

The Regional Comprehensive Economic Partnership (RCEP): The World's Interest and Competition Concentrated in the Indo-Pacific Region

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"...Asia's growing economic and political importance and the increasing strategic rivalry between the US and China. It is already foreseeable today that, more than anywhere else, the shape of tomorrow's international order will be decided in the Indo-Pacific..."

- Former German Foreign Minister Heiko Mass¹

1. Introduction

In the last term of his presidency, US President Barack Obama stressed that the focus of US security and economic policy would be on the Indo-Pacific region. There were two important reasons for this shift in strategy: the first was to be able to control China's rise as a global superpower and the expansion of its economic and military power in the region. This strategy was exemplified by the current US Secretary of State, Tony Blinken, who commented on Washington's relationship with China in a speech on March 2021: "Our relationship with China will be competitive when it should be, cooperative when it can be, and hostile when it should be."² Secondly, the Indo-Pacific region is a bloc with strong economic dynamism and is of great importance for the future international order.

Against the background of these developments, this region has become an important geo-economic and geostrategic reference point for the European Union, especially for Germany, France, and the Netherlands. With the Indo-Pacific Reports drawn up in 2020, the German government has included developments in this region among its foreign policy priorities. Brussels is currently preparing its own EU strategy on this issue. The main objective of these approaches is to diversify, deepen, and thematically expand relations with countries in the region outside China. In this way, Germany and the EU, together with the United States and China, seek to play a decisive and active role in shaping developments in this dynamic region. Former German Foreign Minister Heiko Mass summed up Germany's interests in the region as follows: "... The more we deepen our approach to the Indo-Pacific in the European context, the more successful we will be. Germany supports the expansion of European participation in the region and wants to coordinate closely with its European partners..."³

¹ Germany-Europe-Asia, "Shaping the 21st Century Together: Policy guidelines for the Indo-Pacific," Leitlinien zum Indo-Pazifik, auswaertiges-amt.de.

² US Department of State, "A Foreign Policy for the American People," Speech by Antony J. Blinken, Secretary of State, 3 March 2021, (accessed 10 August 2021).

³ Germany-Europe-Asia, "Shaping the 21st Century," 1.

One of the most important determinants of the increased interest in this region is the implementation of the Regional Comprehensive Economic Partnership (RCEP).

The negotiations on the RCEP were signed on 15 November 2020 at the ASEAN virtual summit in Hanoi, the capital of Vietnam. Since 2012, the countries of the region have been discussing the terms of a regional free trade agreement. The negotiations were finally concluded after eight years, after 31 rounds and 18 meetings at the ministerial level. The RCEP is a free trade agreement and an exemplary regional economic integration service covering almost one-third of the world's population and GDP. The members of the RCEP are Brunei, Indonesia, Cambodia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam, the People's Republic of China, Japan, South Korea, Australia, and New Zealand. Last year, India pulled out of the RCEP at the last minute, as the deal would potentially have a negative impact on its domestic industry. While the door remains open given the ongoing problems with China, it seems unlikely that New Delhi will return to the RCEP anytime soon. With this agreement, one of the main goals of ASEAN countries is to build a strong trade partnership against the Trans-Pacific Partnership (TPP).

Chinese Premier Li Keqiang has praised the signed free trade agreement, saying it will contribute to the "recovery and growth of the global economy." In addition, he has described the signed agreement as a "light and hope emerging from the dark clouds."⁴ The prime minister summed up the current international problems such as the COVID-19 crisis, the trade war between China and the United States, and protectionist trends. He claimed that the signing of the RCEP is not only a huge achievement for regional integration, but "above all a victory for multilateralism and free trade... There will be a new impetus for development and prosperity in the Asia-Pacific region. This shows that multilateralism and free trade are the right way forward for us."⁵

2. What is the Meaning and Economic Importance of the RCEP?

By definition, the RCEP is an agreement aimed at removing protectionist barriers to trade between two or more countries.⁶ However, each country will continue to implement its own external trade policy vis-à-vis third countries. The agreement reduces customs duties between member states and lays down the rules of common trade, thus facilitating the functioning of supply chains between members. RCEP covers not only provisions on intellectual property, trade,

⁴ "Signing of RCEP 'a victory of multilateralism, free trade': Chinese Premier Li Keqiang," CGTN, 15 November 2020, <https://news.cgtn.com/news/2020-11-15/RCEP-signing-victory-of-multilateralismfree-trade-Chinese-premier-Vr5py7BiNi/index.html>.

⁵ "RCEP: 'Asia-Pacific countries form world's largest trading bloc,'" BBC, 16 November 2020, <https://www.bbc.com/news/world-asia-54949260>.

⁶ For more information about the RCEP, see: Hanns Günther Hilpert, "Neue Handelsabkommen in Asien," WP-Aktuell 2021/A 23, 18 March 2021, Neue Handelsabkommen in Asien - Stiftung Wissenschaft und Politik, swp-berlin.org.

services, investment, e-commerce, telecommunications, and copyright but also the elimination of a number of import tariffs over the next 20 years.⁷

The total population of RCEP countries is 2.2 billion people. Before the COVID-19 pandemic, RCEP countries accounted for 29% of global trade in 2020,⁸ slightly less than the EU's 33% share. However, the RCEP community's share of world trade is expected to increase. It is predicted that in the future, the new free trade bloc could have a larger market than the US-Mexico-Canada (NAFTA) and the European Union.

The fact that China, Japan, and South Korea met for the first time to conclude a trade agreement is a truly remarkable historical event.⁹ As a result, the fifteen countries of the RCEP have created the world's largest trading bloc, accounting for 30% of global GDP (US \$26.2 trillion as of 2020).¹⁰ This new free trade agreement, especially in light of China's ongoing trade war with the United States, is considered a great success for the administration of the Communist Party in Beijing.

The main purpose of the US-China trade war is to stop China's rise in the world economy and prevent the formation of a new superpower. However, when Washington decided not to join the TTP and stay away from developments in the region, Beijing seized the opportunity to push through with regional integration by means of a free trade agreement that it strongly supported by the economies of the Indo-Pacific region. According to recently published computer simulations, the RCEP is expected to contribute US \$209 billion annually to global sales and US \$500 billion to world trade by 2030.¹¹ The new agreement aims to make the economies of East and Southeast Asia more efficient and strengthen cooperation in the fields of technology, production, agriculture, and the use of natural resources.¹²

2.1. Who Will Benefit from the RCEP?

The Peterson Institute for International Economics estimates that the agreement could increase global national income by US \$186 billion per year by 2030 and contribute 0.2% to member

⁷ From the point of view of trade policy, the liberalization and facilitation of trade in goods is at the heart of the agreement. With its enactment, 65 percent of RCEP intra-trade trade will be duty-free, with at least 92 percent projected after twenty years.

⁸ "Regional Comprehensive Economic Partnership (RCEP)," Congressional Research Service, 5 August 2021, <https://crsreports.congress.gov/product/pdf/IF/IF11891>.

⁹ Firms in Japan expect the RCEP to boost trade and investment between Asian countries, with the RCEP, which covers about 46% of Japan's total trade, as the country's first trade deal with both China, its largest trading partner, and South Korea, its third-largest partner. See the articles in *The Japan Times* about the RCEP: <https://www.japantimes.co.jp/tag/rcep/>.

¹⁰ Totis Kotsonis, "15 Asia-Pacific countries form world's largest trading bloc RCEP," Out-Law News, Pinsent Masons, 26 November 2020, <https://www.pinsentmasons.com/out-law/news/15-asia-pacific-countries-form-worlds-largest-trading-bloc-rcep>.

¹¹ Peter A. Petri and Michael Plummer, "RCEP: "A new trade agreement that will shape global economics and politics," Brookings, 16 November 2020, <https://www.brookings.edu/blog/order-from-chaos/2020/11/16/rcep-a-new-trade-agreement-that-will-shape-global-economics-and-politics/>.

¹² "RCEP: A new trade agreement that will shape global economics and politics," RCEP, accessed 28 November 2022, <https://rcepsec.org/2020/11/26/rcep-a-new-trade-agreement-that-will-shape-global-economics-and-politics/>.

states' economies.¹³ However, some analysts predict that the agreement will bring more economic benefits to China, Japan, and South Korea than to other member states.¹⁴ It is estimated that about half of this contribution will go to China, a quarter to Japan, and another quarter to other member states. These new developments also promote regional relations and greater cooperation between China, Japan, and South Korea. Furthermore, the agreement now enables ASEAN countries to establish and expand supply networks with Japan, China, and South Korea.

TABLE 1:



3. CPTPP and TPP/11: How Can the United States Develop Its Far East Policy?

In January 2017, US President Donald Trump’s administration withdrew from the TPP. As a result, the remaining eleven countries continued to pursue their initiatives outside Washington (see Table 1). Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam signed the Comprehensive and Progressive Agreement for Transpacific Partnership (CPTPP) or TPP-11 on 8 March 2018. On 30 December 2018, the agreement entered into force for Australia, Japan, Canada, Mexico, New Zealand, and Singapore. On 14 January 2019, Vietnam joined the bloc. Brunei, Chile, Malaysia, and Peru have not yet ratified the CPTPP. In 2020, CPTTP countries collectively held a 15% share of world trade, a 13% share of global GDP, and accounted for only 7% of the world’s population.

When US President Joe Biden moved into the White House on 20 January 2021, he was faced with an urgent international affairs agenda. As Jeffrey D. Sachs stated, “... In the aftermath of the US elections, America and the world face two pressing challenges. First, President-elect Joe Biden will wage an uphill battle to restore some degree of domestic stability. Second, other parts of the world should pursue their own paths of global cooperation, rather than waiting in vain for the

¹³ “RCEP: ‘Asia-Pacific countries,’” BBC.

¹⁴ Ibid.

United States to return to global leadership.”¹⁵ Even without American involvement, the CPTPP is one of the most successful trade agreements since the World Trade Organization (WTO) was founded in 1995. When the agreement enters into force, trade in industry and goods will be almost completely liberalized, and 86% of customs duties will be abolished; after fifteen years this rate will rise to 99%. All relevant protection standards will apply to investments.¹⁶

3.1. Growing Interest in CPTTP

The enlargement process will depend on the CPTPP proving successful in trade, geopolitical, and geo-economic issues.

So far, the United Kingdom has been the only additional country to have officially applied for membership, on 1 February 2021. London dreams of being able to return to its good old days under the logo of “Global Britain” by creating a new beginning and making breakthroughs in foreign trade policy at the global level after Brexit. This step is part of London’s aim to resurrect the British Empire. London’s goal is to bring together Commonwealth members in the region to create an active political and economic power in the Indo-Pacific region, including Canada, Australia, New Zealand, Singapore, and India. The United States is encouraged to join this group.

As a result of all these developments, two intertwined free trade zones have formed in the Indo-Pacific region, CPTPP and RCEP. Over time, the countries of the region can move from one bloc to the other, considering the economic advantages offered by this regional cooperation, and these two separate entities can transform into a single free trade area.

4. Why Has India Not Joined the RCEP?

India did not support the RCEP compromise, which was reached after 31 rounds of negotiations and 18 ministerial meetings, and withdrew from the process in November 2019. In the meantime, we would like to briefly discuss the reasons why India gave up its membership of RCEP at the last moment. There may be two main reasons for this: First, tensions between India and China escalated significantly in 2020 and escalated into a minor military conflict in the Himalayas. Against this backdrop, New Delhi felt the need to rethink its foreign policy and now seems more willing to participate on the front line against China, along with the United States, Japan, Australia, New Zealand, and other democratic states. Therefore, it currently is difficult for India to join a free trade agreement that includes China.

The second reason is that economists Petri and Plummer estimate that India will lose US \$60 billion a year in revenue if it does not join the deal.¹⁷ The Indian government fears fierce

¹⁵ Jeffrey D. Sachs, “America’s Political Crisis and the Way Forward,” Policy Syndicate, 27 November 2020, <https://www.project-syndicate.org/onpoint/america-political-crisis-and-global-cooperation-by-jeffrey-d-sachs-2020-11>.

¹⁶ Hanns Günther Hilpert, 6.

¹⁷ Peter A. Petri and Michael G. Plummer, “East Asia Decouples from the United States: Trade War, COVID-19, and East Asia’s New Trade Blocs,” PIIE, Working Papers 20-9, June 2020, <https://www.piie.com/publications/working-papers/east-asia-decouples-united-states-trade-war-covid-19-and-east-asias-new>.

competition with China for industrial products, competition with Australia for dairy products, and competition with Southeast Asia for spice products.¹⁸

In addition to all these reasons, the Indian government has rediscovered an economic policy oriented towards the internal market and is trying to restrict foreign trade. This policy pursued by Indian Prime Minister Modi, which is based on a high degree of Indian “self-sufficiency,” is called “Atmanirbhar Bharat.” In short, New Delhi today follows a self-sufficient, inward-looking industrialization strategy that John Maynard Keynes would describe as a “national self-sufficiency dream.”¹⁹

5. What Does the European Union Think?

The European Union gives priority to its economic interests in its relations with Indo-Pacific countries. China occupies a very important place in these relations. In addition, from a geo-economic point of view, Europe, especially Germany, views the Indo-Pacific region among its most important foreign trade partners, including China, Japan, India, South Korea, and Southeast Asian countries, which are developing rapidly economically. The majority of these countries are among the fastest growing advanced economies in the world.

Germany in particular wants to further expand its relations with the countries of this region due to its export-oriented economic structure. However, the struggle of the superpowers between China and the United States could force the countries of the region, and especially EU members, to choose between the two powers. Recently, the Western media has put forward the thesis that China could intervene militarily in Taiwan through the South China Sea. In line with this perception, France, Britain, and the Netherlands have sent warships to the region.²⁰ Even Berlin, which in the past had little to do with the region outside the Wilhelmine era,²¹ plans to send a frigate named *Bayern* to the region.²²

With regard to the European Union’s trade policy, the bloc should aim to improve cooperation with the region for two important reasons: firstly, it can reduce Europe’s existing dependence on

¹⁸ Ibid.

¹⁹ John Maynard Keynes, “National Self-Sufficiency 1933,” (originally published in the *Yale Summer Review*, 1933) Panarchy, <https://www.panarchy.org/keynes/national.1933.html>.

²⁰ Britain, France, Germany, the Netherlands, Canada: All are sending warships to the South China Sea in growing “pushback” against Beijing. See, https://www.reddit.com/r/China_Debate/comments/lvhvt4/britain_france_germany_holland_canada_all_are.

²¹ At the end of the 19th century, following the example of other European countries, the German Empire aimed to support its economic interests in China by acquiring a permanent trade and naval base. After a long discussion, Germany set its sights on the Kiautschou/Jiaozhou Bay. The murder of German missionaries in 1897 served as the Imperial Navy’s pretext to invade the bay.

²² “The Bayern frigate sailed for the Indo-Pacific in early August as a contribution to maintaining Germany’s ‘rules-based international order’.” Berlin sees the rules-based international order threatened by its vast territorial claims in the South China Sea, including at least China’s Artificial Islands.” Felix Haiduk, “A Delicate Mission: The Frigate Bayern, the Rules-Based International Order and the Status of Diego Garcia,” SWP, Point of View 2021, 24 August 2021.

the Chinese market by expanding its trade and investment networks outside China into other countries of the Indo-Pacific region. Bilateral and multilateral relations can be a useful political breakthrough. The first step of this policy could be to conclude the ongoing negotiations on a free trade agreement between the EU and Australia and New Zealand, which have been in force since mid-2018.

Second, the EU and the CPTPP can mutually agree to further development and modernize global trade rules, in particular in the areas of intellectual property rights, sustainability, financial safeguards, subsidies, state-owned enterprises, digital trade, and investor-to-state dispute settlements. In this way, they can provide an excellent political and legal basis for a Euro-Indo-Pacific partnership that will have foreign policy implications beyond trade policy.

The first important question for Brussels is whether the 27 EU members can jointly reach a consensus on a “Joint Indo-Pacific” strategy. The current perspective is that France and the Netherlands, which have a colonial background in the region, are preparing their own policies. If the EU cannot agree on a common strategy, each country will pursue policies that put its own national interests first.

6. Conclusion

In such a situation, three different scenarios arise for the future. The Quad States, a group of four countries—the United States, Japan, India, and Australia—held their first meeting on 21 March 2021, agreeing to collaborate on climate, health, and technology. Beijing perceives this formation as a bloc forming against it. In addition to this cooperation, Washington and London, because of their historical ties, can create expanded regional economic, political, and military power involving Canada, Australia, New Zealand, India, and Singapore.

Second, despite all these developments, China can use its economic weight in the region to exert economic and political pressure on the countries of the region to rally around Beijing. Thirdly, it is not yet known whether the EU will act as a lone and neutral actor or join the US group. If Brussels is unable to formulate a common Indo-Pacific policy, each of the member states will act in its national interest. This may lead to member states participating in different blocs.

In short, developments in the Indo-Pacific region in the coming years will draw the attention of the world public and media to the formation of these blocs as well as possible political-military and, above all, economic conflicts of interest.

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