

RCEP Negotiations for the Reshaping of the Liberal Economic Order

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Over 18 chapters, the Regional Comprehensive Economic Partnership (RCEP) focuses on setting rules to foster further economic liberalisation among the Association of Southeast Asian Nations (ASEAN) member countries and six other countries, namely, China, the Republic of Korea (ROK), Japan, Australia, New Zealand, and India. If the RCEP is concluded, a US\$25.4-trillion market will emerge. The total population of the RCEP member countries is 3,552 million, which is about half of the total population of the world.¹

Although the expected potential of the RCEP has been discussed, the negotiation has taken a great deal of time. The sixteen countries involved formally announced in November 2012 that they had decided to start the negotiation, and held the first official round in May 2013. Since then, six years have passed and the member countries have still not reached an agreement. Last year, they said that they would conclude the negotiation in 2018; however, they had to give up on this deadline, and instead, they have now announced that they will do it in 2019.

This chapter will outline the characteristics, potential, problems, and prospects of the RCEP. First, it will identify the specific characteristics of the RCEP, while showing that the RCEP is more than just a trade deal and, rather, holds significant importance in the context of the changing regional and global order in this current uncertain era. Second, it will provide an overview of the current status of the RCEP negotiation. In spite of the rising expectations for the RCEP after the United States (US) withdrawal from the Trans-Pacific Partnership (TPP), the RCEP negotiation has been advancing extremely slowly because of numerous conflicts of interest among the member countries. Finally, it will describe the potential and problems of the RCEP. Specifically, it will highlight how the RCEP negotiation will affect the region,

¹ The values of the total GDP and population are obtained from the Data Bank of the World Bank, <https://databank.worldbank.org/data/home.aspx>.

especially considering the current uncertain situation of the liberal economic order. In addition, the chapter will try to outline the tentative prospects of the RCEP. As mentioned later in this chapter, we must consider how the escalation of the Sino-American confrontation as well as domestic politics in key countries like India and Thailand will impact the RCEP negotiation.

1. THE IMPORTANT CHARACTERISTICS OF THE RCEP

As mentioned above, the size of the total GDP and population of the RCEP member countries is extremely large. Therefore, the RCEP market has a lot of potential for providing opportunities for further development of the private sectors of member countries. Size, however, is not the only reason for the immense potential of the RCEP negotiation.

First, the RCEP involves both China and India, which are leading players among the emerging global powers. China's economic development has slowed down, as the GDP growth rate reached 6.6% in 2018, down by 0.2% as compared to the previous year.² However, the size and potential of the Chinese economy is still significant, and its power is partially converted into political leverage, especially in neighbouring areas. According to the Global Economic Prospects (GEP) report released in early 2019, India is also expected to develop its economy, even though it experienced the slowest GDP growth rate among the previous five quarters in the third quarter of 2018.³ The inclusion of these top-two emerging powers is an important advantage for the RCEP as a trade deal.

Second, the RCEP is a trial to attempt region-wide economic integration, as opposed to the bundle of bilateral economic ties between ASEAN and the six countries, each of which already has either a bilateral free trade agreement (FTA) or an economic partnership agreement (EPA) with ASEAN. In other words, the RCEP negotiation is focusing on setting common rules on economic activities based on the existing six FTAs/EPAs. To converge diverse FTAs/EPAs into one economic agreement, however, is extremely challenging.

Third, the RCEP is an opportunity to try an ASEAN-centred economic integration scheme. From ASEAN's point of view, the RCEP is an important step to maintaining ASEAN centrality amidst the changing regional circumstances in East Asia.

² "China's GDP growth slows to 28-year low in 2018", *Nikkei Asian Review*, 21 January 2019, <https://asia.nikkei.com/Economy/China-s-GDP-growth-slows-to-28-year-low-in-2018>, accessed 1 February 2019.

³ The World Bank, "Global Economic Prospects: Darkening Skies", January 2019.

However, the negotiation process has been significantly complicated by various claims from the six external countries. Japan, one of the external powers relative to ASEAN, demonstrated its ability to assume a leading role in promoting the RCEP negotiation, especially after the US withdrawal from the TPP. However, the ASEAN countries' initiative will determine the trajectory of the negotiation process, while the other countries respect the leading role of ASEAN.

Finally, the RCEP is increasing its importance as a scheme to retain and foster the liberal economic order in Asia and the rest of the world. The international liberal order, based on the belief that a free and open economy is ideal for economic development, has determined the basic mindset of political elites in East Asia and the Asia-Pacific after the end of the Cold War, which revealed the prominence of the capitalist market economy model and the defeat of the socialist model for economic development. During the post-Cold War period, the political elites of the Western powers, especially the United States, intentionally established the capitalist market economy model as a global standard, thus leading the political elites of East Asia and the Asia-Pacific to base their behaviours and mindsets on the liberal economic order.

Now, the liberal economic order is facing many serious challenges, such as the growing protectionism of the United States under the Trump administration, the expanding influence of the state capitalism model due to the economic success of China, and the escalation of the Sino-American economic war. The US withdrawal from the TPP in January 2017 greatly impacted the political elites in East Asia and the Asia-Pacific. Subsequently, the Comprehensive and Progressive TPP agreement (CPTPP) was signed and came into effect in 2018. However, many people are still worried about how effective the TPP will be without the huge US market. Due to these factors, the importance of the RCEP as a way to foster the liberal economic order has, ironically, been further taken notice of.

2. THE DIFFICULTIES OF FINALISING THE RCEP NEGOTIATION

The RCEP negotiation is not finalised yet, even though the member countries have announced their desire to do so several times in the past. Especially in 2018, after the US withdrawal from the TPP, expectation for the completion of the RCEP negotiation had grown, and member countries announced that it would be done within the year. Singapore, the chair country of ASEAN in 2018, had significant interest in fostering economic liberalisation among ASEAN countries, and eagerly pushed the negotiation. The priorities of the chair country generally determines the activities

of ASEAN in that year; therefore, Singapore's determination to finalise the negotiation increased the confidence that it would be completed by the date that they announced.

Japan also demonstrated its eagerness to finalise the RCEP negotiation. Japan used to prioritise the TPP over the RCEP negotiation because the former was a more challenging scheme for economic liberalisation and had strong political implications for US-Japan collaboration to dilute China's leverage in East Asia and the Asia-Pacific. After the US withdrawal from the TPP, the prospect of countering China decreased significantly, and, as a result, the political elites of Japan became seriously concerned about the demise of the liberal economic order because of the rise of protectionism, as symbolised in Trump's trade and economic policies. From Japan's perspective, the RCEP is an important tool in stopping the trend of strengthening protectionism and sustaining the free and open economy, as well as in pressuring the United States to come back to its "normal track" as a promoter and patron of the liberal economic order. In early July 2018, Prime Minister Shinzo Abe emphasised in his speech at the 5th RCEP Intersessional Ministerial Meeting that free trade was the key to economic development of the RCEP regions, and insisted: "The question is whether we, the Asian region, can unite as one and keep on raising the flag of free trade while concern on protectionism has been increasing worldwide. The RCEP negotiations are drawing attention from the rest of the world more than before. Let us act in solidarity to create a free, fair and rule-based market in this region."⁴

Japan and Singapore held this intersessional ministerial meeting as co-chairs and succeeded in accentuating the common goal of the member countries to "work together and see through the RCEP negotiations toward conclusion."⁵ After this meeting, RCEP member countries concluded two additional chapters at the 23rd round of the negotiation: "Customs Procedures and Trade Facilitation" and "Government Procurement".⁶ The pairing of two additional chapters with the existing two that had been already finalised ("Economic and Technical Cooperation" and

⁴ Speech by Prime Minister Shinzo Abe at the Fifth Regional Comprehensive Economic Partnership Intersessional Ministerial Meeting in Tokyo, Japan, 1 July 2018.

⁵ The Fifth Regional Comprehensive Economic Partnership Intersessional Ministerial Meetings, Tokyo, Japan, 1 July 2018, paragraph 2, <http://asean.org/storage/2018/07/5ISSL-MM-Joint-Media-Statement-FINAL-1July2018.pdf>, accessed 3 July 2018.

⁶ The sixth RCEP Ministerial Meeting, Joint Media Statement, Singapore, 30-31 August 2018, https://asean.org/wp-content/uploads/2018/08/RCEP-MM-6-JMS_FINAL.pdf, accessed 3 September 2018.

“Small and Medium Enterprises”) resulted in the finalisation of four chapters, which in turn accelerated the RCEP negotiation.

However, the RCEP negotiation was not completed in 2018 and was postponed to the following year. The RCEP leaders said in a joint statement after the RCEP leaders’ meeting in November 2018: “[We] are determined to conclude a modern, comprehensive, high quality and mutually beneficial RCEP in 2019.”⁷ In addition to the four completed chapters, three chapters were finalised during the leaders’ meeting. However, member countries could not agree on the rest of the ten chapters. Instead, the leaders stated that they would conclude “a modern, comprehensive, high quality, and mutually beneficial RCEP” in 2019.⁸

Entering 2019, the negotiation is continuing. The 25th round was held in Bali in February 2019. According to a report, the member countries progressed the negotiation on market access and text-based negotiation, and agreed on a working plan to help guide the negotiation to be completely finalised in 2019.⁹ This “progress” was emphasised in the Joint Media Statement in the 7th Intersessional Ministerial Meeting of the RCEP, which was held in Siem Reap in March 2019.¹⁰ This statement also provided assurance that the member countries wished to conclude the RCEP within the year.¹¹

The negotiation of the RCEP, despite the rising expectations that it has provoked, will not be easy to complete; the interests of the member countries remain at odds. The chapter about market access is the most difficult area to conclude because the interests of member countries clash – especially regarding India’s reluctant attitude about the liberalisation of trade of goods, specifically tariffs reduction. India’s industrial policy prioritises the protection of its own manufacturing industry from imports by using tariffs barriers. For example, the liberalisation rate of goods of trade set by the ASEAN-India FTA (AIFTA) is the lowest at 76.5%,

⁷ The RCEP negotiations, Joint Leaders’ Statement, 14 November 2018, paragraph 5.

⁸ Ibid.

⁹ Department of Foreign Affairs and Trade, RCEP negotiation, Twenty-fifth round of negotiation, <https://dfat.gov.au/trade/agreements/negotiations/rcep/news/Pages/twenty-fifth-round-of-negotiations-19-28-february-2019-bali-indonesia.aspx>.

¹⁰ The 7th RCEP Intersessional Ministerial Meeting, Joint Media Statement, Siem Reap, Cambodia, 2 March 2019, paragraph 2, <https://dfat.gov.au/trade/agreements/negotiations/rcep/news/Documents/joint-media-statement-seventh-rcep-intersessional-ministerial-meeting.pdf>, accessed 9 March 2019.

¹¹ Ibid., paragraph 3.

while those of the other ASEAN+1 FTAs are above 90%.¹² In addition, the people in India's industrial sector are seriously concerned about the huge flooding of China's cheaper manufacturing goods into the Indian market, concerns which the Indian government should address.¹³

India also has a strong role in the negotiation on intellectual property rights. For example, Japan and South Korea proposed that RCEP members should take on obligations that go beyond the World Trade Organisation's (WTO's) agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), especially in terms of the rules on patents, including the extension of the duration of the patent term by as much as 20 years. This rule is affecting India's competence in the generic medicines market. Furthermore, the acceptance of such an extension of the patent conflicts with India's opposition to TRIPS-Plus proposals.¹⁴

What to prioritise among the rapid conclusion of negotiation regarding the level of liberalisation and the quality of the finalised RCEP is also a critical issue. The ASEAN countries tend to rush into conclusions, accepting some extent of compromise regarding the level of liberalisation and the quality. One of the important political implications contained in the RCEP is its characteristic as an ASEAN-centred scheme, so the conclusion of the RCEP, from the viewpoint of the ASEAN countries, is evidence of ASEAN centrality in the current changing international circumstances. If the conclusion is further postponed, the momentum for finalising the RCEP might decrease. However, the level of liberalisation and the quality of the finalised RCEP will determine the trajectory of economic integration in East Asia; therefore, the level of liberalisation and quality should be deliberately and prudently considered. How to balance the speed and quality is one of the most difficult challenges that the RCEP member countries are facing.

¹² Ishikawa, Koichi, "Higashi-ajia no FTA: Genjo to Kadai (FTAs in East Asia: the present and problems)", Japan Institute of International Affairs (JIIA), *The present and future of regional integration*, March 2014, p. 66.

¹³ "What is stopping India from joining RCEP trade deal?", *The Economic Times*, 6 January 2019, <https://economictimes.indiatimes.com/news/economy/foreign-trade/what-is-stopping-india-from-joining-rcep-trade-deal/articleshow/67399881.cms>, accessed 3 February 2019.

¹⁴ "Investment protection proposals under RCEP threaten India's Pharma industry", 15 March 2019, <https://www.bilaterals.org/?investment-protection-proposals&lang=en>, accessed 20 March 2019.

3. THE PROSPECTS OF THE RCEP

The prospects of the RCEP negotiation are still unclear. One of the critical concerns is the influence of the decoupling policy by the United States, which comes from the escalation of the Sino-American confrontation. The essence of this confrontation is the competition between the existing hegemonic power and an emerging power, as well as power over superiority of high-technology, which is a core part of hegemonic power. Some people in the policy-making circle in the United States have started calling the escalation of the Sino-American confrontation “the new Cold War.”¹⁵ In Washington D.C., the bi-partisan anti-China coalition, which is uniting because of a fear of China’s emergence, has pushed US policy regarding China toward economic disengagement by means of setting barriers for Chinese entry into the US market.

Furthermore, the Trump administration has started to prevent other countries from engaging with China. The United-States-Mexico-Canada Agreement (USMCA), which replaced the North American Free Trade Area (NAFTA), was signed in November 2018. The USMCA contains a “non-market clause,” which allows any party of the USMCA to review a trade agreement between the other parties of the USMCA and non-market economies before signing, and to withdraw from the USMCA if they choose the agreement with non-market economies.¹⁶ No provision of the USMCA names China, but the “non-market clause” clearly aims to prevent Canada and Mexico from signing a trade agreement with China.

Now, the Trump administration aims to conclude or review bilateral trade agreements with economic partners in the Asia-Pacific such as Japan. The “non-market clause” in the USMCA implies the possibility that the US government would ask its counterparts to accept the same provision. If this happens, Japan and other trading partners of the United States would not be able to sign the RCEP as it includes China.

In addition to the possible negative pressure from the outside, the RCEP negotiation is facing serious obstacles from the inside. The most serious concern is the effect of the general election in India in 2019. As mentioned above, India was originally a reluctant player in fostering liberalisation because of strong pressure from the private sector in the country. India is also a democratic and pluralistic country, which means that political leaders must consider the strong voices of domestic

¹⁵ “The new era of US-China decoupling”, *Financial Times*, 20 December 2018, <https://www.ft.com/content/019b1856-03c0-11e9-99df-6183d3002ee1>, accessed 25 December 2018.

¹⁶ Agreement between the United States of America, the United Mexican States, and Canada Text, Article 32.10, <https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement/agreement-between>, accessed 25 December 2018.

interest groups. Such considerations must occur during the election, and, due to this, the Indian government could not further compromise on market access this year. Thailand, the chair country of ASEAN in 2019, has just held a general election in March 2019 for the first time since the military junta came into power through a coup d'état in 2014. However, the political situation regarding the outcome of the election in Thailand is unclear. Thailand may be unable to take the initiative to promote the RCEP negotiation as the ASEAN chair in 2019 because of the unstable situation in its domestic politics. Such domestic political situations in key member countries will prevent the RCEP negotiation from being finalised.

Now, a multi-layered structure in terms of regional economic integration is emerging in the Asia-Pacific: the ASEAN Economic Community (AEC) was established in 2015; the CPTPP took effect in December 2018; and the RCEP is under negotiation. In addition, the United States is trying to push bilateral FTAs with its trading partners in the region. Given the current unclear global and regional circumstances, the overlapping of various trade agreements is a reflection of the competition over the vision of the appropriate international and regional order. While trials like the RCEP negotiation and the CPTPP encourage the liberal economic order based on a free and open market economy, the political, economic, and social systems of countries in East Asia and the Asia-Pacific are diverse, and protectionism is strengthening its influence on the world.

On the other hand, some have started to question whether the liberal economic order itself is desirable for every stakeholder. For example, some citizens' organisations protested the 25th round of the RCEP negotiation because they insisted that the RCEP "will worsen widespread poverty, injustice, and inequality through its numerous chapters that mainly cater to the needs of transnational corporations."¹⁷ Not only the RCEP negotiation but also other trade agreements might have to address such concerns from grassroots movements in order to achieve a genuine, fair, and prosperous regional order in the region.

¹⁷ "Women protest RCEP negotiations in Bali, Indonesia", AFTINET, 26 February 2019, <http://aftinet.org.au/cms/node/1694>, accessed 1 March 2019.

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