ASEAN BRIEFS

RCEP: Quo Vadis Following The Conclusion of The CPTPP?

Vol. 5/ Issue 3/ April 2018

asean studies program

ASEAN Briefs is a regular publication about current developments on ASEAN regionalism, especially in the Political-Security, Economic as well as Socio - Cultural Pillars.

The Habibie Center -
ASEAN Studies Program ASEAN Briefs

Project Supervisor:
Rahimah Abdulrahim
(Executive Director)
Hadi Kuntjara
(Deputy Director for Operations)

Head of ASEAN Studies Program/Editor:
A. Ibrahim Almuttaqi

Researcher:
Fina Astriana
Muhamad Arif
Askabea Fadhilla
Hana Hanifah Bastaman
Vierna Tasya Wensatama

Finance and Administration:
Mila Oktaviani

Design and Publication:
Lany Sekar

In light of the signing of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) – previously known as the TPP – in March 2018, the Regional Comprehensive Economic Partnership (RCEP) is under the spotlight given that negotiations for the latter trade pact have yet to be concluded up until now. Since the US withdrawal from the TPP back in January 2017, many were questioning whether the TPP could still be concluded without the involvement of its major driving force. At that time, RCEP negotiations seemed to be a little bit ahead relative to the TPP. Nevertheless, the remaining TPP membersmanaged to finish the negotiations even without the US. This led to another question: whether RCEP's conclusion will follow suit.

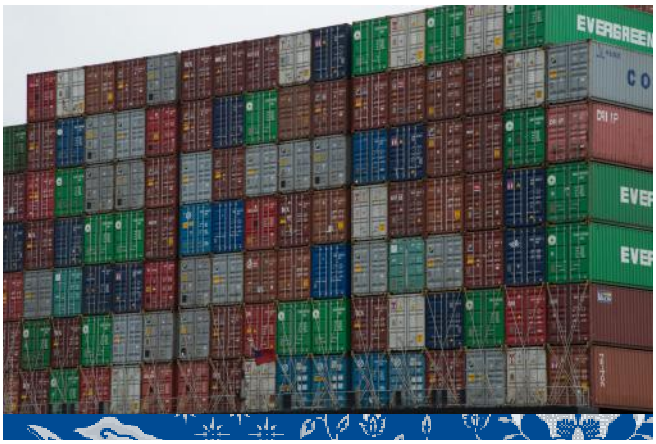
The Rationale

The rationale behind the creation of the RCEP is to reduce the 'noodle-bowl' effects by integrating five existing ASEAN+1 FTAs. The trade pact comprises of 16 participant countries: the 10 ASEAN Member States (AMS)and its FTA partners Australia, China, India, Japan, New Zealand, and South Korea. These countries account for 32 percent of the world's GDP, around 29 percent of international trade, and have a combined population of 3.53 billion people. Several issues that are taken into account in the proposed trade agreement are trade in goods and services, intellectual property, economic and technical cooperation, investment, competition, small and medium enterprises, e-commerce, and dispute settlement.

The negotiations of the RCEP were based on the Guiding Principles which was endorsed in August 2012. The principles are: (1) consistency with the World Trade Organization (WTO); (2) significant improvements over the existing ASEAN+1 FTAs; (3) facilitation of trade and investment; (4) flexibility (e.g., special and differential treatment) to the least-developed AMSs; (5) continuation of existing FTAs; (6) open accession clause; (7) technical assistance and capacity building to the developing and least-developed countries; and (8) parallel negotiation.[1]

The Progress so Far

Since the beginning of the trade negotiations back in 2012, policy makers have now missed three deadlinesfor its conclusion. This long-delayed FTA has consequently raised questions from stakeholders on whether the trade pact will soon be concluded or not. Having said that, progress indeed have been made.



At the 4th RCEP Intersessional Ministerial Meeting that was held on 3 March 2018, in Singapore, ministers from the 16 countries reaffirmed their resolve to meet the Leaders' instruction to intensify efforts in 2018 towards the trade pact's conclusion.[2] The ministers also acknowledged progress in the negotiations, especially after the Preparatory RCEP Ministerial Meeting for the 1st RCEP Summit on 12 November 2017. Two chapters on Economic and Technical Cooperation and on Small and Medium Enterprises have also already been completed.[3]

Meanwhile, all negotiating countries were expected to table a revised offer for trade in goods by April 13, 2018. Based on the revised offers, there will be requests and offers to improve the package, according to Secretary-General Datuk Seri J. Jatasirifrom Malaysia's Ministry of International Trade and Industry.[4] In addition, the revised offer for services and investment is still under consideration and no deadline was set.[5]

The 5th RCEP Ministerial Intersession Meeting hosted by Japan will be held on July 1st, 2018 and it is hoped that more substantial progress will be made in order to accomplish the negotiations this year. Although the negotiations have not yet been completed, this regional trade agreement has attracted the attention of other countries. The trade ministers have received messages of interests from partners such as Canada, Chile, Peru, Taiwan, Mercosur countries – such as Brazil and Argentina –, and Hong Kong.

Despite the progress, there are still many issues that have slowed down the conclusion of the RCEP: issues within ASEAN, between ASEANand its FTA partners (ASEAN-ASEAN+1), and within the six FTA partners.

Issues within ASEAN

One of the hurdles that complicate the trade negotiations is the varying degree of economic situation between ASEAN Member States. This can be seen from the vast differences in terms of GDP per capita, competitiveness, and ratio of total trade to GDP (see Table 1). Some countries, such as Singapore and Malaysia, are more advanced and more open to international trade than the least developed AMS, such as Cambodia and Myanmar. Hence the former will surely be ready to have further engagements with regional trade than the latter. These existing development gap may lead to different preparedness and readiness, and may affects the level of technical discussion during the negotiations.[6]

There is no doubt that the less-developed AMS are concerned whether they will be able to gain benefits from the RCEP due to their lack of economic capacity. According to Vo (2005) cited in Das (2014), further economic integration may lead to huge social costs incurred by the less-developed AMS due to structural adjustments and the risks of falling into a low-cost labour trap.[7]

Due to the different levels of development, each AMS may have different priorities, interests, and ambitions. This is something that ASEAN needs to resolve by finding a middle way to accommodate its members. In order to do so, ASEAN should have an internal discussion on certain issues before negotiating them in the RCEP forum.

If ASEAN cannot have one voice, it will affect ASEAN centrality in the negotiation process. ASEAN centrality can be distinguished into two roles, which are ASEAN as the facilitator of process and ASEAN as the driver of the substance.[8] For the former role, ASEAN has managed successfully to host, initiate, and chair any activities and meetings related to the RCEP. It was also ASEAN that introduced the RCEP concept at the 19th ASEAN Summit in 2011.

However, for the latter role, ASEAN seems to be struggling to drive the substance. One of the reasons, as mentioned previously, is due to different development gap that leads to different interests and pace among AMS. Nevertheless,

Table 1. Different level of development in ASEAN

Country	GDP per capita (at current USD, 2016)	Global Competitiveness Index*	Ratio of total trade to GDP (2016)
Brunei Darussalam	26,493	46	67.3
Cambodia	1,266	94	116.9
Indonesia	3,600	36	30.2
Lao PDR	2,402	98	45.5
Malaysia	9,464	23	119.4
Myanmar	1,297	n.a.	39.6
The Philippines	3,017	56	45.7
Singapore	52,963	3	212.1
Thailand	6,034	32	100.7
Vietnam	2,138	55	177.1

Source: World Economic Forum (2017) and ASEAN Secretariat (2017)
Notes: (*) out of 137 countries; n.a. is not available.

ASEAN should be applauded since it still has some influence on the substance – to some extent. For example, the Guiding Principles proposed in 2011 were largely accepted by its FTA partners in 2012.[9] It is important for ASEAN to lead on the substance to ensure that the RCEP will bring huge benefits for ASEAN.

In the end, ASEAN should stand together on the same position during the trade negotiations in order to maintain its centrality. In this regard, Iman Pambagyo, the Indonesian Trade Ministry's international trade negotiations director-general, urged ASEAN to have one voice when negotiating with partner countries in the RCEP.[10] By having one voice, ASEAN can ensure its centrality in the RCEP. Since the RCEP was initiated by ASEAN, it is natural for ASEAN to show its leadership to ensure the progress of the trade negotiations.

Issues within The Six ASEAN's FTA Partners

The challenges in concluding the RCEP is not only from within ASEAN but also from its six FTApartners. It is important to note that some of ASEAN's FTA partners do not have FTA relations with one another (see table 2). The non-existing FTAs among some of the parties lead to complications during the trade negotiations. It will be the first time for those parties to talk to each other in the RCEP forum about opening up their market due to the absence of bilateral FTAsbetween them. Hence, the RCEP does not simply mean integrating the existing ASEAN+1 FTAs, but also integrating participant countries with no bilateral FTAs with one another.

Table 2. FTA relations among RCEP members

Signed/Concluded/ Implemented	Under Negotiations	No Negotiations Launched
Australia – Japan (1 January 2015)	China – Japan – South Korea (March 2013)	Japan – South Korea
Australia – South Korea (12 December 2014)	New Zealand – India (April 2010)	Japan – New Zealand
Australia – New Zealand (1983)		India – China
Australia – China (November 2014)		China – Japan
Australia – India (launched in May 2011)		
China – New Zealand (1 October 2008)		
Japan – India (1 August 2011)		
India – South Korea (1 January 2010)		
South Korea – New Zealand (12 December 2014)		
China – South Korea (May 2012)		

Source: Pambagyo (n.a.)[11]

Currently, the China-Japan-South Korea FTA negotiations have been resumed and officials have committed to conclude the negotiations as soon as possible.[12] The FTA negotiations started in November 2012 at the 21st ASEAN conference and since then, 13 negotiating rounds have already been conducted. The accomplishment of the FTA will surely help the ongoing RCEP negotiations.

Harmonizing interests between ASEAN's six FTApartners is also difficult since they have competing interests and conflicting priorities. For example, India and New Zealand have a conflicting interest with regards to dairy products. New Zealand is known for its dairy products and it intends to increase its access to India's market since currently it has very low access. However, India is reluctant to open its market for food exports such as dairy.[13]

Moreover, while the other RCEP members have proposed to have tariff elimination coverage of up to 92 percent over five to ten years and to use the single-tier tariff reductions approach, India seems reluctant with the proposal. It is uncomfortable with the level of good liberalization that is considerably high for its country. India even previously suggested a three-tier approach in which there are different tariff reductions by countries. India would reduce 80 percent of tariff lines to ASEAN counties, with an initial reduction of 65 percent and it would be increased for the next 10 years. As for South Korea and Japan, India would reduce 65 percent of tariff lines. For those countries who do not have an FTA with India, it will reduce only 42.5 percent of tariff lines to Australia, New Zealand, and China.[14]

India's reservations towards the regional trade pact are not without reasons. Many stakeholders are afraid that the trade gap between India and other RCEP members will widen once the RCEP takes into effect. India has already experienced trade deficits annually with other RCEP members of up to USD 100 billion. Half of the deficit is with China, even without a bilateral FTA. After India concluded FTAs with ASEAN, Japan, and South Korea, its trade deficit has also been increasing. Businesses in India are also concerned that the RCEP may have negative implications on many sectors such as steel, aluminium, auto-components, and ready-made garments.[15]

On the other hand, India has urged for more services liberalization since it argues that the negotiation on services is not keeping pace with that on goods. During the negotiations, India proposed to eliminate non-tariff barriers in the services sectors, including IT and IT-enabled Services (ITeS) sector, so that it can have greater market access to other RCEP members. Furthermore, India also came up with the issue under Mode 4 (Movement of Natural Person) in the services sector by proposing work-visas to accommodate the movement of professional workers.[16]

The argument for these proposals is because the RCEP agreement is meant to be based on three pillars: goods, investment, and services. However, it seems that goods liberalization negotiations are making more progress than negotiations on services liberalization. For India, there should be a balance between goods, services and investment. It is therefore understandable for India to insist on pursuing the liberalization of services. However, other RCEP members are still reluctant for such kind of arrangement.

Hence, one possible step to overcome the existing challenges among the six ASEANFTApartners is to have some flexibility among participant countries and to find a balance in order to conclude the long-delayed regional FTA.

Issues Between ASEAN and ASEAN+1

Creating the RCEP means that all 16 participant members need to consolidate all the rules and arrangements under the existing FTAs among them, since currently they are very varied. Among the existing bilateral FTAs between ASEAN and its FTApartners, the ASEAN-India FTA has the lowest tariff elimination coverage, reaching only 79.6 percent. On the other hand, the coverage in the ASEAN-Australia & New Zealand FTA can reach up to 95.7 percent.[17] If tariff elimination coverage under the RCEP is lower than the target, it will likely reduce the economic gains.

In addition, ASEAN+1 FTAS are experiencing complex and distinct ROOs (rules of origin). In terms of ROOs, there are 22 different ROOs under the coexisting five “ASEAN+1 FTAs”. Therefore, it would require extra efforts to agree on ROOs that are acceptable for all participant countries. Moreover, only 30 percent of tariff lines under the ASEAN+1 FTAs have common ROOs. For example, the Japan-India FTA has 12 types of ROOs and 7 of them are unique from the other ASEAN+1 FTAs.[18] Adjusting all existing ROOs is another problem that needs to be resolved.

Policy makers need to find a middle way to accommodate all these differences, not only within the ASEAN+1 FTAs but also among the other six non-ASEAN countries.

Another issue that needs to be addressed is how the government of 16 participating countries can ensure that the business sector will utilize the RCEP. Once the FTA takes into effect, businesses should be eager to utilize it as it will give them more and easy access to 16 countries. However, it is also known that business utilization of the existing FTAs is somewhat low, if not moderate.

In the case of ASEAN-India FTA, the business utilization rate of the FTA is only 5.1 percent for exporters and 2.3 percent for importers under the ASEAN-Japan FTA. FTAs that have relatively high business utilizations are the ATIGA (ASEAN Trade in Goods Agreement) and the ASEAN-China FTA which reached slightly above 30 percent respectively.[19]

The reasons for the low utilization of FTAs are varied. Several reasons that become the impediments are, among others, complex ROOs, limited access to the FTA information, and low preference margins compared with MFN (Most favoured nation) tariffs.[20] In addition, businesses also find that the benefits of utilizing the FTAs are not too attractive. In order to utilize the FTAs, they need to deal with extra paperwork – which takes time – only to get slight benefits, hence they prefer not to use itat all.

Shinta Widjaja Kamdani, Vice Chairwoman of International relations, *KADIN* (Indonesia Chamber of Commerce and Industry), admitted

that the existing FTAs have not been fully utilized. It becomes problematic if the FTAs are already taken into effect but the products to be traded are not yet ready. Hence it is important to prepare the industry and the products so that the FTA can be fully utilized.

These are the issues that should be prevented by the governments of the 16 countries if they want the RCEP to be successful in improving economic prosperity in the region.

To Move Forward? Balance and Flexible

Members of the RCEP are more diverse than the TPP since there are both less-developed and developed countries. Hence, there are some countries that have higher ambitions than others. The RCEP can only be concluded if the 16 participant countries are willing to be flexible and harmonize their interests in order to overcome all the challenges.

Balance and flexible are the two key words in order to conclude the regional trade pact. Policy makers need to ensure the balance between goods, services, and investment negotiations; balance between ambition and sensitivities. In addition, a flexibility clause under the RCEP framework will be able to accommodate the development differences among participant countries. While being flexible is the right thing to do to get every country on board, nevertheless, the policy makers need to ensure that the flexibility will not become the bottleneck for the RCEP's conclusion.

It is true that governments should not be in haste to conclude the RCEP because it is important to ensure that the trade agreement will be mutually beneficial for all participant members. However, if the policy makers of the 16 countries fail to conclude the regional FTA this year, it may reduce their credibility. Moreover, another delay will only give more rooms for people to become more skeptical towards the trade pact. Surely the latter one will add another burden for governments to restore public perceptions on the benefits that can be brought by the RCEP. They should not risk another delay this year so as not to raise doubt from its stakeholders.

In the end, accomplishing the RCEP will be important for ASEAN to show the world that amidst the rise of protectionism, anti-trade, and anti-globalization sentiments, ASEAN will further contribute to the greater economic integration in the Asia-Pacific.

Recommendation

First, ASEAN should show more leadership in order to conclude the negotiations. It is also important for ASEAN to maintain its centrality by further leading the substances and the negotiation process.

Second, ASEAN should ensure that the results of the negotiations will be able to balance all the existing interests among 16 participating countries. Since there are more developed countries and less developed countries in the negotiations, it should also maintain some flexibility so that the negotiations can be accomplished.

Third, ASEAN and the other six ASEAN FTApartners need to ensure that once the RCEP takes into effect, the FTA can be fully utilized by the business sector across 16 countries. Major accomplishment of an FTA is not only about the governments success in concluding the agreement but also how the FTA can actually be fully utilized and bring benefits for the people.

Endnote

1 La Meeryung (2017), 'Regional Comprehensive Economic Partnership (RCEP): Progress and Challenges', *World Economy Brief,* June 12, 2017, Vol. 7, No. 12, p. 2.

2 ASEAN Secretariat (2018), 'The Fourth Regional Comprehensive Economic Partnership (RCEP) Intersessional Ministerial Meeting', retrieved on April 18 from: http://asean.org/storage/2018/03/JMS-4th-RCEP-ISSL-MM-FINAL-0303181.pdf.

3 *Ibid.*

4 The New Strait Times (2018), 'RCEP working towards substantial conclusion by year-end – Jayasiri', March 3, retrieved on April 19 from: https://www.nst.com.my/business/2018/03/341057/rcep-working-towards-substantial-conclusion-year-end-jayasiri.

5 Khmer Times (2018), 'RCEP agreement edges closer to conclusion', March 6, retrieved on April 19 from: http://www.khmertimeskh.com/50112052/rcep-agreement-edges-closer-conclusion/.

6 Straits Times (2017), 'Will RCEP be a reality by the end of 2017?', April 3, retrieved on April 19 from: http://www.straitstimes.com/asia/se-asia/will-rcep-be-a-reality-by-the-end-of-2017.

7 Sanchita Basu Das (2014), 'The Regional Comprehensive Economic Partnership: New Paradigm or Old Wine in a New Bottle?', *ISEAS Economics Working Paper No. 2014-3,* retrieved from: https://www.iseas.edu.sg/images/pdf/iseas_economics_working_papers_2014_3.pdf. p. 19.

8 Yoshifumi Fukunaga (2014), 'ASEAN's Leadership in the Regional Comprehensive Economic Partnership', *Asia & the Pacific Policy Studies, vol. 2, no.1, pp. 103-115,* retrieved from: https://onlinelibrary.wiley.com/doi/epdf/10.1002/app5.59, p. 104.

9 *Ibid,* p. 109.

10 The Jakarta Post (2018), 'Indonesia calls for unified ASEAN position in RCEP talks', March 26, retrieved on April 19 from: http://www.thejakartapost.com/news/2018/03/26/indonesia-calls-for-unified-asean-position-in-rcep-talks.html.

11 Iman Pambagyo (n.a.), 'RCEP: Progress, Challenges & Outlook', retrieved on April 19 from: https://www.iseas.edu.sg/images/centres/asc/pdf/RCEPIman.pdf.

12 ICTSD (2018), 'Trilateral Trade Talks Resume Between China, Japan, and South Korea', March 29, retrieved on April 19 from: https://www.ictsd.org/bridges-news/bridges/news/trilateral-trade-talks-resume-between-china-japan-and-south-korea.

13 Businessday (2018), 'Patience running out with RCEP Asian trade talks', March 5, retrieved on April 29 from: https://www.stuff.co.nz/business/industries/101972781/patience-running-out-with-rcep-asian-trade-talks

14 Kyle Robert Cote and Purna Chandra Jena (2015), 'India's FTA and RCEP Negotiations', *Discussion Paper, September 2015,* p. 12.

15 The Hindu (2017), 'India's concern slowing RCEP talks', July 25, retrieved on April 19 from: http://www.thehindu.com/business/indias-concerns-slowing-rcep-talks/article19359808.ece

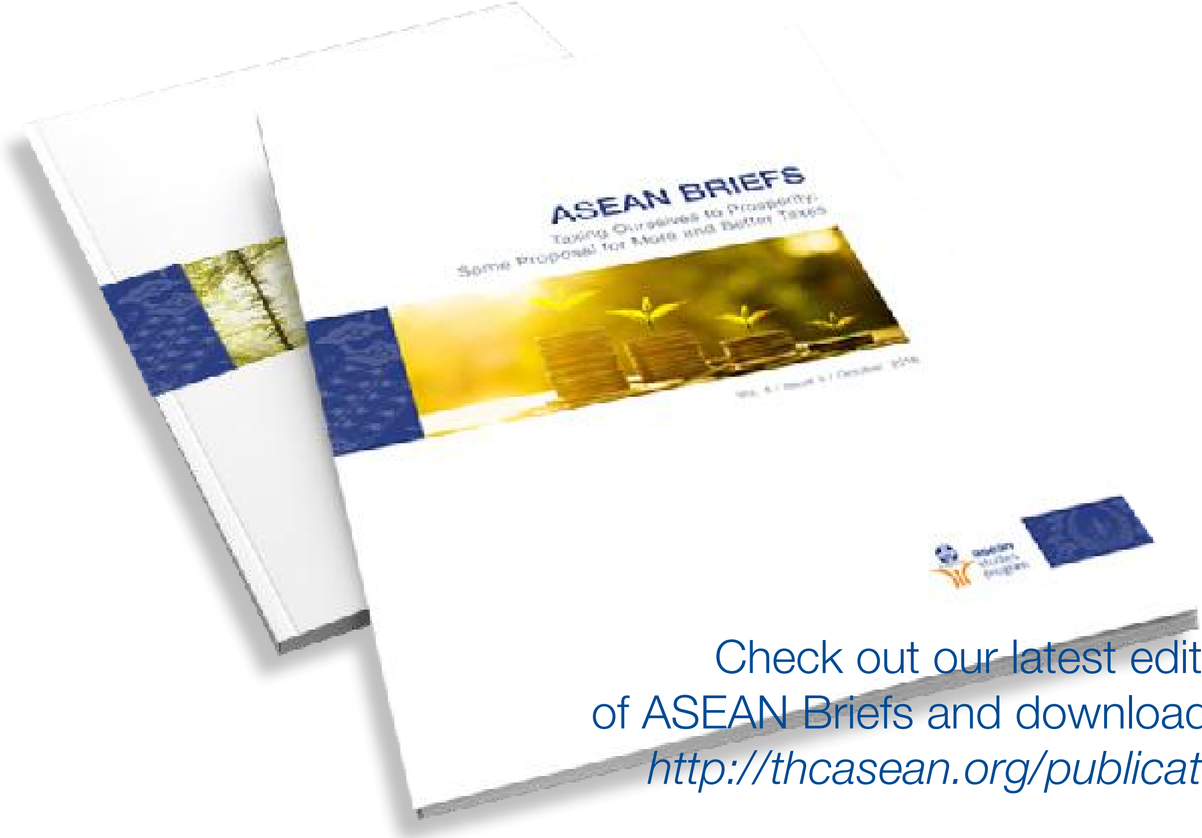
16 The Hindu Business Line (2018), 'ASEAN pushes India to conclude RCEP this year', January 22, retrieved on April 19 from:https://www.thehindubusinessline.com/economy/policy/asean-pushes-india-to-conclude-rcep-this-year/article10046655.ece

17 Wang Yuzhu (2013), 'The RCEP Initiative and ASEAN "Centrality"', December 6, retrieved on April 19 from: http://www.ciis.org.cn/english/2013-12/06/content_6518129.htm

18 Jayant Menon (2013), 'The challenge facing Asia's Regional Comprehensive Economic Partnership', June 23, retrieved on April 19 from: http://www.eastasiaforum.org/2013/06/23/the-challenge-facing-asias-regional-comprehensive-economic-partnership/.

19 Pasha L. Hsieh (2017), 'The RCEP, New Asian Regionalism and the Global South', *IILJ Working Paper 2017/4* (MegaReg Series), p.25.

20 *Ibid.*



Check out our latest edition
of ASEAN Briefs and download at
http://thcasean.org/publication

About The Habibie Center

The Habibie Center was founded by Bacharuddin Jusuf Habibie and family in 1999 as an independent, non-governmental, non-profit organisation. The vision of The Habibie Center is to create a structurally democratic society founded on the morality and integrity of cultural and religious values. The mission of The Habibie Center are first, to establish a structurally and culturally democratic society that recognizes, respects, and promotes human rights by undertaking study and advocacy of issues related to democratization and human rights, and second, to increase the effectiveness of the management of human resources and the spread of technology.

About ASEAN Studies Program

The ASEAN Studies Program was established on February 24, 2010, to become a center of excellence on ASEAN related issues, which can assist in the development of the ASEAN Community by 2015. The Habibie Center through its ASEAN Studies Program, alongside other institutions working towards the same goal, hopes to contribute to the realization of a more people-oriented ASEAN that puts a high value on democracy and human rights. The objective of the ASEAN Studies Program is not merely only to conduct research and discussion within academic and government circles, but also to strengthen public awareness by forming a strong network of civil society in the region that will be able to help spread the ASEAN message. With the establishment of ASEAN Studies Program, The Habibie Center aims to play its part within our capabilities to the ASEAN regional development.

About Talking ASEAN

Talking ASEAN is a monthly public dialogue held at The Habibie Center in Jakarta. Covering a wide array of issues related to ASEAN, Talking ASEAN addresses topics of: Economic Integration, Socio-cultural, & Democracy, human rights and regional peace, among others. Featuring local and visiting experts, Talking ASEAN is one of a series of twelve dialogues regularly held each month and open to a target audience consisting of ASEAN officials, foreign ambassadors & diplomats, academics, university students, businesses, and the media.

Cover Image: Water Street
https://pexels.com

www.thcasean.org

asean studies program

ASEAN Studies Program - The Habibie Center

The Habibie Center Building - Jl. Kemang Selatan No.98, Jakarta 12560
Tel: 62 21 781 7211 | Fax: 62 21 781 7212 | Email: thc@habibiecenter.or.id

facebook.com/habibiecenter @habibiecenter @habibiecenter