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What the RCEP Can Tell Us about China's Role in the Emerging Goeconomic Order in Asia

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SYNOPSIS

China's leadership in revitalising regional integration and multilateralism means that the US-fashioned global trade regime is being challenged by China's ideas and interests in shaping regional trade governance through the RCEP. Nonetheless, China may have recognised that it is in its interests to uphold the centrality of ASEAN to mitigate the setbacks of Sino-US competition.

COMMENTARY

The world is at an important juncture in the emerging goeconomic order. With rising pressure of economic nationalism in the United States, partial US-China decoupling, and disrupted supply chains in the global health crisis, East Asian states concluded the negotiation of the Regional Comprehensive Economic Partnership (RCEP) in November 2020. Touted as the world's biggest trade deal, the RCEP demonstrates regional states' determination to uphold globalisation and multilateralism. However, the following question must be addressed: How will China shape the Asian goeconomic order amid the ongoing pandemic and growing Sino-American competition?

RCEP: China's Gains, America's Losses?

One positive outcome or advantage of a China-supported RCEP is that it may help address the [Asian noodle bowl syndrome](#) through the consolidation of overlapping memberships and the harmonisation of different standards. A [Peterson Institute for International Economics paper](#) argues the RCEP could emerge as a competitive

global economic bloc by sharing of resources in technology, manufacturing, agriculture and raw materials. In the context of the global pandemic, a well-coordinated mega trade deal will build confidence in improving regional resilience. One example is China's agreement to join the [Singapore-New Zealand initiative](#) to maintain trade and supply chain connectivity. Separately, owing to improved supply chain efficiency, for the first time, ASEAN became China's [largest trading partner in 2020](#).

Another positive prospect for the RCEP is that the Chinese government made a stronger commitment to regional integration through opening up and reform. Beijing has also implemented reforms in over 120 sectors of its service industry, an effort considered to be [as important as the reforms it made at the time of World Trade Organization entry](#). And according to the World Bank Doing Business report, [China jumped from 78th place in 2018 to 31st among 190 economies in 2019 in terms of ease of doing business](#). These domestic reforms sent positive signals to regional economies that have business relations with China.

China's leadership in revitalising regional integration and multilateralism, and its ideas and interests in shaping regional trade governance, challenge the United States-fashioned global trade regime. The RCEP serves China's foreign policy by establishing Beijing's leadership in safeguarding multilateral trade governance and globalisation, providing public goods, and portraying itself as a more cooperative and collaborative partner. This is evident with the conclusion of the RCEP, which implies a desire by all parties to reconcile their differences (notwithstanding India's withdrawal).

More importantly, the RCEP can help boost China's role as a leading rule-shaper in the regional trade system. The RCEP lends support to the Chinese government's use of the ["whole-of-nation" system \(ju guo ti zhi\)](#) to promote Chinese standards, as it has done with its flagship economic foreign policy, the Belt and Road Initiative (BRI). Furthermore, Beijing may now be able to promote an alternative system of trade governance. Having prospered through state-led capitalism, China will be more willing to accept and shape the RCEP's provisions with respect to data governance, the environment, labour, and procurement support for its state-owned enterprises, unlike with the Trans-Pacific Partnership Agreement (TPP), which requires these sectors to undergo fundamental market reforms. In contrast to the United States' negotiation approach that relies on a rule-based template, China has applied flexibility in its free trade agreement negotiations, which aligns with the practices of Southeast Asian states. This normative approach allows China and its trade partners to justify lower standard agreements.



China's control of the Mekong tap through damming upsets the livelihoods of Southeast Asians dependent on its natural seasonal water flows. *Photo by Bhavya Lakhani on Unsplash.*

Pushback against China's Geoeconomic Ambitions

However, just economic means are insufficient to build a China-centred geoeconomic order. In fact, China's economic statecraft has been called into question. First, China's growing propensity to weaponise trade and interdependence conflicts with its vision for Asian connectivity and an Asian community of shared destiny, which requires unstoppable trade and exchanges to build confidence. Beijing has adeptly expanded its economic coercion for short-lived political purposes for both national and peripheral interests. For instance, to protect its security and territorial interests, China has applied different levels of implicit economic punishment on Japan, the Philippines and South Korea. On other issues, China applied implicit coercive measures; for instance, [Beijing was believed to target Australian food](#) exports to retaliate against Canberra's call for investigating the origins of Covid-19. Now, to strengthen the effectiveness of economic punishment, Beijing has institutionalised a series of punitive legal measures, such as the Export Control Law (came into effect in 2019), to give Beijing more tools to punish entities and individuals deemed to harm the interests of China.

Second, China's economic incentives have not been entirely effective. While Beijing's economic influence has increased in the region, its strategic ties with its neighbours became strained largely due to unresolved maritime territorial disputes in the East and South China Seas, and critical governance issues such as the use of Mekong water resources. China's intention of cultivating societal relations through providing regional public goods is being challenged by its economic approach as well. Several years following the launch of China's BRI, investments in regional connectivity programmes have not brought expected foreign policy returns at the societal level. Instead, tensions

between the Chinese and local communities have increased in some countries due to controversial practices that were [acknowledged by the Chinese leadership during the Second BRI International Cooperation Summit](#).

Third, given China's increasing regional influence, states are applying institutional/soft balancing to mitigate their overdependence on China. Japan, for instance, can leverage its coalitions in two FTAs — the RCEP and the Comprehensive Progressive Trans-Pacific Partnership Agreement (CPTPP) — to moderate China's influence. The economic shift towards Asia has also prompted the European Union to sign bilateral agreements with countries in the region, such as Singapore and Vietnam. Despite its withdrawal from the TPP, the United States under the Trump administration tried to reinforce American economic influence through the launch of the BUILD Act, and a coalition with Japan to provide financing via the Asia EDGE. The current US president Joe Biden has continued to push for a competitive infrastructure initiative in developing economies, the [“Build Back Better World Partnership” \(B3W\)](#). Although [many question](#) the substance and feasibility of these measures, they at least serve to keep China's influence in check. In fact, the regional interest towards alternative mega-FTAs and other competitive economic initiatives has made Beijing reconsider the possibility of joining the Japan-led CPTPP. In November 2020, Chinese president Xi Jinping sent a clear signal that [China would consider applying for the CPTPP](#).

China's Ambitions Unlikely to Abate

Countervailing initiatives from China's rivals present continuing contested visions for Asian regional governance. These contested visions, however, will not deter China's ambition in pushing for its vision of regional order, especially when US passivity in regional economic governance provides a strategic opportunity for China to claim regional leadership. Nonetheless, China may have recognised that its interests lie in upholding the centrality of ASEAN to mitigate setbacks stemming from Sino-US competition. The Chinese government needs more regional support for its role in global governance, domestic governance in areas such as Xinjiang and Hong Kong, and its One China Policy on cross-strait relations.

The outbreak of Covid-19 and ensuing disruptions of the global supply chain, together with US sanctions on China's technology and products manufactured in Xinjiang, suggest that Sino-US competition could play out over the long term. A neutral (if not a bandwagoning) region and a not-so-hostile neighbourhood can bolster China's position. This is why Beijing supported ASEAN centrality during the RCEP negotiations, and the Chinese government even [made some compromises](#) to conclude the FTA. For example, [it agreed](#) that it would not require businesses to “locate computing facilities” in its territory or restrict “cross-border transfer of information by electronic means” for business purposes related to e-commerce. It did not agree on the same with the United States during negotiations on the same issue. It would be fair to say that without upholding ASEAN centrality, the RCEP would not have concluded as speedily as it did.

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