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RCEP: Turning Point for ASEAN?

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SYNOPSIS

RCEP can be a turning point for Southeast Asia if ASEAN takes initiatives to further boost coordination and collaboration to meet the challenges that lie ahead in a post-pandemic world.

COMMENTARY

ON 2 NOVEMBER 2021, following the endorsement of the Regional Comprehensive Economic Partnership (RCEP) by Australia and New Zealand, the proposed new regional arrangement reached the required threshold of ratification by six ASEAN member states and three non-ASEAN nations. With this, the RCEP will come into force on 1 January 2022, or less than two months away. The signatories to the agreement include all the ten member states of ASEAN as well as Australia, China, Japan, New Zealand, and South Korea.

During a period of protectionist fervour and retreat from globalisation, RCEP sends a clear signal to the global community that the region is open for business. The largest Free Trade Agreement (FTA) ever signed, RCEP members accounted for 31% of global GDP, 28% of global trade and 29% of world population in 2020. RCEP is the first trade agreement linking China, Japan, and South Korea.

RCEP and CPTPP

A comprehensive regional free trade agreement, RCEP consolidates the 'spaghetti bowl' of trade agreements across East and Southeast Asia. It covers trade in goods and services, investment, and economic and technical cooperation. RCEP is expected to eliminate about 90% of the tariffs on imports between its signatories within 20 years of coming into force.

It will also establish common rules for e-commerce, trade, intellectual property, government procurement, competition, and small and medium-sized enterprises (SMEs).

Often compared to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), RCEP's aims are modest. It asks for fewer commitments than CPTPP. Some 30% of RCEP's text duplicates CPTPP provisions. It eliminates fewer tariff lines and allows substantial exemption in services trade.

As is the case with most modern FTA agreements, RCEP members agreed on several points in e-commerce, but it offers exceptions to prevent data localisation requirements and cross-border data transfers for national security and public policy reasons. This means RCEP signatories may prevent data on and information of their citizens/companies from being transferred abroad by electronic means.

Unlike CPTPP or other regional agreements involving the EU, it does not address labour, human rights, and environmental sustainability issues or the intense competition for foreign investment across the region that is accompanied by increasing tax and other concessions.

RCEP does not offer a dispute settlement mechanism on most issues, though there is an option to review it after five years. However, RCEP substantially simplifies procedures and lowers the costs of trade in the region, laying foundations for further integration, and prepares ASEAN for the challenges that lie ahead.

Implications for ASEAN

ASEAN's strength lies in its 'geopolitical' centrality, as an open and inclusive Southeast Asian grouping with a focus on regional stability and economic prosperity. With its remarkable growth performance, ASEAN has drawn more powerful countries into trade and investment agreements, achieving results through multilateral cooperation and the rules-based regime.

RCEP's impact will be felt through deepening regional and intra-ASEAN economic integration as it offers a stepping-stone for signatories to join higher-standard FTAs. RCEP's attractiveness is reflected in the enthusiasm for the partnership from countries such as Australia and China which have serious unresolved bilateral issues. ASEAN Centrality in RCEP will be critical for the sustenance of the partnership.

Trade agreements do not automatically deliver benefits to signatories. Gains from FTAs are shaped by a country's level of development, its economic and political stability, the availability of a healthy skilled labour force, and an investor-friendly investment regime.

Benefits from FTAs are contingent upon how well companies in the private sector can capitalise on the opportunities offered in the relevant accords. This in turn is shaped by the firm's efficiency, innovativeness, and its ability to anticipate market needs, especially in the export sector.

Many SMEs are seldom able to enjoy all the benefits offered by FTAs, primarily on

account of information gaps and the costs of compliance. Herein lies a profoundly important role for governments as intermediaries to create awareness of new opportunities opened by RCEP to SMEs and to design relevant frameworks for foreign investors, to develop links with domestic firms.

Impact of RCEP on ASEAN

RCEP's framework can help boost resilience of supply chains and in developing new competitive production lines resistant to sudden imposition of trade restrictions, as was the case with PPE goods during the COVID-19 pandemic.

For regional businesses, RCEP's most significant component are the unified and common rules of origin that govern how much of a product must be produced within the region to qualify for tariff benefits. Instead of the myriad of rules, firms in ASEAN will follow a single set of rules, that will ease business and boost ASEAN's attractiveness as a destination for trade and investment.

Intra-ASEAN trade is 25 percent of the grouping's total trade with the world, and there is high potential for growth as the region embarks on services liberalisation and digital transformation. Some of the needed measures are under way.

RCEP will help plug gaps in intra-ASEAN trade agreements. At the same time, ASEAN should scale up support to boost trade and investment in the region. There is currently a lethargic implementation of the provisions in the blueprint of the ASEAN Economic Community (AEC).

As a preferred destination for investors from across the world, with coordinated measures and support from public agencies, ASEAN firms can broaden their links with regional companies as well as those in other parts of the world. This would require a commitment from ASEAN member states to harmonise and digitise trade facilitation measures, customs clearance, reduce non-tariff barriers, and help SMEs bridge the financing, information, and logistics gaps.

Experience with past FTAs points to the sizeable impact industry associations and state agencies can play in highlighting the benefits of FTAs to SMEs, catalyse foreign investment, and facilitate cross-border collaboration. As RCEP gains traction and tariffs are progressively lowered, consumers across ASEAN will see benefits of lower prices and a wider range of goods.

Strategic Benefits

RCEP should be seen, not as an end, but as an important stepping-stone to greater engagement within the region and beyond. Aside from the benefits of larger markets, expansion of trade, and greater participation in global value chains, RCEP offers ASEAN an opportunity and a platform to enhance policy coordination among member states.

This will boost ASEAN community building and Southeast Asian resilience to future economic shocks and pandemics. RCEP will boost the attractiveness of the region for supply chains; prepare the ground for meeting the challenges of the Fourth Industrial

Revolution; and strengthen the resolve in seeking more cross-border solutions in mitigating the economic impact of climate change and non-traditional security threats.

In the post-pandemic world, these are strategic concerns which ASEAN must manage in a collective manner on a multilateral and sustainable basis.

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