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RCEP: What to Expect in 2022

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SYNOPSIS

RCEP, the world's largest trade agreement, will deepen economic integration and cooperation of the Asia-Pacific region. RCEP shows that Asia has become the centre of global trade and in a post-COVID-19 pandemic world, RCEP will play a significant part in strengthening regional trade governance as well as increasing trade and investment flows.

COMMENTARY

WHILE THE world ushered in the New Year, an important event happened on the trade front in the Asia-Pacific. The Regional Comprehensive Economic Partnership (RCEP) officially entered into force on 1 January 2022 – a massive free trade agreement (FTA) covering about 30 percent of the world's population and global GDP.

Critics argue that RCEP is a shallow agreement compared to the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) that was praised as the gold standard of trade deals. However, a closer look reveals that RCEP will promote further trade integration and facilitation of the Asia-Pacific region as it harmonises and consolidates bilateral free trade agreements (FTAs) among member countries while galvanising regional supply chains.

Benefits of Participating in RCEP

There are at least four benefits of participation in RCEP. The first concerns RCEP's trade liberalisation effects. Critics argue that RCEP does not yield large tariff reductions because several parties have already formed bilateral trade agreements, especially through ASEAN-Plus-One FTAs.

[Some](#) also point out that RCEP will bring in gradual tariff reduction in the region as its tariff concessions remove tariffs on 92% of goods traded within the bloc with an implementation period of 20 years, while allowing for exemptions for sensitive sectors.

However, this argument downplays RCEP's core trade liberalisation effects, which stem from some of its specific features. As a mega-regional FTA, RCEP has [unified rules of origin \(ROO\)](#) that determine whether goods can be regarded as originating from member countries and thus eligible for preferential custom duties.

Specifically, RCEP's cumulative ROO allows manufacturers in RCEP countries to use originating materials or ingredients from other RCEP countries to meet the Regional Value Content (RVC) criteria and benefit from preferential tariff treatment. Such features of RCEP will significantly facilitate trade flows and supply chain relationships among member countries while enhancing the business-friendly relationships in the world's largest trade bloc.

Boosting Post-Pandemic Recovery

Secondly, thanks to the common set of rules, RCEP can serve as a vehicle for its members to boost their post-COVID-19 pandemic recovery. The ROO under RCEP enables members to reconfigure and diversify their production networks, making their economies more resilient.

Also, RCEP will attract more investment to the region because the agreement eliminates performance requirements (such as minimum domestic content and technological transfer) for foreign investment.

Moreover, RCEP's Chapter on Small and Medium Enterprises (SMEs) will boost SMEs' capacities, increase their access to information relating to RCEP, and raise their awareness of this pact to increase its utilisation.

These will ultimately allow SMEs — the backbone of ASEAN economies — to participate better in regional value chains, bolstering the region's overall post-pandemic recovery.

Cushioning US-China Strategic Competition

Thirdly, RCEP can serve as a cushion against the effects of US-China strategic competition on regional economies. In early 2021, US President Joe Biden confirmed that the US would embrace multilateralism as a pillar of its foreign policy, officially declaring the end of Trump's "America First" diplomacy.

However, the Biden administration has maintained most of Trump's tariffs on Chinese imports, despite the demands of US industries seeking relief from protectionist measures and adverse shocks from COVID-19 and supply chain problems.

Biden's stance on the strategic competition with China will not change any time soon, suggesting that the global economy will still be influenced by the strained relationships between the two countries in political and economic terms. Consequently, the world

will likely live with the intensifying US-China rivalry for years to come. How can RCEP help its members manage the uncertainties caused by this contestation?

One analysis predicts that RCEP will bring [greater economic gains to its members under the US-China trade war scenario](#) than business-as-usual one. In other words, the FTA will raise intra-bloc trade by US\$ 445 billion in the former case, while only \$ 428 billion in the latter one.

Advancing ASEAN Centrality

Fourthly, RCEP helps ASEAN achieve the [ASEAN Economic Community 2025](#) (AEC 2025) and reflects ASEAN Centrality in regional trade governance. AEC 2025 is the key plank in ASEAN Community building.

It envisions (i) a highly integrated and cohesive economy; (ii) a competitive, innovative, and dynamic ASEAN; (iii) enhanced connectivity and sectoral cooperation; (iv) a resilient, inclusive, people-oriented, and people-centred ASEAN; and (v) a Global ASEAN.

Under “Global ASEAN”, the regional grouping strives to enhance its integration into the global economy via FTAs and other economic arrangements. With RCEP in effect, it helps ASEAN advance this goal.

Pertaining to ASEAN Centrality, contrary to some misperceptions, RCEP is in fact an ASEAN-led initiative. This can be traced back to ASEAN’s inception in 2011-2012 of its own trade cooperation modality with China’s and Japan’s ideas of regional economic integration.

Additionally, the [Guiding Principles and Objectives for Negotiating the RCEP](#) posits that the negotiations “will recognise ASEAN Centrality in the emerging regional economic architecture”.

What Next?

Last but not least, RCEP’s implications on political and economic cooperation for East Asian and Southeast Asian countries are noteworthy. While ASEAN has successfully established bilateral relations with China, Japan, and South Korea respectively, there is no official platform that deals with trade cooperation and liberalisation of the three East Asian countries together other than RCEP.

The China-Japan-South Korea FTA has not shown significant progress since its 16th round of negotiation in December 2019. Given the uncertain future of the trilateral agreement, RCEP might provide the three countries in East Asia with opportunities to deepen levels of cooperation and ways to alleviate bilateral disputes across multiple issue areas.

Many benefits notwithstanding, more work needs to be done. At the time of this writing, Indonesia and the Philippines have not ratified the deal. Their ratification will not only allow them to reap the benefits of this mega FTA, but also make RCEP effectively enhance the supply chains among all signatories.

Also, RCEP is a “living document” meaning that it can be adjusted or upgraded further into a more ambitious agreement. In short, this FTA is an ongoing project and can be adapted to the changing environment in many areas such as digital economy. Thus, work is left to its parties to revisit, assess, and amend relevant provisions in order to enhance the resilience of regional supply chains in the future.

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