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## **RCEP: Another Missed Deadline**

*By Kaewkamol Pitakdumrongkit*

### **Synopsis**

*RCEP members dropped their earlier pledge to reach a “substantial conclusion” by the end of this year and postponed its completion date to 2019. However, the headway in the first half of 2019 is likely to be slow due to elections in some states.*

### **Commentary**

THE RCEP – Regional Comprehensive Economic Partnership – wrapped up its 6th Ministerial Meeting this week, on 13 November 2018, with the parties dropping their earlier pledge to reach a “substantial conclusion” by the end of 2018; in fact they postponed its completion date to 2019.

RCEP is a free trade agreement (FTA) among 10 Southeast Asian economies and six ASEAN dialogue partners – Australia, China, India, Japan, South Korea, and New Zealand. It is aimed at consolidating the existing ASEAN+1 FTAs into a single contract. The negotiation commenced in 2013 with an initial target to seal the deal in 2015. However, the deadline has several times been pushed back.

### **RCEP Negotiation: Challenging, Yet Worth Pursuing**

So far the members have agreed on five out of 18 chapters: customs procedures and trade facilitation, government procurement, small and medium-size enterprises, economic and technical cooperation, and dispute settlement. That leaves 13 chapters awaiting conclusion.

RCEP negotiation is facing several challenges. The 16 economies involved are diverse in terms of stages of economic development, preferences, and levels of ambition. These have been unveiled in the negotiation process. Take for example tariff

reduction and elimination. Concerning trade in goods, some players are considering two separate tariff schedules -- one governing the lowering of duties between parties with existing trade arrangements, and the other applied to tariff reduction between economies with no prior FTAs.

However, the RCEP stakeholders disagree on how much they want to lower their barriers and which industries or sub-industries are to be exempted from the tariff reduction as they desire to protect certain sectors. For example, agricultural market access remains a sticking point among India, Australia, and New Zealand.

Trade in services is another point where the countries clash. India wants more access to the services market and argues for freer movement of services workers, but certain ASEAN economies are not very keen to grant these terms. Moreover, talks on e-commerce rules and regulations have surfaced the diverse nature of RCEP parties. Some developing nations do not have much experience in making these rules. For instance, Cambodia is drafting its first e-commerce law and learning the ropes.

Hence, these players want to approach the matter cautiously. Even in the countries with e-commerce rules in place, diverging views exist in particular aspects such as data localisation requirements. Other contentious issues include competition and intellectual property rights in which the RCEP governments are reported to register different perspectives.

Additionally, the protracted negotiation reflects a lack of clear leadership helping to wrap up the deal. Leadership is usually required to achieve international cooperation. On several occasions, a state steps up and provides leadership to convince or cajole the others to get on board.

### **Potential of RCEP**

As witnessed in the Trans-Pacific Partnership (TPP) and its revised version, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the United States and Japan respectively played the leadership role which resulted in a successful conclusion of these negotiations. This is not the case for RCEP.

Despite these daunting challenges, regional states will not easily abandon RCEP because the bloc possesses great potential making the project worth-pursuing. For one thing, if concluded, this pact will create a market of about 3.6 billion people or 50% of the global population, and contribute to 32% of the world's GDP. It also will encompass 29% and 26% of the global trade and foreign direct investment flows respectively.

Moreover, one study estimated that RCEP will raise global real incomes by US\$286 billion per year if it takes effect in 2030. This benefit will be almost twice as great as that of CPTPP, a trade pact slated to enter into force next month, on 30 December 2018.

Also, tariff escalations between the US and China have heightened the impetus to conclude RCEP. In other words, these developments and uncertainties surrounding them have raised the significance of this FTA. Regional economies increasingly view

that RCEP can not only provide an alternative to deepen their trade and investment ties and spur economic growth and development, but also enable them to brace for the impact of US-China confrontation.

Additionally, once CPTPP takes effect and expands its membership, its combined contribution to the world's exports and GDP will rise. This may further incentivise the RCEP nations to speed up and conclude the talks.

### **Road Ahead: Possible Delay in 2019?**

While these 16 economies will not easily abandon their pursuit of RCEP, one should keep in mind that domestic politics could cause another delay to reach an agreement, especially in the first half of 2019 when Australia, India, Indonesia, and Thailand are expected to hold an election. The period leading up to the polls will likely be marked by busy campaigns as politicians and political parties try to get as many votes as they can and scramble for parliamentary seats.

These electoral processes will temporarily shift the governments' attention away from negotiating RCEP because during such periods they will tend to prioritise their domestic election over international matters. Also, a post-election change in domestic power configurations might alter the countries' positions regarding RCEP, which could in turn prolong the bloc's conclusion.

Challenges notwithstanding, several reasons will continue to tempt the regional states to pursue RCEP as they look forward to wrapping it up in 2019. However, as the electoral momentum in some nations has kicked in, the negotiation may not make much headway in the first half on 2019. One may have to wait for the second half of the next year to see stronger momentum in talks.

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