



# BULLETIN

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## Regional Comprehensive Economic Partnership: Another Attempt at Asian Integration

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*Since May 2013, ASEAN and six Asia-Pacific countries have been negotiating a free trade agreement—the Regional Comprehensive Economic Partnership. Its main rationales are to expand trade and investment, untangle the noodle bowl of Asian FTAs with their different rules and liberalisation rates, which make business difficult, and consolidate ASEAN bilateral economic accords into one regional agreement. If concluded, RCEP would create one of the world's largest liberalised economic areas. It may result in the Asian countries taking an inward-looking approach. The EU should examine the possibility to revive its FTA negotiations with ASEAN as a bloc, which may facilitate market access and stimulate trade.*

Negotiations on the Regional Comprehensive Economic Partnership (RCEP) launched in May 2013 are taking place in the shadow of two other big trade-pact talks: the Trans-Pacific Partnership (TPP) and Transatlantic Trade and Investment Partnership (TTIP). RCEP is a set of FTA negotiations between 10-member ASEAN and six countries with which it has bilateral FTAs: China, Japan, South Korea, India, Australia and New Zealand. If adopted it would create a market of about three billion people, which would account for 30% of the world's GDP (\$17 trillion), 40% of global trade and 26% of the world's FDI inflow. So far, five rounds of talks have been held. The finalisation of negotiations is planned for the end of 2015.

**What is RCEP?** For the first time, RCEP was mentioned at an ASEAN summit, in Bali in November 2011. The decision to start the negotiations was announced in Phnom Penh a year later, and the “Guiding Principles and Objectives for Negotiating RCEP” were adopted in Siem Reap. The document defines RCEP as a modern, comprehensive and high-quality economic partnership aimed at opening trade and investments and enumerates eight negotiations areas: trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition, dispute settlements, and other issues (to be specified during the talks).

The document also indicates that the negotiations will be flexible for the least-developed members, consistent with the existing ASEAN+1 FTAs. The reduction of anti-competitive practices will take into account differences in national regimes, while consultations would be applied to dispute resolution processes. Moreover, the ASEAN+1 agreements remain in force and RCEP will not diminish the terms of the bilateral accords. In trade in goods, priority would be given to a tariff exemption on products of interest to the less-developed ASEAN members, while in trade in service, all sectors and modes of supply will be negotiated.

**Rationales.** There are political and economic reasons for RCEP. ASEAN wants to enhance its centrality in the Asia-Pacific region as the principle forum for regional integration. Similar to previous ASEAN integration attempts, which were reactions to economic integration in other parts of the world (e.g., NAFTA and European single-market endeavours, or 1997 Asian crisis), the RCEP initiative is also driven from the outside. It is a response to the TPP and China's FTA strategy (in which it now has FTAs with developing countries and is seeking trade pacts with developed economies). Other trade pacts currently in negotiations are seen as threats to ASEAN's centrality and reveal its members' concerns of being left behind. RCEP is also designed to showcase ASEAN's leadership, as it brings together 16 countries. It is a successful attempt to overcome different views on economic cooperation with non-ASEAN countries. China suggested an ASEAN+3 FTA (China, Japan and South Korea), while Japan has striven for a wider

range of partners. The negotiations underscore ASEAN's relevance, because the proposed pact includes the largest Asian economies and offers conditions acceptable to the less-developed countries.

But economic interests are undoubtedly the number one concern, given the trade and investment creation effect of economic liberalisation. Another rationale reflects ASEAN's members and China's concerns, namely the proliferation and overlap of various regional FTAs. Asia leads the world with its recent surge in FTAs. The sharp rise of FTAs among the ASEAN+6 has seen the number increase from 17 in 2000 to 179 in 2013 (70% of Asia's FTAs).

The huge number of agreements has created a complicated system, which includes different timeframes for negotiations and start dates, a wide range of rules, and a multitude of tariff concessions, negative lists, rules of origin and more. The multifarious system of rules makes doing business difficult and time-consuming. In that sense, RCEP's main aim is to consolidate the ASEAN FTAs into one main agreement.

**Problems and Challenges.** Despite declarations to finalise the talks in 2015, intensive negotiations and high expectations, it will be difficult to reach a consensus and meet the deadline. There are doubts about which regional leader will push the negotiations forward. It is assumed that this leader is Indonesia—the biggest ASEAN economy and home to the bloc's headquarters, in Jakarta. But Indonesia's leadership is modest and might be questionable due to its focus on internal problems. Recently, China has shown aspirations to lead on this issue. Since assuming office, Prime Minister Li Keqiang has decidedly urged the RCEP parties to conclude the negotiations on time. Acceptance of China's leadership, though, would be difficult to achieve, bearing in mind the concerns of China's rise on the world stage and the tensions with Japan and other ASEAN members.

Nevertheless, the biggest problems are simply the differences among the RCEP countries. There are immense development and wealth discrepancies among the ASEAN members and between the bloc and the six other countries, as seen, for instance, when examining Japan's GDP against that of Myanmar's. Moreover, the bilateral ASEAN+1 and country-to-country FTAs are heterogenous, with different liberalisation rates. The best examples of this are the ASEAN–Australia/New Zealand FTA, which abolishes tariffs for 95.7% of products, and the ASEAN–India FTA (79.6% of goods). Additionally, each country has its own vulnerable sectors they would like to protect (e.g., Japan, agriculture; India and China, manufacturing). These interests may result in the adoption of protectionist mechanisms. Moreover, the "Guiding Principles" state that the bilateral FTAs would remain in force. If the conditions in a bilateral agreement are more favourable, it is possible that in these areas RCEP's relevance would be limited.

Finally, the RCEP negotiations might be dominated by the so-called ASEAN way—an approach based on achieving balance and eschewing hard commitments. Consensus-based talks and a reluctance to take on binding commitments might hamper RCEP's success. It is argued that the ASEAN way might lead to a "race to the bottom" to make the agreement palatable to all parties by sacrificing greater liberalisation goals.

**Problems Facing the EU.** For ASEAN the EU is the third largest trading partner overall, while for Brussels the Association is its third partner outside Europe (after the U.S. and China). In 2012, trade in goods and services between them accounted for €235 billion. RCEP and other Asian trade pacts may have an impact on the EU's economic cooperation with the region. It may result in a focus on regional trade, which means a possible increase in commerce among the RCEP members and weaker trade with non-RCEP countries such as the EU. What is more, RCEP may also worsen market access from the EU's perspective. Additionally, the economic problems in the EU could make closer economic relations with Asia more difficult and Brussels might become less attractive.

So far, EU efforts to sign FTAs with ASEAN and other Asian countries have not been successful. The EU's withdrawal in 2009 from EU-ASEAN FTA negotiations and a shift to bilateral FTAs has had poor results. The EU goal to sign two high-standard agreements (an FTA and the politically oriented Partnership and Cooperation Agreement, or PCA) makes the process time-consuming and difficult for ASEAN. Further, the recent political problems in Asia, especially in its three largest member countries (the coup in Thailand earlier this year, the political problems in Malaysia before the elections in May 2013, and Indonesia's reluctance to open its market to foreign businesses), have reduced the prospects of a near-term conclusion or launching of negotiations with other ASEAN countries. With ASEAN, the EU has finalised negotiations only with Singapore and is still negotiating with Thailand, Malaysia and Vietnam. Among the non-ASEAN RCEP countries, only an FTA with South Korea is in force and talks in progress with India and Japan.

**Conclusions and Recommendations.** The Asia-Pacific region is attempting to enhance its integration efforts. Among the reasons for this is disenchantment with the WTO Doha round and Asia's generally good situation during the global economic crisis. Despite challenges in the negotiations, the concept of RCEP offers flexible conditions and traditional market expansion mechanisms that are more acceptable to states that are less developed, export oriented, have low labour costs and are familiar with the ASEAN way than are the rules in the TPP negotiations, for example.

RCEP should be seen as an impetus for the EU to re-think its Asia FTA approach and its overall relations with ASEAN. Recent EU attempts to enhance cooperation with the Asian bloc (in 2012, the signing of the Treaty of Amity and Cooperation with ASEAN, and the High Representative's first-ever visit to ASEAN headquarters in 2013) are good starting points. Brussels should reconsider its plan of FTA with ASEAN, as this would speed up the EU's engagement in the region, secure and enhance market access, boost trade, safeguard Europe against lagging behind the rising Asia and avoid a Europe-Asia FTA noodle bowl. This could offset the effects of an implemented TPP or RCEP, neither of which includes the EU. Additionally, such a regional approach would highlight two factors crucial for ASEAN: the Association's centrality and regional cohesion.