



ISSUE BRIEF

INSTITUTE OF STRATEGIC STUDIES ISLAMABAD

Web: www.issi.org.pk

Phone: +92-51-9204423, 24

Fax: +92-51-9204658

RCEP: EMERGENCE OF THE LARGEST TRADING BLOCK

By

Mian Ahmad Naeem Salik

Research Fellow

Centre for Strategic Perspectives (CSP), ISSI

Edited by

Najam Rafique

November 20, 2020

(Views expressed in the brief are those of the author, and do not represent those of ISSI)



In yet another blow to the Trans-Pacific Partnership after the US withdrawal in 2017, the Association of Southeast Asian Nations (ASEAN) have signed an agreement on November 15, 2020 to form a Regional Comprehensive Economic Partnership (RCEP). The new partnership includes the ten ASEAN nations and five of their major trading partners Australia, China, Japan, New Zealand, and South Korea. The 15 member countries account for about 30% of the world's population and 30% of global GDP, making it the world's biggest trade bloc.¹ RCEP, an extension of China's increasing influence in Asia-Pacific, is being viewed as a counter to US strategic pivot to Asia.

RCEP was signed at the Vietnam-hosted virtual ASEAN Summit and is expected to take effect within two years, after it has been ratified by the member countries.² The trade pact, which includes a mix of high-income, middle-income, and low-income countries, was conceived at the 2011 ASEAN Summit in Bali, Indonesia. India pulled out of the agreement in 2019 over concerns about cheap

¹ Shotaro Tani, "India Stays Away from RCEP Talks in Bali," *Nikkei Asia*, February 4, 2020, <https://asia.nikkei.com/Economy/Trade/India-stays-away-from-RCEP-talks-in-Bali>

² "RCEP: Asia-Pacific Nations Sign World's Biggest Trade Pact," *Al Jazeera*, November 15, 2020, <https://www.aljazeera.com/economy/2020/11/15/rcep-15-asia-pacific-nations-set-worlds-biggest-trade-pact>

Chinese goods entering the country and was a notable absentee during the virtual signing. It can join at a later date if it chooses.³

Similar to the economic integration of the European Union, RCEP is expected to improve relations among its member-states by creating economic interdependence as companies invest in each other's countries.⁴ The agreement is intended to reduce tariffs and red tape. It includes unified rules of origin throughout the bloc which may facilitate international supply chains and trade within the region. It also prohibits certain tariffs. It does not focus on labor unions, environmental protection, or government subsidies. It will eliminate about 90% of the tariffs on imports between its signatories within 20 years of coming into force, and establish common rules for e-commerce, trade, and intellectual property.

The Peterson Institute for International Economics estimates that by 2030, the deal could increase global GDP by \$186 billion, although China, South Korea, and Japan are expected to benefit more than other signatories.⁵

The RCEP agreement is flexible enough to fit the disparate needs of member countries as diverse as Myanmar, Singapore, Vietnam and Australia. Unlike the European Union, it does not establish unified standards on labor and the environment or commit countries to open services and other vulnerable areas of their economies. The existing FTAs can be very complicated to use compared to RCEP, as businesses with global supply chains might face tariffs even within an FTA because their products contain components that are made elsewhere. Under RCEP, parts from any member nation would be treated equally, which might give companies in RCEP countries an incentive to look for trade within the region for suppliers.

The RCEP solidifies China's broader regional geopolitical ambitions around the Belt and Road initiative (BRI). The deal is also seen as a way for China to draft the rules of trade in the region, after years of US retreat under President Donald Trump which have seen Washington pull out of a trade pact of its own, the Trans-Pacific Partnership (TPP).⁶ The accord is a coup for China, by far the biggest market in the region with more than 1.3 billion people, allowing Beijing to cast itself as a

³ "RCEP: Asia-Pacific Countries Form World's Largest Trading Bloc." *BBC News*, November 15, 2020, <https://www.bbc.com/news/world-asia-54949260>

⁴ "5 Things to Know about RCEP - the World's Largest Free Trade Deal," *TRT World*, November 17, 2020, <https://www.trtworld.com/magazine/5-things-to-know-about-rcep-the-world-s-largest-free-trade-deal-41555>

⁵ Amy Mackinnon, "The World's Largest Trade Agreement Doesn't Include the United States," *Foreign Policy*, November 16, 2020, <https://foreignpolicy.com/2020/11/16/largest-trade-agreement-rcep-asia-pacific-united-states-china/>

⁶ "World's Largest Free Trade Agreement Signed in Coup for China," *Dawn*, November 15, 2020, <https://www.dawn.com/news/1590535/worlds-largest-free-trade-agreement-signed-in-coup-for-china>

champion of globalization and multilateral cooperation and giving it greater influence over rules governing regional trade. China is already a major trade partner for most Asian economies, and its clout is set to grow under RCEP. The mega deal lays the foundation for deeper cooperation among member countries in the future, especially between those that don't have existing bilateral trade deals.

It's not clear whether the deal will have an impact on the most important global trading relationship, that between the US and China who have been contesting trade and related issues for the last few years. If the US continues to ignore or bully the countries there, the influence pendulum will swing toward China. The Trump administration's Asia policies focused on a new Free and Open Indo-Pacific (FOIP) vision. But the administration's tactics then emphasized isolating China from regional economic networks and prioritized security arrangements centred on the Quad (Australia, India, Japan, and the United States). RCEP shows that East Asia is very much open for business and recognizes the economic benefits of deeper trade integration. It also shows that when it comes to economic policy, Asia-Pacific economies do not want to choose between the US and China.

Under the current global circumstances, the fact that RCEP has been signed after eight years is of great importance as the world tries to recover from the pandemic. Covid-19 has reinforced the interdependency on regional trade and governments are more eager than ever to have positive economic growth, as many of the signatories are battling severe corona virus outbreaks and they are also hoping that RCEP will help mitigate the crippling economic cost of the pandemic. The agreement will contribute to developing supply chains that have been disrupted due to the pandemic as well as supporting economic recovery.⁷

With China-Pakistan Economic Corridor (CPEC), a flagship project of the Chinese Belt and Road Initiative, RCEP presents a great opportunity to Pakistan for strengthening and broadening its economic linkages in the larger Asia-Pacific region. This is also in line with the broad market diversification strategy of Pakistan which is targeted to reduce its export dependence on EU and US. Standing still is not an option for Pakistan. If Pakistan stays out of RCEP, then exporters would find it more difficult to sell their products to RCEP member countries. At the same time, Pakistan should continue to speed up unilateral product and factor market liberalization for better integration into the global economy.⁸ While China already has a number of bilateral trade agreements, this is the

⁷ Bloomberg News, "Asia Pacific Nations Sign World's Biggest Trade Deal," *Bangkok Post*, 15 Nov 2020, <https://www.bangkokpost.com/business/2019915/asia-pacific-nations-sign-worlds-biggest-trade-deal>

⁸ Imran Khan, "Standing Still Not an Option for Pakistan," *The Express Tribune*, 20 Mar 2016, <https://tribune.com.pk/story/1069520/mega-regional-group-standing-still-not-an-option-for-pakistan>

first time it has signed up to a regional multilateral trade pact. RCEP could improve access to Chinese BRI funds, enhancing gains from market access by strengthening transport, energy, and communications links. RCEP's favorable rules of origin will also attract foreign investment. The time is right to revive Pakistan's 'Vision East Asia'.