEP process – as it was to the TPP – through the work it has done over the years in contributing to improved information bases, building shared policy understandings, and developing best practice models of modern FTAs. APEC's FTAAP process may also have been helpful – as it highlighted how both the TPP/CPTPP and RCEP could feed into possible future steps towards wider regional economic integration.

Policy work and negotiations in the WTO – such as the negotiations on trade facilitation – was another important contributor to improving the policy understandings of RCEP's participating countries on issues in the RCEP negotiations, and in pointing towards areas of emerging international consensus.

The disruptive trade policies pursued by the Trump administration cast into question the value of trade rules and trade agreements – and whether these could continue to service their central role of providing a more certain trading environment and constraining the extent to which inward-looking national policies could lead to a breakdown of a stable trading order.

However, the disruption of the Trump administration was still contained within certain boundaries – the US did not leave trade agreements that were already in force, including the WTO, and continued to respect and implement most of its trade commitments. This ambiguous character of the

Trump administration's trade policy – its disruptive nature while continuing to abide by most trade commitments – probably strengthened the determination of most RCEP participants to achieving a successful outcome given the need to shore up the rules-based trading system.

Other tensions in the region, including the continuance of US–China tensions even after the replacement of the Trump administration, and tensions and trade-restrictive actions involving several economies, have also worked to strengthen support for the RCEP process. These tensions add to uncertainty, and this sense of uncertainty was reinforced by the COVID-19 pandemic, and together these have underlined for actors throughout the region why an extensive institution-building enterprise like RCEP is so important as a stabilizing force in the world economy and international political economy.

Question 6:

RCEP's strongest point is that it usefully complements CPTPP as setting out a best-practice model for a modern FTA when it comes to promoting domestic institution building and good governance. In general, the legal text of the RCEP is of a high standard and comparable in quality to much of what is to be found in CPTPP, although in a range of areas the CPTPP has more advanced provisions.

This domestic institution building in CPTPP and RCEP involves enhanced transparency of government, improved processes for developing and implementing regulations, strengthened coordination at the national level, greater opportunities for consultation with business and other civil society interests, and enhanced cooperation and coordination between the Parties. This domestic institution building means that CPTPP and RCEP should strengthen domestic governance.

The central role of provisions addressing domestic institution building in both agreements is a recognition of the key importance of good governance in a highly integrated world economy where regulatory processes and requirements can be more important than tariff and other traditional trade protective instruments in shaping the openness of markets.

The domestic institution-building covers a quite extensive range of economic activities in both CPTPP and RCEP: all aspects of goods trade, including cross-border movement and domestic regulation, services trade, temporary movement of natural persons, investment, electronic commerce, competition policy and intellectual property protection. CPTPP goes further than RCEP in its coverage of state-owned enterprises and designated monopolies, and of government procurement. RCEP includes some modest commitments on government procurement, but this is still an important advance on previous ASEAN-centred agreements and provides a good basis to build on if RCEP Parties take seriously the built-in agenda.

The central role of domestic institution-building in modern trade agreements – and the WTO Agreement on Trade Facilitation is a non-FTA example – reflects the fact that modern economic conditions and the economic development process in a highly integrated world economy, enhance the need for effective and robust governmental systems. The provisions in the CPTPP and RCEP support and encourage strong domestic institution-building, but the extent to which this institution-building happens also critically depends on domestic initiative and domestic reform agendas, as well as robust supportive institutions provided by the inter-governmental FTA machinery (e.g., active committees processes, economic cooperation activities, strong policy exchanges and debates).

It is disappointing that RCEP does not explicitly address state-owned enterprises – this is an important omission given the significance of these enterprises in a range of economies. Failure to address them through a rules-based framework – even if modest initially – will delay needed domestic reforms in these economies and will limit economic growth and development in the region.

It is quite significant that the East Asia/Asia Pacific region is the site for two FTAs that both adopt best-practice FTA models and cover economically very substantial memberships. It underlines the potential importance of this region in playing a central leadership role in the machinery supporting an open world economy.

However, RCEP's outcomes on market access are mixed. In relation to the tariff commitments, their value, in the short-to-medium term, is likely to be modest due to several factors:

- The long phasing-in period for many tariff commitments.
- The fact that many tariff commitments are less favourable, at least in their longer phasing-in, than the tariff commitments in many existing FTAs, including the ASEAN+1 FTAs.
- A significant number of tariff commitments involve differential tariffs for different Parties. These differential tariffs introduce complexity for business, and the concept of “RCEP country of origin” in Article 2.6 could create significant uncertainty for business and make them reluctant to use the Agreement in their trade.

In all these respects, RCEP compares unfavourably with CPTPP. Although CPTPP has some differential tariffs, these are less extensive than in RCEP. However, the US tariff schedule to the TPP did include a significant number of differential tariffs, and in this respect the TPP was also a poorer model for best-practice FTAs than the CPTPP.

Some of these problems with RCEP's tariff commitments will be addressed over time as the commitments are phased-in and brought closer to or become better than commitments in existing FTAs. As this happens RCEP's potential to enhance trade will begin to have more substance – its large trade area

and the fact there will be a single set of documentation requirements and rules of origin mean that over time RCEP will add real value to the existing network of FTAs in the region. This should also be assisted by improvements in RCEP documentation requirements compared to the existing ASEAN+1 FTAs, especially the scope for traders to rely on a Declaration of Origin by an Approved Exporter and, over time, a Declaration of Origin by any exporter or producer. However, some of RCEP's potential benefit in supporting supply chains and international production networks will be weakened by its restrictive direct consignment provisions under which trade transiting through Parties has to meet the same documentation requirements as trade passing through a non-Party.

The Parties can address these issues limiting the benefits of the tariff commitments by: taking advantage of all the provisions of Article 2.5 to accelerate tariff commitments, and reduce the number of tariff lines subject to differential tariffs; and making use of other review provisions and built-in agendas to simplify and improve documentation requirements and the substantive rules of origin. It will also be important for the Parties to cooperate to ensure that the concept of RCEP country of origin is implemented in a liberal manner and make use of the reviews provided for in Article 2.6.7 to reduce or eliminate the requirements in that article, and to reduce the number of tariff lines and associated conditions set out in the Appendices to the Schedules of Tariff Commitments of some Parties.

RCEP's commitments on services and investment are important both in terms of supporting a best-practice model in the use of a negative list and in some advances in the quality of the commitments given. The negative list approach is simpler, more transparent for scheduling commitments and should assist in supporting business understanding of market access conditions and provide greater business certainty about investment and trading decisions.

However, this assessment needs to be qualified by noting that eight Parties have initially scheduled their services commitments on a positive list basis and will need, over time, to convert these into a negative list. A lot will therefore depend on the seriousness with which this is undertaken and whether the five non-LDC Parties meet the requirements set out in Article 8.12 to ensure that the negative list schedules provide an equivalent or greater level of liberalisation than the initial positive list schedules, and within the specified timeframes.

Other Parties should also work with the three LDC Parties with a view to assist the latter complete their transition to a negative list approach within a shorter period than the lengthy periods specified in Article 8.12. Failure to expedite this process could mean that the LDCs are disadvantaged in attracting investment or in taking advantage of the business opportunities created by RCEP, and other Parties should be active in supporting the LDCs with information sharing and capacity building to expedite their move to a negative list approach.

An area where RCEP has the potential to provide a better model for regional economic integration than CPTPP is in its innovative institutional structure. The RCEP Joint Committee will be supported by four thematic Committees which have responsibility for overseeing RCEP's implementation and work in strategically defined areas: all aspects of Goods; Services and Investment, including temporary movement of natural persons; Sustainable Growth, covering work on small and medium enterprises, economic and technical cooperation, and emerging issues; and the Business Environment, covering work on intellectual property, electronic commerce, competition and government procurement.

By establishing four strategically defined Committees that each oversees activities in a broad range of interconnected areas that are normally confined to separate FTA chapters, each with their own institutions, RCEP has the potential to promote more coherent and coordinated economic policy in its Parties. This could be an important achievement in improving governance and institution building at the domestic level and contribute to more visionary and strategic policymaking.

Australia's ambitions for RCEP focused on the strategic importance of this negotiation: to consolidate and bring more coherence to the ASEAN-centred architecture which has been the major initiative to build robust trade institutions in the region over the last 20 years; to ensure Australia's participation in the final agreement, in recognition of the fact that we are a part of the region and need to be an active and constructive player in its main institutions; and to ensure that it promoted regional economic integration in a way that also supported strong domestic reform and an open world economy. Australia also actively sought the most ambitious outcome possible with the aim of maximising the benefits of the agreement to all member countries, including the least developed country members.

Question 7:

One of the important achievements of RCEP is the inclusion of the three North Asian economies of China, Korea, and Japan, and therefore the strengthening of trade rules and binding commitments governing their trade relations. Ideally, these three countries will use this achievement as the basis for intensified efforts to improve their cooperation on trade and economic matters, including consideration of concluding CJK-FTA negotiations.

The entry into force of RCEP should strengthen its friendly competition with CPTPP, and this should help galvanize the CPTPP Parties to further their efforts to implement the agreement, improve it over time, and support the accession of new members.

Together, RCEP and CPTPP should strengthen the world economy and support the strong role that the region has played as a source of economic growth in recent years – while the ongoing effects of the COVID-19 pandemic, and its uneven impact on different countries, continues to create

uncertainty, this only underlines the importance of institutions like RCEP and CPTPP.

If RCEP and CPTPP Parties demonstrate their commitment to these agreements and take seriously the implementation and ongoing improvement of them, then this could strengthen and help ameliorate other tensions in the international order. This would be assisted by RCEP and CPTPP Parties, as WTO Members, also playing an active role in the WTO and drawing on their experience and achievements in the region to improve the multilateral trade rules. Strengthened engagement by RCEP and CPTPP Parties with the US – and with the EU as another significant hub in the world economy – would also help ensure that RCEP and CPTPP realise their potential as sources of order and stability within a more uncertain political dynamic.

Question 8:

The long-term significance of RCEP will depend on the extent to which the Parties commit to implementing the Agreement, including by actively making use of the Committees to deepen their engagement, pursue built-in agendas, complete activities such as the move from a positive list to negative list approach for remaining Parties, and use opportunities to accelerate commitments and to streamline processes such as documentation requirements.

Expansion of membership to include India should be a priority and the Parties should seek to facilitate this by encouraging India to participate in as many RCEP activities as possible, including policy dialogues and economic cooperation activities.

RCEP should also be open to accession by other economies. To maintain its relevance and complementarity with CPTPP, an early priority should be to explore with the Taiwan economy its possible accession. This would reflect the Taiwan economy's significance as a trading hub within the region and would complement the fact that the Taiwan economy and China have sought accession to the CPTPP. RCEP should explore opportunities to work and coordinate activities with CPTPP – the two agreements should be seen as complementary efforts to improve economic cooperation and strengthen the rules-based system.

RCEP builds on the ASEAN-centred architecture in the region, and the Parties should explore opportunities to promote synergies between RCEP and the existing network of ASEAN+1 FTAs. This could involve ASEAN+1 FTAs adopting RCEP benchmarks, for example on rules of origin documentation, and RCEP models being considered as part of reviews and built-in agendas under the +1 FTAs. RCEP's economic cooperation activities should take account of activities under the framework of the +1 FTAs, and opportunities to coordinate these activities should be fully explored. In turn, RCEP Parties should actively take account of developments in the +1 FTAs, including borrowing models and benchmarks from these when they show promising ways to enhance governance and economic integration.

In the immediate future, the focus should be on implementation of RCEP, and on firmly establishing and over time strengthening the framework for regional economic integration provided by RCEP, CPTPP, and the ASEAN+1 FTAs, rather than on more extensive economic integration initiatives such as FTAAP. However, engaging the US in regional activities should be a priority, and RCEP Parties should explore ways to enhance this engagement given the central role that the US economy continues to play in the region and the world.

12.3.2 Australia 2

By Paul Gibbons

Question 1:

I was the Australian Lead for the RCEP sub-working groups for Customs Procedures and Trade Facilitation (CPTF) and Rules of Origin (ROO). I assisted in negotiations on Trade in Goods, working on offers and requests of other negotiating Parties.

I was in these positions from January 2014 until November 2018.

Question 2:

The 15 participating countries of RCEP make up 29 per cent of world GDP and 30 per cent of the world's population. RCEP is the largest Free Trade Area completed by Australia to date (larger than CPTPP). The other 14 RCEP economies include nine of Australia's top 15 trading partners and account for 58 per cent of Australia's total two-way trade, and 67 per cent of our exports.

RCEP complements the major regional free trade agreements (FTAs) already implemented by Australia with ASEAN, China, Japan, Republic of Korea, and New Zealand. When fully implemented, RCEP will enable exporters to trade across the region with one set of rules rather than having to deal with the various different rules applicable to the bilateral/regional ASEAN+1 FTAs in place.

RCEP should assist in strengthen economic integration in the region through the development (and expansion) of regional supply chains. RCEP will also provide opportunities for non-Parties as a source of inputs into their manufactures as well as a market for their goods.

RCEP countries comprise a broad spectrum of countries including highly developed Japan to Least Developed Countries, Cambodia, Lao PDR, and Myanmar. The existing RCEP economies have FTAs with all other Parties to the agreement, and in some cases two or three FTAs with some RCEP Parties: for example, Australia has a bilateral FTA with Singapore as well as AANZFTA and CPTPP and now RCEP. The provisions for each are sometimes different.

Question 3:

ASEAN Centrality is the underlying principle for promoting cooperation in the region, with ASEAN-led mechanisms, such as the East Asia Summit, being platforms for dialogue and implementation of Indo-Pacific cooperation. ASEAN tends to speak with one voice in issues impacting the Indo-Pacific region. This does not necessarily mean that ASEAN Member States do not have policies which further enhance these principles.

ASEAN Centrality and Unity is the driving force in its relations and cooperation with its external partners in developing and maintaining a regional architecture that is open, transparent, and inclusive. ASEAN has a role in developing and shaping regional architectures in Southeast Asia and beyond.

Australia is a supporter of ASEAN centrality. Australia supports an open, inclusive, and prosperous region with ASEAN at its heart.

Nevertheless, the RCEP negotiations show that ASEAN centrality was not forefront in the minds of some ASEAN Member States, when individual countries seemed to follow their own national interests rather than pursuing the best outcome for ASEAN. Their positions on some issues flew in the face of “ASEAN as a single market and production base characterized by free flow of goods, services, and investments, as well as freer flow of capital and skills”. Some ASEAN Member States brought a national mindset, rather than a regional network to the negotiations.

Question 4:

In both the ROO and CPTF negotiations ASEAN expected the six ASEAN+1 FTA partners (AFPs) to speak with one voice, but that was not going to happen as all had different needs from RCEP. ASEAN’s preference was to wait for the AFPs to reach agreement on a provision or Product Specific Rules (PSRs) and then it would offer its view. ASEAN didn’t take the opportunity to lead when needed – this was sometimes a result of internal differences, so they could not project an ASEAN central position.

During the first two to three years, all Parties were tentative in taking the negotiations in both chapters forward. Parties were feeling each other out, trying to gauge the positions on key issues of the various economies.

Towards the end of the negotiations, it was obvious that, in regard to ROO, most of the AFPs were keeping an eye on goods market access progress and did not want to complete the PSRs until there was a better understanding of their market access commitments. PSRs, rather than being an objective provision, were often used to negate the market opening commitments agreed under Trade in Goods. A less restrictive PSR was usually agreed when little, or no new market access concessions were granted by a Party.

China, India, Japan, and Korea sought restrictive ROO for RCEP in areas where they were defensive – at one stage proposing wholly obtained PSRs

for almost all agricultural goods. There were also some tensions within the negotiating processes that made agreement hard to achieve as one of the Parties may agree with the sentiment of a provision, but because it was sponsored/introduced by a particular Party, they would not agree.

In the Sub-working Group on ROO (SWGROO), ASEAN looked to Australia for support in several areas of the negotiations, expecting Australia to carry their argument (e.g. coequal rules for PSRs and de minimus by weight for certain goods). India appeared the most hesitant to start with and ended negotiations without signing the agreement – linking its requirement for provisions on tariff differentials and services market access with its ability to give more in other areas. New Zealand was seeking the least restrictive ROO. China and New Zealand did not see eye-to-eye in many areas of the negotiations. Australia and New Zealand usually sought the same less-restrictive outcome, with China, Japan, Republic of Korea, and India seeking a more regulated outcome.

China, like India, was also unwilling to push ROO negotiations without getting a firm commitment to include tariff differentiation agreed as a provision of either the ROO or the Trade in Goods chapter. In the end, it was included as a Trade in Goods Article.

At one stage, Australia was asked by the Trade Negotiations Committee to work with India on drafting text for a tariff differentiation provision. Australia provided draft text but, in the end, India worked with China in drafting the text. After significant negotiation, which did not progress the issue significantly, the ASEAN Secretariat drafted the text of the provision which was later to be agreed.

The SWGROO were still negotiating the meaning of several points in the text in December 2021. I understand that agreement was reached on the steps to identify the “RCEP Country of Origin”, on 20 December 2021 – leaving little time for officials and exporters/importers to become familiar with the requirements. A set of Implementing Guidelines have been posted on the RCEP Secretariat website explaining several issues including, importantly, how the RCEP country of origin will be determined. The inclusion of Declarations of Origin among the accepted proof of origin was a key outcome sought by Australia.

There were fewer issues with CPTF as this was less contentious. Australia and New Zealand were passionate advocates of strong trade facilitation provisions in the CPTF chapter and were supported variously by Korea, Japan, and the Republic of Korea. China fought hard for the inclusion of text that it required to be able to sign onto RCEP. A good outcome on express consignment was achieved.

The finalisation of the World Trade Organization’s Agreement on Trade Facilitation (ATF) made a much smoother passage for trade facilitation issues under the chapter. Customs issues were usually less contentious than other areas of the Agreement. CPTF was finalised in Japan in July 2018 (Table 12.1).

Table 12.1 The degree of progress in negotiation (beginning = 1, signing = 10)

<i>Year</i>	<i>ROO</i>	<i>CPTF</i>
2012	1	1
2013	1	2
2014	1	4
2015	1	5
2016	2	6
2017	4	8
2018	6	10
2019	8	
2020	10	

Source: Paul Gibbons (interviewee)

Question 5:

TPP (now CPTPP) was a major consideration, at least initially, as it (with US participation) would have been the largest FTA in the world. Furthermore, several RCEP countries were also negotiating TPP (Australia and six others, including some ASEAN Member States). It was exploring provisions in new areas and offered less restrictive provisions than other regional FTAs. There was an expectation that some provisions in TPP may be picked up in RCEP.

Some ASEAN Member States (including those participating in TPP) warned us off using TPP language in RCEP, advising their ASEAN brothers and sisters would not accept any such language. My understanding is that in some other areas of negotiation (e.g., competition policy), TPP language was used.

RCEP chartered its own course, and the CPTPP had little direct effect on its outcome. Having said that, it is unclear whether RCEP would have been pursued to a successful conclusion by the 15 parties without the nudge and strategic pressure provided by TPP.

During my time in ROO and CPTF, COVID-19 was not an issue. I did learn however that there was a COVID incident at a sub-working group on ROO in Canberra in January 2020. I understand actions undertaken were precautionary and nothing eventuated as a result. And COVID-19 meant there were few face-to-face meetings – meetings were conducted using video conferencing. This would have made side-meeting almost impossible.

Question 6:

Australia sought an Agreement which went beyond those we had in place with the negotiating Parties. In the areas I participated, we wanted improvements

on our existing bilateral/regional FTAs, using AANZFTA as a baseline. We wanted rules which were trade enhancing, not restricting.

AANZFTA was our baseline, but it was considered gold standard by others at the time and most of the other ASEAN+1 FTAs did not reach that standard. For some AFPs, RCEP provisions that matched those in AANZFTA would be a substantial outcome beyond those included in their ASEAN+1 FTAs. This would not have met Australia's desire for an ambitious outcome.

In the CPTF chapter, Parties agreed to go beyond commitments arising from the World Trade Organization's Agreement on Trade Facilitation (ATF) in some areas – some bringing forward their implementation dates for the commitments (such as clearance times for perishable goods) made in the ATF.

In ROO, ASEAN has agreed to commitments they have not agreed before – such as the Declaration of Origin by an Approved Exporter and, in the future, Declaration of Origin by any exporter or producer. Consideration may be given to allowing importers to provide a Declaration of Origin, but that is not yet agreed.

Direct consignment provisions in the RCEP ROO chapter are more restrictive than those in AANZFTA, in that transport through a Party other than the exporting Party and the importing Party and non-Party were treated the same – in AANZFTA, transit through a Party did not require additional paperwork, with these requirements being only for non-Parties. The provisions appear to fly in the face of ASEAN centrality and will reduce the benefits of RCEP to ASEAN countries by adding to the costs of sharing production across RCEP Parties, as such production-sharing involves significant cross-border movements of inputs that will be subject to additional paperwork.

Australia's interest in having a chemical reaction and production process rules were partially met with agreement to include chemical reaction for specific goods as a coequal rule under RCEP – it was a rule of last resort under AANZFTA (i.e., the exporter first had to try a regional value content or change in tariff classification test before it could use the chemical reaction rule PSR). India demonstrated a keen interest in the chemical reaction issue, raising many questions, but supported the outcome achieved.

A key benefit of RCEP – and where it builds on and goes beyond the ASEAN+1 FTAs – is the scope it provides for trade to take place across the region using one set of rules, rather than through the different origin and documentation requirements of different FTAs. This benefit could result in reduced complexity for traders, lower transaction costs, streamlined customs clearance and enhanced investment and trade opportunities. However, this potential benefit may be significantly affected by the direct consignment rule, by the longer phase-in times for many tariff commitments, by the extent of differential tariffs applicable for some goods from different RCEP Parties, and by uncertainties introduced by the concept of RCEP originating goods set out in the tariff differentials article in the Trade

in Goods Chapter. It will be critical that governments work to ensure that these provisions are not interpreted in a trade restrictive manner, that they cooperate to facilitate trade and minimise uncertainty and friction and use opportunities to modify and liberalize these provisions over time.

Question 7:

If implemented correctly (and not solely literally, but also in keeping with the spirit of the Agreement), RCEP could well become a model for other FTAs between least developed and developed countries.

RCEP includes three North Asian economies (China, Japan, and the Republic of Korea) that were considering a trilateral FTA before RCEP. It is to be seen whether a CJK-FTA could build on the RCEP outcome.

RCEP may well be a springboard to more advanced and less restrictive FTAs.

Question 8:

RCEP Parties need to implement the Agreement in a way that enhances rather than restricts regional trade flows. Getting implementation right will go a long way in accruing the benefits of the Agreement to all Parties. Poor implementation could significantly reduce these benefits by imposing transactions costs on business and discouraging investment through the uncertainty over the Agreement's implementation.

The built-in agendas for the various chapters should enable Parties to improve the quality of the agreement – but leadership will be needed to take advantage of these opportunities.

Widening the membership, including the return of India should be a short- to medium-term goal of the Parties. Expansion beyond India would be a longer-term goal of the Parties.

Deepening of the Agreement should be a medium- to long-term goal.

Even with RCEP in place, the ASEAN+1 FTAs are still active. It will be interesting to see how much RCEP is utilised compared with the +1 FTAs – at least in the short term.

12.3.3 Australia 3

By Michael Mugliston

Question 1:

I led Australia's negotiating team during the preparatory phase and the first five years of the Regional Comprehensive Economic Partnership (RCEP) negotiations (2010–17). From 2010–17, I also led the Australian team responsible for implementation of the ASEAN–Australia–New Zealand FTA (AANZFTA). From 2005–09, I led Australia's delegation to AANZFTA negotiations. I was Australia's Senior Economic Official to ASEAN-related

Senior Economic Official Meetings from 2005–17. I retired from the Australian Public Service in 2018.

Question 2:

RCEP is an important trade agreement and institutional arrangement for Australia and the East Asian region, involving ASEAN and five ASEAN FTA Partners (AFPs) in a single agreement coexisting with other FTAs, including the ASEAN+1 FTAs and bilateral FTAs among the participating countries (e.g., in Australia's case eight bilateral FTAs, namely with New Zealand (ANZCERTA), Singapore (SAFTA), Thailand (TAFTA), Malaysia (MAFTA), Korea (KAFTA), Japan (JAIPA), China (ChAFTA) and Indonesia (IACEPA)). RCEP is also the first FTA between China–Japan and Japan–Korea.

The 15 RCEP Parties account for around 30 per cent of the world's population and global GDP, and around 60 per cent of Australia's two-way trade. RCEP involves a diverse group of participating countries, ranging from advanced industrialised countries like Japan to three Least Developed Countries (Cambodia, Lao PDR, and Myanmar). RCEP is not just a traditional trade and investment agreement, as it incorporates a cooperation agenda and institutional arrangements aimed at building capacity for economic reform and mutually reinforcing regional development over time. RCEP builds on the existing ASEAN+1 FTAs and has three pillars:

- market access commitments on goods, services, and investment
- rules that support regional supply chains
- economic cooperation to assist countries implement RCEP commitments

An important focus of the RCEP negotiations was on business concerns arising from the proliferation of FTAs which have emerged over the past two decades in East Asia, with their different rules, requirements, and market access commitments (often referred to as the “noodle bowl”). The negotiations addressed a range of disincentives to businesses seeking to develop regional supply chains, including tariffs, non-tariff measures, restrictive rules of origin, complex customs procedures and requirements, measures that reduce the ability of foreign firms to supply services, restrictions on foreign investment in certain sectors, the need for effective and balanced protection and enforcement of intellectual property rights, and the existence of dominant suppliers that can foreclose entry by new suppliers.

RCEP provides an opportunity for Australia to support regional economic reform. Policy reform is a multiyear, long-term process. FTAs, with their focus on ongoing commitments (the basis for their legally binding commitments) can be helpful in focusing attention on this need for policy reform to be a strategic longer-term process, especially when supported by effective implementation.

From an Australian perspective, the decision to participate in the RCEP negotiations was based on an assessment that it had the potential to be

strategically and economically significant. Strategically, as a key piece of regional economic architecture, building on the ASEAN+1 framework, especially given the involvement of China and India. Economically, as a basis for more open trade and investment in the region. The strategic and economic importance of RCEP would seem even clearer today, given the current more uncertain international political and economic environment.

Question 3:

‘ASEAN centrality’ and ‘ASEAN unity’ have delivered significant progress with ASEAN’s economic integration agenda over the past two decades, although not quite at the pace demanded by global economic developments and there is a lot of unfinished business. This includes implementation issues relating to the ASEAN Economic Community, ASEAN’s +1FTAs, and the RCEP Agreement.

A fundamental principle in ASEAN’s external engagement is the concept of ‘ASEAN centrality’ and development of a regional agenda that supports ASEAN-led regional integration. ASEAN has played a key strategic role in positioning itself at the centre of the region’s forums. ASEAN centrality helps manage relationships of other regional countries, including having major regional powers engage constructively and enter into agreed international rules to structure their international engagement.

RCEP was ASEAN’s initiative, with ASEAN centrality and unity critical to its launch. However, ASEAN’s internal decision-making processes and consensus requirements have constrained its ability to take a leading role in driving and implementing its regional economic integration agenda.

ASEAN consensus determines what is possible to achieve as a single entity. One of the key questions that I have grappled with over the years is whether ASEAN should be considered primarily as a single entity or a collection of individual countries. Based on my trade negotiating experience, my answer to that question is that ASEAN is both a single entity and a diverse group of 10 countries focusing on national policy objectives, with common regional interests tending to be too easily outweighed by the position of an ASEAN Member State on a specific issue or the claims of any individual ASEAN Member State to be adversely affected, with resulting agreed ASEAN positions tending to be responsive and reflect lowest common denominator outcomes. However, a positive feature of ASEAN’s decision-making processes is that ASEAN does not tend to backtrack on previously agreed positions and therefore, as a negotiator, I felt forward movement no matter how incremental it may have seemed at times.

While ASEAN was negotiating its +1 FTAs, consideration was also being given to negotiating a larger ASEAN-centred FTA, and successive Australian governments during this period sought to ensure that Australia was not excluded from a broader ASEAN-centred FTA.

There was a proposal in 2001 to establish an ASEAN+3 FTA and in 2004 the ASEAN+3 Economic Ministers Meeting. In 2006 Japan proposed establishment of an ASEAN+6FTA and in 2007 the East Asia Summit agreed to launch a study for an ASEAN+6FTA.

The launch of TPP negotiations in 2010 impacted on ASEAN consideration of proceeding with a broader ASEAN-centred FTA, particularly as four ASEAN Member States were participating in TPP negotiations. It was under Indonesia's chairing of ASEAN in 2011 that ASEAN ended the debate between ASEAN+3 and ASEAN+6, including on whether a sequential approach starting with ASEAN+3 should be adopted, by proposing its own initiative for an ASEAN-centred FTA:RCEP, that would be open to all of its FTA partners to join.

ASEAN decided to limit participation in the RCEP negotiations to those countries with which ASEAN already had an FTA. ASEAN's aim was to consolidate these agreements into a new single agreement and achieve consistency and coherence across the existing +1 FTAs. RCEP also had the effect of keeping the pressure on ASEAN to continue its own internal reform processes to build an ASEAN Economic Community.

Question 4:

The negotiating process was considerably assisted by the *Guiding Principles and Objectives for Negotiating the RCEP* document that was agreed at the AEM Plus FTA Partners Consultations in August 2012. The document was endorsed by leaders from all 16 RCEP Participating Countries (RPCs) when launching the negotiations in November 2012. This document arose from the work of the ASEAN Plus One Working Groups set up in 2010, which undertook a stocktake of the existing ASEAN+1 FTAs and shared perspectives on building a more coherent and ambitious regional architecture. This illustrates the importance of adequate preparation prior to the formal launch of negotiations.

The *Guiding Principles and Objectives* document guided the negotiations and facilitated public outreach engagement. It provided a useful, common basis for structuring and conducting the negotiations. Negotiating proposals were scrutinised for their consistency with the Guiding Principles, including the requirement for RCEP to build on, and contain significant improvements to, the existing ASEAN+1 FTAs.

The negotiating process was also assisted by effective organisational approaches being gradually developed in the early stages of the negotiations. Negotiating meetings at the level of both the Trade Negotiating Committee (TNC) and the subsidiary negotiating groups were managed by an ASEAN Chair and a co-facilitator from ASEAN's FTA Partners (AFPs). The position of co-facilitator was rotated among the AFPs (based on which AFP was to be the next host of a negotiating round). The ASEAN consultation process and informal consultations by the AFPs helped the ASEAN Chair and the

co-facilitator in managing the logistics and organisational aspects of the negotiations, and ensured all participating countries were consulted and involved in managing the process.

The ASEAN Secretariat provided logistical, organisational, and other support to the negotiating groups – this was accepted by the AFPs and good practices were followed that ensured that the Secretariat serviced the RCEP process in a neutral manner.

Other initiatives that facilitated the negotiations were public outreach events and policy dialogues with academics and researchers. The public outreach events, including dialogues with business and community stakeholders in several of the countries hosting RCEP negotiating rounds, improved officials' understanding of business and community groups' views and expectations about RCEP. They also responded to community concerns about the need for improved transparency in trade negotiations.

Policy dialogues, such as the one involving ERIA and the Australian National University-based East Asian Bureau of Economic Research (EABER) in February 2017, were useful in encouraging negotiators to see the larger strategic picture and the need for more open-mindedness in examining issues. These dialogues presented opportunities for officials to informally discuss with academics and researchers the broader context of the RCEP negotiations, as well as consider ideas and approaches to ensuring RCEP's economic, political, and strategic significance.

While both the public outreach events and policy dialogues were helpful, the negotiating process might have been facilitated if more such activities had been held, including in the lead-up to the formal launch of the negotiations. This could have contributed to greater shared understanding among officials and facilitated the building of consensus.

From the outset it was apparent that the key issues to be resolved related to the level of ambition for the negotiations on market access commitments, scope of the RCEP agreement, and level of ambition for the rule's negotiations on chapter text. Getting negotiators to engage with an open mind on the substantive issues was a major challenge. The instinctive or tactical response tended to be to try and shut down debates rather than engage on the substance of the issues. It was hard work persuading some RPCs of the need for them to obtain revised mandates to progress the negotiations.

The most contested issue in the goods market access negotiations was whether each RPC should have a single schedule of market access commitments applying equally to all other RPCs (i.e., the same tariff commitments applying to imports from all other RPCs when imported into any RPC).

It was recognised that such an outcome would most likely result in a low level of liberalisation commitments, given the different tariff structures of participating countries, varying levels of ambition across the five ASEAN+1 FTA tariff commitments, concerns to protect domestically sensitive sectors, particularly among the major AFPs (China–India; China–Japan and Japan–Korea), and the absence of FTAs between AFPs. Most AFPs were

concerned about extending their ASEAN+1 FTA tariff commitments to AFPs with whom they did not have an FTA.

At the same time, it was recognised that differentiated tariff commitments would not maximise the benefits of a regional FTA. Negotiations therefore concentrated on seeking to limit deviations from higher levels of common tariff commitments and to ensure transparency in the market access negotiations, given the risk that the large economies would make selective deals, and thereby undermine RCEP's regional economic integration objective.

In the services market access negotiations Australia advocated a negative listing approach to services trade liberalisation as best-practice, noting that such an approach was increasingly being utilised in contemporary FTAs. ASEAN's position in moving gradually to accept negative listing was influenced by its own separate parallel negotiation of the ASEAN Trade in Services Agreement. Eventually an approach was agreed which resulted in a combination of the positive and negative list approaches, with provision for those RPCs with positive list schedules to transition to negative list within specified timeframes.

In the investment market access negotiations, some AFPs, including Australia, had concerns with the initial investment reservation lists submitted by several RPCs, as they did not provide meaningful commitments. Negotiations concentrated on the disciplines to be applied in finalising the reservation lists, finalising MFN text and the approach to be taken to applying ratchet, including flexibility through an appropriate grace period, and additional flexibilities for Least Developed Country participants. The quality of several reservation lists remained an ongoing issue throughout the negotiations.

Positions of Different RCEP Participating Countries

ASEAN's initial tendency was to prioritise the goods market access negotiations and to seek lower ambition in other areas (services and investment market access, as well as the rules negotiations). Pressure from India was important in getting ASEAN to accept that RCEP needed to do more on services. Australia, Japan, Korea, and New Zealand pushed also for improved services commitments. RCEP was the first time Australia engaged with ASEAN, China, and India to compile investment reservation lists. These negotiations were challenging, particularly on the approach to be taken by RPCs in compiling, collectively assessing, and reviewing initial reservation lists.

From 2014, it was evident that China was coming to see RCEP as a key vehicle to advance its regional economic integration objectives and to help strengthen its bilateral relationship with India. This galvanised China into a more pro-active role in RCEP and stronger support for achieving a high-quality outcome with Indian involvement.

The China–India relationship complicated India's participation in RCEP. India's large merchandise trade deficit with China, and the defensive attitude of many Indian industry sectors about their ability to compete with China, meant there were strong forces within India opposed to a liberalising RCEP outcome on goods. The absence of FTAs between China–Japan

and Japan–Korea were also complicating factors, particularly given the large amount of trade between these countries. A further complicating factor was the absence of FTAs between Australia–India and India–New Zealand.

Australia, Japan, and Korea were generally active in seeking to increase RCEP’s ambition levels on rules (e.g., competition, intellectual property, e-commerce). These countries pressed to have ASEAN accept that equal priority should be accorded to advancing the market access and rules negotiations. New Zealand led the work on having government procurement included in RCEP.

A key focus of Australia was to ensure RCEP’s rules are consistent with and build upon the WTO, facilitate trade and support business engaging in global and regional supply chains. For example, the Customs Procedures and Trade Facilitation chapter building on the WTO Agreement on Trade Facilitation.

Australia was particularly concerned that many Rules of Origin (ROO) proposals were trade restrictive and pushed to get the ROO negotiations on a pathway for business-friendly outcomes, including for SMEs.

Timeline of the Negotiations

Progress varied across the negotiating groups and the negotiations encountered a range of challenges, including various roadblocks. From mid-2016 political engagement intensified and there were signs of the elements of a possible overall package coming together. Key issues in draft chapter texts started to be resolved in some negotiating groups and this resulted in the removal of square bracketed text from those draft chapters. Each negotiating group had its own dynamic and level of trust among the negotiators, with negotiators in some groups more wedded to retaining square brackets until resolution of their country’s key interests. In several areas progress was linked to the market access negotiations.

The completion of draft chapter texts from October 2016 injected momentum and RCEP Ministers at their meeting in November 2016 “underscored the urgency of a swift conclusion of the RCEP negotiations as a single undertaking” (i.e., nothing would be agreed until all agreements reached in the negotiations are accepted as a single package). In addition to the two concluded chapters (Economic and Technical Cooperation, and SMEs), the negotiating group on Competition also completed its work in December 2016, with one issue unresolved. This related to the proposed inclusion of additional provisions to address public enterprises/state-owned enterprises which had been put forward by Australia, Japan, and Korea but not supported by most other RPCs.

India continued to press on services. As the negotiations progressed, India ramped up pressure on ASEAN, Australia, Japan, Korea, and New Zealand to improve on ASEAN+1 FTA outcomes on temporary movement of natural persons (TMNP). The scheduling approach of mode 4/TMNP commitments was a particular focus of these negotiations, particularly in the context of scheduling services commitments on a negative list basis.

RCEP negotiations in 2017 concentrated on identifying landing zones for the core areas of market access negotiations on goods, services, and investment; finalising issues relating to scope; and progressing text-based negotiations. A way forward was agreed to advance Intellectual Property negotiations, including on the inclusion of appropriate enforcement provisions that build on the WTO TRIPS Agreement to address counterfeiting and piracy to respond to technological developments. Following the decision by ASEAN Economic Ministers in early 2017 that a government procurement chapter could feature in RCEP, focusing only on cooperation and transparency, a negotiating group on Government Procurement commenced its work in mid-2017. By mid-2017, it was apparent that RCEP could not be concluded in the near term. The focus then shifted to the way forward for achieving key elements for significant outcomes, across both rules and market access, for ongoing negotiations. I ceased my participation in the RCEP negotiations in October 2017 and am therefore not able to comment on the negotiations that took place from November 2017 to 2020. I note that RCEP leaders announced in November 2019 that 15 of the 16 RPCs (i.e., all countries except India) had concluded all 20 chapters of the RCEP agreement, and essentially all market access commitments on goods, services, and investment, and would work to sign the agreement in 2020.

Question 5:

Several external factors impacted on the RCEP negotiations. For example, various RPCs were also participating in other parallel regional integration initiatives – such as the ASEAN Economic Community, TPP and the trilateral China–Japan–Korea (CJK) FTA. Various political developments also impacted on the negotiations, including change of governments and political developments in some countries which affected the overall geostrategic context for the negotiations.

The global economic context during the last two years of my involvement in the RCEP negotiations (2016–17) was marked by a slowdown in global trade growth, subdued outlook for world economic growth, rise in protectionist sentiment, economic transition in China, Brexit, China–US economic tensions and weakness in the multilateral trading system. Then, following the US Presidential election in November 2016, the general context was marked by uncertainties about the future of US leadership and the strengthening of political movements questioning market openness and globalisation, as well as political instability in some developing countries in the region and concerns about their ability to continue to make the adjustments and changes in policy direction needed to progress economic development.

COVID-19 impacted on the negotiations, which continued in forms other than face-to-face meetings. Indexes measuring global policy uncertainty,

such as the World Pandemics Uncertainty Index, showed unprecedented levels of uncertainty during 2020. Such high levels of economic uncertainty, together with escalating trade tensions, contributed to a deteriorating outlook for world economic growth and raised the imperative of successfully concluding RCEP to improve economic and trade connections. Throughout the RCEP negotiations, competitive pressure alternated between the RCEP and TPP negotiations. Initially it was TPP that put pressure on RCEP and a significant development in 2014 was China adopting RCEP as a key vehicle to advance its regional economic integration objectives, towards development of a Free Trade Area of the Asia-Pacific (FTAAP). APEC Leaders in November 2014 endorsed “The Beijing Roadmap for APEC’s Contribution to the Realization of the FTAAP”, which identified RCEP as a possible pathway, along with the TPP, to FTAAP. Conclusion of TPP negotiations was announced in October 2015 and this development put added pressure on the RCEP negotiations. However former US President Obama in 2016, during the last year of his presidency, used RCEP in seeking to apply domestic pressure for the US Congress to ratify TPP by referring to RCEP as “China-led” and arguing that failure to ratify TPP would result in ‘China writing the rules for international trade’. Following the US withdrawal from the TPP in early 2017, the remaining 11 TPP countries concluded the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) which entered into force in December 2018.

Question 6:

The RCEP Agreement’s strategic value is in providing an institutionalised regional economic framework for the Parties to engage with, and increase understanding of, each other and to build up trust and cooperation. In addition to projecting strategic confidence in regional countries working together, the RCEP Agreement also sends an important signal of confidence in rules-based institutional frameworks to manage post-COVID-19 recovery and growth.

RCEP complements and supports other FTAs and cooperation frameworks, and initiatives, to promote competitive markets and to streamline and simplify regional trade and investment rules, including through regulatory cooperation. It consolidates and strengthens the institutional architecture developed by ASEAN through the ASEAN+1 FTAs and, if implemented seriously, could significantly strengthen the open trading system within the region and support the multilateral trading system generally.

It is disappointing that India withdrew from the final stages of the RCEP negotiations and is not an RCEP Party, given India’s growing economic importance and the need for India to strengthen its reform process if its economic potential is to be realised.

From an economic perspective, the RCEP Agreement's key outcomes are:

- China, Japan, and Korea participating in a common agreement and significant expansion in trade covered by FTAs (China–Japan and Japan–Korea now have an FTA between them).
- Good modern architecture, including on services and investment commitments, built-in agendas, and innovative institutional arrangements:
 - establishment of an RCEP Secretariat and the move away from traditional FTA (siloed) committee structures, and a focus on outreach and broader engagement
 - There are also provisions for the Parties to engage with business, experts, academia, and other stakeholders
 - RCEP Ministers meeting at least annually
 - establishment of an RCEP Joint Committee with four subsidiary bodies – Goods, Services and Investment, Sustainable Growth (Economic and Technical Cooperation, SMEs, and emerging issues), and Business Environment (cooperation and dialogue on Intellectual Property, E-Commerce, Competition, and Government Procurement) – usefully reflects the integrated and cross-cutting nature of trade, investment, and global supply chains
 - There are also provisions for the Parties to engage with business, experts, academia, and other stakeholders
 - There are also provisions for the Parties to engage with business, experts, academia, and other stakeholders
- An Economic and Technical Cooperation Chapter that builds on AANZFTA and provides a solid framework to support Parties implement their RCEP commitments, including obligations to help Least Developed Country Parties implement their obligations and take advantage of the benefits of the Agreement.
- Strengthened rules that build on AANZFTA and can be built on further and developed over time. Significantly, RCEP is the first ASEAN-related FTA to include a Government Procurement Chapter and the E-Commerce Chapter's data flows and localisation provisions are the first obligations of this kind for several RCEP Parties. The Intellectual Property Chapter usefully requires RCEP Parties to be party to eight major multilateral agreements administered by the World Intellectual Property Organization. It is disappointing that state-owned enterprises are not addressed explicitly in the Competition Chapter, and this is an issue that will need to be addressed in the context of the RCEP Agreement's implementation.
- Modest market access commitments, at least in terms of their immediate impacts:
 - I need to do more analysis of RCEP's tariff commitments – particularly the commitments made by China, Japan, and Korea, as these will have a

major impact on RCEP's economic significance. However, there is very little tariff liberalisation in the short to medium term. Many tariff commitments are to be phased over long periods up to 20 years and are at levels above those in the existing ASEAN+1 FTAs. RCEP's potential benefits are also unlikely to be realised because of the significant number of differential tariffs for different Parties, restrictive Rules of Origin (ROO), and onerous ROO documentation requirements.

- It will be important for the RCEP Parties to work to accelerate implementation of tariff commitments, reduce the number of tariff differentials, and fast-track implementation of the built-in agenda to simplify and improve ROO and associated documentation requirements.
- Services commitments build on AANZFTA, with commitments made by seven RCEP Parties on a negative list basis and eight RCEP Parties utilising positive listing, with provision for those Parties with positive list schedules to transition to negative list within specified timeframes (i.e., to be completed no later than six years after RCEP's entry into force for five Parties and not later than 15 years in the case of the three Least Developed Country Parties).
- RCEP Parties should work to accelerate and ensure effective implementation of these transition provisions, including ensuring that the negative list schedules provide at least an equivalent level of liberalisation to the initial positive list schedules. Support should be provided to the three Least Developed Country Parties to expedite completion of their transition to negative list schedules.
- Commitments against reservable disciplines in the Investment Chapter are being made for the first time in an ASEAN+ FTA (AANZFTA's built-in agenda provides for development of such commitments). However, the quality of RCEP Parties' commitments is highly variable, with several Party reservations including broad sectoral carve-outs, unlimited scope for any new measure in specified sub-sectors or to achieve particular policy objectives.
- RCEP Parties should work to remove broad sectoral carve-outs and limit the scope of reservations to existing non-conforming measures.
- RCEP Parties will all need to commit to and invest in the Agreement's implementation through development of a strategic work program, supported by the Agreement's institutional arrangements, aimed at supporting policy reform in the region. Effective implementation, including its institutional and economic cooperation provisions, and built-in agenda, will be key to determining whether the RCEP Agreement will continue to evolve and develop over the next 30-plus years. It will be important to ensure that RCEP's ongoing work is supported by effective institutionalisation in active committees and effective economic cooperation.

- It will also be important for RCEP Parties to use their commitments as a basis to strengthen domestic institutions, ensure the transparency of regulatory actions, enhance coordination among government agencies, and strengthen channels for dialogue with business and civil society.

Question 7:

The relationship between RCEP and other FTAs is clear. RCEP co-exists with the ASEAN+1 FTAs, CPTPP, bilateral FTAs, and other agreements that may be negotiated in the future.

For example, the current AANZFTA Upgrade Negotiations are aimed at contributing to the momentum of RCEP by building on RCEP and the ASEAN+1 FTAs, as well as being the key vehicle for Australia (and New Zealand) to deliver economic cooperation to support RCEP and AANZFTA implementation. RCEP may also provide the basis for China, Japan, and Korea to conclude a trilateral FTA with deeper commitments.

The outlook for RCEP implementation will depend on a range of factors, including external developments. There is a lot going on with many factors in play, including: geopolitical developments, a continued shift in the geostrategic environment, management of the US–China relationship and threats to the global rules-based order. There are also a number of sensitivities or misunderstandings in bilateral relationships between some of the RCEP Parties, which tend to be of a political nature, and may flare up occasionally in the future and have unpredictable short-term impacts, including in areas objectively assessed as mutually beneficial. The Parties should be pragmatic in responding to such developments by having a sharp focus on assessing what is possible or feasible at any given point in time, while not losing sight of the common regional interest in maintaining momentum with RCEP's implementation.

Question 8:

The success of trade agreements like RCEP, with their focus on legally binding commitments, is dependent on how effectively they are used to promote domestic policy reform and improved coordination between the member countries. The key issues in trade negotiations are:

- the level of openness that countries are willing to bind in trade agreements: both upfront and through continued liberalization over time;
- minimising the regulatory burdens imposed on companies and traders seeking to make use of the trade agreements;
- ensuring comprehensive coverage of issues, including services, investment, and goods, to reflect the integrated nature of modern business activities; and
- for bilateral and regional initiatives to support an open approach to economic reform that complements and supports multilateral liberalisation.

RCEP Parties should work to strengthen and consolidate that Agreement's contribution to the future direction of trade policy cooperation. Effective implementation, including accelerated implementation of market access commitments, early progress with RCEP's built-in agenda, and supporting the accession of additional economic partners, will be critical to boosting business confidence in the Agreement. RCEP Parties should continue to work constructively with India to explore pathways for it to become an RCEP Party. Cooperation between the ASEAN-based architecture and the CPTPP could evolve, as could APEC work in developing an FTAAP to incorporate aspects of the RCEP and CPTPP frameworks.

Question 9:

The RCEP Agreement is more than an FTA. It is market access, rules, cooperation plus. The task now is for regional countries to work together to implement the Agreement effectively, thereby contributing to a more prosperous and peaceful region.

12.4 Cambodia

12.4.1 Cambodia 1

By Sopheap Chan

Question 1:

During the course of RCEP negotiations, I had the opportunities to represent my country in leading Cambodia's ROO negotiation team to negotiate with the rest RCEP negotiating parties in the ROO Sub-Committee Meeting. It has been my privilege and honor in participating in such important mega-regional FTA negotiations.

Question 2:

Firstly, it is a significant catalyst for Cambodia to economically and diplomatically further strengthen the relationship with other RCEP parties. Cambodia's market is very small, so the alternative is to keep the momentum of the regional economic integration efforts. Cambodia has geographically situated in the central location for the RCEP which is very significant in terms of regional and global supply chains for both upstream and downstream supply chains. The entry into force of RCEP offers optimistic prospects for investment inflows, with Cambodia being one of the most appealing destinations for international investors.

RCEP has become one of the most important tools and agendas for the Royal Government to manage its reform program domestically and modernize certain areas in order to comply with the standards and other commitments.

Another persistent concentration in RCEP is E-commerce and digital trade, which appears to be tremendously promising for Cambodian SMEs. E-commerce and digital trade can create new growth prospects for smaller enterprises to connect to suppliers, consumers, and significant players in major industries. This comes at the right time that Cambodia has recently adopted the Policy Framework on Digital Economy and Society 2021–2025.

RCEP has tremendously harmonized the Rules of Origins for RCEP parties which serves as the region's primary foundation for trade and investment, enhancing regional value chains and creating more employment and market opportunities for people and business in the region.

The RCEP agreement that has been built on a comprehensive, modern and high-quality standards will set a new rule for trade globally for other multilateral trading system as it goes beyond the WTO commitment to cover WTO-extra and WTO-plus commitment, enabling reciprocal economic benefits, facilitating the development of regional trade, and providing flexibilities and differential treatment for LDCs.

Question 3:

As matter of fact, although there is no clear-cut definition on the “ASEAN Centrality”, yet we can simply understand the importance of ASEAN ability to retain consensus to carry out its collective action, fulfill its targets and with no one left behind. RCEP is one of the two mega-regional trading blocs in the Asia-Pacific that all ASEAN Member States are parties to that agreement, while the other one has been left out several ASEAN Member States. This kind of separation will only harm ASEAN Community which we have been built over a number of years in order to reach our common destination for the shared future.

RCEP, which is often mistakenly viewed to as “China- or Japan-led”, was born out of the milestone of ASEAN's middle-power diplomacy. It undeniably came from all ASEAN-plus one FTAs. In this connection, the conclusion and the entry into force of RCEP are literally the cornerstone of ASEAN achievement as it has been built upon the ASEAN foundation and ASEAN Centrality in shaping the regional architecture in the East Asia.

Question 4:

The momentum in the RCEP negotiation process had been hard-hitting and increasingly tough once we were approaching to the final destination for conclusion in 2019. Each country tried not to introduce new elements into the table and sought for common landing zones for mutually beneficial and commercially meaningful agreement for all.

However, once the negotiations had consumed so many years, the patterns of trade for both import and export for certain products have somehow

significantly shifted to different direction which could possibly lead our efforts to different positions in negotiations and unexpected outcomes. Internal inter-ministerial meetings for cross-cutting issues had been regularly conducted prior to the meeting in order to reevaluate the latest development of other countries' positions for forming positions. At the same time, a wide range of consultations and discussions with other private stakeholders also had been done to improve our offers and requests.

Question 5:

Among CPTPP, BRI, Indo-Pacific, US–China conflict, digitalization, SDGs and other development, CPTPP was the most pressing factor for RCEP negotiation team. During the negotiations of RCEP, the early TPP or later CPTPP conclusion had put lots of pressures to the RCEP negotiation teams to catch up and fulfill the mandate given by the RCEP Leaders.

As matter of fact, because some ASEAN Member States are also CPTPP parties, more or less some agreed elements from CPTPP have been brought to discuss at the RCEP negotiation forums as the alternative in seeking way out from sticky discussion. Yet, not all agreed elements from CPTPP were useful to RCEP negotiations because it some time had caused distraction and prolong negotiations as well.

Question 6:

For Cambodia, we believe that the content of RCEP agreement is the most comprehensive one and has been met the mandate given by the RCEP Leaders already as stated in the RCEP guiding principles back in 2012 by coving trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement and other issues.

Based on the text of the RCEP Agreement which are the outcomes of the RCEP negotiations, it has already shown the recognition of all RCEP negotiating parties in terms of the individual and diverse circumstances of each country, based on the mutually beneficial and commercial meaningful outcomes, and taking into account the different levels of development of the participating countries as well.

As one of the LDCs, Cambodia is able to enjoy some forms of flexibility including some provisions of special and differential treatment whereas applicable.

Question 7:

I am of the views that the enactment of RCEP agreement would have constructive impacts on other FTAs, regional cooperation framework, global economy and geopolitics. In principle, RCEP would be complement with FTAs for countries that have participated into other mega-regional FTAs,

for instance CPTPP. This is because the most FTAs they have the more choices for traders' utilization to choose for export and import. However, for countries that are not parties to such CPTPP and others, joining RCEP is actually the potential leverage for them to admit themselves into other frameworks.

With current potential economic growth, together with the raising trend of middle-income population in the East Asia, RCEP would reinforce the notion of Asian Century in shaping the architecture of global rules and institutions for the regional and global economic prosperity. Yet, the economic integration would not be adequate, we have to take into account the scientific and technological advancement such as "4th Industrial Revolution" which will also take part in redefining the future global economic dominance.

On the geo-politic outlook, RCEP will become a new catalyst and contribute to stabilize the regional security matters as well, given the fact that the more interdependent among the RCEP parties the more peaceful region will be.

Question 8:

RCEP parties have been widely opening for India's return in order to fully form the 16 RCEP negotiating parties and completely attain all ASEAN-plus one FTAs into a single pack of FTA. This is the original idea of establishing RCEP, and it remains important to achieve this. However, we still do respect the decision of the India's government and the people of India on this matter.

On top of that, RCEP also welcomes other countries that have been expressed their interests in joining the RCEP, yet it has to comply with the procedures of admission together with the evidence-based feasibility study as well in order to making sure that they are able to comply with the existing standards under RCEP.

Trade economists have been arguing for merging RCEP and CPTPP into FTAAP for greater mega-regional FTAs in the Asia-Pacific. I believe the potential gains from FTAAP is very significant economically, yet it would be a very long way to go. Given the current geo-political rivalry and uncertainty of the changing global balance of power, the efforts to establish FTAAP would merely remain a marginal prospect.

12.4.2 Cambodia 2

By Sim Sokheng

Question 1:

I was the TNC Lead for Cambodia from the year 2016 until the RCEP signing on 15 November 2020 and continue to be RCEP Interim Joint Committee Lead for Cambodia till now.

Question 2:

RCEP is very important for Cambodia and all RCEP participating countries, East Asia region and the world as it helps to strengthen the multilateral rules-based trading system. RCEP is currently the biggest mega trade deal in the world, and it consists of diverse group of economies from the least developed to the developed. It is therefore bringing more integration, reducing the development gaps, deepening regional and global value chain, and benefits to all participating countries.

For Cambodia and other LDCs where the cost of labor is low and there are incentivized regimes for investment, RCEP will accelerate the GVC effects through the simplification of the ROOs. The single ROO (rule-of-origin) framework that could be applied across the 15-member countries will ease firms' production, sourcing of inputs, and components.

RCEP considers different stage of development of participating countries; therefore, RCEP offers special treatment in terms of technical cooperation, capacity building, and implementation flexibility for least developed countries, like Cambodia, along with Lao PDR and Myanmar. Specially speaking, Cambodia can have longer period to implement certain obligations and many other flexibilities.

The elimination of tariffs on manufacturing goods would indicate significant opportunities for countries in the East Asia region whose specialization and comparative advantage had been well structured, and the option to move their productions and portfolio to emerging countries in the ASEAN region remains a foreseeable benefit.

Additionally, besides complementing the ASEAN plus one FTAs, the RCEP would also complement the trade deals between countries in East Asia that does not have FTA with each other's (e.g., China–Japan).

Question 3:

“ASEAN Centrality” and “ASEAN Unity” are very important in the RCEP negotiation. They help to fasten the negotiation process and be on track. ASEAN alone is comprising of countries with different level of development too, therefore with the ASEAN spirit, which is to not leave any member behind, all the member countries have to agree on a single position through consensus, and acceptable by all the ASEAN members first, in the negotiation with the ASEAN trading partners. Therefore, ASEAN centrality and ASEAN unity in the RCEP is crucial to ensure that all ASEAN members are in the same pack and can benefit from the agreement.

Question 4:

Though the negotiating paces vary from one year to another, we could see the incremental progress and the willingness of each participating country. The negotiating paces are affected by the changes of position, whether on text

and market access negotiation, from time to time of participating countries, which is the nature of negotiation, plus the longer negotiating period, approximately 8 years, the change of negotiators and the large number of participating countries, originally 16, which would have many influential events along the process.

For all these years, market access, including goods, services, and investment, are the most crucial and complicated area to negotiate, as all participating countries had to do the domestic consultation with their public and private sectors and especially, to get the mandate from their leaders as these are the core interest and the determination of each participating country prosperity.

In my view, the most turbulent years were 2018 and 2019 when the RCEP negotiation nearly came to the conclusion, but then came the withdrawal of India from the pact in the late 2019 at the 3rd RCEP Summit due to its domestic and other influential factor. However, even with all of these and some stalemate in the market access and some text negotiation, thanks to all participating countries' commitment and flexibilities, the RCEP negotiation was finally concluded and signed with 15 participating countries.

Question 5:

In the international trade regime, it's unavoidable that one always has some impacts, both positive and negative, on one another, politically and economically. However, the negotiation was rules-based and followed what set out under the WTO; therefore, there are no significant influences during the time of negotiation considering that the negotiating parties were very motivated to work toward bridging the divergences and fulfilling the mandate given by the respective governments which is the completion of the negotiation and entering into implementation.

The RCEP does not design to ease any political or security tension between countries that are members or non-members. It however will play significant role when it comes to any unprecedented hurdles to trade policies, for instance, the disruption of the regional supply chain posed due to the lockdown or protectionism measures by member countries.

Indeed, the negotiation takes into account the common interests of all economies regardless of their level of development, the adaptability to digitalization, infrastructures and the SDGs, which is, therefore, making these social and economic trends more or less foreseeable.

Regarding the COVID-19 Pandemic, the impact and disruption have been felt and caused at all the RCEP members, though to different extents, the urgency to sign and ratify the agreement so that it can entry into force sooner for a quicker economic recovery.

Countries like Cambodia and other LDCs members could refer to the support available under the economic cooperation provision of the RCEP and would potentially prepare to regain the benefits for the exchange of good trade, services, investment, and movement of people during the recovery phase.

Question 6:

The content suits the interest of all negotiating countries, including Cambodia, as it takes into consideration the different level of development of participating countries. This RCEP text is crucially important as it sends a clear signal to the world that a multilateral rules-based trading system still prevails over protectionism policies and it will help the realization of a more open and liberalized markets for goods, services, and investments, in addition to ASEAN plus one FTAs. RCEP not aims to replace those plus one FTAs but to complement instead.

The RCEP managed to further the benefits and provisions established previously under the ASEAN+ FTAs, such as the ASEAN–Japan Comprehensive Economic Partnership Agreement, the ASEAN–Korea Free Trade Agreement, the ASEAN–China Free Trade Area, and the AANZFTA. There is leverage for market access for goods in terms of tariff concession and number of tariff lines as well as the reduction of non-tariff barriers and the improvement of legal institutions. The same goes with a more liberalized services sectors and investment. For instance the RCEP enabled Cambodia to obtain more market access to Korea in terms of tariff lines than what the Country obtained under ASEAN–Korea FTA.

Question 7:

In the Regional cooperation framework, the RCEP would bring additional catalysts for the economic cooperation activities stipulated by the provision of Economic and Technical Cooperation. This factor will help to bridge the gap of development between parties. On global economy and geopolitics, the RCEP will positively contribute to value creation as the deal encourages deeper integration into the global value chain, offshoring of productions and firms, exchanging of comparative and complementary goods for consumers across the regions.

Similar expectation for geopolitics, given that RCEP would enhance closer dialogue, partnership among all parties, while enabling them to understand each other's needs and ambition as well as the legitimate objectives and sovereign exercises of the respective members.

Some of the non-trade issues arises that are purely geopolitics or hegemony seeking, shall not be linked to trade because it only complicates things out. Despite, thanks for the smooth cooperation among all 15 members that have designed an open and acceptable platform for all stakeholders to dialogue and present mutually beneficial ideas when never needs.

Question 8:

RCEP is always open for the returning of India and also welcomes other interested countries. RCEP members would potentially prioritize and embark on the work programs they all committed and considering the circumstance

of the covid-19 pandemic, most members ought to joint-hands focus on how to effectively mitigate the impact, to curb the spread and to plan for recovery accordingly, as a collective effort. As the biggest FTA in the world, though with modern, high quality and mutual benefits to all parties, RCEP include provision for the general review, which is to make it up to date and space to further improve and liberalize market access and adjust necessary provisions base on all parties' consensus. The review might aim for a strengthening of a supply chains in the region, increasing their resilience and also facilitating environment for digitalization to take place whereby the countries can be more responsive to shocks and crisis.

While the next regional integration framework beyond RCEP remains the talk-about topic, there is no certainty that can be claimed yet. Indeed, the decision will surely be consensus-based and it will be driven by the harmonized interests of the 15 RCEP countries. For the current situation, the priority for Cambodia is the optimization of the benefits we have negotiated and how to efficiently implement the agreement.

12.5 Indonesia

By Iman Pambagyo

Question 1:

I was involved in the conceptualization of an RCEP in early 2011 with then Minister Mari Pangestu. Since then, RCEP was high on my working agenda, including in selling the RCEP concept to ASEAN's FTA partners, the launch of the RCEP negotiation in 2012 and chairing the RCEP Trade Negotiating Committee (TNC) until the signing of the Agreement on 15 November 2020.

Question 2:

I believe the RCEP could serve both Indonesia and ASEAN to catapult further their respective economies into the global value chain. The signing of the RCEP itself in 2020 served as a strong statement and determination of the parties to the RCEP Agreement that economic opening and integration is the right way forward for advancing prosperity. The fact that the signing took place against the backdrop of fragmented global trade and more people questioning the globalization serves as a strong message that the region – or at least the parties – still believe in open trade and multilateralism.

Question 3:

ASEAN centrality played a key role in driving the negotiation process. The RCEP negotiation departed from the idea of consolidating the five ASEAN Plus One FTAs, so it should be logic to expect that ASEAN played a central

role in driving the negotiation into its eventual conclusion. In this regards, ASEAN unity was crucial in steering the directions of the negotiation. In fact, during the negotiation, issues concerning TPP and CPTPP, trade tension between Japan and South Korea, unresolved issues in the CJK trade negotiation, and uneasy relations between India and China all could be neutralized only with ASEAN's strong stance in keeping the RCEP negotiation relatively sterile from non-RCEP issues.

Question 4:

The period between 2012 and 2015 may be considered as initial phase of the negotiation (score:1). The reason is that it was during this period that parties sought ideas and developed understanding on how to consolidate ASEAN Plus One FTAs.

Then the period between late 2015 and 2017 can be scored from 3, 4 and 5, respectively. The negotiation was intensified in all areas and all parties gave their strong emphases on what they want and do not want from an RCEP Agreement. Australia, New Zealand, India, Japan, and Singapore were very strong in pushing their respective issues of special interest (Australia on services and investment; New Zealand on Government Procurement; India on services; Japan on e-commerce; and Singapore on ROO).

Between 2018 and early 2020, the negotiation process entered into its critical stage (score 7, 8 and 9, respectively). It was the phase when ASEAN should decide on the negative approach to services commitments; Japan to compromise its high calls on IPR and e-commerce; New Zealand on the scope of tariff commitments; Indonesia on partners' RCEP tariff commitments versus their respective commitments under respective ASEAN Plus One FTAs; and India's further engagement in the negotiation. I believe I should score "9" for the situation I encountered in late 2019 through early 2020 when India decided to leave the negotiation table, followed by potential domino effects with Japan showing indifference whether to go with RCEP-15 or just leave the negotiation, and possible Australia's response should Japan decided to leave the RCEP and focusing instead on TPP/CPTPP.

The months and weeks toward the signing on 15 November 2020 are of course the peak of 8-year work both collectively and individually (score 10). It required political decisions in some capitals to call the negotiation the day; to assess whether the outcome of the negotiation could be considered balanced and therefore acceptable from both economic and political points of view.

Question 5:

We pursued the RCEP negotiation not in a vacuum. Matters arising from China-India border tensions, Japan-Korea sour economic, political, and

historical relations, impasse in the CJK negotiation, US leaving the TPP and TPP parties' efforts to salvage the Agreement (then become the CPTPP) all affected the RCEP negotiation process. I should underline, though, that those issues did not bring the RCEP negotiation to the stalemate. With a strong leadership of the TNC Chair and ASEAN working in one voice, we all managed to keep those external issues at bay except India–China issues. I could not remember if US–China trade war, or issues discussed in APEC and BRI, or discussions on Indo-Pacific concept, changed the direction of the RCEP negotiation, or create uneasy negotiating environment among the RCEP negotiating countries. The spread of COVID-19 only enhanced parties to conclude the negotiation urgently instead of slowing down the negotiation process.

Question 6:

The outcomes of the RCEP negotiation may be considered by outsiders – TPP proponents in particular – as of low quality, but if one takes into consideration some facts against which the negotiation was advanced toward its eventual conclusion, he or she should consider the RCEP Agreement as quite political and economic achievements. Under RCEP, for example, we have developed, developing, and under-developed economies. These countries have different political system as well as different levels of readiness to engage deeper in the regional and global value chains. To some ASEAN partners, the RCEP serves as their first FTA engagement with other ASEAN partners. Hence, Indonesia in particular wishes to play a bigger role in the regional and global value chains by capitalizing on the economic networks and partnership created further by the RCEP Agreement.

Question 7:

The conclusion and signing of the RCEP was happened at a time when confidence in the MTS and the WTO was – and still is – at its lowest level. The COVID-19 only made things worse, and add to this are growing tension between major economies in the region and the world. I believe the RCEP could serve as counter-measures against the negative sentiments toward regional and global value chains, to balance growing tendencies toward new mercantilism and “beggar-thy neighbor policy” approach which have dominated the news these days.

Question 8:

I think the immediate required next step for RCEP is ensuring the effective implementation of all the commitments therein by the signatories. This is especially the case as we continue to witness countries – including some RCEP parties – take matters into their own hands thus disregarding the

principles and disciplines we all agreed under the WTO. The return of India or the expansion of RCEP membership will come second or third only if the RCEP signatories could prove to themselves that we are committed to implement the Agreement fully and faithfully. Hence, discussions on whether RCEP framework or model should be expanded to realize the FTAAP concept may be taken up once all parties and other members of APEC which are not parties to the RCEP have stronger confidence that FTAAP – which will or should include all major economies in the region including those having quarrel these days – is the way forward to respond to the common challenges of the future.

12.6 Japan 1

By Tetsuya Watanabe

Question 1:

In 2005–2006, I was a Director in charge of WTO dispute settlement at the Multilateral Trade System Department of the Trade Policy Bureau and was a member of the writing team for the creation of a global economic strategy. I was involved in this in addition to handling WTO issues. I wrote the ASEAN+6 concept. It included FTAs and highlighted the East Asia version of the OECD for institutionalising cooperation.

I came back as Director General of the Multilateral Trade System Department and was in charge of RCEP from 2016, serving as one of the chief negotiators of the negotiations for two years.

The first attachment to my involvement was around 2005 and 2006 when East Asia Summit was established.

The East Asia Summit was established as a dialogue in the summit process. Before that, there was the ASEAN Plus Three from around the late 1990s. Kim Dae-jung's ASEAN Plus Three free trade initiative and study initiative aimed at promoting integration in China, Japan, and Korea. In the background, in the Asia-Pacific region as a whole, the ASEAN+3 was being promoted in the context of the US shift to the Middle East after the terrorist attacks in 2001. The East Asia Summit was conceived to counteract the ASEAN+3 and to counterbalance the US' absence, and India was included, making it the ASEAN+6.

It was initially launched as a forum for diplomacy and heads of state, and that was the original commitment, but in the institutionalisation of that, METI thought that plus-six cooperation was necessary in terms of economy and trade, and from around 2005, the Global Economic Strategy was created, and its theme was economic integration in East Asia.

Question 2:

From Japan's perspective, it is the promotion of economic integration in East Asia. When it comes to East Asia, in a broad sense, it is important extending

the supply chain to beyond just China, Japan, Korea, and ASEAN to include Australia, India, and New Zealand for the region's development, contributing to the stability of the Asia-Pacific region. It is of great political and economic significance.

Question 3:

In progressing some policies, it would not work if Japan took the lead or if China took the lead. So, we believe that in such a situation, the most stable and successful way to proceed with the negotiations was for ASEAN to sit in the driver's seat and hold the dialogue partner together.

The RCEP negotiations have experienced both progress and stagnant periods, but the fact that ASEAN is central has led to the final conclusion of the negotiations. ASEAN is a framework of competition and cooperation, in which the 10 countries have different ideas and competitive relationship, but the significance of this centrality is that the customs and practices of dealing with dialogue partners in the 10 ASEAN countries have been very stable and have not collapsed in the face of various events. This is how we see it. That was the structure and the situation on the ASEAN side. The negotiations were eventually concluded because the dialogue partners, such as Japan, China, and Australia, recognised this, and they recognised it as a framework for regional cooperation to be promoted with ASEAN in the middle.

The fact that it was respected is of great significance to ASEAN centrality. There was a case where India withdrew at in the final phase, but many people in Japan originally explained that it had a geopolitical significance to balance China, and many people said that Japan should not participate in the conclusion of negotiations. However, this is a central project of ASEAN, and in that context, it is important for Japan to cooperate in the completion of the project. In the end, Japan also made efforts to conclude the negotiations, as this was something Japan should be actively involved in. In the midst of friction between the US and China, there were evaluations of a China-led framework or a framework without the US, but I think this was a regional project of ASEAN and that it was important for Japan to be involved as a member of the region.

Question 4:

It took a long time, but we all knew it couldn't be helped. One thing that was kind of a turning point, which goes back to what the added value of RCEP is, is that it integrates the ASEAN+1 rules of origin, so that the supply chain is integrated. The first half of the negotiations was about deepening market access for goods and services: in 2017, when there was the ASEAN roadshow and Viet Nam chaired the APEC summit, we worked on a kind of guide for the negotiations. It was a scoring of how much progress had been made in three areas, what the rate of liberalisation was, and how to make money from the services exception. Japan included the rules in the

scoring because Japan has a supply chain to connect, with trade facilitation, e-commerce rules and intellectual property as well. METI Minister Seko proposed it. That was a turning point in the negotiations.

In terms of each country's contribution, when I came back to this area in 2016, I felt that China was quite active on investment and services liberalisation. Obviously, China's own outward investment and this kind of outward activity was increasing, and in terms of rule-making, there was an interest in opening up to the outside world, and this is what moved the negotiations forward.

At the beginning, during and at the end, and in between, it is like an adjustment. Each country has to make domestic adjustments. Because it is a negotiation, there is a combination of each country's expectations as to how far they should go to reach a consensus. At the beginning, ASEAN said that market accesses should be deepened and that rules should be discussed at the next opportunity, but Japan pushed for it to be done.

Question 5:

The negotiations themselves have been quiet. But what has clearly affected them is that the conclusion of the TPP never affected them that much, but the withdrawal of the US did. How it has affected them is that China has clearly tried to use this opportunity to get them together as quickly as possible.

I think it's true that the US–China conflict started in 2017 or so, when there was talk of Chinese Premier Li concluding the RCEP, and clearly against the backdrop of the changing global situation, the emergence of the Trump administration and the withdrawal from the TPP, China's involvement in the RCEP increased.

I think the movement of digitalisation in Asia, the talk of the SDGs, and the need to firmly advance free trade in this context were the driving forces behind the conclusion of the RCEP.

ASEAN itself, and the countries around it, felt that this was an ASEAN project and that it could not afford not to bring it together.

Question 6:

From the Japanese perspective, a trade agreement with only market access and no rules was seen as meaningless. Finally, the fact that digital rules, customs rules, and intellectual property rules have been put in place to some extent is an achievement in terms of connecting the regional supply chain. When we originally negotiated RCEP, we wrote that the TPP was a kind of benchmark and that it included the “free flow of data”, but in reality it is important how the exceptions are written, and in the case of RCEP the exceptions, even in the case of TPP, achieve a legitimate public policy purpose.

The original WTO and other exception clauses are supposed to be objective in terms of whether they are necessary or not. In the case of RCEP, if a

country decides that it is necessary for the country, then it is OK if it is able to achieve the country's public policy. The big difference [between the WTO and RCEP] is that it is self-judging, but it is also important for RCEP to have norms of exceptions.

For Japan, due to existing no FTAs between Japan and China, and Japan and South Korea, market access in goods with China and South Korea makes practical meanings, including the elimination of tariffs. It is significant that tariffs on industrial goods have been reduced.

Question 7:

Though geopolitical conflicts, US–China confrontation, on-shore and friend-shoring, etc., are an inevitable trend to be built within like-minded countries of the supply chain, the fact that a rules-based mechanism has been established in the East Asian region, centred on ASEAN, the world's fastest growing region, is meaningful for businesses using supply chains, in terms of a stabiliser against geopolitical conflicts. It is significant that a free trade framework has been developed in the Asian region in the absence of a functioning WTO.

There are CPTPP, IPEF, etc., there is BRI, but the IPEF, where different frameworks coexist and compete, goes beyond traditional free trade to infrastructure, green and digital. This is a mutually stimulating process, where the different countries involved will become members, and it will continue to evolve.

Question 8:

We will work with India to encourage it to come back; as for RCEP, we will flesh out the so-called framework for cooperation among members, including developing countries. We will use RCEP as a platform for cooperation. There are mechanisms for periodic reviews and sectoral reviews, so we will actually activate them and deepen the substance and the cooperation.

We believe this will be implemented through business progress rather than government initiative.

I see the FTAAP as the ultimate goal.

12.6.1 Japan 2

By Kunihiko Shinoda

Question 1:

2010–2012 Director, Asia and Pacific Division, Trade Policy Bureau, Ministry of Economy, Trade and Industry: supported the launch of the RCEP negotiations.

2017–2019, Deputy Director-General for Trade Policy, Trade Policy Bureau, Ministry of Economy, Trade and Industry: participated in the RCEP negotiations as one of Japan's TNC Leads.

Question 2:

The RCEP was signed at the RCEP Summit in November 2020 and is moving toward the realization of a huge regional economic sphere that accounts for about 30% of the world's GDP, total trade, and population, surpassing NAFTA, EU, and CPTPP in these indicators. Since the 1980s, East Asia, centered on ASEAN, has seen the expansion of industrial supply chains in the region due to the growth of foreign direct investment in the region, and de facto regional economic integration has taken the lead. Since the 1990s, the network of FTAs centered on ASEAN, such as the AFTA, ASEAN+1 FTA, and RCEP, has been expanding, and de jure regional economic integration has boosted de facto regional economic integration.

The RCEP establishes unified trade rules and contributes to further efficiency and vitalization of supply chains that are spread across the region. It also aims to establish free and fair economic rules in the region by stipulating a wide range of areas such as intellectual property and e-commerce among diverse countries at different stages of development and with different institutions. As more and more countries take protectionist measures against the background of the confrontation between the U.S. and China and the pandemic, the realization of the RCEP, led by ASEAN, is of great significance in promoting the liberalization and facilitation of trade and investment in the region.

Question 3:

Regarding the centrality and unity of ASEAN, I am of the following opinion. First, ASEAN is located at the center of East Asia in terms of de-facto economic integration. Since the 1980s, East Asia (Northeast Asia, Southeast Asia, and the Pacific), centering on ASEAN, has seen the expansion and deepening of industrial supply chains in the region, thanks to the expansion of foreign direct investment in the region, and de facto regional economic integration has taken the lead. In this context, ASEAN has been positioned at the center of the industrial supply chain.

Second, ASEAN is located at the center of East Asia in terms of de-jure economic integration. Since the 1990s, the network of FTAs centered on ASEAN, such as the AFTA, ASEAN+1 FTA, and RCEP, has progressed, and de-facto regional economic integration has pushed back de-jure regional economic integration. The RCEP also aimed to realize regional integration in a wide area by bundling the five ASEAN+1 FTAs concluded by ASEAN with Japan, China, Korea, India, Australia, and NZ.

Third, ASEAN played a central role in promoting the RCEP negotiations. As ASEAN-centrality was included in the “Guiding Principles and Objectives for Negotiating the RCEP” adopted when the negotiations were launched in 2012. In fact, the ASEAN side chaired the RCEP negotiation meetings at all levels, including Heads of State, Ministers, TNCs, and Working Groups.

With the inclusion of ASEAN-centrality in the “Guiding Principles and Objectives for Negotiating the RCEP”, ASEAN has been trying to ensure unity in the actual negotiations. In other words, ASEAN has already improved market access and developed rules in a wide range of fields in the ASEAN Economic Community and has used this as a foundation for negotiations with the ASEAN FTA Partners (AFP). In doing so, ASEAN first solidified a unified position (ASEAN consensus) within ASEAN, and then proceeded with negotiations with the AFP based on that consensus, which prevented the negotiation process from becoming complicated and led to greater efficiency. On the other hand, there were cases where it took a long time to determine a unified position within ASEAN, or where the negotiations became complicated as a result of proceeding without a unified position being determined within ASEAN. In the future, it will be necessary to resolve these issues as the review process of RCEP agreement proceeds.

Question 4:

From 2017 to 2019, when I was in charge of the RCEP negotiations, the negotiations moved from the middle stage to the final stage. From the perspective of promoting innovation, former Minister of Economy, Trade and Industry, Mr. Seko, and the ASEAN ministers discussed the need to introduce rules in RCEP, including the protection of intellectual property rights and free cross-border data transfer. As a result of such efforts, recognition of the importance of rules was gradually shared, and we were able to set outcomes in the area of rules as a negotiating goal in a text called Key Elements. In addition, in 2018, the RCEP Ministerial Meeting was held in Tokyo for the first time among non-ASEAN countries, creating momentum for accelerating the negotiations.

Particularly in the 2018 negotiations, I have a strong impression that Mr. Chan Chun Sing, MTI Minister of Singapore, ASEAN chair, took a strong leadership role in the RCEP Ministerial Meeting toward the substantial conclusion of the negotiations. In particular, I believe that countries such as Australia and South Korea, in addition to Japan, contributed to the effort to achieve high-level rules (intellectual property rights, e-commerce, competition, etc.). In this negotiation, Japanese industries, in addition to manufacturing industries such as automobiles, home appliances, steel, and chemicals, as well as various service industries, were active in improving

market access for the negotiating partners. This can be attributed in part to the development of servicification and digitalization of economies in the East Asian region.

Question 5:

First, with regard to the relationship between RCEP and TPP, the US-led TPP negotiations began in 2010. However, only four countries in ASEAN (Singapore, Brunei, Viet Nam, and Malaysia) participated in the negotiations, leading to a loss of ASEAN's unity, and concerns about delays in ASEAN-centered regional economic integration, which led to the start of the ASEAN++ RCEP negotiations without clarifying whether the ASEAN+3 EAFTA or the ASEAN+6 CEPEA would be implemented. In addition, after the TPP negotiations were signed in 2016, there was a strong move in RCEP to aim for certain outcomes in the rules area as well as in market access such as trade in goods.

Second, with regard to the impact of the US–China conflict and pandemic, while more and more countries are taking protectionist measures against the backdrop of the confrontation between the US and China and the pandemic, the RCEP member countries have gained momentum to conclude the RCEP negotiations as early as possible and promote the liberalisation and facilitation of trade and investment in the East Asian region.

Third, with regard to the relationship between the RCEP and the Indo-Pacific initiative, Japan's Free and Open Indo-Pacific and ASEAN's ASEAN Outlook on the Indo-Pacific consider regional economic integration like RCEP as an important pillar of Indo-Pacific cooperation. In fact, former Prime Minister Abe also stated at the 2019 RCEP Summit that the early conclusion of RCEP negotiations would contribute to the realization of Japan's initiative of a "Free and Open Indo-Pacific"

Question 6:

1) Market access

Trade between Japan and RCEP-participating countries accounts for about 50% of Japan's trade with the rest of the world in 2019, so concluding RCEP will have significant economic benefits for Japan. In addition, from Japan's perspective, this is the first economic partnership agreement with China and Korea. Trade between Japan and the two countries accounts for 27% of Japan's trade with the rest of the world, and with the conclusion of RCEP, the share of FTA signatory and effective partner countries in Japan's trade volume is now about 80%. Market access for trade in goods among the three countries has been greatly improved, with tariff elimination rates of 86% between Japan and China and 81–83% between Japan and Korea. As for the percentage of mineral and industrial products that are duty-free

to Japan, China's share rose from 8% to 86%, and Korea's from 19% to 92%, showing the great benefits of trade liberalization for Japan. In addition, Japanese companies operating in China, Korea, and ASEAN will also benefit from improved market access between China, Korea, and ASEAN. On the other hand, the RCEP's tariff elimination rate is 91%, which is a low level of liberalization compared to other mega-FTAs such as the CPTPP (98%) and the Japan–EU EPA (94% for Japan and 99% for the EU), and there is room for further tariff elimination and reduction in the future.

In addition, with regard to the different rules of origin for each ASEAN+1 FTA, the RCEP stipulates uniform rules of origin. It also allows flexibility in the rules of origin, permits the accumulation of value added among multiple countries, and, for some items, allows a choice between regional value content criteria and change in tariff classification criteria, as well as flexibility in the regional value content criteria. The unification of rules of origin within the region has eliminated the spaghetti-bowl effect of FTAs and has enabled companies to reduce their administrative costs related to trade.

In the trade in service chapter, as a result of seven of the RCEP signatory countries adopting the negative list and the remaining eight moving from the positive list to the negative list after a certain period of time, all the legal grounds for the reserved industries for liberalization have been specified, and the liberalization of trade in services has become more visible. In addition, although the target industries differ from country to country, new commitments such as deregulation on foreign investment ratio were realized in consumer services (retail, real estate, insurance and securities, welfare, hairdressing, etc.) and business services (logistics, engineering, environment, advertising, etc.)

The investment chapter includes provisions not only on the protection of investment property but also on the liberalization of investment, allowing the granting of national treatment and MFN treatment in principle at the investment licensing (pre-establishment) stage based on a negative list. Provisions on the prohibition of performance requirements such as technology transfer requirements and royalty restrictions were added. In addition, a ratchet provision was established to prohibit the reinforcement of regulations that have been promised to be relaxed or eliminated. On the other hand, the ISDS provisions are not included at this time, and it is stipulated that discussions on ISDS will begin within two years after the agreement enters into force.

2) Rule development

The RCEP has contributed to the establishment of a free and fair trade regime in the East Asian region, which is becoming increasingly service-oriented and digitalized, by establishing firm rules in areas such as e-commerce and intellectual property. In these rule areas, it was possible to stipulate rules of higher standard than those of the WTO and the existing ASEAN+1 FTA, which responded to urgent issues of business activities.

Question 7:**(1) China–Japan–Korea FTA**

The GDP and trade volume of the three countries account for 20% of the world's total and about 70% of Asia's total, and China and Korea are Japan's largest and third largest trading partners, respectively. Penetrating the markets of China and Korea is essential for Japan to maintain and enhance its economic growth. To date, RCEP negotiations have taken priority, and the negotiations for a CJK FTA have stopped after the negotiation meeting in November 2019. From now on, negotiations need to be resumed as soon as possible and accelerated to realize a comprehensive and high-quality CJK FTA with unique added value that will be RCEP-plus, while building on RCEP, including not only market access such as trade in goods but also rule areas such as e-commerce and intellectual property. If a high standard of liberalization and rule development can be achieved through the conclusion of a CJK FTA, it may serve as a stepping stone for China and Korea to join the CPTPP.

(2) CPTPP

The RCEP negotiations have been running concurrently with the CPTPP for years, and the two have stimulated each other to accelerate the negotiations. In the future, countries that meet the high standard of liberalization and rules among the RCEP parties should consider joining the CPTPP. For the CPTPP, it entered into force in December 2018, and eight of the 11 signatory countries to the agreement have completed the domestic ratification process (the countries that have not yet ratified are Malaysia, Brunei, and Chile). The challenge is to effectively implement free, fair, and high-level trade and investment rules of the 21st century in the Asia-Pacific region in areas such as e-commerce, intellectual property, investment, and state-owned enterprises, as well as to expand the rules beyond the region. In response to the UK's request to join the CPTPP, it was decided to start the UK's accession process in June 2021 and to establish a working group on the UK's accession. In addition, China and Taiwan submitted their membership applications in September 2021. Among the other countries, Korea, Thailand, and the Philippines have also expressed interest in joining it. In the future CPTPP accession process, the CPTPP Commission will take into consideration the new member's experience with high-standard trade and investment rules; its clear commitment to promote transparency, predictability, and confidence in the rules-based trading system; and its affirmation of its intention and ability to meet the high standards of the CPTPP.

(3) FTAAP/WTO

In the short term, RCEP, together with CPTPP, will play a major role in recovering the supply chain from the spread of the COVID-19, and in the medium to long term, it will play a major role as a building block on the way to the FTAAP. The development of the two mega-FTAs, RCEP and CPTPP, together is expected to stimulate trade and investment, which

in turn will strengthen the multilateral trade system based on the WTO, expand the economic sphere to the world based on free and fair rules, ensure a level playing field, and have a positive impact on global economic growth.

(4) Regional cooperation with ASEAN

The RCEP aims to establish a free and open regional economic sphere linking Northeast Asia, ASEAN, and the Pacific, and is expected to expand to South Asia, including India, in the future. The region covering ASEAN and its neighboring dialogue partners has been often referred to as the Indo-Pacific in international fora in recent years. ASEAN has formulated the ASEAN Outlook on the Indo-Pacific (AOIP) in 2019 with the aim of ensuring peace and stability in the region. The cooperation under the AOIP includes deepening economic integration, ensuring financial stability and resilience, as well as strengthening and promoting trade and investment by supporting the implementation of the ASEAN Economic Community Blueprint 2025 and other free trade agreements including the Regional Comprehensive Economic Partnership.

Question 8:

1) Encouraging India's return

The conclusion of the RCEP, in which India also participated, is important from the perspective of realizing a free and open Indo-Pacific and expanding and strengthening supply chains between India and ASEAN, Northeast Asia, and the Pacific. This time, the RCEP Agreement, Joint Leaders' Statement and Ministers' Declarations clearly state that India can return to the RCEP at any time in the future. However, India is facing problems such as a large trade deficit with China and other RCEP-participating countries, opposition by rural and low-income people, the negative impact of the COVID-19 disaster on the domestic economy, and sluggish growth in the manufacturing sector. If India's return to the RCEP is difficult in the short term, efforts should be made to involve India in the East Asian supply chain through industrial cooperation with India.

2) Expanding the use of RCEP

Governments need to develop strategies that are integrated with industrial policies on how to develop competitive industries in their countries based on the conclusion of RCEP. For example, it is necessary to formulate a strategy to improve the access of small and medium-sized enterprises (SMEs) to the global value chain. Based on such a strategy, dissemination and educational activities should be promoted through economic organizations in each country and the Asian region so that as many companies as possible will take advantage of RCEP after it comes into effect. Digitalization of trade procedures (e.g., digitalisation of customs clearance procedures using blockchain, digitalization of certificates of origin) is also important in encouraging SMEs to participate in the global value chain.

3) Strengthening the implementation of the RCEP agreement

As the WTO mechanism is becoming weaker and there are concerns about protectionist moves, it is necessary to ensure the effectiveness of the RCEP. The RCEP Ministerial Meeting is held every year in principle, and the RCEP Secretariat and the RCEP Joint Committee have been established to ensure the steady implementation of the agreement by the RCEP parties. In addition, it is expected that the RCEP will develop into a platform for dialogue and cooperation in the trade and economic fields in the region. For example, capacity-building efforts for developing countries to ensure the implementation of RCEP should be promoted.

4) Upgrading and expanding the scope of RCEP

In the General Review, which is scheduled to take place every five years after the agreement enters into force, the quality of the agreement should be further improved and the possibility of a higher level of liberalization and rule development like the CPTPP should be explored. For example, there are some items that should be upgraded in the review process of the agreement, such as the ISDS provision in the investment chapter and the prohibition of source code disclosure requirements in the e-commerce chapter. In addition, future consideration should be given to expanding the scope and content of the RCEP agreement in light of issues such as supply chain resilience, which has become necessary in response to the spread of COVID-19, and response to digitalization and green growth.

12.7 Myanmar

By Officials of Myanmar (Name Not To Be Open)

Question 1:

No response

Question 2:

In my opinion, RCEP is a largest market that can give a range of great opportunities for its member LDC countries, attached with favorably special and differential treatments, preferential market access for trade and large investment inflow. Locally, Myanmar itself can seek access to the huge market for trade and foreign direct investment (FDI) from the powerful and advanced-technologized economies like China, Korea, Japan, Australia, New Zealand, and Singapore. Also, Myanmar can be a potential investment destination for member countries to be promoted as their production base due to its strategic landscape, young labour force, and low cost. Moreover, varieties of technical and funding support as well as technology transfer are privileged for us through stronger cooperation and engagement with these countries. That's why RCEP is the biggest trade and investment

opportunities for Myanmar. Regionally, RCEP is at the crossroad of East Asia region. These countries are also the champions going towards sustainable, resilient, and inclusive growth. Let's say, RCEP can drive as a core impetus for the region's economic recovery and resilience. As you know its involvement in the global context, RCEP has approximately one-third of global population and 29 percent of global GDP. I've noticed about RCEP in a Blog (written by Peter A Petri and Prof Michael Plummer) of the Brookings.edu. It stated that RCEP can provide \$209 billion per annum to global income and \$500 billion to global trade by 2030. It also highlighted that technology, manufacturing, agriculture, and natural resources are the high potentials through the sound linkage of RCEP's member countries. All in all, standing RCEP and members' economic ties can bring greater benefits to locally, regionally, and globally.

Question 3:

Broadly speaking, ASEAN itself strategically exist in the center of RCEP. Since we have started the RCEP negotiation process, negotiating parties, I mean non-ASEAN countries, has recognized the ASEAN centrality which can bring economic integration energetically and the interests of ASEAN's FTA partners. Furthermore, ASEAN unity is a unique one that envisioned narrowing development gaps though greater involvement in intra-RCEP and extra-ASEAN. This can substantially generate the capabilities of LDC members with the right reach of greater liberalization and balanced structural changes to regional and global channels. On top of that, I would like to define the ASEAN centrality as the "Rendezvous" associated with multicultural and inherent, economically viable, conducive, inclusive, competitive and productive architecture for intra-RECP and extra-RCEP.

Question 4:

Out of 31 RCEP negotiation rounds, Myanmar hosted the 9th round in Nay Pyi Taw in 2015. I will respond it based on my background by the time I involved in the negotiation rounds of the RCEP's Investment Chapter. I still remember that the modality of investment was successfully finished to discuss, and negative list approach was adopted in Investment Chapter by ASEAN Economic Ministers Chaired by Myanmar Economic Minister. In addition to that, the investment chapter was gradually started in article-by-article negotiation. Considerably, we have a long negotiation in the standard definition of the covered investment whether investment should be based on asset-based or enterprise-based. The next point I would like to describe is that RCEP includes certain provisions of investment promotion and facilitation that member countries made commitments on the establishment or maintenance of focal points, OSS center; creation of investment promotion activities; delivery of advisory services and necessary

information; and simplification of investment procedures. These clauses help to ensure that investors retain the ability over their investments and access the benefits of their investments.

In a nutshell, the special and differential treatments that LDC members can be enjoyed and investment commitments of investment protection in RCEP agreement are also investment opportunities to attract regional and global investors who want to invest in LDC member countries. Each RCEP LDC member country is an emerging economy with its strategic location and significant favors like young labour force and low cost, right? Due to these benefits, business sectors like manufacturing, services, agriculture in those countries are highly attractive for intra- and extra-RCEP investors. In turn, huge FDI inflow in these sectors can provide sustainable regional supply chains. We would say that RCEP's enforcement is the time for the LDC members to reap varieties of benefits.

Question 5:

I don't think other regional integration initiatives can influence on the RCEP negotiations because some legal instruments would be just a reference. In my opinion, every negotiation is based on the consensus of the participating countries even though some of these countries are the contracting party of other regional integration initiatives like CPTPP and so on. For instance, Australia already benefits from investment commitments by other RCEP countries through CPTPP and its bilateral FTAs with China. Under the RCEP, Australia can benefit from market access commitments from China and Thailand that are not party to the CPTPP. These new commitments will provide Australian investors greater confidence when investing in RCEP countries through increased transparency and legal certainty around the regulations affecting investment. Additionally, the RCEP's investment chapter makes improvements to some of the rules secured under its existing FTAs.

As I mentioned earlier, RCEP member countries have willingly accepted different development gaps of participating LDCs, being different from other regional agreements like CPTPP. This is the unique point that can address any cross-cutting issues through strengthening regional economic integration. In other word, this is a great opportunity of the LDC members that can fully involve in regional and global networks. Furthermore, the RCEP can drive ASEAN economic recovery and resilience after its enforcement. Let me take an example. The positive impact of the COVID-19 Pandemic has posed the importance of digitalization and its broader application even in LDC members. It implicitly supports to translate the e-commerce provisions into the national plans of ASEAN developing and LDC countries. This can create a greater coherence of legal framework for cross-border e-commerce, while improving SMEs' ability to adapt to the e-commerce in the region.

Question 6:

Obviously, the RCEP agreement is a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement among the ASEAN Member States and ASEAN's FTA Partners. According to the paper of APEC document, CPTPP members themselves reduce 86.1% of tariff lines on a vast majority of products with immediate duty-free, while Singapore committed to immediate 100% tariff elimination for all products and five other CPTPP members eliminating tariffs on over 90% tariff lines (i.e. Australia, Brunei Darussalam, Canada, Chile, and New Zealand) after the enforcement of CPTPP.

Question 7:

In my point of view, each regional agreement has distinct features upon the compromise of participating countries. Due to the COVID-19 Pandemic, every member country is trying to balance their economic recovery in light of combining domestic policy formulation and regional cooperation framework. For example, China has innovated the Dual Circulation Strategy as its domestic economic development model with domestic and international development (including regional development) reinforcing each other through the accelerated shift from its export-oriented development strategy. This is a best example for all of us.

Question 8:

It is undeniable that all member countries sincerely welcome the return of India at any time. This is the most possible way rather than expansion of new membership. As agreed among member countries, RCEP will be reviewed and upgraded next 5 years after its enforcement. Beyond RCEP, it might be to initiate new regional integration framework after the countries can stand back to normal from the negative impact of the COVID-19 crisis.

12.8 New Zealand

12.8.1 By Officials of New Zealand (Name Not To Be Open)

Question 1:

No response.

Question 2:

RCEP is important in multiple ways. For New Zealand domestically, an important feature of RCEP is that it preserves New Zealand's right to regulate for legitimate public policy purposes;³ it upholds the Treaty of Waitangi; and

it will create new opportunities for international trade and other economic benefits contributing towards improving the well-being and living standards for all New Zealanders. The CGE modelling undertaken by ImpactEcon⁴ about the estimated trade and economic effects of the agreement on New Zealand illustrates where some of the relative changes are expected to occur. Real wages are expected to lift by 0.9 to 1.3 percent, relative to the baseline, once RCEP is fully implemented. The lift in wages is likely slightly smaller if India remains outside of RCEP. The estimated increase in real wages is broad, based across different job groupings, with agricultural and low skilled workers expected to benefit the most.

The modelling also points to a modest change in relative levels of employment across sectors, with employment in the processed food sector (which includes dairy and meat) and services sector expanding in response to increased demand overseas, while employment in other manufacturing contracts slightly. Aggregate employment is unchanged.

RCEP gives New Zealand a seat at the table with the biggest economies in the region, providing the opportunity to cooperate on a broad range of issues; if India re-joins the FTA at some point in future, as it is entitled to do under accelerated provisions, it will include all the biggest economies in the Indo-Pacific. The fifteen RCEP countries account for 30% of the world's population, 30% of world GDP, cover nearly a third of all international trade, and are the destination for over half of New Zealand's exports. At the time RCEP was concluded in November 2020 the RCEP economies already covered seven of our top 10 trading partners based on two-way trade (exports and imports): China, Australia, Japan, Singapore, South Korea, Thailand and Malaysia. RCEP economies were the destination for 56% of New Zealand's total exports, representing 61% of New Zealand's goods exports (worth \$36.6 billion) and 45% of New Zealand's services exports (worth \$11.8 billion) and the source of 61% of foreign direct investment in New Zealand (worth \$68.7 billion).

Independent economic modelling undertaken by ImpactEcon of October 2019 estimated that RCEP will accelerate the rate of New Zealand GDP growth for about 20 years. New Zealand's GDP is estimated to be larger than if we were not in RCEP for each year that the Agreement is in force. Once RCEP is fully in effect New Zealand's annual GDP will be between 0.3 percent and 0.6 percent larger than if RCEP had not existed, equal to between NZ\$1.5 billion and NZ\$3.2 billion. The upper bound of \$3.2 billion assumes India re-joins RCEP. Should India remain outside of RCEP, the economic benefits will be towards the lower end of the range.

However the trade and economic benefits for New Zealand from RCEP are tempered by the fact that, apart from India, New Zealand already had FTA relationships with all the other 14 RCEP economies. While New Zealand sought ambitious outcomes in many areas of the RCEP negotiations, including on issues such as further tariff elimination, the environment and labour, in the end it was not possible to achieve all of New Zealand's objectives. The

concluded RCEP Agreement reflects the best outcomes achievable with the other fourteen countries, reflecting the sensitivities and complexities of dealing with diverse countries with different levels of ambition (noting also that New Zealand already has a range of existing treaty-level outcomes on labour and environment with all RCEP Parties except the three Least Developed Countries (Cambodia, Laos and Myanmar)).

Broadly, this means that while some further tariff liberalisation was achieved, the trade and economic gains for New Zealand are concentrated mainly on RCEP's role as a framework to reduce NTMs and locking-in improved and more certain conditions of access in services and investment. RCEP contains enhanced trade facilitation measures and other provisions that respond to concerns raised by New Zealand goods exporters regarding non-tariff barriers impacting trade in the region. These were a high priority for New Zealand in the negotiations. These outcomes will provide more transparency and certainty for New Zealand businesses and investors in RCEP markets, assisting them to take advantage of shifting trade patterns and embedding them into regional value chains. The Agreement also provides a pathway to wider economic integration as it will be open to new members to join in future. These characteristics of the trade and economic outcomes of the agreement also put more emphasis on RCEP's wider and continuing regional importance.

Due to considerable current international trade policy turbulence – such as trade disputes and retaliation between major economic powers, the rise in protectionism and the impact of the COVID-19 pandemic – being part of this globally significant regional agreement is important for New Zealand's future economic prosperity and security. Signature of RCEP in November 2020 signalled the continuing commitment by countries in the region to free and open trade and economic relations, which was and remains particularly important given widespread rising protectionism. The relative importance of the RCEP region continues to increase in the global context. At the same time, New Zealand is also a party to the other mega-regional FTA (the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP)), positioning us well for the long-term goal of a Free Trade Area of the Asia Pacific.

Question 3:

It is not for others to attempt to define 'ASEAN centrality', but it is an important element for the region which New Zealand supports.

While individual ASEAN countries plainly had varied interests and levels of ambition, ASEAN as a group provided the impetus that initially promoted the concept of RCEP, ensured it was launched in 2012 and sustained the project despite many vicissitudes through to a successful conclusion in November 2020. The Director-General of Indonesia's Trade Ministry, Pak Iman Pambago, chaired the negotiations throughout and was essential

to its ultimate success. ASEAN Trade Ministers periodically also played an important role to sustain political-level commitment to the negotiation and to help to override challenges. The commitment of the other six (later five) ASEAN Free Trade Partners to the process was of course also indispensable.

Question 4:

The following refrains from identifying particular countries, other than to note that India withdrew from the RCEP negotiations in November 2019 but still enjoys a fast-track route to accession should it wish to re-join. Momentum in the negotiations fluctuated, as demonstrated by the length of time it took to conclude the agreement. The pre-negotiation phase already exposed many of the differences in level of ambition and priorities among participating countries. These were most acute in market access. In goods, given profound differences over whether to seek comprehensive tariff elimination and over the depth and extent of tariff liberalisation, it took many years of attempted negotiation of a modality for initial tariff offers before negotiators were able to find a way forward using successive offers. For New Zealand, as noted earlier, the outcome was not what it sought in many cases. Associated with that, the breadth, depth and enforceability of non-tariff measure disciplines, was the subject of prolonged and difficult negotiations. Rules of origin also proved a persistent challenge which for several years looked likely to hamper timely conclusion of the rest of the agreement. It took many years to develop a consensus about the level and breadth of market access commitments to be sought in services, followed by intensive negotiation of offers to seek commercially meaningful outcome. Provisions and commitments relating to movement of Natural Persons proved a persistent challenge. The investment negotiations floundered for many years, for example over technical scheduling issues such as whether to adopt a positive or negative list approach. Negotiations over Intellectual Property were another particularly challenging area, with extensive proposed provisions, many of them not resolved until the last few years of the negotiation.

Question 5:

RCEP, like the Trans-Pacific Partnership (TPP) and later CPTPP, were able to be launched from an existing basis of regional engagement: principally the East Asia Summit Economic Ministers Meeting (EASEMM) process in the case of RCEP and long-standing cooperation in the Asia Pacific Economic Cooperation (APEC) in the case of TPP and to an extent RCEP (noting that some RCEP participants were not APEC members). Those processes, particularly APEC, ensured a degree of familiarity among many of the negotiators in RCEP and some degree of common outlook. RCEP was also based, explicitly, on pre-existing FTAs between ASEAN and each of the six ASEAN Free Trade Partners. The experience of those earlier

negotiations, their various levels of liberalisation and the personal familiarity among relevant officials, was part of the *acquis* underlying the RCEP project. The most fundamental challenge in RCEP was to build FTA relationships among those ASEAN Free Trade Partners which did not already have such agreements between themselves.

RCEP was launched after the start of negotiations for the Trans-Pacific Partnership (TPP). TPP involved some but not all ASEAN member countries, whereas RCEP was an ASEAN initiative involving all 10 of its members. Progress in TPP (and later CPTPP) was plainly a relevant factor for the RCEP negotiations, implicitly providing some competitive pressure to conclude a high quality and comprehensive agreement, though many of the RCEP participating countries refrained from highlighting that.

As noted in the response to Qn2, the conclusion of RCEP in 2020 was particularly important as a signal by a large group of economies against rising protectionism. The COVID pandemic has intensified these pressures and the need to maintain free and open trade in the region.

Question 6:

Please refer to the National Interest Analysis published by the Ministry of Foreign Affairs and Trade of New Zealand (see website) for a comprehensive assessment of the result of the RCEP negotiation for New Zealand.

Question 7:

RCEP is an important agreement but its longer-term impact on other FTAs and regional cooperation remains to be seen. Since the signature of the RCEP agreement in November 2020 there have been a series of economies requesting accession to CPTPP, whereas not all the original signatories of RCEP have yet completed their domestic ratification processes and no other economies have yet sought accession to RCEP. Any decision by India to accede to RCEP, under the accelerated provisions to which it is entitled, would be important. It would significantly boost the economic and trade impact of the agreement (as noted in the response to Qn 2 above). Extension of the RCEP agreement across the Indo-Pacific region would be particularly significant.

Question 8:

Periodic updates should be undertaken to ensure the RCEP agreement remains a modern FTA which is fit for purpose, consistent with New Zealand's general approach to all its FTAs. This is already provided for in the FTA's five-yearly review provisions, as well as a number of more specific review provisions in parts of the text. Expansion of membership would depend on whether or not additional economies seek to accede. As commented

earlier, any decision by India to return to the RCEP agreement would be significant and welcome for New Zealand. RCEP, with CPTPP, provide two foundations for the longer-term goal of a Free Trade Area of the Asia Pacific.

12.9 The Philippines

By Anna Robeniol

Question 1:

My involvement in the RCEP process is as follows: (i) as an officer at the ASEAN Secretariat, I supported preparatory work that included discussions on how to consolidate the ASEAN Plus 1 FTAs, drafting and negotiating the ASEAN Framework for Regional Comprehensive Economic Partnership (RCEP) that was adopted by the ASEAN Heads of State/Government in November 2011, and the Guiding Principles for Negotiating the Regional Comprehensive Economic Partnership that was used as basis for 16 countries (i.e., the ten ASEAN Member States and ASEAN's six FTA partners) to launch RCEP negotiations in November 2012; (ii) as Trade and Industry Assistant Secretary for Trade Policy and Negotiations from March 2016 to October 2018, I led the Philippine negotiating team for RCEP; and (iii) back at the ASEAN Secretariat in November 2018, I supported and eventually led the ASEAN Secretariat Team RCEP until negotiations were completed in 2019 and signed in November 2020. Even at this juncture, I continue to work on RCEP as an interim RCEP Joint Committee prepares the RCEP Agreement for its entry into force on 1 January 2022.

Question 2:

Prior to RCEP, ASEAN Member States were implementing, aside from the enabling agreements to realize the ASEAN Free Trade Area (and subsequently establish the ASEAN Economic Community), five ASEAN Plus 1 FTAs or the bilateral FTAs. ASEAN has China, Japan, Korea, India, and Australia and New Zealand, and the primary objective is to consolidate these FTAs to address the perceived noodle bowl effect of simultaneously implementing these FTAs. In adopting the ASEAN Framework for Regional Comprehensive Economic Partnership (RCEP), the ASEAN Leaders envisaged the launch of RCEP negotiations “to achieve a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement among the ASEAN Member States and ASEAN's FTA Partners”. For ASEAN and its member states, RCEP is also part of the strategy to integrate ASEAN into the global economy, which is the fourth key characteristic in the ASEAN Economic Community (AEC) Blueprint 2015.

Prior to the COVID-19 global pandemic, ASEAN was growing at an average of 4.8% from 2010 to 2019 making the region one of the fastest-growing regions in the world. ASEAN's economic growth could be attributed not only to its Community-building efforts that led to the establishment of the AEC in 2015 but also to its bilateral FTAs with key trading partners. RCEP's market access outcomes, its streamlined rules and disciplines, particularly in areas not previously covered in any of ASEAN's FTAs or even the AEC, opens up market and employment opportunities to businesses and people in the region as it facilitates the expansion of regional trade and investment. ASEAN becomes more attractive as a destination for foreign direct investments, particularly for those engaged in global value chains, as locating in ASEAN comes with it access to the world's biggest markets. RCEP is also a manifestation of the region's support to a rules-based multilateral trading system but perhaps, the most important of all, at this juncture, is that RCEP would be the region's major contribution to post-COVID-19 recovery efforts.

Question 3:

If ASEAN Centrality is understood to be the role and capability to be in the driver seat, then one must recognize and appreciate the role played by ASEAN in the RCEP process in the context of ASEAN Centrality. From start to finish, RCEP was driven by ASEAN. It can be recalled that back in 2009, there was this discussion on a concentric circle where ASEAN, which is at the hub of the ASEAN Plus One FTAs, could be at the centre of the emerging regional economic architecture by first consolidating its FTA with China, Japan and South Korea to establish the East Asia Free Trade Area (EAFTA or Plus 3) then subsequently, with the conclusion of FTA negotiations with India and, Australia and New Zealand, expand the Plus 3 to a Plus 6 to form the Comprehensive Economic Partnership for East Asia (or CEPEA). To get out of the EAFTA vs. CEPEA debate, ASEAN worked on a set of guidelines for consolidating its FTAs that eventually led to the launch of RCEP negotiations in 2012 with Indonesia at the helm. So, in fact, without ASEAN and the platform it provides for its dialogue and trading partners to engage, it would be difficult to imagine bringing together six non-ASEAN countries with varying geo-political dynamics among them to sit down and chart an economic partnership that is RCEP.

Question 4:

Allow me to clarify that following the launch of RCEP negotiations in 2012, my participation in the actual negotiations was from the 12th (Perth, 2016) to the 24th (Auckland, 2018) Round, as Philippine lead negotiators and from the 25th (Bali, 2019) Round until the conclusion of negotiations as an ASEAN Secretariat officer. I was not involved in the first 11 rounds and therefore not privy to how negotiations went.

When I re-joined the RCEP process in 2016, no chapter has been concluded, and in terms of market access, the RCEP participating countries (RPCs) were in the embroiled in discussions on complex issues such as common concessions for market access on trade in goods, how to achieve commercially meaningful outcomes for trade in services and investment, whether or not to go beyond the WTO for certain chapters (e.g., technical barriers to trade and, sanitary and phytosanitary measures), etc. The rounds were also challenged by, among others: i) the lack of bilateral free trade agreements between some of the RPCs (e.g., China–Japan, Japan–Korea, Australia–India, New–Zealand India), which made it difficult to discuss and resolve market access issues; iii) the tendency of the developed countries in the negotiations to “TPP-nize” the RCEP Agreement to make RCEP commercially meaningful for them; and iv) stakeholders engaged by the TNC where most of them were anti-free trade and anti-globalization advocates.

From the perspective of a lead negotiator for an RPC, engaging at the bilateral level and at the level of the TNC with a limited negotiating bandwidth has been quite difficult. From the perspective of an ASEAN Secretariat officer, finding landing zones to come up with an ASEAN position and subsequently reconciling this ASEAN position with that of the six non-ASEAN RPCs have been most challenging. It was nearly impossible to achieve comprehensive and balanced outcomes when the 16 countries participating in the negotiations have significant development gaps, divergent national interests and expectations.

The first two chapters to be concluded were the ECOTECH and MSME Chapter; the last two were the Chapters on Rules of Origin and Electronic Commerce. Conclusion of text-based negotiations, which was announced in November 2019, did not really mean that negotiations have indeed been concluded as negotiators still grappled with several issues that arose when the RCEP Agreement was being legally scrubbed.

It is rather difficult to specifically mention an RPC that “took the initiative the initiative in the market access negotiations” primarily because market access was negotiated bilaterally based on a request-offer approach, and while the target outcome was “common concession”, this was deterred by: i) skewed trading patterns particularly for those RPCs with no bilateral FTAs; and ii) consolidating tariff commitments made in the ASEAN Plus 1 FTAs and still achieving a very high level of market access commitments in RCEP. All throughout the negotiations however some RPCs strongly pushed for certain elements to be included in the Agreement. For example, market access in the Chapter on Government Procurement, and state-owned enterprises in the Competition Chapter. These two examples are not in any of ASEAN’s FTAs, not even in the ASEAN Economic Community Blueprint, which explains ASEAN’s sensitivity in these two areas.

Conclusion of the RCEP negotiations would not have been possible if not for the genuine desire of all RPCs to conclude the negotiations notwithstanding

the challenges posed by the COVID-19 global pandemic, which made bilateral market access negotiations and legal scrubbing of an RCEP Agreement that encompasses 20 Chapters, 17 annexes and 54 market access schedules in a more than 14,000-page document. In the end, it took a lot of determination, creative thinking for landing zones, readiness and willingness to exercise flexibility and to compromise which made conclusion of negotiations and signing of the Agreement possible.

Question 5:

At the time RCEP negotiations were launched, the regional integration initiatives, like BRI and Indo-Pacific – if indeed these are regional integration initiatives – as well as the social and economic trends mentioned in the question, except maybe for digitalization and SDGs, were really not much talked about. Also, as I mentioned before, RCEP was triggered by the need to consolidate the ASEAN Plus 1 FTAs so the negotiations were very much focused on such consolidation and, in order to achieve that “modern, comprehensive, high-quality and mutually beneficial economic partnership agreement”, reference is often made to the relevant provisions in the TPP. By the time discussions on the BRI, Indo-Pacific, the China–US conflict, etc. were gaining traction, negotiations were very much focused on concluding that introduction of new elements that may further prolong the negotiations were no longer considered or entertained. Of course, we all know that the COVID-19 pandemic happened after negotiations have been technically concluded.

Question 6:

As I keep saying, for an FTA negotiated by countries that are significantly divergent in terms of levels of development and therefore diverse national interests, the quality and level of ambition of the RCEP Agreement went beyond what I actually expected. I would answer this question from the perspective of ASEAN and not from my country because my involvement in the RCEP process was mostly when I was with the ASEAN Secretariat. ASEAN’s FTAs with its major trading partners have often been criticized as being “trade light” because they just comprise agreements on trade in goods, trade in services and investment that were negotiated sequentially as well as economic cooperation and dispute settlement. Even the ASEAN–Japan Comprehensive Economic Partnership Agreement (AJCEP), while optically looking like a single undertaking had trade in services and investment in a built-in agenda. The Agreement Establishing the ASEAN–Australia–New Zealand Free Trade Area (AANZFTA) is ASEAN’s first comprehensive single undertaking because it had chapters on, among others, intellectual property and competition although these chapters focus solely on economic cooperation.

RCEP changed the complexity of the ASEAN Plus 1 FTAs mainly because it included fairly decent chapters on intellectual property, electronic commerce, competition and even government procurement. So while RCEP may not be at the same level as that of the CPTPP, the quality and level of ambition of the RCEP Agreement should be taken relative to the divergent levels of development of the countries comprising the FTA or the partnership.

Like the existing ASEAN Plus 1 FTAs, the RCEP Agreement has review provisions that could be a basis for subsequent upgrades. With the global economic landscape constantly changing and more and more attention is given to elements that not only go beyond just keeping markets open but have never been in any of ASEAN's earlier FTAs, it would be good to see the RCEP Agreement eventually upgraded to incorporate provisions those elements, such as trade and sustainable development (including labour and environment), gender, digitalization, state-owned enterprises, market access on government procurement, etc. Recognizing the challenge of dealing with these elements in an FTA among economies with diverse levels of development, the economic and technical cooperation provisions of the current RCEP Agreement could be used in sensitizing parties to the RCEP Agreement as well as building their capacity to understand and engage in these issues.

Question 7:

Once it enters into force, RCEP would be the world's biggest FTA in terms of market size (i.e., 2.3 billion people or 30% of the world's population), and economic size (i.e., it contributes US\$25.8 trillion or about 30% of global GDP). The RCEP signatory States also accounts for US\$12.7 trillion or more than 25% of global trade in goods and services and 31% of global FDI inflows.⁵ As the world's largest FTA, its impact on global value chains cannot also be overemphasized although sceptics may argue that RCEP may not create that much economic dent since its quality and level of ambition pale in comparison with that of the CPTPP. While this cannot be denied, for an FTA that has three least-developed countries, three developed countries and, in between, developing countries also with varying levels of development, RCEP is a fairly decent Agreement and with provisions for review there is somehow that assurance that the Agreement would remain relevant notwithstanding the evolving regional architecture and the dynamic global development.

Beyond streamlining ASEAN's existing FTAs, ASEAN – through RCEP – was able to provide the platform for countries with geo-political dynamics to come together and forge a free trade agreement among them as RCEP was able create a de facto FTA among RCEP-participating countries that did not have prior FTAs between them, particularly between Japan–Korea as well as between Japan–China. Hopefully, this significant outcome from

the RCEP negotiations would catalyse and create the momentum towards the acceleration of economic integration in the north-eastern part of the region, a development that would bode well for supply chains and production networks in the region.

Commercial activities in the region are driven mostly by investments coming from within the region and across the Pacific Ocean. With the overlapping membership in RCEP and the CPTPP and with both mega-trade deals being implemented in parallel, one can expect that both regional trading arrangements would mutually reinforce each other and, thus, contribute to stronger, more efficient and more resilient economies in the region.

Question 8:

The critical next step for RCEP is to ensure its smooth implementation once it enters into force on 1 January 2022; and since the Agreement is entering into force only for six ASEAN Member States and four non-ASEAN signatories, it would also be important for the remaining signatory States to accelerate their ratification process to have RCEP enter into force for all signatory States in 2022, which incidentally would mark ten years from the launch of RCEP negotiations in 2012.

India, as an original RCEP participating country, has been exempted from the application of Article 20.9 (Accession) of the RCEP Agreement. This means that India can join RCEP anytime it decides to do so. Given however the significant number of issues that India wants resolved before it can re-join RCEP, it may take quite some time before we can see India back in RCEP. It should be noted that there has been no engagement with since Prime Minister Narendra Modi announced in November 2019 that India would no longer participate in RCEP despite efforts of the other RCEP participating countries to reach out to India to explore possibilities for resolving India's outstanding issues. Notwithstanding India's absence from RCEP, the benefits accruing therefrom are still significant enough to generate real welfare gains, attract investments, open-up market and employment opportunities in the region.

RCEP will be open for accession 180 days from the Agreement's entry into force. At this point in time, only Hong Kong, China has expressed its interest to join RCEP. Once the RCEP enters into force, the Rules of Procedures for the accession of new members would also have to be prioritized by the RCEP Joint Committee.

The regional and global economic landscape is very much different today from when 16 countries agreed to launch the RCEP negotiations in 2012. The fact that the CPTPP, where four ASEAN Member States and three non-ASEAN RCEP participating countries were also participating, were also being negotiated almost at the same time added to the challenge that confronted the RCEP negotiations. It is not surprising therefore that the quality of the RCEP Agreement is often compared to the CPTPP. Indeed,

the RCEP Agreement may pale in comparison with the TPP but based on what ASEAN has in its existing FTAs, or even the AEC Blueprint, having new elements such as the so-called emerging issues in RCEP (i.e. environment, labour and sustainable development) would already be going beyond ASEAN's comfort zone. However, since RCEP is considered to be a "living document" and parties to the Agreement could make use of ECOTECH to build the confidence and capacity of countries concerned on these areas with a view to not only subsequently incorporating these in RCEP but to a broader goal of deepening and broadening economic integration among the Parties to the RCEP Agreement.

Do you expect any next regional integration framework beyond RCEP (FTAAP or others)? (If others, please specify.)

Not at this juncture, unless perhaps discussions on the FTAAP gather some ground. What is to be expected however is the expansion of both the CPTPP (such as the accession process for China and Chinese-Taipei) and RCEP.

Notes

- 1 In case of the interview to Mr Tetsuya Watanabe, the editors had face-to-face-style interview in the Japanese language in October 2022. The editor recorded the response by Mr Watanabe and translated it into English.
- 2 www.brookings.edu/blog/order-from-chaos/2020/11/16/rcep-a-new-trade-agreement-that-will-shape-global-economics-and-politics/
- 3 Amongst other things, in August 2019, investor-state dispute settlement (ISDS) provisions were removed from RCEP.
- 4 ImpactEcon LLC: Impacts of a Regional Comprehensive Economic Partnership (RCEP) on New Zealand, A Dynamic Computable General Equilibrium Analysis: Walmsley, Strutt and Minor: October 2019.
- 5 Figures are based on World Bank data.

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Note: Page numbers in *italics* indicate a figure and page numbers in **bold** indicate a table on the corresponding page.

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