



Regional Comprehensive Economic Partnership:

Implications, Challenges, and Future Growth of East Asia and ASEAN

Edited by

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**Ministry Of
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**Regional Comprehensive Economic Partnership:
Implications, Challenges, and Future Growth of East Asia and ASEAN**

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Preface

The Regional Comprehensive Economic Partnership (RCEP), signed on 15 November 2020, is the largest free trade agreement (FTA) in the world. It comprises the 10 Association of Southeast Asian Nations (ASEAN) Member States (i.e. Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam) and five countries in the region with which ASEAN has FTAs (i.e. Australia, China, Japan, the Republic of Korea, and New Zealand). RCEP came into effect on 1 January 2022 through the ratification of six ASEAN Member States (i.e. Brunei Darussalam, Cambodia, Lao People's Democratic Republic, Thailand, Singapore, and Viet Nam) and Australia, China, Japan, and New Zealand.

RCEP is the world's largest regional trading bloc, consisting of a combined population of 2.2 billion people (30% of the world), total regional gross domestic product (GDP) of around \$38,813 billion (30% of global GDP in 2019), and nearly 28% of global trade. This regional multilateral FTA sets an important agenda for trade and regional integration and the creation of dynamic regional and global production value chains. It mobilises and releases huge resources for trade and investment in global trade in terms of opening the large domestic markets (i.e. demand) of East Asia. RCEP is expected to benefit not only East Asia but also to have a global impact, as indicated by the recent studies in this book. Open regionalism and global trade in terms of a rules-based trading framework will be enhanced by RCEP, which is also expected to have a significant impact on the pandemic and post-pandemic recovery of the region.

One of the key features of RCEP is the role of ASEAN as the centre of activities for regional integration in East Asia. ASEAN centrality is important and necessary for enhancing regional cooperation, facilitating, and supporting the 'living' agreement of RCEP, and inducing greater liberalisation and deeper structural reforms in the region for all ASEAN Member States to fully benefit from the RCEP agreement.

The first book, *The Regional Comprehensive Economic Partnership (RCEP): Implications, Challenges, and Future Growth of ASEAN and East Asia*, focusses on the key social, economic, and political dimensions of RCEP. It details the key agenda to maximise the impact of RCEP on ASEAN and East Asian countries in the pandemic and post-pandemic recovery. The book provides a framework for creating sustainable and inclusive growth for ASEAN as well as greater regional integration.



Pan Sorasak

Chair of ASEAN Economic Ministers
Minister of Commerce
Kingdom of Cambodia



Preface

The Regional Comprehensive Economic Partnership (RCEP) became the largest free trade agreement in the world when it was signed in 2020. It comprises the 10 members of ASEAN (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam) and five other countries in the region – Australia, China, Japan, the Republic of Korea, and New Zealand. It encompasses a combined population of 2.2 billion people (30% of the world population), a total regional gross domestic product (GDP) of around \$38,813 billion (30% of global GDP in 2019), and nearly 28% of global trade.

RCEP sets an important agenda by releasing huge resources for trade and investment, and creating dynamic regional and global value-chain activities. It is a critically important framework for global trade and regionalism, especially given the current context of uncertainty and inward-looking policies due to the coronavirus disease (COVID-19) pandemic. It provides an impetus for global trade and investment and supports open regionalism.

RCEP, however, is not yet fully understood by many in terms of its features, commitments, likely impact, and how it differs from the other trade agreements. Moreover, RCEP introduced several new features not previously seen in other agreements, such as 'differential tariff concessions', co-sharing, single rules of origin, and transition from positive to negative list in services liberalisation. All of these are likely to create new dynamics in the implementation of the agreement and potentially create impacts different from those of other previously signed agreements.

Last year ERIA initiated another round of research on RCEP, strongly motivated by seeking to raise the awareness of stakeholders of the potential value added and the complexity of some modalities used by the agreement. Our research is a reflection of ERIA's strong commitment to supporting deeper ASEAN and East Asia regional integration. In fact, we are proud to mention that ERIA recommended the conclusion of RCEP negotiation as one of its recommendations in the Mid-Term Review (MTR) of AEC Blueprint 2015, which was submitted to the ASEAN Economic Ministers (AEM) during Cambodia's ASEAN Chairmanship in 2012. The MTR found that stronger links with the other East Asian economies are critical for robust economic growth in ASEAN, supporting the idea of RCEP.

ERIA's research this time assesses various elements of the agreement and potential implications for economic integration in the region. It highlights the key features of the agreement and sets out to demonstrate how these could strengthen regional integration. The impact on businesses, behind-the-border issues, and lack of domestic capacity of some RCEP members are also assessed. Adding another dimension is some discussion of how implementation of the agreement is entangled with the COVID-19 pandemic recovery.

This book is the first of three books ERIA intends to publish. This volume is provided to quickly disseminate some of the key findings of our research. ERIA is privileged to be part of this second-track process as there is an urgent need from the stakeholders, including government, and especially businesses and consumers, for guidance on how they can adjust or maximise the welfare impact arising from the implementation of the agreement. Most of the authors of this volume, in addition to our in-house economists, are experienced researchers and have been frequent participants in projects organised by ERIA. This book also serves as an important reference for researchers and students of international trade and related subjects.

ERIA looks forward to extending its fruitful partnership with the members of the East Asia Summit in a region-wide and people-oriented collective effort to strengthen Southeast Asian and East Asian economic integration. I would like to thank all contributors and I look forward to further collaboration.



Professor Hidetoshi Nishimura

President, Economic Research Institute for ASEAN and East Asia



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CHAPTER 1

RCEP and East Asian Regional Integration

Fukunari Kimura
Shandre Thangavelu
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Introduction

The Regional Comprehensive Economic Partnership (RCEP) came into force on 1 January 2022. It was completed on 15 November 2020, comprising the 10 Member States of the Association of Southeast Asian Nations (ASEAN) and five countries in the region with which ASEAN has existing free trade agreements (FTAs) – Australia, China, Japan, the Republic of Korea (henceforth, Korea), and New Zealand. RCEP came into effect following its ratification by six ASEAN Member States – Brunei, Cambodia, the Lao People's Democratic Republic (Lao PDR), Thailand, Singapore, and Viet Nam; and four non-ASEAN member countries – Australia, China, Japan, and New Zealand. Korea joined on 1 February 2022 and Malaysia will join on 18 March 2022.

RCEP is the largest global trading bloc, consisting of nearly 30% of the world population, with a total gross domestic product (GDP) of 30% of global GDP in 2019, and nearly 28% of global trade. It sets an important agenda for global trade and investment in terms of opening large domestic markets, leveraging large infrastructure and technologies, and creating dynamic regional and global value chain (GVC) activities.

RCEP provides an important framework for addressing issues related to rising protectionism due to globalisation and the coronavirus disease (COVID-19) pandemic shock. Recent evidence from Rodrik (2021) has shown rising protectionism due to globalisation and the distributional effects of global trade in the pre-COVID-19 period. The rising popularity of protectionist policies is in line with previous periods of protectionism – based on globalisation benefiting the rich and wealthy, but harming the middle class (Rodrik, 2021). However, the study highlighted three key differential factors for the current intensity of the popularity of protectionist policies: (i) trade, (ii) immigration and refugees (movement of people), and (iii) financial globalisation (economic and pandemic shocks).

The COVID-19 pandemic shock has had a devastating impact on regional and global economic growth, and is expected to generate social, economic, and political transformation (Kimura et al., 2020). Recent World Bank studies (2021; 2022) have highlighted the uneven impacts of the COVID-19 pandemic shock within and between countries. The inequality within countries has widened due to the severe impact of the pandemic shock on the jobs and incomes of vulnerable populations (unskilled workers, low-income households, and informal workers) and the disruptive impact on the education of young people (especially in developing and less developed countries). The effects of pandemic within the countries are concentrated on labour-intensive which

require movement of people industries such as tourism, garment and textiles, hotel and restaurant, and informal sectors. The inequality within countries is also expected to be exacerbated by digital transformation of the domestic economies. The inequality between countries has also widened due to the differential impacts of the pandemic shock, as a result of stable fiscal resources, better healthcare infrastructure, and firm institutional policy responses to pandemic policies (e.g. vaccinations and greater support for businesses in developed rather than developing countries).

Recent studies by Kimura (2019; 2021) have highlighted the importance of the rules-based international trading order as an essential condition for effective and efficient functioning of international production networks (IPNs) in East Asia. The production processes in the global production value chains are located overseas, requiring close coordination of the movement of intermediate goods and services. This necessitates a rules-based trading system that allows for stable and dynamic GVC activities in the region. However, the rules-based trading system has become weaker over the past decade due to the United States (US)–China trade war and the weakness of the World Trade Organization (WTO) in supporting the current global trading system, amplified by the crisis of the WTO Appellate Body (Kimura, 2021).

Trade and openness are key strategies to create investment and employment, reduce poverty and income inequality, and generate structural transformation in the domestic economy and the region (Pangestu, 2022). Trade and GVCs are critical for a sustainable and inclusive post-pandemic recovery in terms of poverty reduction and for creating a stable and resilient recovery process in terms of a digital and green transformation of regional trade (World Bank and WTO, 2022). In addition, mega FTAs such as RCEP and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) are crucial to mitigate and manage the uncertainties and policy risks of market exchange in investment and trade in view of rising anti-globalisation and weakening of the global trading system (Kimura, 2021). Multilateral agreements such as RCEP have several important roles: (i) liberalising trade and investment in the region; (ii) responding to new global issues and challenges, (iii) expanding and maintaining the resilience of IPNs, (iv) building a coalition of 'middle powers' to support free trade, and (v) supporting and maintaining the integrity of the rules-based trading system (Kimura, 2021).

Importance of RCEP as a Framework for Regional and Global Integration

RCEP is an important framework for global trade and regionalism, given the current context of uncertainty and inward-looking policies in response to the COVID-19 pandemic and the US–China trade war. The impact of RCEP is expected to provide market access and expand the global production value chain activities in the region. Recent studies have highlighted the positive impact of RCEP on the GDP, investment, and welfare of RCEP member countries and the positive impact on ASEAN Member States (Itakura, 2022; Park, Petri, and Plummer, 2021; Park, 2022). Itakura (2022) highlighted the positive impact on GDP, with strong trade and investment facilitation in RCEP member countries undertaking deep domestic structural transformation under RCEP commitments.

Key features of RCEP could strengthen the integration of the East Asian region. RCEP is based on the following key elements of regional integration: (i) rules-based trade and investment, (ii) market access, (iii) economic cooperation, (iv) ASEAN centrality, and (v) the flexibility and responsiveness offered by its status as a 'living' agreement. These elements are important for the recovery of East Asia and ASEAN in the post-pandemic period and for moving the region to the next stage of inclusive and sustainable growth in regionalism and GVCs.

RCEP provides a clear rules-based trading framework for trade in goods, services, and investment. However, this framework is weaker than that of the CPTPP in some aspects of regional integration, especially dispute settlement and the digital trade framework. The strength of RCEP is in building the institutional framework under economic cooperation (Chapter 15). RCEP provides differential treatment and support for ASEAN least developed countries (LDCs) to develop stable integration strategies to fully implement RCEP commitments. Given that RCEP has 15 members at diverse stages of development (developed, developing, and least developed countries), this important feature allows for broader regional and trade integration across countries at different stages of growth and develops a dynamic and forward-looking trade integration framework. This is an important differential feature compared with the CPTPP, whose more stringent rules-based trading framework sets higher trade and regional integration standards that narrow the number of countries that can meet such high standards of trade integration. This feature of differential treatment for LDCs is in line with the WTO framework of greater global and regional trading under the WTO special and differential treatment provisions.

¹ https://www.wto.org/english/tratop_e/devel_e/dev_special_differential_provisions_e.htm

Under the economic cooperation framework, RCEP will be able to address several key issues critical to the pandemic recovery at the aggregate and sectoral levels, such as coordinated regional vaccination rollouts; a protocol for the movement of people for industries that are labour-intensive and dependent on the movement of people; and support for universal healthcare and education in the region. The economic cooperation framework will also allow RCEP to focus on issues that support the structural transformation of member countries to improve their domestic capacity for greater trade and investment integration in terms of skills development, soft and hard infrastructure enhancement, and increased participation of small and medium-sized enterprises (SMEs) in GVC activities.

Another key feature of RCEP is the 'living' agreement framework under the institutional provision (Chapter 18) to develop key and forward-looking integration institutions for the region. The institutional provisions under RCEP provide the 'living' agreement framework – setting up annual RCEP ministerial meetings, the RCEP Joint Committee, and four committees to address and review issues related to (i) trade in goods, (ii) trade in services and investment, (iii) sustainable growth, and (iv) the business environment. Under the institutional provision, the RCEP Joint Committee will meet within 1 year after the agreement enters into force, and the RCEP Secretariat will coordinate all meetings thereafter. As a 'living' agreement, the RCEP Joint Committee will be able to create a wider regional integration agenda to address key contemporary issues such as the environment and climate change, skills development, green transformation, and developing digital and smart urban centres.

ASEAN centrality, as highlighted by the RCEP framework, is critical for the post-pandemic recovery and structural transformation of the region. The institutional provision under RCEP has a similar institutional framework to ASEAN, with the support of the ASEAN Secretariat. Therefore, we can expect strong coordination between the ASEAN and RCEP secretariats, which will reinforce the roles of ASEAN and ASEAN centrality in the RCEP integration process. The role and centrality of ASEAN are important in driving stronger and broader regional integration and in addressing the emerging challenges from the pandemic shock as well as protectionist policies in response to globalisation.

Structure of the Book

The significance of RCEP in global trade is not matched by a good understanding of how it differs from other trade agreements, i.e. ASEAN+1 FTAs, bilateral FTAs amongst RCEP members, or special treatment for developing countries (e.g. Generalized System of Preferences (GSP)). In addition, RCEP introduced several new features in the agreement, such as differential tariff concessions, co-equal sharing² and a single regional rule of origin³, and a transition from the positive list to the negative list in services liberalisation, which likely create new dynamics in the implementation and potential impact of the agreement in the region.

As this Economic Research Institute for ASEAN and East Asia (ERIA) research project aims to address the structure of RCEP in terms of the complexity of the RCEP commitments modalities and mechanism, it explores the various elements of the agreement and discusses the key potential implications to the integration process in the region. For example, it will carefully examine the commitments and compare them with those of other agreements, including the CPTPP. The project underlines some key features of the agreement and analyses how these could strengthen regional integration. The impact of businesses, behind-the-border issues, and the domestic capacity of the respective RCEP member countries will also be discussed, in addition to a formal assessment of the potential benefits of RCEP. Finally, this study also attempts to address emerging issues – especially with respect to the COVID-19 pandemic recovery.

In this first book, the study reports the key social, economic, and political dimensions of RCEP framework – from the initial conceptualisation of the ASEAN+6 framework to detailed trade negotiations. The book also undertakes recursive computable general equilibrium (CGE) analysis to identify the impact of RCEP. Furthermore, the book also reviews the services commitments; comparative analysis of RCEP with the ASEAN+1 framework and the CPTPP; the emergence of a regional architecture from RCEP; the role of RCEP in IPNs and the China, Japan, Korea (CJK) effects;⁴ and the role of RCEP in the pandemic and post-pandemic recovery.

² Co-equal sharing rule in rules of origin (RoO) of free trade agreement allows exporters to use more than one rule to fulfil the RoO requirement of the respective bilateral and multilateral FTA (see Thangavelu et al., 2021).

³ RCEP includes an agreement for a single RoO framework that could be applied across the agreement's 15 member countries. A single RoO framework for the 15 member countries could have an accelerating and enhancing impact on GVCs in the region.

⁴ The RCEP agreement provides the first free trade and investment arrangement for China, Japan, and Korea (CJK), which is expected to have a significant impact on regional and global production value-chain activities in the region.

Summary of Chapters

The motivation for and historical overview of RCEP, including the negotiation process and the outcomes expected from the RCEP agreement in building strong regional integration, are covered by Chapter 2: **'The Story of RCEP: History, Negotiations and Structure, and Future Directions'** by Aladdin D. Rillo, Anna Maria Rosario D. Robeniol, and Salvador M. Buban. The chapter discusses and evaluates the motivation for ASEAN+6⁵ after the Asian financial crisis, the dynamics of the RCEP negotiations from 2012–2020, lasted for 8 years with the launch of RCEP negotiations in 2012, and the future direction of the RCEP agreement.

A comparative analysis of RCEP with ASEAN+1 FTAs and the CPTPP is undertaken by Innwon Park in Chapter 3: **'Comparison Between RCEP and Other FTAs'**. This chapter evaluates the desirability of RCEP by comparing it with other mega-lateral regional trade agreements (RTAs). Evaluating the member-specific characteristics that determine the scale effects of RTAs, the chapter finds that RCEP will generate significantly larger gains compared with the CPTPP. The chapter reveals that RCEP will generate greater gains than the CPTPP, regardless of the model adopted and its specifications. Additionally, RCEP, as the only trade bloc connecting CJK (China–Japan and Japan–Korea), is more desirable for CJK than for ASEAN, Australia, and New Zealand. Moreover, the estimated gains for ASEAN increase remarkably as the model considers the effect of the diagonal rules of origin cumulation scheme on bilateral trade costs. Considering the sequence of implementing the RTAs – the CPTPP followed by RCEP – the study finds that the former will generate greater gains for dual members, but marginal gains RCEP-only members. This observation strongly supports the action plan for RCEP members to upgrade their liberalisation packages in line with those of the CPTPP as soon as possible.

The impact of RCEP on services liberalisation is explored in Chapter 4: **'RCEP Services Liberalisation: Key Features and Implications'** by Ramonette B. Serafica and Intan M. Ramli. This paper reviews the key features of the trade in services chapter of the RCEP agreement and examines the implications for services liberalisation and the challenges in the implementation of the services agreement. RCEP is the latest and largest preferential trade agreement to recognise the increasing significance of services, as the RCEP member economies account for a fifth of global services trade. It is home to globally competitive suppliers of distributive services (transportation, communication, wholesale, and retail trade); producer services (financial, insurance, engineering, law, and business services); social services (health and education); and personal services (hotel and accommodation, and entertainment). Thus, there is significant room to improve the services sectors and

⁵ ASEAN+ 6 includes ASEAN multilateral FTAs with ASEAN + China FTA, ASEAN+ Korea FTA, ASEAN + Japan FTA, ASEAN, Australia, and New Zealand FTA, and ASEAN – India FTA.

the competitiveness of economies more widely by increasing services trade amongst RCEP members, through the four modes of supply. However, the priorities of individual members in RCEP will differ given their respective economic development requirements.

The trade in services chapter of the RCEP agreement establishes the rules for the progressive liberalisation of trade in the region. It ensures market access and non-discriminatory treatment in sectors identified by the respective members and sets out regulatory disciplines to mitigate barriers to competition. However, the effective implementation of the services agreement requires strengthening of regulatory frameworks to ensure compliance, amongst other things, while supplying to new markets entails improving the capacities of the private sector and removing policy and other barriers. For some RCEP members, the transition to a negative list is the next step to full implementation.

An impact analysis of RCEP using the recursive dynamic CGE model is undertaken by Ken Itakura in Chapter 5: **'Impact of RCEP: A Global CGE Simulation.'** The objective of this chapter is to estimate the potential economic effects of RCEP by using a recursively dynamic CGE model which incorporates the global supply chain structure, also referred as GVCs. The chapter carefully examines the existing strand of literature employing the CGE model to quantify the economic effects of large FTAs in Asia, such as RCEP, and contributes to the existing literature in two ways. Firstly, the chapter incorporates the tariff reduction schedules for RCEP as well as for other existing FTAs such as the CPTPP. Secondly, the chapter accounts for the structure of global supply chains in the CGE model to consider the importance of trade in intermediate goods and services. The CGE simulations show that RCEP member countries experience positive impact on their output, export, and investment from the RCEP agreement.

The dynamic CGE analysis highlights the positive impact of RCEP on the GDP of all RCEP members throughout the 2030s, particularly for the scenario with deeper trade and investment facilitation and addressing behind-the-border issues (S4: tariff reduction, services liberalisation, logistical improvements, and investment facilitation). There are significant positive gains for Cambodia, the Lao PDR, Myanmar, and Viet Nam (CLMV) given their young populations and GVC effects from the CJK (China, Japan, and Korea). This is significant for Cambodia and Viet Nam, which are at a critical stage in the shift to the next stage of growth in regional and global GVCs. For example, ASEAN LDCs such as Cambodia are positioning themselves towards a higher GVC activities and emerging as an important focal point for regional and GVC activities in ASEAN and East Asia.

The impact of RCEP and IPNs is examined by Mitsuyo Ando, Fukunari Kimura, and Kenta Yamanouchi in Chapter 6: **'RCEP and International Production Networks.'** The chapter examines the possible impact of RCEP on the international division of labour and GVC activities in the region. It reviews two kinds of international division of labour – IPNs and digital-related services trade – and discusses the potential role of RCEP. The chapter highlights signs of the emergence of new types of international division of labour created by digital technology. It discusses the importance of services trade from a broad trade perspective, as digital technology generates digitalised services which are either newly created or detached from traditional industries through the servicification of some activities. Although conventional services are mostly immobile in nature, digitalised services can be highly mobile via the internet, regardless of domestic or cross-border movements. Digitalising services is often provided in modes 1 and 3 of services trade. Although such international transactions are still in their infancy, they are likely to be one of the major forms of international division of labour in the next decade.

In terms of liberalisation and international rule-making, the chapter highlights that the RCEP agreement needs to revise and upgrade its contents to serve dynamic international division of labour in East Asia. Together with the system of data-related policies, services trade liberalisation, particularly for digitalised and digitalising services, must be promoted in the framework of RTAs such as RCEP. In that sense, the accession of India to RCEP would play an important role. The chapter also suggests that the RCEP Joint Committee could consider upgrading RCEP by taking advantage of the 'living' nature of the agreement.

Issues and policies related to the pandemic and post-pandemic recovery are discussed by Shandre M. Thangavelu, Shujiro Urata, and Dionisius Narjoko in Chapter 7: **'COVID-19 and RCEP: Pandemic Recovery in East Asia.'** The chapter examines the impact of RCEP on the pandemic recovery of the East Asian countries and highlights that the recovery will not be even across East Asia. It underlines the importance of RCEP in addressing border and behind-the-border issues arising from pandemic shocks. The influence of RCEP in mitigating the negative impact of the US–China trade war and the pandemic shock is discussed in this chapter. It also provides policy discussions for RCEP to induce structural transformation for sustainable and inclusive growth in the region. The chapter emphasises the importance of economic cooperation amongst the 15 RCEP member countries to address key contingency issues such as mass vaccinations and health infrastructure, protocols for the movement of people, and trade capacity building for ASEAN LDCs. RCEP as a 'living' agreement will be able to create a wider regional integration agenda to address key contemporary issues such as the environment and climate change, skills development, green transformation, and developing digital and smart urban centres. ASEAN centrality, as highlighted by the RCEP framework, is critical for the post-pandemic recovery and structural transformation of the region.

A country case study of the impact of RCEP on ASEAN LDCs is examined by Shandre

Mugan Thangavelu, Vutha Hing, Ea Hai Khov, Bunroth Khong, and Tith Seychanly in Chapter 8: **'Potential Impact of RCEP and Structural Transformation of Cambodia.'** The chapter analyses the impact of RCEP on the Cambodian economy in terms of trade, output growth, and employment. This is done through quantitative (structural gravity model estimations and simulation) and qualitative analysis – a trade policy evaluation in terms of exports, output, and structural transformation of the economy in the global and regional value chain. The results indicate a positive impact of RCEP on the Cambodian economy. The Cambodian economy will experience larger positive impact on the domestic economy with deeper trade and investment facilitation and domestic reforms. The results highlight the importance of RCEP for the pandemic and post-pandemic recovery and structural transformation of the Cambodian economy.

The chapter also provides key policy recommendations to maximise the benefits of RCEP for inclusive and sustainable growth in Cambodia: (i) the need to increase the competitiveness and linkages of Special Economic Zones to GVC activities to attract multinational activities in these industries; (ii) the need to improve and increase GVC linkages such as logistics service linkages, infrastructure, and increased domestic SME participation in regional GVC activities, as logistics service linkages are critical for the movement of intermediate goods in higher value-added activities; (iii) the importance of technical and vocational skills development that complements and increases the adoption of new technologies in higher value-added industries – to provide strong human capital and a semi-skilled and skilled labour force that drives higher value-added activities, which is critical for Cambodia at this stage of development; (iv) the need to align domestic service industries supporting manufacturing activities with CJK GVC activities, as logistics and transportation activities are expected to increase with the GVC activities driven by CJK; and (v) the need to reform traditional trade in services such as tourism, logistics, aviation, financial, and medical tourism, as trade in services relies heavily on the movement of people (mode 4) to remain competitive in the region, and the transformation to a 'new' normal in the post-pandemic era will reduce activities in traditional services trade.

The implications of RCEP for regional architecture are examined by Shiro Armstrong and Peter Drysdale in Chapter 9: **'The Implications of RCEP for Asian Regional Architecture.'** The chapter highlights the importance of RCEP in the context of the growing political divide between the US and China, rising global protectionism, a trade war between the US and China, and the added protectionist pressures arising from the COVID-19 pandemic that have put the global trade regime under extreme pressure. It highlights that RCEP is not simply another free trade and investment arrangement, as it incorporates a cooperation agenda which is an essential element in building capacity for economic reform and mutually reinforcing regional development in Southeast Asia.

A narrow concept of the cooperation agenda is the provision of capacity building to help the less developed RCEP members to implement commitments of the RCEP agreement. A broader concept involves experience sharing, economic and political cooperation, and the creation of a framework for extending rules and membership. Its cooperation agenda has a political and security pay-off that will assist in ameliorating regional tensions and managing relations with bigger powers, like China, Japan, and perhaps eventually India (on economic and geopolitical issues such as China's Belt and Road Initiative (BRI) for investment in connectivity and geo-strategic territorial issues).

RCEP facilitates collective leadership, ASEAN centrality, and strengthening the ASEAN institutional ecosystem and its dealings with those outside it, like the US and Europe – in staking out Asia's interest and claims to ownership in and support of the global public good of an open international economy.

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CHAPTER 2

The Story of RCEP: History, Negotiations, Structure, and Future Directions

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This chapter is about the story of the Regional Comprehensive Economic Partnership (RCEP), including the history, dynamics of negotiations, and structure of this multilateral framework. Issues related to ASEAN centrality, sensitivities of negotiations, and other challenges are also highlighted and analysed. Nearly a decade in the making, RCEP represents a significant achievement for the region. As an ASEAN-led process, RCEP supports not only the region's market integration but as well as ASEAN's economic relations with the rest of the world, particularly with the 5 RCEP FTA Partners. Beyond the impact of RCEP in supporting the multilateral trading system, it is also intended to address the current challenges in the region, including the COVID-19 pandemic crisis. Thus, the narrative of RCEP provides a comprehensive overview of, and considers the potential implications for, trade in the region; for economic integration, and for the future of trade policy.

Introduction

When the Regional Comprehensive Economic Partnership (RCEP) was signed on 15 November 2020, a new era of Association of Southeast Asian Nations (ASEAN)-centred economic integration dawned in the region. It also ushered in the potential role of ASEAN to create a unified trading region by bringing together the diverging interests of both developed and developing countries, with strong implications for multilateral cooperation (Park, Petri, and Plummer, 2021). Nearly a decade in the making, RCEP represents a significant achievement for the region. As an ASEAN-led process, RCEP not only supports the region's market integration efforts but also ASEAN's economic relations with the rest of the world, particularly with the five RCEP free trade agreement (FTA) partners (namely, Australia, China, Japan, the Republic of Korea (henceforth, Korea), and New Zealand). As the RCEP leaders recognised during the signing of RCEP, beyond the impact of RCEP in supporting the multilateral trading system is a trade pact that has the potential to address the many challenges facing the region, including the health and economic crisis caused by the coronavirus disease (COVID-19) pandemic.

This chapter is about the story of RCEP. It begins with a brief historical overview of RCEP's evolution from the embryonic idea of building regional resilience in East Asia through greater trade and investment in the region after the Asian financial crisis up to the actual realisation of that idea with the launch of RCEP negotiations in 2012. Then, it explores the dynamics of the actual negotiations that lasted for 8 years: the key bottleneck issues encountered by the negotiators and how were they resolved, and any lessons and best practices learned to guide negotiations for a similar mega FTA in the future. Finally, the chapter asks the hard questions of where RCEP is headed after its historic signing, how is it going to be implemented, and whether it can deliver on its promise to build a robust regional trade architecture for the region, for economic integration and for the future of trade policy.

What signifies RCEP? Triggers, beginnings, and the role of ASEAN centrality

In developing the story of RCEP, there are three important questions that need to be asked and unravelled.

First is the question of what signifies RCEP. Looking at RCEP, the first thing that stands out is its economic significance, particularly its sheer size, hugely diverse set of members, and its potential to create a much more unified trading region. But underlying that achievement is the fact that RCEP did not exist in a vacuum. In fact, its creation was not only the result of various proposals by Japan and China to create a region-wide FTA, but one also had to understand the various forces within the global economy and wider East Asia since 1991 to appreciate the nuances of why ASEAN had to engage in deeper integration and the critical role of its partners within the region, like ASEAN+3 (i.e. ASEAN plus China, Japan, and Korea), and the role that ASEAN+3 had played in facilitating and widening ASEAN's goal to expand intra-regional economic cooperation.

Initial triggers and turning points

Even before the ASEAN Leaders first presented the 'ASEAN Framework for Regional Comprehensive Partnership (RCEP)' at the 11th ASEAN Summit in November 2011, there were turning points and events in earlier years that influenced ASEAN to seriously consider deeper integration with partners as a key development strategy. The first turning point was the Asian financial crisis in 1997. The crisis weakened the ability of ASEAN to attract foreign investment and capital and expand its export markets, which made it inevitable for ASEAN to deepen its integration with the rest of the world through a wider framework for East Asian cooperation. In fact, East Asian economic cooperation was borne out of the Asian financial crisis. At the same time, there were threats in the region and the world that seemed to undermine ASEAN's economic strength. These included the dominant and rising influence of China, the failure of trade liberalisation at the World Trade Organization (WTO), which compelled economies to pursue plurilateral, regional, and/or bilateral free trade arrangements (FTAs), and the more entrenched economic interdependence in East Asia. These structural changes brought by the crisis 'required a deepening of intra-ASEAN economic cooperation for ASEAN' (Shimizu, 2021) and compelled economies to pursue plurilateral, regional, and/or bilateral FTAs.

ASEAN's desire to deepen integration, as evident in its multi-layered involvement in East Asia, with initiatives under ASEAN+1, ASEAN+3, and ASEAN+6, made ASEAN a potential key ally in advancing the integration agenda in East Asia. From as early as 2001, East

Asia had been thinking of establishing a region-wide FTA. In October 2001, the East Asia Vision Group recommended establishing the East Asia Free Trade Area (EAFTA) in a report to the ASEAN+3 Leaders, and this proposal was further backed by the East Asia Study Group in November 2002. To further explore the proposal, the ASEAN+3 Economic Ministers in their meeting in August 2004 set up the Joint Expert Group, which later submitted a Phase 1 Report and recommended to the ministers in 2006 that an EAFTA be launched in 2007. Meanwhile, the Joint Expert Group also proposed to the 10th ASEAN+3 Summit in January 2007 a Phase 2 Study involving more in-depth sectoral analysis. In June 2009, the Phase 2 Report was submitted with proposals for achieving an EAFTA, which was considered by the ASEAN+3 Economic Ministers in August 2009. Whilst this was all taking place, ASEAN was already engaging in bilateral FTA negotiations with its key trading partners, namely: China, Japan, Korea, India, Australia, and New Zealand.

Meanwhile, a parallel process (Track 2) for investigating the establishment of a Comprehensive Economic Partnership in East Asia (CEPEA) encompassing ASEAN+3, Australia, India, and New Zealand, as proposed by Japan in August 2006, was launched at the 2nd East Asia Summit in January 2007. Similar to the EAFTA proposal, the Track 2 Study Group submitted a Phase 1 Report in June 2008 setting out a roadmap for achieving CEPEA. In August 2008, the ASEAN+6 Economic Ministers agreed to further conduct a Phase 2 Track 2 Study on CEPEA, detailing the pillars of economic cooperation, trade facilitation, liberalisation, and institutional development. The Phase 2 Report of CEPEA was finally submitted in July 2009, a month after the Phase 2 Report of EAFTA was submitted.

At the same time all these discussions were taking place, a second turning point that would change the initial debates between the EAFTA and CEPEA proposals was also happening. The global financial crisis in 2008 suddenly saw the East Asian region in jeopardy again, given the dependence of the region's export and financial markets on the United States (US) and Europe, which were deeply affected by the crisis. Fortunately, unlike other regions in the world, ASEAN and East Asia, underpinned by the region's burgeoning internal markets and strong economic fundamentals, recovered fastest and became the main production line and main market for intermediate and final goods in the world (Shimizu, 2021). Suddenly, both external and internal markets became attractive options for ASEAN and East Asia.

Meanwhile, the decision by the US to join the Trans-Pacific Partnership (TPP) in 2009 to expand its markets in Asia and the Pacific, including East Asia, as a strategy to build both internal and external markets following the global financial crisis, added another wrinkle to deepening integration in East Asia. With the US at the driver seat of the TPP, and as negotiations began with eight more countries joining, the TTP became very significant

in the world economy. Recognising the enormous impact that the TPP could have on the realisation of East Asian integration, the East Asia Summit (EAS) economic ministers in August 2011 welcomed a Chinese and Japanese joint 'Initiative on Speeding up the Establishment of EAFTA and CEPEA'.¹ This led the way for the ASEAN Leaders to endorse the 'Framework for Regional Comprehensive Economic Partnership' in November 2011, replacing references to CEPEA and EAFTA with references to ASEAN FTA Partners (AFPs) and finally ending the internal debates of what an East Asia FTA would look like. In November 2012, the RCEP negotiations were officially launched by ASEAN and FTA Partner Leaders at the 21st ASEAN Summit in Phnom Penh.

ASEAN centrality: Driving the essence of RCEP

The launch of RCEP negotiations also marked ASEAN's initial success in leading the process of building an East Asian FTA right from the start, underpinning the crucial role of ASEAN centrality.² If ASEAN centrality is understood to be the role and capability to be in the driver seat, then one must recognise and appreciate the role played by ASEAN in the RCEP process in the context of ASEAN centrality. From start to finish, RCEP was driven by ASEAN. It can be recalled that back in 2009, there was a discussion on a concentric circle where ASEAN, at the hub of the ASEAN+1 FTAs, could be at the centre of the emerging regional economic architecture by first consolidating its FTAs with China, Japan, and Korea to establish the EAFTA (ASEAN+3) then, subsequently, with the conclusion of FTA negotiations with India and Australia and New Zealand, and the expansion of ASEAN+3 to ASEAN+ 6 to form the CEPEA. To get out of the EAFTA vs CEPEA debate, ASEAN worked on a set of guidelines for consolidating its FTAs that eventually led to the launch of RCEP negotiations in 2012 with Indonesia at the helm. So, in fact, without ASEAN and the platform it provides for its dialogue and trading partners to engage, it would be difficult to imagine bringing together six non-ASEAN countries with varying geopolitical dynamics amongst them to sit down and chart the economic partnership that is RCEP.

As pointed out by Fukunaga (2014), ASEAN centrality, in the context of RCEP, should be best understood as the role of ASEAN as a 'process facilitator' (i.e., facilitating formal meetings or a platform for discussions), or 'initiator of substance' (i.e., setting

¹ Even before this decision by EAS+6 economic ministers in August 2011 to agree on the joint initiative, a strong political directive was already given by both ASEAN and EAS Leaders. For example, in October 2009, EAS Leaders tasked officials with considering the recommendations of both EAFTA and CEPEA studies. They also recognised the need to redouble efforts on regional integration through the ASEAN+1 FTAs and wider regional economic integration efforts, including CEPEA and EAFTA. They also tasked the various ASEAN Plus Working Groups to report on specific targets and timelines. Meanwhile, at the 6th EAS Summit in May 2011, ASEAN Leaders discussed CEPEA and the five priority areas and instructed the working groups to accelerate their work in consolidating ASEAN+1 FTAs.

² While there's no official definition of the term, 'ASEAN centrality' is referred to as one of the ASEAN principles in the ASEAN Charter, with respect to the 'centrality of ASEAN in external political, economic, social, and cultural relations while remaining actively engaged, outward-looking, inclusive, and non-discriminatory' [ASEAN Charter, Article]. The term was first used at the 38th AEM in August 2006 when the ministers recognised the 'centrality of ASEAN in external economic relations'. Since, the term has been referenced in various ASEAN official documents, including in political and social community pillars that look at centrality as the ability of ASEAN to lead and initiate a process.

directions and providing leadership). Both roles seem to stand ground. Even before pre-RCEP discussions, ASEAN has been hosting high-level meetings, such as the ASEAN+1 Summit, ASEAN+3 Summit, and East Asia Summit, where ASEAN Leaders have had the opportunity to advance a number of strategic policy issues. Even negotiations for the ASEAN+1 FTAs and the various discussions for CEPEA and EAFTA, were all facilitated by ASEAN through the ASEAN Economic Ministers (AEM)-related meetings. Interestingly, all key RCEP milestones prior to the launch of negotiations (for example, when RCEP was first proposed at the Bali Summit in 2011 or when the 'Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership' were agreed at the 40th AEM in 2012) signified the ability of ASEAN to promote centrality by pulling different partners together and reaching decisions amongst them. Had ASEAN not carried out its facilitating role properly, those substantive outcomes that led to the launch of RCEP negotiations would not have been possible.

In fact, ASEAN centrality as an initiator of ideas and engineer of compromises was evident all the time during the evolution of RCEP. As mentioned, the 'Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership',³ proposed by the ASEAN economic ministers in 2011 and developed by ASEAN together with its six FTA partners in 2012, were used as the basis to launch RCEP negotiations in 2012. Interestingly, one of the principles is the recognition of ASEAN centrality in RCEP, whilst the other principles are common elements in existing ASEAN+1 FTAs as well as new proposals by ASEAN that all FTA partners accept. This shows that ASEAN has been quite successful in setting the direction of RCEP and in influencing the substantive discussions from the beginning. When the actual RCEP negotiations started in 2013, the ASEAN Member States, led by Indonesia, took the pivotal role of chairing RCEP Trade Negotiating Committee (TNC), seven working groups, and four sub-working groups. All these were acceptable to the FTA partners.

As pointed out by various scholars (Petri and Plummer, 2020; 2014; Fukunaga, 2014; Das, 2012), ASEAN's desire to promote centrality is one of the main motivations for proposing RCEP. In a way, such centrality also propelled RCEP to fruition. ASEAN capability and centrality facilitated the entire process of negotiations for 8 years, by bringing together 16 economies with different levels of development and domestic constraints to agree on various commitments. Without doubt, ASEAN centrality was the most important force that drove the initial success of RCEP.

³ These RCEP Guiding Principles include: (a) recognition of ASEAN centrality; (b) broader and deeper engagement with significant improvements over the existing ASEAN+1 FTAs; (c) open accession clause; (d) emphasis of economic and technical cooperation; (e) importance of trade and investment facilitation (in addition to liberalisation), and (f) special and differential treatment for ASEAN especially the CLMV. As pointed by Fukunaga (2021), principles (f) are from existing ASEAN+1 FTAs while principles (d) and (e) were referenced from the official studies of CEPEA and EAFTA.

Recognising RCEP for what it is and what it is not: Structure and challenges of negotiations

The second question to ask to better understand RCEP is to recognise RCEP for what it is and what it is not, is 'Is RCEP a rule-taker or a rule-maker?'

For example, although RCEP does not provide pioneering breakthroughs in trade governance in the sense that most of its commitments have been streamlined from current bilateral trading arrangements, RCEP was able to change the character of FTAs in ASEAN. Beyond the initial objective of consolidating the ASEAN+1 FTAs, RCEP elevated the quality of the agreement by introducing new disciplines, such as competition, intellectual property rights, electronic commerce, and government procurement. Although the chapters are pretty modest, they are good for now for addressing these important issues. The RCEP agreement, anyway, has provisions for review that could ensure that it remains relevant and abreast with the evolving regional and global developments.

RCEP should be appreciated for its potential to write a new set of rules that will establish a more unified trading system in the world's most dynamic region. For example, RCEP should be recognised for its ability to create the largest trading bloc in the world comprising of diverse nations with vastly different stages of economic development and political systems. Viewed from that perspective, RCEP is no easy feat.

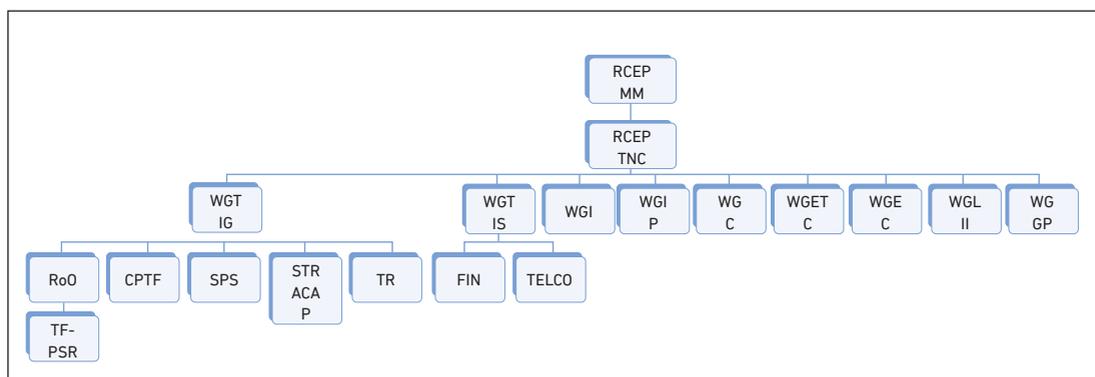
Understanding the structure of RCEP

Even before the ASEAN Leaders first presented the 'ASEAN Framework for Regional Comprehensive Partnership

When the first round of negotiations (the Brunei Round) was launched in Brunei Darussalam in May 2013, the first task of the TNC was to establish the working groups on trade in goods (WG-TIG), trade in services (WG-TIS), and investment (WGI) and, immediately, the working groups, together with a sub-working group on rules of origin (RoO) as well as customs procedures and trade facilitation (CPTF) under the WG-TIG, were tasked to commence their work on the core negotiating areas consistent with the Guiding Principles. In Brunei, recognition of transforming the RCEP negotiations to achieve a higher level of ambition was very evident amongst negotiators, and perhaps aided by that ambition, interest by other RCEP participating countries (RPCs) to take up other issues stipulated in the Guiding Principles, such as economic and technical cooperation and dispute settlement, were immediately surfaced at the first round.

By the second round (the Brisbane Round) in September 2013, discussions on the need to have a holistic approach in addressing cross-cutting issues (such as small and medium-sized enterprises (SMEs) and electronic commerce) and other new issues (such as competition, intellectual property rights, and government procurement) were initiated by some AFPs, arguing that these should be equally treated in the TNC agenda to achieve a comprehensive, balanced, and commercially meaningful outcome from the RCEP negotiations. These discussions led to the establishment of more working groups and sub-working groups to address the concerns in the core negotiating areas, as well as in the new areas proposed. By the end of the ninth round (the Nay Pyi Taw Round) in 2015, the RCEP negotiating structure had expanded to 15 bodies⁴ involving working groups, sub-working groups, task forces, and expert groups, adding more complexity to the negotiation process (see Figure 2.1). Similar to the TNC, the TNC subsidiary bodies are led and chaired by an ASEAN Member State and facilitated – on the basis of rotation – by an AFP. For instance, the core working groups on TIG, TIS, and investment have been chaired by Singapore, Malaysia, and Viet Nam, respectively. Thailand and the Philippines correspondingly have chaired the sub-working groups on RoO and CPTF.

Figure 2.1 Structure of the RCEP FTA Negotiations



Source: ASEAN Secretariat.

⁴ As per the RCEP negotiating structure, there are nine working groups and five sub-working groups. The first sub-working groups to be established were the sub-working groups on RoO (SWG-RoO) and customs procedures and trade facilitation (SWG-CPTF) (Brisbane Round, 2013). The Working Group on Government Procurement (WGGP) was the last to be established at the 19th Round (Hyderabad Round) – following a decision made at the 3rd Inter-Sessional RCEP Ministerial Meeting to include a modest chapter on government procurement – along with the Sub-Working Group on Trade Remedies (SWG-TR).

By the end of the ninth round (the Kyoto Round) in June 2015, it was clear that substantial negotiations were being dragged by the need to finalise the modalities and address the initial issues on trade in goods (e.g. the tabling of initial offers and engaging business and stakeholders on non-tariff barriers); services (e.g. different approaches to scheduling commitments); and investment (e.g. methodology and scheduling, the relationship between the investment and services chapters, and inclusion of an Investor-State Dispute Settlement (ISDS) mechanism). The issues became more challenging in the succeeding rounds as RCEP Participating Countries (RPCs) were embroiled in discussions on complex issues, such as 'common concessions' for market access on trade in goods, how to achieve commercially meaningful outcomes for trade in services and investment, and whether or not to go beyond the commitments and obligations made under the WTO for certain chapters (e.g. technical barriers to trade and sanitary and phytosanitary measures), amongst other issues. One key problem is that whilst negotiations had been sustained, progress has been uneven (on both text and market access across all negotiating areas until the 16th Round (Tangerang Round) in 2017, reflecting the nature of challenges facing all RPCs. RPCs required additional time to settle key challenging issues in recognition of their individual and diverse circumstances, whilst subscribing to the vision of achieving a modern, comprehensive, high quality and mutually beneficial economic partnership. Recognising all these problems, and by the conclusion of the Third RCEP Ministerial Meeting in Kuala Lumpur in July 2015, the die was already cast: RCEP could not be completed by end of 2015 as mandated by the RCEP Leaders in 2012.⁵

Challenges and dynamics of negotiations: The long 8 years

The RCEP negotiations came at a critical juncture by the end of the 20th round (the Seoul Round) when, despite re-doubling efforts to address the outstanding issues across all negotiation areas, several key challenges hampered progress, demonstrating the complexity of negotiations.

One key challenge was the lack of readiness of RPCs to exercise flexibility. Many, if not all RPCs, took hard-line positions, making it difficult to reach consensus despite prolonged discussions at the WG/SWG, TNC, and ministerial levels. The reiteration of positions at different levels of discussions did not facilitate the resolution of the issues. Whilst the agreed *RCEP Key Elements for Significant Outcomes by End of 2017*⁶ provided new

⁵ As acknowledged by the TNC Chair Report to the 3rd RCEP Ministerial Meeting in July 2015. The TNC Chair also 'recommended to the ministers to extend the RCEP negotiations beyond 2015, while instructing the TNC to further accelerate the negotiations as much as possible in 2015.'

⁶ The Key Elements paper was agreed by the TNC at the 19th Round (Hyderabad, 2017) and welcomed by the ministers at the 5th RCEP Ministerial Meeting in September 2017. 'It was understood that the paper is not meant to define the overall architecture or scope of the RCEP Agreement, but, rather, to guide all RPCs to prioritise work to achieve significant outcomes by end 2017. Likewise, it was understood that the Key Elements paper would not prevent progress beyond the identified elements by December 2017, as maybe achievable.' [TNC Chair Report to 5th RCEP Ministerial Meeting]

impetus to reach settlements on most of the key outstanding issues, it was not sufficient to compel RPCs to recalibrate their positions and ambitions, seek broader mandates where necessary, exercise utmost flexibility, or positively give due consideration to other RPCs' interests and sensitivities.

Second was the need for comprehensive and balanced outcomes, which unfortunately became even more elusive to achieve as negotiations dragged. This was made more difficult by the fact that RPCs, owing to their diverse levels of development, had different areas of interest and sensitivities. There was also a tendency for some RPCs to unduly link issues and not engage in negotiations on each issue based on its own merit.

Finally, the introduction of new elements by some RPCs became a tricky issue that somehow distracted the direction of negotiations. This was evident in the continued tendency of RPCs to introduce new elements or issues, especially towards the latter stage of negotiations. This not only hampered progress in negotiations but also dampened good momentum in the negotiations.

Whilst there were clear setbacks, such as the failure to meet the 2015 deadline for the successful completion of negotiations, and even having it 'substantially' concluded in 2017,⁷ the political will amongst RPCs to intensify efforts, find landing zones, and realise the leaders' mandate only became strong as adverse global developments started to weigh down on the region. One of these events was the global trade war between the US and China that started in 2018, of which the ramifications for East Asian trade and investment links were perceived to threaten East Asia's regional trade architecture given ASEAN and East Asia's dependence on global supply chains. The threat of a global slowdown, associated with the worsening global trade conditions, also meant that East Asia's integration would be at risk again. The risks were further amplified when the COVID-19 pandemic crisis started to emerge in early 2020.

Ironically, this turn of events only propelled RCEP to new heights and resolve to accelerate the negotiations.⁸ It seems that RCEP, with all the global uncertainties around, is an important source of light for the region to shine anew, with its promise of becoming the biggest trade bloc in the world and using RCEP as a shield for regional resilience.

⁷ Reference to RCEP being 'substantially concluded' was first suggested by the TNC Chair to the 2nd Intersessional RCEP Ministers Meeting in May 2017, where the ministers exchanged views on what should be the RCEP deliverables by the ASEAN Summit in November 2017, i.e. (i) substantial conclusion of negotiations, or (ii) significant progress towards a swift conclusion of the negotiation.

⁸ To better track and achieve a substantial conclusion of the RCEP negotiations, the RCEP ministers at the 5th RCEP Intersessional Meeting in July 2018, tasked the negotiators to identify a package of deliverables. The proposed package outlined in broad terms what should be achieved by the 33rd ASEAN Summit and Related Summits held in the week of 12 November 2018 in Singapore. To further intensify negotiations and move towards a substantial conclusion, the ministers at the 6th RCEP Ministerial Meeting in August 2018, reaffirmed the following principles and disciplines for all negotiators to follow. These include: (i) positive and constructive responses to requests made by other RPCs whilst respecting the justified sensitivities a respondent may have; (ii) no reopening of agreed texts; (iii) no introduction of new issues; no moving of the 'goal posts'; (iv) while the overall negotiation is pursued on the principle of 'single undertaking', each issue should be considered on its own merit; no undue linking of issues; (v) shifting the gear to 'solution mood', no reiteration of positions; and (vi) negotiators should have secured the necessary mandate and be well-prepared when coming to meetings.

This was evident in a huge change in negotiation momentum. Between 2017 and 2020, negotiations amongst TNC and working group officials were intensified, with more than 16 rounds held, half of which were held in the last 4 years (2017–2020). The RCEP ministers were also heavily involved all throughout both the regular and inter-sessional meetings, ensuring that the outstanding text negotiations were resolved, and all chapters were fully delivered⁹ until the final conclusion of the agreement and its signing.

It is rather difficult to specifically mention an RPC that 'took the initiative in the market access negotiations', primarily because market access was negotiated bilaterally based on a request-offer approach, and whilst the target outcome was 'common concession', this was deterred by: i) skewed trading patterns, particularly for those RPCs with no bilateral FTAs; and ii) consolidating tariff commitments made in the ASEAN+1 FTAs and still achieving a very high level of market access commitments in RCEP. All throughout the negotiations, however, some RPCs strongly pushed for certain elements to be included in the agreement. For example, market access in the Chapter on Government Procurement, and state-owned enterprises in the Competition Chapter. These two examples are not in any of ASEAN's FTAs, not even in the AEC Blueprint, which explains ASEAN's sensitivity in these two areas.

Conclusion of the RCEP negotiations would not have been possible if not for the genuine desire of all RPCs to conclude the negotiations, notwithstanding the challenges posed by the COVID-19 global pandemic, which made the bilateral market access negotiations and legal scrubbing of the RCEP Agreement that encompasses 20 chapters, 17 annexes, and 54 market access schedules in a document of more than 14,000 pages very challenging. In the end, it took a lot of determination, creative thinking for landing zones, and readiness and willingness to exercise flexibility and compromise to make the conclusion of the negotiations and signing of the agreement possible.

At the same time, one should not forget the crucial roles that the ASEAN Secretariat (ASEC) and the Chair of the Trade Negotiating Committee, Mr. Iman Pambagyo from Indonesia, played in the entire process of negotiations. Mr. Pambagyo patiently guided the negotiations and provided strong leadership for the region for 8 years by ensuring that key decisions were made, and bottlenecks were resolved, particularly in the late rounds when issues became trickier and political decisions more compelling. Without the staunch determination from Indonesia, as the originator of RCEP and as chair of negotiations, RCEP would not have happened.

⁹ The first two chapters to be concluded were the ECOTECH (15th TNC Tianjin October 2016) and MSME chapters (16th TNC Tangerang December 2016); the last two were the Chapters on Rules of Origin and Electronic Commerce (7th Intersessional TNC, Bangkok, October 2019). The conclusion of the text-based negotiations, which was announced in November 2019, did not really mean that negotiations had indeed been concluded, as negotiators still grappled with several issues that arose when the RCEP agreement was being legally scrubbed.

On the other hand, ASEC had been a strong pillar all throughout the RCEP process. From the drafting of the Guiding Principles that led to the launch of RCEP negotiations, and even prior to that, up to the last round in July 2020 (31st Round, by video conference), and to the signing of the agreement in November 2020, ASEC was there supporting the TNC Chair and the various working groups driving the negotiations. Aside from facilitating meetings amongst RPCs, ASEC was also engaged in substantive aspects of negotiations by preparing the discussion and position papers used in negotiations, coming up with an ASEAN position – brokering, in some instances – and subsequently reconciling this ASEAN position with that of the six non-ASEAN RPCs. Towards the later stage of the negotiations, ASEC was often relied upon to come up with 'way forward' papers, find landing zones, and, in a particular instance, even facilitate discussion amongst experts on the issue of tariff differentials. Under the leadership of ASEAN Secretary-General Dato' Lim Jock Hoi, who guided and even led the ASEC RCEP team, especially during the last crucial 3 years of negotiations, ASEC's role in ensuring that ASEAN centrality in making RCEP a reality shone at its brightest.

How were the negotiations won? Between building trust and managing technical issues

Whilst critics argue against RCEP's long completion, one has to properly understand the context of the challenging 8 years, given the parties involved in the negotiations and the complex issues discussed. For one, ASEAN, a very diverse group of countries by themselves, had to try to reconcile their positions with the six AFPs, whose economies were more advanced than ASEAN's. It was nearly impossible to achieve comprehensive and balanced outcomes when the 16 countries participating in the negotiations had significant development gaps and divergent national interests and expectations. Yet, beyond those realities that RCEP had to contend with in the first place, were internal dynamics that affected significantly the course of negotiations, particularly the process of building trust in an engagement whilst navigating through the many complex details of a mega trade agreement.

Managing trust deficit

Although the Guiding Principles were intended to help negotiators navigate the negotiations and address issues, negotiators also used them, to a certain extent, in advancing their positions on issues as they saw fit. Varying interpretations ('cherry picking') of the Guiding Principles by the negotiators contributed to delays in resolving issues. The Guiding Principles also underscored that during the negotiations, new issues covered by FTAs amongst RPCs may be included, as well as those new emerging issues

relevant to businesses, provided that RPCs agreed to their inclusion. All this suggests that as negotiators started to engage with each other, how relationships had been built in the past would obviously impact the outcome of the discussions. Unfortunately, the trust element seemed to be not as strong in some RPCs when RCEP negotiations began, due to a number of reasons.

Absence of bilateral FTAs amongst some RPCs

Prior to RCEP, ASEAN Member States were implementing five ASEAN+1 FTAs, or bilateral FTAs with China, Japan, Korea, India, and Australia and New Zealand, and the primary objective was to consolidate these FTAs to address the perceived 'noodle bowl' effect of simultaneously implementing several overlapping FTAs. This was aside from the enabling agreements to realise the ASEAN Free Trade Area (which subsequently established the AEC). Although ASEAN had FTAs with these AFPs, some of them did not have bilateral FTAs with each other. This lack of bilateral FTAs between some of them (e.g. China-Japan, Japan-Korea, China-India, Australia-India, and New-Zealand-India) made it difficult to discuss and advance bilateral market access negotiations for trade in goods, trade in services, and investment.

Level of ambition

During the first 3 years of the negotiations (2013–2015), RPCs were embroiled in discussions on complex issues, mostly hovering around the level of ambition of specific commitments that needed to be made and the rules and disciplines that would bring about the 'modern, comprehensive, high-quality and mutually beneficial economic partnership agreement' that the Guiding Principles envisaged – for instance, the modality for tariff liberalisation and the application of the principle of common concessions for trade in goods; the approach for scheduling commitments (i.e. whether they would be in the negative or positive lists) and value-added obligations, such as a ratchet, MFN treatment, or a transparency list for trade in services; and the approach to the scheduling of investment commitments, the application of the ISDS, and ratchet and MFN treatment as well as the prohibition of performance requirements (PPR) for investment.

For new areas or emerging issues, the area of contention was whether to include new issues such as labour and environment and government procurement, which are not covered by any WTO agreement, and, if ever, most of the RPCs are not signatories to these plurilateral agreements. Moreover, in the case of other topics or chapters, the contention was whether or not to go beyond the WTO obligations of the RPCs ('WTO Plus'), such as on technical barriers to trade (TBT) and, sanitary and phytosanitary (SPS) measures.

Building an ASEAN consensus

ASEAN operates on consensus. Generally, in ASEAN agreements, including free trade agreements such as the ASEAN Trade in Goods Agreement (ATIGA), decisions especially for coming up with new rules and agreements are based on consensus. Although there may be cases for an exception to this long-held principle of consensus, such as an ASEAN 'minus X' decisions for other agreements, the practice has always been consensus, especially in ASEAN's engagement in the ASEAN+1 FTAs, and RCEP is no different. In RCEP, before an ASEAN proposal could be tabled for discussion with AFPs, it has to undergo a tedious and rigorous process of securing consensus. ASEAN caucuses were held, which could be at the level of the TNC, working groups, sub-working groups, or in some cases at the ASEAN Ministers level.

This situation or predicament for securing consensus prior to any solid ASEAN position on various issues contributed to delays in resolving issues during the RCEP negotiations. This was manifested in the discussions on the modality for trade in goods, negotiations on the product-specific rules (PSRs) for the RoO, tariff differentials, issues on services and investment, and new emerging issues, amongst others. The difficulty experienced by ASEAN in reaching a consensus could be attributed to pressure from ASEAN Member States' domestic stakeholders, positions taken by some AMS in their involvement in other trade arrangements, a lack of understanding of some technical issues being discussed, and their divergent levels of development that prevented them from joining a consensus immediately.

RCEP versus CPTPP – ('CP-TPPnising' RCEP)

In view of the existing FTAs, either bilateral, plurilateral, or even the ASEAN+1 FTAs, RPCs are compelled to ensure that they would be able to sell RCEP to their domestic stakeholders through significant value-added and commercially meaningful outcomes that they would get out of the negotiations. This is particularly true for those RPCs that are also signatories to the Comprehensive and Progressive Transpacific Partnership (CPTPP). This is how the term 'CP-TPPnising' was coined. Whilst some RPCs are ready to engage in discussions on some of the new elements or concepts being tabled, e.g. MFN treatment and the ratchet mechanism for both trade in services and investment, some elements, such as labour and environment, market access for government procurement, and the treatment of state-owned enterprises, are "non-negotiable", particularly for some of the ASEAN Member States, and even for those that are also in the CP-TPP.

Managing technical issues

Aside from the delicate task of building trust amongst RPCs with differing economic engagement in the past, which is crucial to being able to agree on landing zones and common decisions, RCEP also needed to deal with a lot of technical issues. The sheer volume of the RCEP Agreement is not fully and truly representative of the hard work of those involved in the negotiations, from the country lead negotiators and their sectoral experts but perhaps more importantly the chair of the RCEP TNC who, with the support of the ASEAN Secretariat, had to single-handedly manage the technical difficulties arising from negotiating the mega-trade deal with the burden of bringing it to a conclusion within the targets set by the RCEP Leaders on his shoulders.¹⁰ Because of the nature of the text, this made the negotiations and conclusion of the RCEP Agreement more challenging. Amongst the most contentious issues that significantly dragged negotiations and delayed decisions are as follows.

Tariff liberalisation

As in any FTA negotiation, trade in goods is normally the most challenging. Trade in goods is often regarded as the 'heart' of any FTA not only because it is the most quantifiable in terms of dollars and cents, e.g. revenue loss, production costs that affect prices, value and volume of trade, amongst others. Tariff liberalisation commitments are almost immediately felt by manufacturers, traders, and eventually by consumers. The quality and level of ambition of any FTA are often measured vis-à-vis the depth of tariff liberalisation and the transition period the signatories commit to in the FTA. It is worth mentioning that six of the 20 chapters in the RCEP Agreement relate to trade in goods.

The Guiding Principles specifically mention that RCEP negotiations should aim '*to achieve the high level of tariff liberalisation, through building upon the existing liberalisation levels between RPCs and through tariff elimination on a high percentage of both tariff lines and trade value*'. In the case of AMS, for the tariff commitments made in the ASEAN+1 FTAs, with the exception perhaps of the ASEAN-India FTA, the tariff elimination levels go as high as 90% of all tariff lines. Consolidating such tariff commitments and abiding by the common concession principle has not been very easy, especially when tariff requests and offers are bilaterally negotiated, the outcome of which should be applied to all countries participating in the negotiations. Tabling offers on the basis of 'working assumptions' because RPCs could not arrive at a consensus on

¹⁰ Although negotiations took place at the level of the sectoral experts at the Working/Sub-Working Group levels, issues that could not be resolved were often elevated to the TNC, where some of the TNC sessions to deliberate on the matter were done either at joint sessions with the Working/Sub-Working Group or 'TNC Leads Only' sessions. Whilst on the whole the issues were manageable, there were some areas where the sticky issues could be highly technical, and while these issues were mostly in the core areas of trade in goods and services, and investment, there were instances when these were technical details in new areas, such as electronic commerce and intellectual property.

a modality for tariff liberalisation is made even more difficult by the lack of a bilateral FTA between two RPCs, skewed trading patterns, or even bilateral issues such as trade deficits and non-tariff barriers.

For RPCs to reach their final destination, which is the finalisation of tariff commitments to be made under the RCEP Agreement, they have to go through several phases for tabling offers. For instance, the Basic Concept for Initial Offers (BCIO), which covers the thresholds, categories, and parameters for tabling initial offers, was initiated by ASEAN to kickstart discussions on the modality for tariff liberalisation. But since the BCIO entailed three tiers of tariff commitments, efforts were then directed towards the tabling of offers that were more or less aligned with the common concession principle, essentially offering the same tariff line with the same tariff rate and phase-out period to all RPCs.

The difficulty of agreeing on a single modality lasted for several more rounds, which prompted the TNC Chair to table a 'working assumptions' paper that detailed specific thresholds for certain milestone years (e.g. tariff elimination on 65% of all tariff lines upon entry into force of the RCEP Agreement) and the categories under which goods could be classified again subject to certain thresholds (e.g. the sensitive/highly sensitive track) to facilitate a second round for tabling offers that could then be subject to bilateral negotiations. Consistent with the Guiding Principles, the least-developed ASEAN Member States were given not only special and differential treatment but also additional flexibility, such as a lower threshold for tariff elimination at entry into force (EIF) and a longer transition period to phase out tariffs.

Rules of Origin (RoO)

In any FTA negotiation, RoO is typically the most contentious issue because it is the main determinant of a good's originating status and, therefore, its eligible for preferential tariff treatment under the FTA. As they can become highly technical in nature, RoO negotiations are also very challenging as there is a tendency to use RoO to restrict trade in protected industries. In fact, there are instances where a country would agree to liberalising tariffs for a certain good but would take a hard-line position for a more restrictive RoO for the same good or vice versa.

Prior to RCEP, ASEAN had been implementing seven sets of RoO: ATIGA and the six ASEAN+1 FTAs (including that of the ASEAN-Hong Kong, China FTA) and it is for this reason that the 'noodle bowl' effect is often mentioned when ASEAN's FTAs are being discussed. Consolidating and streamlining these RoO into a single set of rules would not only augurs well for supply chains in the region but also encourage greater integration and intra-regional trade. Post-RCEP negotiations, we often hear of streamlined RoO as

major value-added for the RCEP Agreement. The road to this streamlined RoO, however, was rough, especially for the Sub-working Group on Rules of Origin (SWGRoO), which had to spend long hours and additional (inter-sessional) meetings to accomplish its task.

The definition of 'RCEP country of origin'; the application of 'full cumulation' and the acceptance of 'declarations of origin by exporters or producers' (which the CP-TPP has); what constitutes 'minimal operations and processes'; and 'produced entirely' versus 'produced exclusively' in the context of goods that are not wholly produced or obtained are amongst the issues that were hotly debated at the level of the SWGRoO as well as the TNC.

Negotiating the product-specific rules' (PSRs) was another area in the RoO negotiations that had been particularly difficult to conclude, mainly due to the perceived different approaches taken by negotiators on the rules for agriculture products vis-à-vis industrial goods and how to operationalise the principle that PSRs should be 'technically feasible, trade facilitating, and business friendly'. In addition, whilst there was a general agreement that RCEP rules should be more liberal than the ASEAN+1 FTA rules, some negotiators missed the context or the nuance of the term 'more liberal', e.g. a certain rule proposed for RCEP may on the surface be more restrictive than that of the ASEAN+1 FTA, but given that there are more participants or countries to source inputs from compared to a bilateral FTA, then that proposed rule may not be restrictive after all. To accelerate negotiations of PSRs for 5,205 tariff lines (at the HS 6-digit level), a PSR Task Force (TF-PSR) that would negotiate PSRs in parallel with the SWGRoO had to be created. This TF-PSR was amongst the last few sectoral bodies under the TNC to complete its task.

Tariff differentials

As a general rule, parties should adhere to the principle of common concession, whereby a party should accord the same tariff treatment to the same originating good from any other party. Recognising, however, the dynamics and the circumstances by which tariff commitments have been bilaterally negotiated, RPCs agreed to allow limited deviation from the principle of common concession that gave rise to what is now Article 2.6 (Tariff Differentials) in the RCEP Agreement.

The concept of a 'tariff differential' was first mooted by India as a means to address its concern on circumvention that could possibly arise as a result of differentiated tariff commitments made by some RPCs. The proposal was to allow RPCs to impose an additional requirement, e.g. a certain percentage of 'domestic value content', on all tariff lines subject to tariff differentials before those goods can enjoy preferential

tariff treatment. Because of the large number of tariff lines subject to limited deviation, mainly brought about by the lack of bilateral FTAs for a number of RPCs, the proposal was not able to get enough support. As some other RPCs recognised that there might be a need for such a provision, a compromise was reached, whereby such a provision would be applied to a limited number of tariff lines, e.g. 100 tariff lines, and would be subject to a common requirement, i.e. domestic value content of 20%. Notwithstanding, this particular provision has a review clause, of which the objective is to reduce or eliminate not only the requirements specified for determining the country of origin in order to avail of the appropriate preferential tariff treatment but also the number of tariff lines and conditions provided in the party's appendix to its Schedule of Tariff Commitments.

Positive vs negative list approach to scheduling commitments in the Trade in Services Chapter

The schedules of specific commitments in all of the ASEAN+1 FTAs, even under the ASEAN Framework Agreement on Services (AFAS), follow the positive list approach to scheduling specific commitments consistent with the General Agreement on Trade in Services (GATS). The introduction, therefore, of the negative approach, which was used in the CP-TPP, faced quite a resistance for several reasons, amongst others, the perception that it is a more liberal approach and the lack of confidence and capacity to be able to draw up or employ such an approach. To complicate the matter, some developed RPCs tabled MFN treatment, the ratchet mechanism, which was deemed to be part and parcel of a negative list, and came up with a transparency list citing the importance of achieving commercially meaningful outcomes from the services negotiations. Failing to reach an agreement on what scheduling approach to adopt, each RPC was allowed to table its trade in services offer based on its preferred approach. It is interesting to note that whilst New Zealand and Viet Nam – two RPCs that are also in the CP-TPP – chose to use the positive list approach. On the other hand, Indonesia, and Korea, which are not in the CP-TPP, used a negative list approach with Korea having a single list to cover its commitments for both trade in services and investment.

MFN treatment, ratchet, and other investment-related issues

The Investment Chapter is another chapter where negotiations have been very challenging, not so much because it is highly technical but because of the following, amongst others: (i) there are currently no multilateral rules governing the protection of foreign direct investment; (ii) possible implications for national development policies and the need for certain countries to preserve that policy space; (iii) the linkage between commercial presence (Mode 3) in the Trade in Services Chapter; (iv) most of the elements that have been tabled for negotiations are not in any of the earlier

ASEAN+1 FTAs, e.g. MFN treatment, the ratchet mechanism, prohibition of performance requirements (PPR), and even the scheduling of non-conforming measures; and (v) ISDS. Investment negotiations have been so tough that almost always the issues arising from these challenges have to be elevated even up to the level of the ministers for policy intervention and decision.

Notwithstanding the tedious and arduous negotiations, the RCEP Chapter on Investment is one of the areas where RPCs got the most value-added compared to the ASEAN+1 FTAs or even ASEAN's own internal agreements, such as the ASEAN Comprehensive Investment Agreement (ACIA). For instance, the straightforward MFN treatment clause is a first for ASEAN outside of ACIA. The commitments made on PPR not only go beyond what has been committed to by the ASEAN Member States in the ACIA or even the ASEAN-Japan Comprehensive Economic Partnership Agreement (AJCEP) but also beyond their multilateral obligations under the WTO Trade-Related Investment Measures (TRIMS). No ASEAN+1 FTA has a two-annex negative list for scheduling non-conforming measures and a ratchet mechanism that addresses liberalisation, which makes RCEP another first for ASEAN. This is not to say that all investment issues have been resolved. In fact, ISDS, as well as the application of the provisions on expropriation to taxation measures that constitute expropriation, were put in a work programme for discussion within an agreed period of time.

India's issues

India opted out from the RCEP Agreement in November 2019 after Prime Minister Narendra Modi expressed at the 3rd RCEP Summit that the country was not in a position to join RCEP because: 'The present form of the RCEP Agreement does not fully reflect the basic spirit and the agreed guiding principles of RCEP. It also does not address satisfactorily India's outstanding issues and concerns.'

All throughout the negotiations, India pushed for maintaining parallel progress in negotiating trade in goods and services, with India pressing for a conservative level of ambition for goods but a very high level of commitment on trade in services, particularly on the movement of natural persons (MNP) and the adoption of an RCEP Business Card. On the other hand, some AFPs, especially those that did not have bilateral FTAs with India, found it very challenging to secure commercially meaningful market access outcomes for the agricultural products of trading interest to them.

Failing to muster enough support for a stronger MNP chapter and its RCEP Business Card proposal, India focused on trade in goods, where most of its issues and concerns related to its trade deficit problem with most RPCs, particularly the ASEAN Member

States and China, as well as possible circumvention. These outstanding issues include India's proposal on a more stringent application of RoO for those goods subject to tariff differentials, an 'auto-trigger' (special safeguards) mechanism that would raise tariffs on goods when such imports reached a certain threshold to protect against import surges from RPCs, exemptions from MFN, and ratchet obligations and a few others.

India made some last-minute proposals at the stage when all the other RPCs were already ready to announce the conclusion of text-based negotiations. But whilst some of them were accommodated at a ministerial-level meeting in 2019, some were not, prompting Prime Minister Modi to eventually opt out. Despite India opting out of RCEP when the conclusion of text-based negotiations was announced at the November 2019 Summit, India is still recognised as an original RPC and a vital player in regional value chains, and as such the RCEP Agreement will be open to India anytime it decides to re-join.

Other issues

As mentioned earlier in this chapter, some elements in the CP-TPP were tabled by concerned AFPs as early as the first round of negotiations, i.e. labour and environment and government procurement. These are elements that are not in any of ASEAN's FTAs or even in the AEC Blueprint, which made it difficult for ASEAN to agree to have these included in the negotiations. Because of fact that the Guiding Principles make no reference to either labour and environment or government procurement, it became easier for most RPCs – ASEAN Member States and some AFPs – to say that they did not have the mandate to discuss these new elements. In the end, the AFP proponent had to swallow the bitter pill when, at the Fifth Round (Singapore Round, June 2014), it dropped labour and environment – suggesting that these would be pursued bilaterally provided there be an agreement for that approach – and kept government procurement on the negotiating table. A mandate to include a chapter on government procurement was subsequently secured, albeit with a focus only on transparency and technical cooperation and no market access.

The inclusion of competition as a chapter in the RCEP Agreement was never an issue, primarily because it was referred to in the Guiding Principles and the Competition Chapter in the Agreement Establishing the ASEAN-Australia-New Zealand FTA, which covered only economic cooperation, and was deemed to be sufficient to be a basis for commencing text-based negotiations. Some AFPs, however, pushed for non-discrimination, taken as the provisions on competition policy should also be applied to state-owned enterprises, to be included in the basic principles for a Competition Chapter. No ASEAN FTA, not even the AEC Blueprint, alludes to state-owned enterprises, and for some ASEAN Member

States and AFPs, state-owned enterprises are a sensitive matter. In the end, Chapter 13 (Competition) of the RCEP Agreement made no reference to state-owned enterprises; however, under Article 13 (Appropriate Measures against Anti-Competitive Activities),¹¹ RPCs committed to applying competition laws and regulations to all entities engaged in commercial activities, regardless of their ownership, and any exclusion or exemption from this obligation 'shall be transparent and based on grounds of public policy or public interest.' So technically 'state-owned enterprises' is implied but not stated when negotiators agreed to use 'all entities engaged in commercial activities, regardless of their ownership.'

The future of RCEP – built-in agenda, deepening economic integration, and multilateralism

The last question of the RCEP story is to assess what's next for RCEP and its future. To become meaningful and relevant, the key priority is to ratify RCEP as soon as possible so that the various commitments under the agreement can be implemented. The critical next step for RCEP is to ensure its smooth implementation once it enters into force on 1 January 2022; and since the agreement is entering into force only for six ASEAN Member States and four non-ASEAN signatories, it would also be important for the remaining signatory states to accelerate their ratification process to have RCEP enter into force for all signatory states in 2022, which incidentally would mark 10 years from the launch of RCEP negotiations in 2012. But beyond the ratification process are a number of important issues that impact the implementation of RCEP and, thus, require further discussion.

Addressing RCEP's 'unfinished business': Transition period, built-in agenda, and review provision

Even Concluding negotiations for a mega-trade deal like RCEP, especially when they have already dragged on for a number of years, requires some creative thinking, especially on areas where convergence has been most difficult. This is where an agreement becomes a 'living document', which essentially means that further work needs to be undertaken on what could be considered as 'unfinished business'. Within RCEP, these are technical areas or elements where agreement has been difficult to reach because some countries participating in the negotiations required more time before they could make

¹¹ Article 13 includes a transition period for some ASEAN Member States.

any commitment in those areas. This 'unfinished business' is then incorporated in a work programme, which at some point in time in the future will be tackled as part of a 'built-in agenda', or being addressed as part of a transition period and review provision.

The so-called 'built-in agenda' would include commitments that signatories have already made but that would need to be reviewed within a specific timeframe with a view to enhancing or improving such commitments. Examples of this type of items in the 'built-in agenda' are related to trade in goods:

- (a) Schedules of tariff commitments that do not adhere to an earlier agreement that tariffs will be eliminated following a linear approach, e.g. no bunching (or tariffs are kept to a certain level over a certain number of years) or sudden death (tariffs are maintained for a longer period of time, then eliminated in the last few years of the transition period) will be reviewed to ensure compliance with what has been agreed upon.
- (b) Article 2.6 (Tariff Differentials) will be reviewed 2 years after entry into force and every 3 years to determine whether the number of tariff lines identified and the conditions set by the relevant signatories can be reduced or eliminated.
- (c) The Cumulation Article in the RoO Chapter will also be reviewed to consider the extension of the application of cumulation 'to all production undertaken and value added to a good within the Parties', which basically means inputs from any party, whether or not these are originating, could be cumulated.
- (d) The non-application of the Chapter on Dispute Settlement (DS) on the Chapters on Sanitary and Phytosanitary Measures (SPS) and Standards, Technical Regulations and Conformity Assessment Procedures (STRACAP), which include provisions that go beyond the WTO SPS and TBT (Technical Barriers to Trade), will also have to be reviewed 2 years after entry into force to determine whether the DS Chapter could already be applied to these two chapters.

In terms of the transition period, there are instances when a signatory could actually agree to commit to something but not necessarily upon entry into force of the RCEP Agreement for them but rather several years after because either they need to put in place the necessary domestic regulations or build their capacity to implement such commitments. In the RCEP Agreement, transition periods were given to the least-developed ASEAN Member States, not only in recognition of their level of development but also as part of the special and differential treatment provided for in the Guiding Principles. For instance, Cambodia, the Lao PDR, and Myanmar were given 5 years to implement certain obligations under the CPTF Chapter. In these 5 years, technical assistance – as provided for in the RCEP Chapter on Economic and Technical Cooperation – will be given to these countries to build their capacity to implement commitments they have made in the fifth year.

Finally, just like ASEAN's existing Plus 1 FTAs, RCEP has review provisions that could be the basis for subsequent upgrades. In fact, most of ASEAN's FTAs, like the ACFTA and the AKFTA, are being reviewed with the view to being upgraded – not updated – to make them more modern and perhaps more comprehensive, especially with the RCEP already in place. With the global economic landscape constantly changing and more and more attention being given to elements that not only go beyond just keeping markets open but also those that have never been in any of ASEAN's earlier FTAs, it would be good to see the RCEP Agreement eventually upgraded to incorporate provisions on those elements.

RCEP and implications for the AEC and regional economic integration

The AEC and RCEP represent the two most important initiatives in ASEAN today: AEC, established in 2015, signifies ASEAN's commitment to creating an integrated market, whilst RCEP, signed last year, represents the goal of integrating ASEAN with the rest of the world. Thus, AEC and RCEP, given their end goals of strengthening economic linkages, both reinforce each other.

One area where RCEP complements the AEC, or vice versa, is in deepening regional economic integration. According to a study by Park, Petri, and Plummer (2021) which quantifies the impact of RCEP, by 2030, RCEP will increase members' income by 0.6%, adding \$245 billion annually to regional income and 2.8 million jobs to regional employment. Every RCEP member will gain, and the largest percentage increases will be realised by the region's most trade-oriented economies, such as Malaysia and Viet Nam. These benefits will be more than twice those projected for the CPTPP agreement and under the scenario of a US-China trade war.

As discussed in the previous section, the success of RCEP lies in ASEAN's capability and centrality to lead the entire process of negotiations by bringing together 15 economies with different levels of development and domestic constraints and agreeing on various commitments. The same ASEAN centrality has underpinned the success and evolution of ASEAN economic integration over the years, from AFTA in 1992 to the AEC in 2003. At the same time, the flexibility of the approach by which AEC initiatives have been implemented is akin to the way RCEP countries have committed to specific provisions of RCEP. Under RCEP, some countries, particularly the least-developed AMS, were able to negotiate different timelines for implementing certain commitments and obligations, which is consistent with the Guiding Principles, i.e. special and differential treatment, with additional flexibilities, especially for the LDCs.

The second area where RCEP and the AEC complement each other is in setting new trade rules to enhance the competitiveness of the region. In a way, RCEP serves as a rule-maker in making important rules that guide the region's integration with the rest of the world. For example, although RCEP does not provide pioneering breakthroughs in trade governance in the sense that most of its commitments have been streamlined from current bilateral trading arrangements, RCEP was able to change the character of FTAs in ASEAN.

Thus, one important implication of RCEP for the AEC is that RCEP contains broad provisions that can be further expanded in the future, and with significant impacts on regional economic integration. For example, RCEP has a built-in agenda that provides for amendments to be incorporated into the agreement, including, amongst others, the full cumulation of RoO, the inclusion of ISDS for investor protection, and a review of ratchet and MFN provisions for investment. The review provisions of RCEP also imply that RCEP continues to remain relevant to the changing global and regional economic landscape and emerging issues such as the deepening of AEC. At the same time, as RCEP continues to evolve, it is also possible that it will be forced to address some of the missing issues, such as those related to labour, environment, SOEs, and sustainability. These are equally relevant issues for ASEAN, especially in the post-2025 AEC agenda. Thus, depending on the extent to which RCEP incorporates these issues in the future, the more ASEAN will become receptive to considering the issues in the integration agenda. Without a doubt, RCEP will become an important trigger for AEC and regional economic cooperation in the future.¹²

RCEP and the future of multilateralism and the global trading system

If RCEP delivers on its promise, it will become a model for managing the diverging interests and sensitivities of developing and developed economies, with obvious implications for wider multilateral cooperation, including adherence to the multilateral trading system (Park, Petri, and Plummer, 2021). For ASEAN, reliance on a rules-based global trading system has benefited the region as well and underpinned the evolution of the region's economic integration over the years – from the ASEAN Free Trade Area (AFTA) in 1993 to the AEC in 2015. In fact, the success of various initiatives under the AEC – whether in trade, services, investment, finance, or connectivity – has been due to the ability of ASEAN to make the region the most dynamic hub of regionalism where intensive multilateral efforts have also continued to be pushed forward not only in normal trading conditions but even during times of crisis.

¹² Similarly, for AEC to be a credible driver for RCEP, ASEAN has to continuously pursue deepening and broadening the AEC, including giving priority attention on putting in place a credible mechanism to address non-tariff barriers, digitalisation, going green, and expanding the AEC by incorporating those areas that are in RCEP but not in the AEC (e.g. government procurement, intellectual property, competition, and deeper commitments in electronic commerce).

Although RCEP is generally less comprehensive than other multilateral agreements, including the CPTPP, it represents a major resurgence in economic multilateralism. This is evident in the potential of RCEP to improve the global economic governance system and restructure global trade patterns and supply chains through lower trade costs and streamlined rules. It also has the capability to stimulate practical cooperation amongst countries and to create win-win interactions between developed and developing economies, thus expanding the space for mutually beneficial multilateral cooperation. But beyond its strong support for an open global trading system, RCEP can serve as a powerful platform to address the global challenges affecting the region, including key vulnerabilities exposed by the COVID-19 pandemic crisis. RCEP's streamlined rules and trade facilitation can help restructure global supply chains that are crucial to restoring global demand by allowing goods, services, and investment to move again and support global production and trade. For example, by forming win-win cooperation between the developed and developing members of RCEP, RCEP can help reduce trade barriers on essential inputs needed for vaccine production and ensure the adequate supply of critical goods for medical interventions. At the same time, RCEP's strong emphasis on digitalisation also implies the ability of RCEP to leverage powerful technologies to facilitate structural transformation in a post-pandemic world.

Strengthening domestic capacity and institutional support to implement RCEP

Even Like other international trade agreements, RCEP is not self-executing. Whether the RCEP Agreement can help deliver its promise to strengthen the region's trade architecture and deepen economic integration depends on how the agreement is being implemented, particularly in navigating the various complexities that come with the implementation as well as in identifying and managing the trade-offs. One crucial element for successful RCEP implementation is institutional development. At the country level, successful implementation of RCEP would require RPCs to implement policies and reforms that can maximise the agreement's potential gains whilst minimising risks. For example, it is vital that RPCs anticipate how RCEP will impact their economies and put in place the necessary mechanisms to mitigate losses from economic restructuring. It is also important that trade and macroeconomic policies are well-coordinated and remain relevant in their roles beyond trade and economic integration, including governance, social cohesion, and other issues.

Beyond strengthening the domestic capacity to implement policies, institutional support at the regional level remains crucial as well, particularly on how RCEP can be fully leveraged to intensify economic cooperation. Economic cooperation, whilst provided for in the various framework agreements that became the basis for negotiating the ASEAN Plus 1 FTAs, gained more prominence in the AANZFTA – ASEAN's first comprehensive

single undertaking – where it has a dedicated chapter that later had a life of its own through the AANZFTA Economic Support Programme. Economic cooperation provides the development dimension of ASEAN's FTAs, especially in the FTAs with the more developed economies, as they aim for high-quality FTAs, and some ASEAN Member States, particularly the least developed ones, may have difficulty in meeting the higher levels of commitments due to their lack of capacity and capability to implement them. RCEP is no different as its economic and technical cooperation (ECOTECH) component serves as a vehicle not only to help least developed RPCs to implement the agreement but also to advance the work programme/built-in agenda. In RCEP, ECOTECH presents an opportunity to provide various technical and capacity-building activities, particularly on trade-related issues as well as on areas that are relatively new in ASEAN's FTAs, e.g. electronic commerce, competition, and government procurement.

Given the difficult and complex process of creating a single, continent-wide market for goods, services, and investment, it is only logical that regional institutions be developed over time to enforce rules and monitor the progress of implementation. One critical institutional support is the establishment of the RCEP Secretariat, which is currently being considered by the RCEP Joint Committee (RJC).¹³ Issues relating to the functions of the RCEP Secretariat (especially in relation to the RJC), funding, location, etc. are the subject of deliberations.

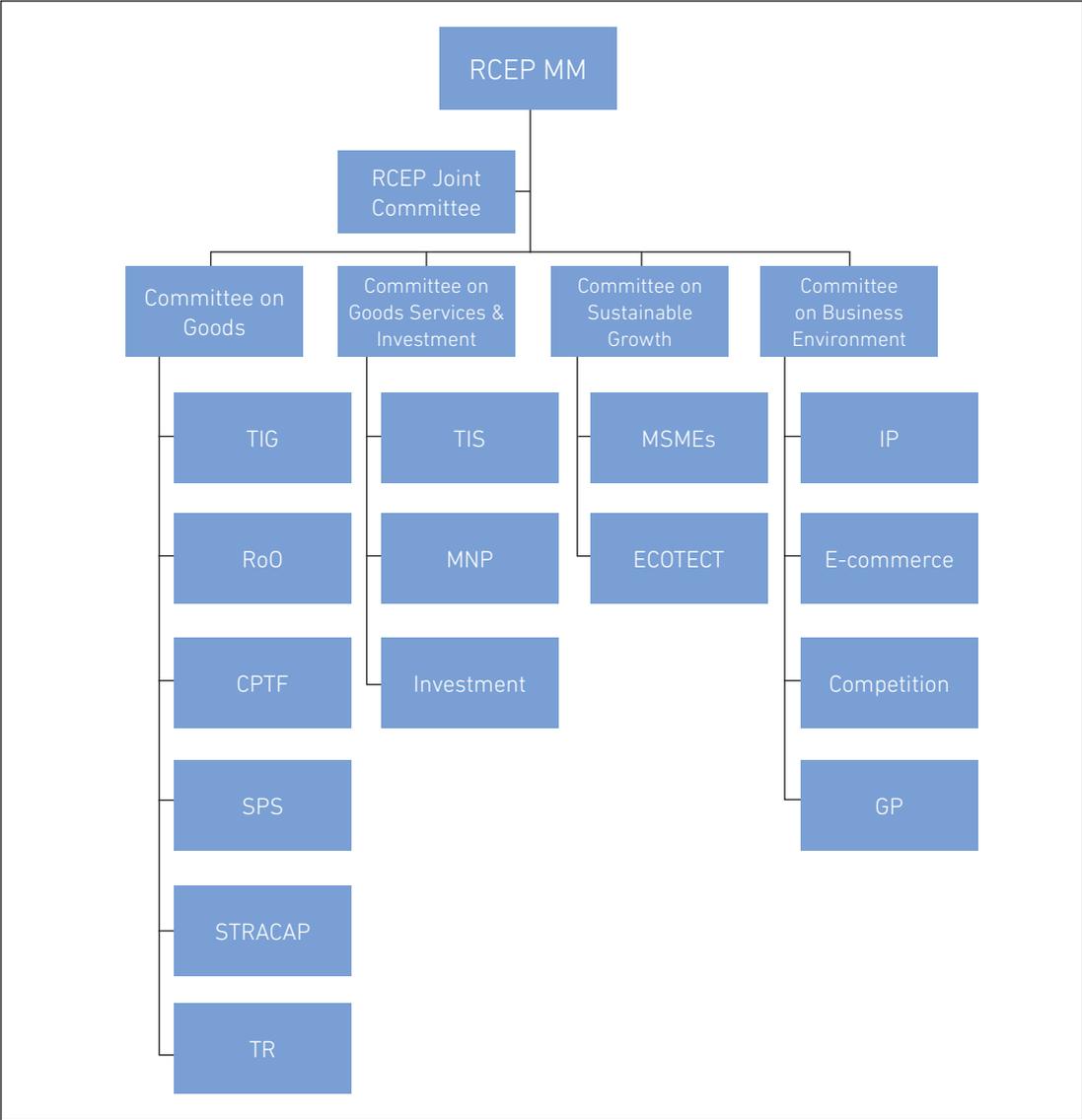
Managing the RCEP Agreement is basically the function of the RJC. But with RCEP being a mega-trade deal, with housekeeping matters and transition arrangements to monitor, built-in agenda to manage, and economic cooperation projects and activities to implement, an RCEP Secretariat would play an important and critical role in ensuring the unhampered and smooth implementation of the RCEP Agreement (Figure 2.2). In addition, the establishment of the RCEP Secretariat, complemented by the agreement's general review provision, validates that the RCEP Agreement is indeed a 'living document' that, with the support of a strong institutional structure, will ensure that the RCEP Agreement remains a 'modern, comprehensive, high-quality and mutually beneficial' free trade agreement notwithstanding the challenges it may be confronted with in the future.

Meanwhile, the ASEAN Secretariat will continue to remain an important institution in the East Asian trade landscape. Whilst ASEC played a key role in supporting the ASEAN Member States during the negotiations and was pivotal in coordinating their negotiations, existing ASEAN instruments and mechanisms (for example, regional initiatives on trade

¹³ The RJC is to establish the RCEP Secretariat to provide the secretariat and technical support to the RJC and its subsidiary bodies. RCEP's institutional structure is provided for in Chapter 18 (Institutional Provisions) in the RCEP Agreement. No other ASEAN Plus One FTA provides for the establishment of a secretariat, although some AFPs, e.g. the AANZFTA and AHKFTA, established facilities at the ASEAN Secretariat to augment human resources not only in implementing economic cooperation projects but also supporting the Joint Committees in overseeing the implementation of their FTAs with ASEAN. Even the CP-TPP has not provided for the establishment of a secretariat. Like the other ASEAN Plus One FTAs, the RJC, supported by its subsidiary bodies, is the main body to oversee the overall implementation of the RCEP Agreement.

liberalisation like ATIGA, as well as regional policy reviews on services and investment under ATISA and ACIA, respectively) can help in the implementation of RCEP. Thus, it is expected that whilst RCEP provides the overarching framework for trade amongst RPCs, institutions like ASEC will remain relevant in its role in deepening economic integration, which will also benefit RCEP implementation. ASEC can support some important measures to enforce RCEP rules, since some of the initiatives under ASEAN co-exist with RCEP’s own rules, such as those related to RoO, customs administration, and efficient customs clearance procedures at borders.

Figure 2.2 The RCEP Secretariat



Source: Authors’ formulation.

Conclusion

Despite its economic significance, the reality is that there are limits to what RCEP can do. It lacks rules to protect the environment and workers, and the tariff reductions it demands are not as large as those required by the other big Asia-Pacific trade agreements, such as the CPTPP. RCEP also needs to deal with more difficult issues, such as digital trade, trade-opening regulatory reform, and the professional movement of persons that are at the forefront of a modern trade agenda. Most of these issues cannot be resolved without the renegotiation of many of the current WTO rules. Unfortunately, rule-making negotiations are currently stalled and may take years to return on track. Nonetheless, whilst RCEP is not expected to solve all the problems confronting the multilateral trading system, it is vital in defending the global trading order.

Given that international trade and its modalities are fast evolving, and against the changing realities in the global economy today, it is important for all RPCs, particularly for ASEAN and East Asia, to continue to actively participate in global and regional discussions on important areas within the global trading system where active policy interventions are most needed. These include issues where existing multilateral trade rules are still constrained by a lack of market competition, such as the high trade barriers in the agriculture sector and the preferential treatment still given to SOEs in some countries. In addition, ASEAN and East Asia should remain proactive in discussing issues where multilateral rules are not keeping pace with changes in the global economy, such as the updated rules for services trade as well as next-generation trade issues, including trade-related aspects of the digital economy and the relationship between commercial policies and climate change.

In a highly globalised world, revitalising the multilateral trading system does not only require major changes in the rules of the game. What is needed is the willingness for RPCs to engage in candid, substantive deliberation on prevailing working practices and discussions on the perceived problems and possible solutions.

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CHAPTER 3

Comparison of the Regional Comprehensive Economic Partnership and Other Free Trade Agreements*

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This study evaluates the desirability of RCEP by comparing it with other mega-lateral FTAs. Evaluating the member-specific scale effects of the FTAs, we find that RCEP will generate significantly larger gains compared with the CPTPP. Evaluation of the provision-specific depth effects of RCEP suggests the possibility of positive gains but these gains may not be significant compared with those derived from the CPTPP. The existing CGE model analyses reveal that RCEP will generate greater gains than the CPTPP. RCEP will be more desirable for China, Japan, and the Republic of Korea and the estimated gains for ASEAN will notably increase as the model explicitly specifies the diagonal RoO cumulation scheme. Considering the sequence of implementing FTAs, we find that the CPTPP will generate greater gains for dual members, but the marginal gains enjoyed by RCEP members will not be substantial.

Introduction

Against the backdrop of deepening regional interdependence through trade and investment activities, as well as a realisation of the need to revitalise the regional economy in the 21st century, most East Asian countries adopted discriminatory policies for regional trade agreements (RTAs) due to the Asian financial crisis. Ever since, they have actively engaged in free trade initiatives with countries both within and outside of the region.¹ In contrast to just two RTAs in the region before 1997 (i.e. the Lao People's Democratic Republic [Lao PDR]–Thailand Preferential Trade Agreement and Association of Southeast Asian Nations [ASEAN] Free Trade Area [AFTA]), 14 bilateral RTAs between each of the ASEAN+6 countries on average and 6 plurilateral RTAs were established as of November 2021.² Accordingly, East Asia has become a highly integrated region, following in the footsteps of the European Union (EU) and North America (ADB, 2021).

The increasingly competitive formation of bilateral RTAs and hub-and-spoke plurilateral RTAs have produced a complicated web of overlapping RTAs in East Asia. Considering the potentially harmful 'spaghetti-bowl effect' of overlapping RTAs and deepening intraregional production networks, a few 'mega-lateral' RTAs have been negotiated.³ As an outcome of these efforts, the initially United States (US)-led Trans-Pacific Partnership

¹ This study defines East Asia to include the 10 Association of Southeast Asian Nations (ASEAN) Members, plus China, Japan, and the Republic of Korea in North-East Asia, as well as Australia, New Zealand, and India, which are commonly referred to as ASEAN+6.

² AFTA and five ASEAN+1 free trade agreements (FTAs), i.e. ASEAN–China Comprehensive Economic Cooperation Agreement (ACFTA), ASEAN–Japan Comprehensive Economic Partnership (AJCEP), ASEAN–Korea Comprehensive Economic Cooperation Agreement (AKFTA), ASEAN–India Comprehensive Economic Cooperation Agreement (AICECA), and ASEAN–Australia–New Zealand Free Trade Agreement (AANZFTA).

³ Including the East Asian Free Trade Area, preferred by China and encompassing ASEAN+3 (i.e. ASEAN plus China, Japan, and Korea); Comprehensive Economic Partnership for East Asia, preferred by Japan and encompassing the ASEAN+6 countries; and Free Trade Area of Asia-Pacific (FTAAP), including 21 Asia-Pacific Economic Cooperation (APEC) member economies.

(TPP), and currently the Japan-led Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP),⁴ has been effective since 2018. Additionally, the ASEAN-driven Regional Comprehensive Economic Partnership (RCEP), consolidating the five ASEAN+1 free trade agreements (FTAs) and comprising 15 members from ASEAN+6⁵ was completed on 15 November 2020 and entered into force on 1 January 2022 amongst the 10 early signers, excluding Indonesia, the Republic of Korea, Malaysia, the Philippines, and Myanmar. The Republic of Korea ratified RCEP on 2 December 2021 and made it effective from 1 February 2022.

RCEP can be regarded as a complete consolidation of East Asian RTAs encompassing 15 countries and containing several new features, such as differential tariff concession co-sharing and the regional/diagonal cumulation of rules of origin (RoO), which are likely to increase gains. RCEP is the largest regional trading bloc worldwide, consisting of a combined population of 2.4 billion people (30.3% of the world population in 2020), regional gross domestic product (GDP) of \$25.873 billion (30.6% of global GDP in 2020), and regional trade of \$10.173 billion (29.1% of global trade in 2020).⁶

The significance of RCEP in both global and regional trade architecture has been widely investigated since negotiations began in 2012, but its desirability in comparison with other RTAs, such as the five ASEAN+1 FTAs, CPTPP, and Free Trade Area of Asia-Pacific (FTAAP), has not been comprehensively evaluated. This study thus examines the evolution of East Asian RTAs from competitive bilateral and plurilateral RTAs to expansionary mega-lateral RTAs, focusing on RCEP and comparing it to other RTAs, such as the CPTPP. Section 2 details the deepening interdependence amongst the RCEP members and discusses the necessity of establishing mega-lateral RTAs by investigating the effectiveness of the five ASEAN+1 FTAs. Section 3 evaluates the desirability of RCEP by member- and provision-specific characteristics compared to other RTAs, mainly the CPTPP. Section 4 surveys the existing empirical analyses on the effects of RCEP in contrast to other mega-lateral RTAs. Section 5 discusses certain practical issues to be considered and concludes this study.

⁴ This includes Brunei Darussalam, Malaysia, Singapore, Viet Nam, Japan, Australia, New Zealand, Canada, Chile, Mexico, and Peru – and excludes the US.

⁵ Excluding India.

⁶ World Bank, World Development Indicators, <https://databank.worldbank.org/source/world-development-indicators> (accessed 2 November 2021).

Regional Trade Agreements in East Asia

Proliferation and Interdependence

Unlike the proliferation of regional free trade blocs in Europe and the Americas – such as the EU and its expansion; North American Free Trade Agreement, currently the United States–Mexico–Canada Agreement (USMCA); and Southern Common Market (MERCOSUR) – there was a dearth of RTAs in East Asia, except for the AFTA in South-East Asia, until the late 1990s. The three major North-East Asian countries (i.e. China, Japan, and the Republic of Korea) favoured non-discriminatory multilateral approaches and actively drove their outward-looking industrialisation policies within the General Agreement on Tariffs and Trade (GATT) and World Trade Organization (WTO) frameworks.

Since the Asian financial crisis in 1997, efforts for regional economic cooperation made tremendous headway in forming regional free trade blocs; the number of effective RTAs increased from 1 in 1997 to 22 in 2020 for the RCEP members (Table 3.1). Particularly, North-East Asia became the most popular region for RTAs; both China and the Republic of Korea had 32, and Japan had 26.

Table 3.1 Regional Trade Agreements by Country, June 2021

Country	Under Negotiation		Signed but Not Yet in Effect	Signed and in Effect (before 1997)	Total
	Framework Agreements Signed	Negotiations Launched			
Australia	0	5	2	16 (2)	23
Brunei Darussalam	0	0	1	10 (1)	12
Cambodia	0	1	2	7 (1)	10
China	0	9	4	19 (0)	32
India	1	14	1	14 (1)	30
Indonesia	0	5	5	12 (1)	22
Japan	0	6	1	19 (0)	26
Rep. of Korea	0	11	4	17 (0)	32
Lao PDR	0	0	1	9 (2)	10
Malaysia	1	5	2	16 (1)	24
Myanmar	1	1	1	7 (1)	10
New Zealand	0	6	2	12 (2)	20

Country	Under Negotiation		Signed but Not Yet in Effect	Signed and in Effect (before 1997)	Total
	Framework Agreements Signed	Negotiations Launched			
Philippines	0	2	1	9 (1)	12
Singapore	0	6	2	26 (1)	34
Thailand	1	8	1	14 (2)	24
Viet Nam	0	2	1	14 (1)	17
Average	0	5	2	14 (1)	21

Lao PDR = Lao People's Democratic Republic.

Source: Author's calculation based on ARIC, Free Trade Agreements, <https://aric.adb.org/database/fta> (accessed 2 November 2021).

Currently, East Asia is a highly integrated region, close to North America but still behind the EU (ADB, 2021). As reported in Table 3.2, the 15 countries of RCEP are mostly integrated with countries in the Asia-Pacific region in terms of trade and investment cooperation (0.51), followed by the EU (0.47). Table 3.2 shows that the deepening trade and investment cooperation between the RCEP members and their neighbouring trading partners has been driven by ASEAN's active regional cooperation (0.59), although the rather inactive regional cooperation of China, Japan, and the Republic of Korea (CJK, 0.37) and Australia and New Zealand (ANZ, 0.35) is observed. More specifically, Table 3.2 reveals that the RCEP members are highly interconnected through regional value chains (RVCs, 0.57), people and social integration (0.65), and technology and digital connectivity (0.55) but less mutually dependent in terms of money and finance (0.39) and institutional arrangements (0.39). The dimensions of infrastructure and connectivity (0.58) and environmental cooperation (0.56) are also much lower than those of the EU (0.66 and 0.67) and North America (0.75 and 0.69, respectively).

These observations support the general characterisation of East Asian regionalism: (i) East Asian RTAs have been accelerated by deepening RVCs; (ii) the lack of financial cooperation in the region could have been a major cause of the Asian financial crisis; (iii) East Asian regional cooperation has been market-driven rather than institution-driven, unlike in the EU; (iv) East Asia's transition to digitalisation has been quicker than other regions; and (v) underdeveloped infrastructure and poor environmental standards could impede the region's gains from regional cooperation.

Table 3.2 Regional Cooperation and Integration Index by Region, 2018

Dimension	Africa	Asia-Pacific	RCEP	ASEAN	CJK	ANZ	RCEP16	European Union	Latin America	Middle East	North America
Trade and Investment	0.19	0.45	0.51	0.59	0.37	0.35	0.50	0.47	0.20	0.27	0.29
Money and Finance	0.28	0.36	0.39	0.37	0.39	0.44	0.38	0.72	0.29	0.45	0.56
Regional Value Chains	0.41	0.54	0.57	0.59	0.57	0.51	0.57	0.55	0.41	0.43	0.53
Infrastructure and Connectivity	0.42	0.50	0.58	0.57	0.61	0.63	0.57	0.66	0.48	0.57	0.75
People and Social Integration	0.45	0.56	0.65	0.71	0.53	0.55	0.64	0.61	0.42	0.42	0.24
Institutional Arrangements	0.39	0.24	0.39	0.34	0.54	0.37	0.39	0.81	0.36	0.53	0.92
Technology and Digital Connectivity	0.34	0.52	0.55	0.56	0.52	0.54	0.54	0.46	0.32	0.42	0.34
Environmental Cooperation	0.39	0.52	0.56	0.50	0.64	0.70	0.55	0.67	0.55	0.53	0.69
Overall	0.36	0.46	0.53	0.53	0.52	0.51	0.52	0.62	0.38	0.45	0.54

ANZ = Australia and New Zealand; ASEAN = Association of Southeast Asian Nations; CJK = China, Japan, and Republic of Korea; RCEP = Regional Comprehensive Economic Partnership; RCEP16 = RCEP with India.

Note: Bold and italic numbers indicate the highest index value in the category.

Source: Author's calculation based on ADB, Asia-Pacific Regional Cooperation and Integration Index, <https://aric.adb.org/database/arcii> (accessed 2 November 2021).

In sum, the deepening regional interdependence amongst the RCEP members through market-driven trade and investment activities in a highly interconnected RVC framework has caused East Asian countries to shift their policy stance from favouring the multilateral liberalisation approach under the GATT and WTO frameworks to favouring the approach by forming discriminatory RTAs. The profit-seeking East Asian strategy of forming RTAs since the Asian financial crisis in 1997 has been catalysed by leadership competition between China and Japan, the Republic of Korea's ambition to use its geopolitical advantage to become an East Asian business hub, and ASEAN's intention to become a hub for the East Asian RTA structure (Park, 2020).

Path towards Mega-Lateral Regional Trade Agreements

The proliferation of East Asian RTAs has embarked upon an expansionary, competitive, and overlapping path from 1994, when the AFTA was implemented, until 2020, when RCEP was signed. The AFTA expanded and overlapped membership with the six individual dialogue partners by forming the five ASEAN+1 FTAs before further expanding into the region-wide, mega-lateral RCEP by consolidating the existing five ASEAN+1 FTAs. The extension of the existing Trans-Pacific Strategic Economic Partnership Agreement into the TPP and CPTPP can be regarded as another expansionary region-wide, mega-lateral RTA competing with RCEP.

The East Asian RTAs have a complicated web of overlap (Table 3.3). Almost all of the countries involved in mega-lateral RTAs were already connected through bilateral and/or plurilateral RTAs, even before the formation of the CPTPP and RCEP. In the case of the CPTPP, there has been some disconnected bilateral cooperation between Asian and Pacific members, but all East Asian members were already deeply connected, as the Japan–New Zealand FTA under negotiation is included. Until RCEP, Japan was not connected to the Republic of Korea and China. Table 3.3 indicates that filling the empty cells by launching the CPTPP and RCEP could generate significant gains for the newly connected members and meaningful gains for the other members.

Table 3.3 Regional Trade Agreement Map

	US	Canada	Mexico	Chile	Peru	Australia	New Zealand	Brunei Darussalam	Malaysia	Singapore	Viet Nam	Japan	Republic of Korea	China	Cambodia	Indonesia	Lao PDR	Myanmar	Philippines	Thailand	India	
US		P	P	B	B	B				B												
Canada	P		P	B	B								B									
Mexico	P	P		B	B							B										
Chile	B	B	B		B	B	P	P	B	P	B	B	B			B				B	B	
Peru	B	B	B	B		B				B		B	B									
Australia	B			B	B		PB	P	PB	PB	P	B	B	B	P	PB	P	P	P	PB	PB	
New Zealand				P		PB		PP	PB	PBP	P		B	B	P	P	P	P	P	P	PB	
Brunei Darussalam				P		P	PP		P	PP	P	PB	P	P	P	P	P	P	P	P	P	P
Malaysia				B		PB	P			P	P	P	P	P	P	P	P	P	P	P	P	P
Singapore	B			P	B	PB	PBP	PP	P		P	PB	PB	PB	P	P	P	P	P	P	P	PB
Viet Nam				B		P	P	P	P	P	P	PB	PB	P	P	P	P	P	P	P	P	P
Japan			B	B	B	B		PB	PB	PB	PB				P	PB	P	P	PB	PB	B	
Republic of Korea	B	B	B	B	B	B	B	P	P	PB	PB			B	P	P	P	P	P	P	P	B
Korea																						
China					B	B	B	P	P	PB	P	B	B		P	P	P	P	P	P	P	
Cambodia						P	P	P	P	P	P	P	P	P		P	P	P	P	P	P	
Indonesia			B			PB	P	P	P	P	P	P	PB	P	P		P	P	P	P	P	P
Lao PDR						P	P	P	P	P	P	P	P	P	P	P		P	P	PB	P	P

B = bilateral RTA, CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership, Lao PDR = Lao People's Democratic Republic, P = plurilateral RTA, RCEP = Regional Comprehensive Economic Partnership, RTA = regional trade agreement, US = United States. Note: The red box represents the CPTPP; the green box represents RCEP; and shaded areas indicate the absence of existing bilateral or plurilateral cooperation schemes.

Source: Author based on ARIC, Free Trade Agreements, <https://aric.adb.org/database/fta> (accessed 2 November 2021).

Effectiveness of ASEAN+1 Free Trade Agreements

Expecting significant gains from the hub-and-spoke type of FTA, ASEAN initiated five FTAs with its six dialogue partners. To avoid any loss due to exclusion, the six dialogue partners competitively agreed to sign an FTA as a spoke. However, the East Asian RTAs' expansionary evolution from the AFTA to the five ASEAN+1 FTAs could not generate a significantly strong trade creation effect because of the additional cost imposed by complicated RoO of overlapping RTAs.

The administrative and compliance costs of verifying the RoO may offset the initial gains from freer trade by lowering FTA utilisation rates. Fukunaga and Isono (2013) and Hayakawa and Laksanapanyakul (2017) elaborated upon the complicated RoO in the five ASEAN+1 FTAs, which resulted in the ineffective utilisation of RTAs. Ando and Urata (2018); Lee and Park (2021); Thangavelu, Narjoko, and Urata (2021); and Chang et al. (2021) demonstrated the negative impact of complicated and restrictive RoO on RTA utilisation rates.⁷ To mitigate the trade diversion effect caused by the restrictive RoO, regime-wide RoO – such as diagonal or full cumulation, de minimis, and self-certification requirements – can be applied to complement the restrictive RoO. However, Table 3.4 reveals that rather restrictive regime-wide RoO of the East Asian RTAs in practice lower utilisation rates of the East Asian RTAs, making them ineffective.

Table 3.4 Rules of Origin of Various Free Trade Agreements in East Asia

Regional Trade Agreement	De Minimis	Regional Value Contents	Certificate of Origin
ASEAN–Japan Comprehensive Economic Partnership	10%; for some agricultural products, 7%	40% (build down)	Public
ASEAN–Korea Comprehensive Economic Cooperation Agreement	10%	40%–60% (build down or up)	Public
ASEAN Free Trade Area	10%	40%	Public
Australia–New Zealand	10%	50%	Public
Brunei Darussalam–Japan	By product	40%	Public
China–New Zealand	10%	By product	Public

⁷ Ando and Urata (2018) reported relatively lower AJCEP utilisation rates of Japanese imports from ASEAN partners in 2015 – 25.7% of the AJCEP and 50.4% of Japan's bilateral FTAs with ASEAN countries. Lee and Park (2021) also reported lower utilisation rates of the AKFTA in terms of the Republic of Korea's exports to ASEAN in 2019 (51.3%) relative to the Republic of Korea's exports to other importers of all of the Republic of Korea's FTAs (74.9%). Thangavelu, Narjoko, and Urata (2021) reported low AANZFTA utilisation rates of ASEAN's imports from Australia, mostly lower than 25% in 2015 and 2016. Chang et al. (2021) reported lower FTA utilisation rates of three ASEAN countries' imports from their six dialogue partners on average, 37.8% by Indonesia in 2016, 47.0% by the Philippines in 2018, and 55.8% by Thailand in 2018.

Regional Trade Agreement	De Minimis	Regional Value Contents	Certificate of Origin
China–Singapore	10%	40% (build down)	Public
Japan–Australia	10%	40% by product (QVC)	Public
Japan–Indonesia	28–49 and 64–97, 10%; 50–63, 7%	QVC 40% by product	Public
Japan–Malaysia	28–49 and 64–97, 10%; 50–63, 7%	40% (build down)	Public
Japan–Philippines	28–49 and 64–97, 10%; 50–63, 7%	By product	Public
Japan–Singapore	10%; for some agricultural products, 7%	60%	Public
Japan–Thailand	19–24, 7%; 28–49, 50–63, and 64–97, 10%	By product	Public
Japan–Viet Nam	7% or 10% by product	40%	Public
Korea–Australia	10%	By product (RVC 40%)	Self (Australia, public)
Korea–Singapore	8% or 10% by product	55% (build down), 45% in some cases	Public
Malaysia–Australia	10%	40% by product (or CTC)	Public
New Zealand–Malaysia	10%	40% by product (QVC)	Public
New Zealand–Singapore		By product	Public
Singapore–Australia	2%	30%, 50% by product	Public
Thailand–Australia	10%	By product	Public
Thailand–New Zealand	10%	By product	Self

ASEAN = Association of Southeast Asian Nations, CTC = change in tariff classification, RVC = regional value chain, QVC = qualifying value content.

Source: Author.

The low RTA utilisation rates may explain why the five ASEAN+1 FTAs have not successfully created bilateral trade between ASEAN and the six dialogue partners. Over the last 20 years (i.e. 2000–2020), all six dialogue partners have increased their respective trade share with ASEAN, even as a recent decreasing trend of Australia’s trade share with ASEAN and an insignificant increase in Japan’s trade share with ASEAN have been reported (Figure 3.1a). From the ASEAN side, its trade share with both the Republic of Korea and China has been steadily increasing, but its trade share with Japan has been decreasing continuously (Figure 3.1b).

Figure 3.1a Dialogue Partners' Trade Share with ASEAN

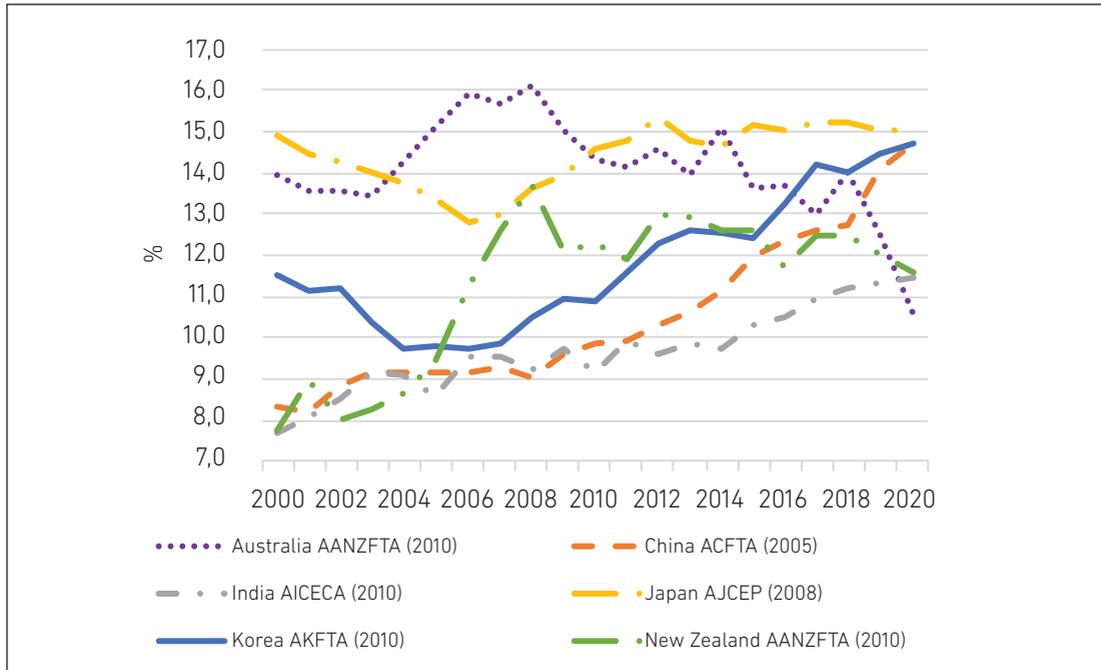
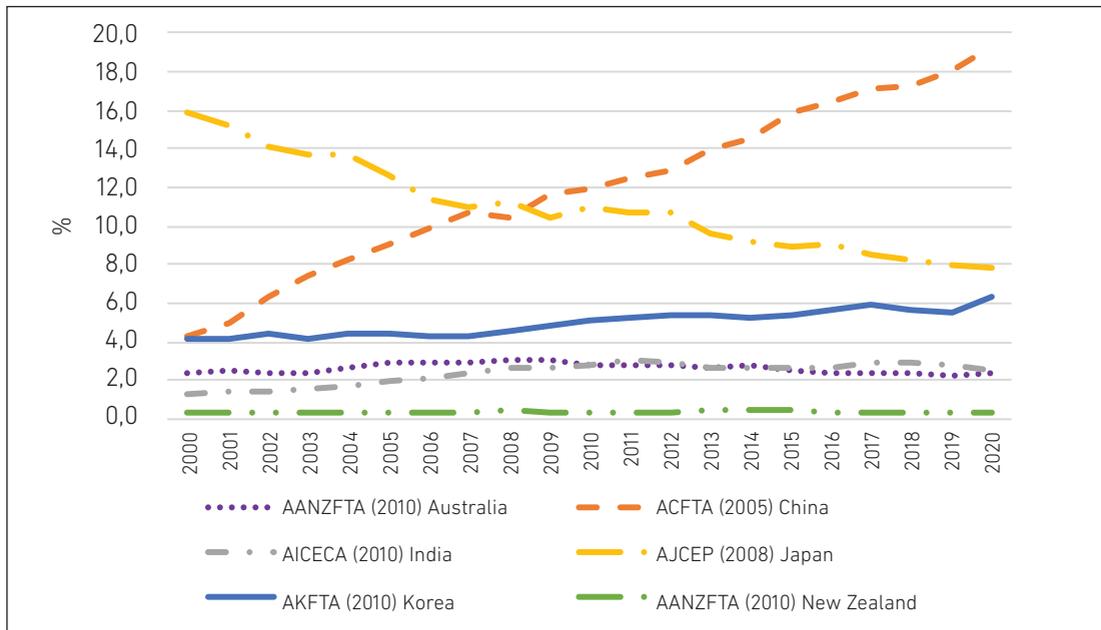


Figure 3.1b ASEAN's Trade Share with Dialogue Partners



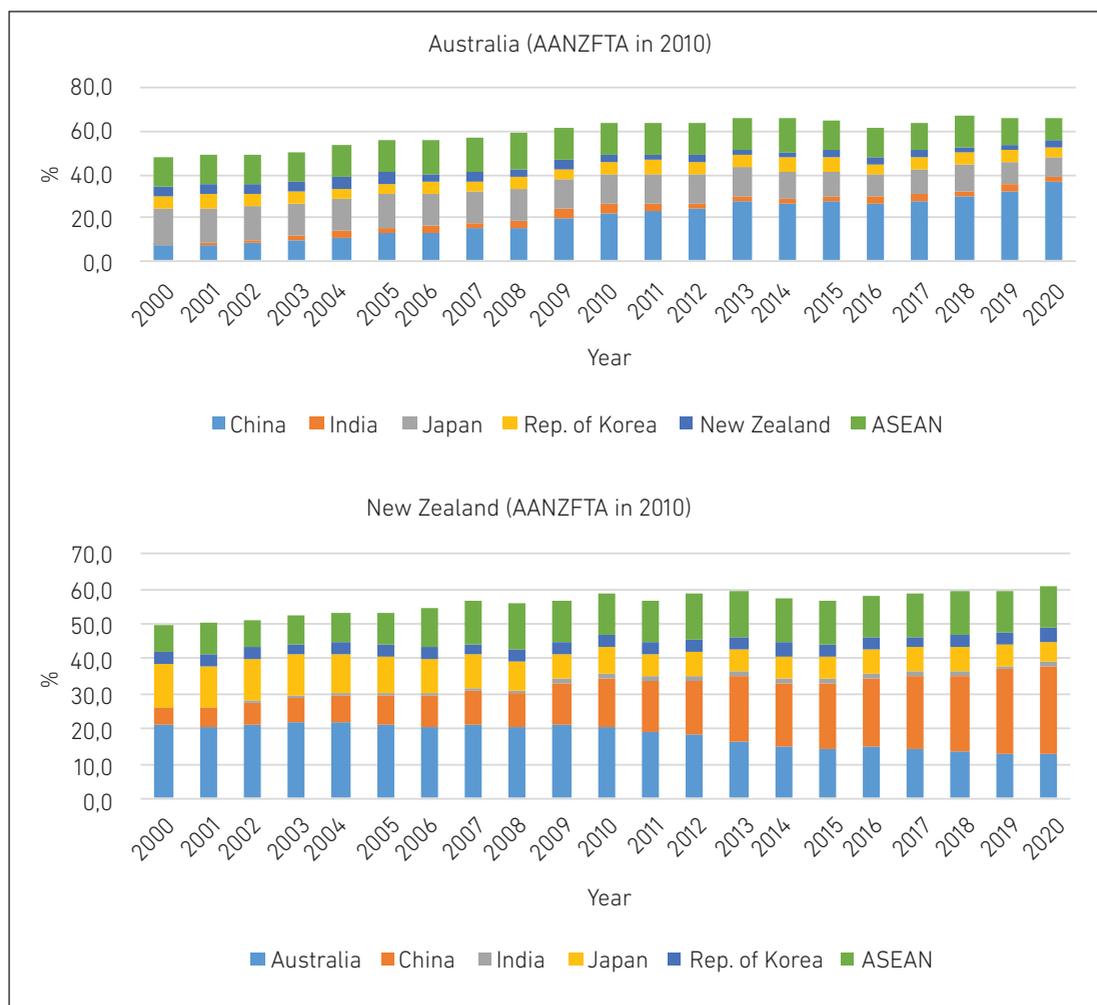
AANZFTA = ASEAN–Australia–New Zealand Free Trade Agreement, ACFTA = ASEAN–China Comprehensive Economic Cooperation Agreement, AICECA = ASEAN–India Comprehensive Economic Cooperation Agreement, AJCEP = ASEAN–Japan Comprehensive Economic Partnership, AKFTA = ASEAN–Korea Comprehensive Economic Cooperation Agreement, ASEAN = Association of Southeast Asian Nations.

Note: Figures in parenthesis indicate the year in effect.

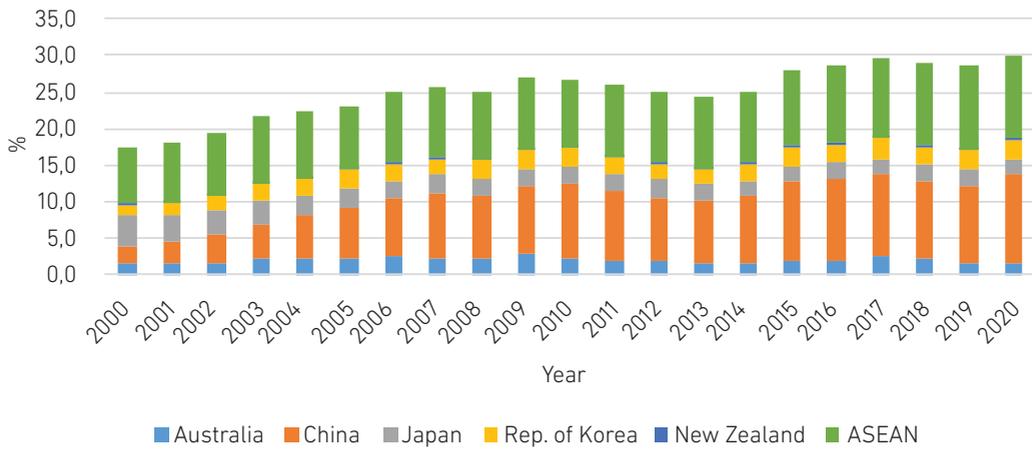
Source: Author's calculation.

Figure 3.1 does not provide clear evidence of trade creation and diversion caused by the five ASEAN+1 FTAs as a possible turning point identified by the year in effect. To identify whether the bilateral trade shares between members and non-members of ASEAN+1 FTAs have changed after forming the trade bloc, Figure 3.2 delineates the bilateral trade shares into individual country/regional levels. All of the countries in the region show increasing intraregional trade shares mainly driven by trade with China – but not by trade with ASEAN. From Figures 3.1 and 3.2, there is not any strong evidence of a successful trade-creation effect generated by the ASEAN+1 FTAs when members' bilateral trade activities before and after the formation of the corresponding FTA are evaluated. However, these observations partially support findings from existing rigorous empirical studies (i.e. Yang and Martinez-Zarzoso, 2014; Okabe, 2019; Lee and Park, 2021) reporting the positive trade-creation effects of the ACFTA and AKFTA and the insignificant trade-creation effects of the AANZFTA, AICECA, and AJCEP.

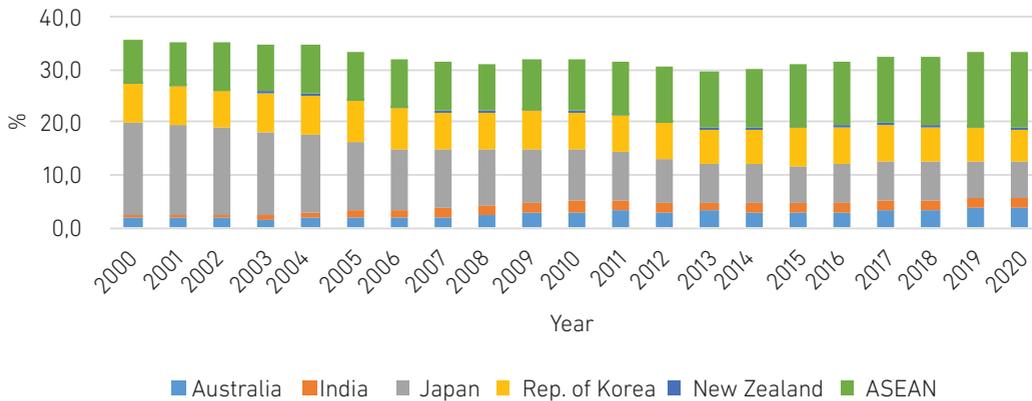
Figure 3.2 Intraregional Trade Shares, ASEAN+1 Free Trade Agreements



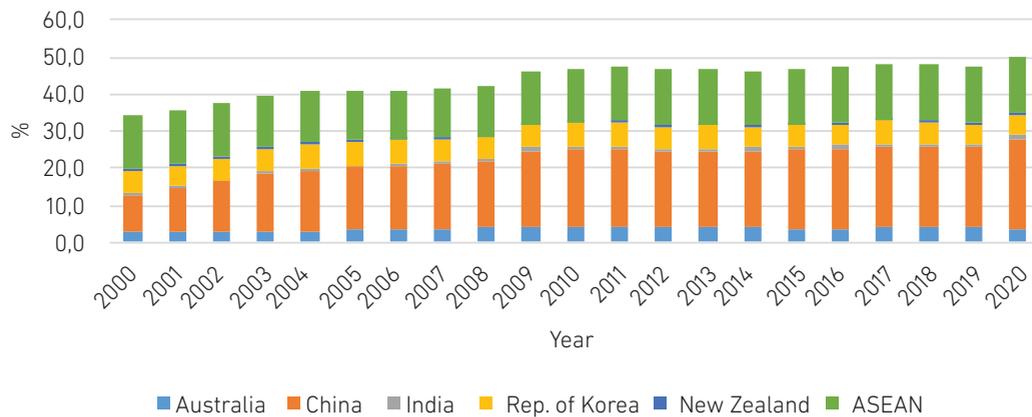
India (AICECA in 2010)

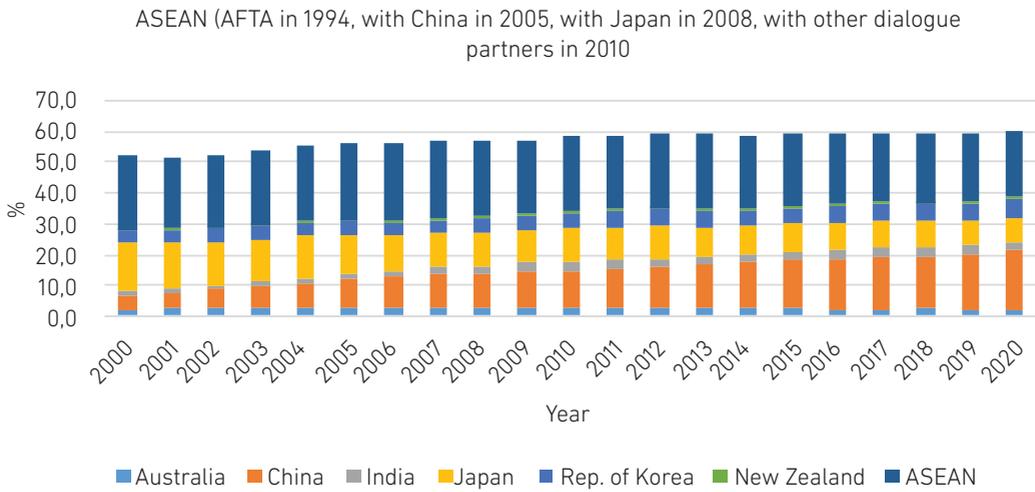
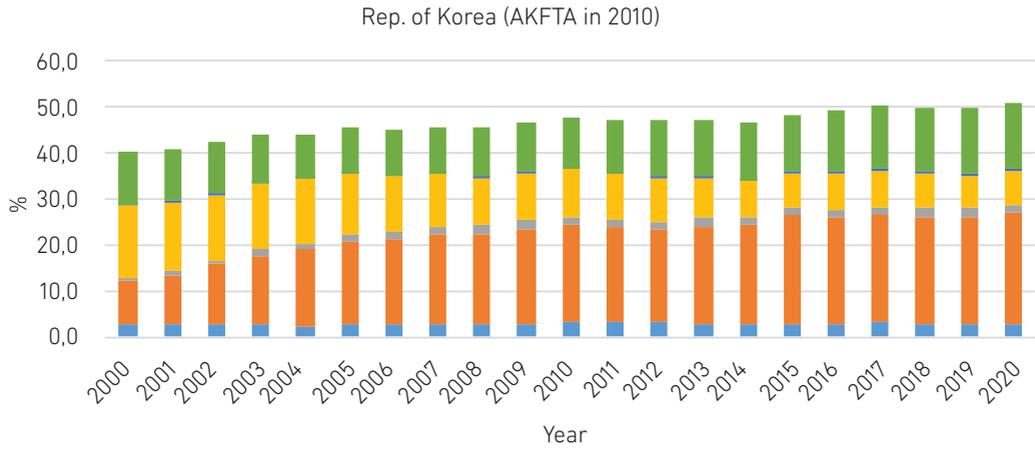


China (ACFTA in 2005)



Japan (AJCEP in 2008)





Comprehensive Economic Cooperation Agreement, AFTA = ASEAN Free Trade Area, AICECA = ASEAN-India Comprehensive Economic Cooperation Agreement, AJCEP = ASEAN-Japan Comprehensive Economic Partnership, AKFTA = ASEAN-Korea Comprehensive Economic Cooperation Agreement, ASEAN = Association of Southeast Asian Nations.

Source: Author's calculation.

To overcome the ineffectiveness of the ASEAN+1 FTAs, the ASEAN+6 countries agreed to launch the region-wide RCEP by upgrading and consolidating existing provisions of the five ASEAN+1 FTAs. The US-initiated TPP negotiation, which was started earlier and moved quickly, could be another reason that RCEP was proposed by ASEAN and backed by China. That is, ASEAN's intention of maintaining its centrality and China's concern about losing its dominance in the regional market against the TPP drove the RCEP negotiation process.

Desirability of RCEP

RCEP was created for easier market access, by reducing trade costs between deeply interconnected countries through RVCs and existing sub-regional RTAs. More specifically, it aims to achieve wider, deeper Asia-Pacific regional integration that consolidates the already-implemented five ASEAN+1 FTAs. It is driven by ASEAN centrality and will establish the first trade agreement amongst China, Japan, and the Republic of Korea.

RCEP's desirability has been widely discussed, based on expected gains from extended membership and deeper coverage compared to the existing ASEAN+1 FTAs. Particularly, RCEP is more flexible than other mega-lateral RTAs such as the CPTPP, EU, and USMCA. It allows certain members the freedom to negotiate different timelines for the date of entry into force for specific provisions. Moreover, agreements specifically linked to India remain open until India re-joins. RCEP is also flexible for membership expansion; it offers accession to countries that submit expressions of interest just 18 months into the agreement.

Scale

The current status of the RCEP members' economies is investigated that affect trade creation and the diversion effect of RTAs, such as market size; development level; participation in supply chains; intra-RTA trade volume; intra-RTA trade intensity; complementarity; and concentration of tradable products, trade cost, and cultural affinity.⁸

⁸ The positive gains from trust-building between RTA members can be significantly influenced by the cultural distance between members, as investigated by Park and Park (2021).

RCEP is the largest regional trading bloc worldwide, comprising a combined population of 2.4 billion people (30.3% of the world population in 2020), regional GDP of \$25.873 billion (30.6% of global GDP in 2020), and regional trade of \$10.173 billion (29.1% of global trade in 2020) (Table 3.5). Intra-RCEP trade constitutes 44.1% of members' global trade – larger than that of the CPTPP (35.6%) in 2020. More specifically, the intra-RCEP trade value is \$4.491 billion (12.9% of global trade in 2020), which is 2.4 times larger than the intra-CPTPP trade of \$1.903 billion (5.5% of global trade in 2020). Assuming that India and the US join, the intra-RCEP16 trade will be \$4.684 billion (13.4% of global trade), and the intra-TPP trade will be \$3.436 billion (9.8% of global trade).

However, the GDP per capita of the RCEP members (\$11,000) is lower than that of CPTPP (\$19,966) and USMCA (\$56,072) members, and the gap is much wider than that of other blocs. Considering that the GDP per capita represents the level of economic development, the developmental gap between the RCEP members is wider, encompassing many developing countries in transitional ASEAN economies, in contrast to the CPTPP and USMCA.

Table 3.5 Scale of Selected Regional Trade Agreements, 2020

	GDP		Population		GDP per Capita		Trade with World		Intra-RCEP Trade			Intra-CPTPP Trade			Intra-RCEP16 Trade		Intra-TPP Trade	
	\$ billion	% of world	million	% of world	\$	% of world	% of world	\$ billion	% of total trade	% of world	\$ billion	% of total trade	% of world	\$ billion	% of total trade	\$ billion	% of total trade	\$ billion
Australia	1,331	1.6	25.7	0.3	51,812	4.69	1.3	300	6.7	63.9	88	4.6	18.7	309	6.6	124	3.6	
Brunei Darussalam	12	0.0	0.4	0.0	27,466	12	0.0	9	0.2	79.0	6	0.3	53.7	10	0.2	7	0.2	
Cambodia	25	0.0	16.7	0.2	1,513	35	0.1	20	0.5	57.9				21	0.4			
Canada	1,644	1.9	38.0	0.5	43,258	819	2.3				70	3.7	8.5			566	16.5	
Chile	253	0.3	19.1	0.2	13,232	133	0.4				17	0.9	12.8			37	1.1	
China	14,723	17.4	1,402.1	18.1	10,500	4,658	13.3	1,479	32.9	31.7				1,566	33.4			
India	2,623	3.1	1,380.0	17.8	1,901	644	1.8							194	4.1			
Indonesia	1,058	1.3	273.5	3.5	3,870	313	0.9	192	4.3	61.2				207	4.4			
Japan	4,975	5.9	125.8	1.6	39,539	1,269	3.6	618	13.8	48.7	189	9.9	14.9	632	13.5	379	11.0	
Rep. of Korea	1,631	1.9	51.8	0.7	31,489	980	2.8	484	10.8	49.4				501	10.7			
Lao PDR	19	0.0	7.3	0.1	2,630	13	0.0	12	0.3	92.0				12	0.2			
Malaysia	337	0.4	128.9	1.7	10,402	423	1.2	262	5.8	61.8	108	5.7	25.4	271	5.8	143	4.2	
Mexico	1,076	1.3	54.4	0.7	8,347	824	2.4				66	3.5	8.0			583	17.0	
Myanmar	76	0.1	32.4	0.4	1,400	36	0.1	26	0.6	73.2				28	0.6			
New Zealand	211	0.2	5.1	0.1	41,478	76	0.2	45	1.0	59.4	21	1.1	27.1	46	1.0	28	0.8	
Peru	202	0.2	33.0	0.4	6,127	75	0.2				12	0.6	15.5			25	0.7	
Philippines	361	0.4	109.6	1.4	3,299	206	0.6	124	2.8	60.0				126	2.7			

	GDP		Population		GDP per Capita		Trade with World		Intra-RCEP Trade			Intra-CPTPP Trade			Intra-RCEP16 Trade		Intra-TPP Trade	
	\$ billion	% of world	million	% of world	\$	% of world	% of world	\$ billion	% of total trade		\$ billion	% of total trade		\$ billion	% of total trade		\$ billion	% of total trade
									% of world	\$ billion		% of world	\$ billion		% of world	\$ billion		
Singapore	340	0.4	5.7	0.1	59,798	703	2.0	373	8.3	53.0	170	8.9	24.2	389	8.3	239	7.0	
Thailand	502	0.6	69.8	0.9	7,189	4.37	1.3	252	5.6	57.6				261	5.6			
US	20,937	24.8	329.5	4.2	63,544	3,768	10.8									1,533	44.6	
Viet Nam	271	0.3	97.3	1.3	2,786	541	1.5	296	6.6	54.7	79	4.1	14.6	306	6.5	170	5.0	
RCEP	25,873	30.6	2,352	30.3	11,000	10,173	29.1	4,491	100.0	44.1								
CPTPP	10,652	12.6	534	6.9	19,966	5,344	15.3				1,903	100.0	35.6					
RCEP16	28,496	33.7	3,732	48.1	7,635	10,816	31.0							4,684	100.0			
TPP	31,589	37.3	863	11.1	36,604	9,112	26.1									3,436	100.0	
ASEAN	3,002	3.5	742	9.6	4,048	2,719	7.8											
CJK	21,329	25.2	1,580	20.4	13,501	6,908	19.8											
USMCA	23,657	28.0	422	5.4	56,072	5,411	15.5											
World	84,578	100.0	7,752.8	100.0	10,909	34,914	100.0											

ASEAN = Association of Southeast Asian Nations; CJK = China, Japan, and Rep. of Korea; CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership; GDP = gross domestic product; Lao PDR = Lao People's Democratic Republic; RCEP = Regional Comprehensive Economic Partnership; RCEP16 = RCEP with India; TPP = Trans-Pacific Partnership; US = United States; USMCA = United States-Mexico-Canada Agreement.

Source: Author's calculation based on World Bank, World Development Indicators, <https://databank.worldbank.org/source/world-development-indicators> (accessed 2 November 2021); and ADB, Asia-Pacific Regional Cooperation and Integration Index, <https://aric.adb.org/database/arici> (accessed 2 November 2021).

Table 3.6 compares bilateral trade shares of all TPP and the RCEP16 members, including the US and India, by RTA and region in 2020. It indicates that the RCEP members are mostly integrated in terms of bilateral trade activities (60.2% on average), followed by the USMCA (52.5%) and TPP (41.1%). Amongst the mega-lateral RTAs considered, the CPTPP (20.3%) is the least-connected RTA. In the RCEP region, ASEAN members (65.0%) are mostly connected through bilateral trade, followed by Australia and New Zealand (61.7%), and China, Japan, and the Republic of Korea (43.3%).

Table 3.6 Bilateral Trade Share in 2020 by Regional Trade Agreement (%)

		RCEP	CPTPP	RCEP16	TPP	USMCA	ASEAN	CJK	ANZ	
RCEP 16	US	32.5	40.7	34.6	40.7	28.2	8.2	23.1	1.2	
	Canada	16.5	8.5	17.3	69.2	64.1	2.5	13.4	0.5	
	Mexico	19.4	8.0	20.2	70.8	65.2	4.0	15.2	0.2	
	Chile	46.3	12.8	47.5	28.0	18.6	2.3	43.5	0.5	
	Peru	35.5	15.5	37.3	33.8	24.1	2.9	32.2	0.4	
	TPP	Australia	63.9	18.7	66.0	26.5	9.1	10.6	50.8	2.6
	New Zealand	59.4	27.1	60.5	37.4	12.1	11.6	34.9	12.9	
	Brunei Darussalam	79.0	53.8	81.8	57.6	4.0	36.4	38.7	3.9	
	Malaysia	61.8	25.4	64.1	33.8	9.3	24.3	34.4	3.1	
	Singapore	53.0	24.2	55.3	34.0	11.1	25.4	24.3	3.3	
	Viet Nam	54.7	14.6	56.5	31.4	18.5	10.0	43.0	1.7	
	Japan	48.7	14.9	49.8	29.8	17.4	15.0	29.6	4.1	
	Rep. of Korea	49.4	24.1	51.1	37.6	16.0	14.7	31.9	2.8	
	China	31.7	23.9	33.6	36.5	15.3	14.7	13.0	4.0	
	Cambodia	57.9	20.4	58.4	36.3	18.3	23.1	34.1	0.6	
	Indonesia	61.2	29.8	66.2	38.0	9.3	24.0	34.5	2.6	
	Lao PDR	92.0	12.3	92.2	13.3	1.5	60.0	31.6	0.4	
	Myanmar	73.2	21.4	77.7	23.9	3.1	33.3	39.2	0.7	
	Philippines	60.0	25.2	61.3	38.0	13.7	21.5	37.3	1.2	
	Thailand	57.6	28.6	59.8	39.8	12.4	21.6	32.5	3.4	
India	30.1	13.3	30.1	25.1	13.6	11.4	16.9	1.8		
Intra-regional Average		60.2	20.3	60.3	41.1	52.5	28.0	24.8	7.8	

ANZ = Australia and New Zealand; ASEAN = Association of Southeast Asian Nations; CJK = China, Japan, and Rep. of Korea; CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership; Lao PDR = Lao People's Democratic Republic; RCEP = Regional Comprehensive Economic Partnership; RCEP16 = RCEP with India; TPP = Trans-Pacific Partnership; US = United States; USMCA = United States–Mexico–Canada Agreement.

Source: Author's calculation based on ADB, Asia-Pacific Regional Cooperation and Integration Index, <https://aric.adb.org/database/arici> (accessed 2 November 2021).

Table 3.7 also compares the bilateral trade intensity of TPP and the RCEP16 members, including the US and India, by RTA and region in 2020. It indicates that the RCEP members' bilateral trade intensity (2.6 on average) is much higher than the competitive CPTPP (1.7), although it is less intensive than the USMCA (4.4). In the RCEP region, ASEAN Members (2.9) most intensively trade with each other followed by Australia and New Zealand (2.2); China, Japan, and the Republic of Korea (1.8) less intensively trade with each other.

Table 3.7 Bilateral Trade Intensity in 2020, Simple Average by Region (%)

		RCEP	CPTPP	RCEP16	TPP	USMCA	ASEAN	CJK	ANZ
RCEP 16	US	0.9	2.0	0.9	2.0	6.2	0.8	1.2	0.8
	Canada	0.4	0.6	0.4	1.1	3.6	0.3	0.6	0.4
	Mexico	0.4	0.5	0.4	1.0	3.5	0.3	0.8	0.2
	Chile	0.6	1.3	0.6	1.4	1.0	0.2	1.9	0.5
	Peru	0.5	1.5	0.6	1.5	1.4	0.3	1.5	0.5
	TPP								
	Australia	2.6	2.7	2.5	2.6	0.4	1.7	2.3	12.1
	New Zealand	1.9	1.9	1.8	1.8	0.6	1.1	1.6	9.7
	Brunei Darussalam	2.7	2.8	2.6	2.6	0.1	3.0	2.5	1.6
	Malaysia	2.8	2.3	2.7	2.2	0.4	3.2	2.1	1.9
	Singapore	3.2	2.4	3.1	2.3	0.5	4.1	1.3	2.1
	Viet Nam	2.3	0.9	2.2	1.0	0.8	2.5	2.7	1.1
	Japan	1.9	1.7	1.8	1.6	0.8	1.9	1.9	2.2
	Rep. of Korea	1.4	1.5	1.4	1.4	0.8	1.3	2.0	1.6
	China	1.9	1.7	1.9	1.7	0.8	1.9	2.0	2.2
	Cambodia	1.7	1.1	1.6	1.1	0.9	2.1	1.4	0.3
	Indonesia	2.3	1.7	2.4	1.6	0.4	2.6	1.9	1.6
	Lao PDR	3.5	0.6	3.3	0.5	0.1	5.0	1.1	0.2
	Myanmar	2.3	1.1	2.3	1.0	0.2	2.9	1.6	0.5
Philippines	2.1	1.5	2.0	1.5	0.5	2.3	2.2	1.1	
Thailand	6.4	1.8	6.1	1.7	0.5	8.9	1.9	2.1	
India	1.1	1.1	1.1	1.1	0.6	1.3	0.8	0.9	
Intraregional Average		2.6	1.7	2.4	1.8	4.4	3.6	2.0	10.9

ASEAN = Association of Southeast Asian Nations; CJK = China, Japan, and Rep. of Korea; CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership; Lao PDR = Lao People's Democratic Republic; RCEP = Regional Comprehensive Economic Partnership; RCEP16 = RCEP with India; TPP = Trans-Pacific Partnership; US = United States; USMCA = United States–Mexico–Canada Agreement.

Source: Author's calculation based on ADB, Asia-Pacific Regional Cooperation and Integration Index, <https://aric.adb.org/database/arci> (accessed 2 November 2021).

Table 3.8 compares some additional indicators, measuring connectivity amongst members in RCEP, EU, and North America. It shows that the RCEP members are mostly interconnected through RVCs – as indicated by the intermediate export and import shares (60.5% and 68.3%, respectively) – amongst the three major blocs.

Considering overall trade costs,⁹ RCEP still has room to reduce trade costs between members, relative to those between more developed member countries in the EU and North America. The cultural distance (measured by cultural proximity) between the RCEP members is longer than that between EU members but shorter than that between North American countries. However, the RCEP members' trade structure is less complementary (0.5) to generate gains from integration, and their trade is highly concentrated in a limited number of products (4.1).

Table 3.8 Regional Interdependence, 2018 (% of global)

Region	RCEP16	EU	US and Canada
Intermediate Goods Exports	60.5	48.6	51.7
Intermediate Goods Imports	68.3	46.8	53.8
Complementarity	0.5	0.8	0.8
Concentration	4.1	2.6	1.1
Trade Costs	0.9	0.4	0.2
Cultural Proximity	1.8	3.0	1.5

EU = European Union, RCEP16 = Regional Comprehensive Economic Partnership including India, US = United States.

Source: Author's calculation based on ADB, Asia-Pacific Regional Cooperation and Integration Index, <https://aric.adb.org/database/arici> (accessed 2 November 2021).

Overall, evaluating the conditions for desirable RTAs in terms of scale determined by member-specific characteristics, RCEP is expected to generate significantly larger gains compared to other RTAs, especially the CPTPP. However, a wider development gap and higher concentration of tradable products should be considered to make RCEP a more desirable RTA.

⁹ According to ADB (2021), the bilateral trade cost data are drawn from the United Nations Economic and Social Commission for Asia and the Pacific and World Bank. They measure the ratio between the average trade cost over regional trading partners and average trade cost overall of the trading partners, including all costs related to trading goods between international partners relative to the costs of trading goods domestically.

Depth

The effectiveness of RTAs depends on members' economic characteristics and the depth of provisions. Matto, Rocha, and Ruta (2020) and Fernandes, Rocha, and Ruta (2021) discussed the changing pattern of RTA characteristics from typical shallow preferential trade agreements to deep trade agreements worldwide. They elaborated upon the enhanced effectiveness of deep trade agreements by generating larger trade-creation effects and fewer trade-diversion effects than those of shallow trade agreements.

The depth of RCEP is evaluated in terms of tariff concession rates and provisions compared to other RTAs. Consolidating and upgrading the five ASEAN+1 FTAs, the depth of RCEP deepened; however, this effect was still less compared to the competitive CPTPP and USMCA (Table 3.9). The RCEP provisions not only lack certain major issues – such as provisions on labour, the environment, regulatory coherence, anti-corruption, transparency, state-owned enterprises, and competitiveness – but are also less rigorously implemented than those of the CPTPP (Park, Petri, Plummer, 2021). Additionally, although RCEP includes specific e-commerce, services, and investment provisions, they are relatively weak.

Table 3.9 Comparison of Provisions of Selected Regional Trade Agreements

Issue	TPP	USMCA	CPTPP	RCEP
Market Access for Goods	0	0	0	0
Rules of Origin: Cumulation Rule	0	0	0	0
Customs Administration and Trade Facilitation	0	0	0	0
Trade Remedies	0	0	0	0
Sanitary and Phytosanitary Measures	0	0	0	0
Technical Barriers to Trade	0	0	0	0
Cross Border Trade in Services	0	0	0	0
Electronic Commerce (Digital Trade)	0	0	0	0
Investment	0	0	0	0
Competition	0	0	0	0
Intellectual Property	0	0	0	0
Government Procurement	0	0	0	0
Labour	0	0	0	X
Environment	0	0	0	X
Dispute Settlement	0	0	0	0
Regulatory Coherence	0	0	0	X
Transparency	0	0	0	X

Issue	TPP	USMCA	CPTPP	RCEP
Anti-Corruption	0	0	X	X
Cooperation	0	0	0	0
Development	0	X	0	0
State-Owned Enterprises	0	0	0	X
Small and Medium-Sized Enterprises	0	0	0	0
Competitiveness	0	0	X	X
Macroeconomic Policies and Exchange Rate Matters	X	0	X	X

CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership, RCEP = Regional Comprehensive Economic Partnership, TPP = Trans-Pacific Partnership, USMCA = United States–Mexico–Canada Agreement.

Note: 0 (or X) identifies whether the corresponding provision is included (or excluded) in the agreement. The rigorosity of provisions is not considered.

Source: Kim (2021).

The tariff concession rates of RCEP (91% on average) are lower than those of four ASEAN+1 FTAs (94% on average), excluding the AICECA (Table 3.10). RCEP, which positively lists products to be liberalised, eliminates 86%–100% of tariffs within 20 years and covers only a narrow part of services. The CPTPP, which negatively lists products to be liberalised, eliminates 95%–100% of tariffs and opens around 160 services industries. For manufacturing products, RCEP eliminates 92% of tariffs, which is lower than the complete elimination of tariffs under the CPTPP. Moreover, unlike the common tariff concession rule applied to all CPTPP members, the tariff reduction schedule of RCEP is relatively complex, allowing different preferential treatment by pair of member countries.

Table 3.10 Comparison of Tariff Concession Rates, ASEAN+1 Free Trade Agreements and RCEP (%)

ASEAN	AANZFTA	ACFTA	AICECA	AJCEP	AKFTA	Average Excluding AICECA	RCEP
Brunei Darussalam	99	98	85	98	99	99	98
Cambodia	89	90	88	85	91	89	87
Indonesia	93	92	49	91	91	92	91
Lao PDR	92	97	80	86	90	91	86
Malaysia	97	93	80	94	92	94	90
Myanmar	88	94	77	85	92	90	86
Philippines	95	92	81	97	90	94	91

ASEAN	AANZFTA	ACFTA	AICECA	AJCEP	AKFTA	Average Excluding AICECA	RCEP
Singapore	100	100	100	100	100	100	100
Thailand	99	93	78	96	95	96	90
Viet Nam	95	92	79	94	89	93	89
Average	95	94	80	93	93	94	91
Dialogue Partners							
Australia	100					100	98
China		95				95	89
India			79				
Japan				92		92	88
Rep. of Korea					90	90	88
New Zealand	100					100	92
Average	100	95	79	92	90	95	91
Average as a whole	96	94	80	93	93	94	91

AANZFTA = ASEAN–Australia–New Zealand Free Trade Agreement, ACFTA = ASEAN–China Comprehensive Economic Cooperation Agreement, AICECA = ASEAN–India Comprehensive Economic Cooperation Agreement, AJCEP = ASEAN–Japan Comprehensive Economic Partnership, AKFTA = ASEAN–Korea Comprehensive Economic Cooperation Agreement, ASEAN = Association of Southeast Asian Nations, RCEP = Regional Comprehensive Economic Partnership.

Source: Author's revision based on Pambagyo (2020).

There are a few notable provisions distinct from existing ASEAN+1 FTAs. The consistent application of the RoO for all products will simplify the origin verification process, increasing the RCEP's utilisation rate. Adopting the diagonal cumulation scheme will generate significant gains, considering the deepened RVCs amongst the RCEP members; however, these may not be comparable to those of the CPTPP. The full cumulation scheme adopted in the CPTPP will reduce trade costs more than the diagonal cumulation adopted in RCEP, as estimated by Chung, Park, and Park (2022).¹⁰ Meanwhile, the introduction of RoO self-certification is another less-restrictive application of regime-wide RoO. Additionally, rules for securing intellectual property rights, including the digital copyright rule, are strong, and non-tariff barriers will be gradually unified to activate intraregional trade.

Overall, positive gains are expected from the depth of RCEP by consolidating and upgrading the five ASEAN+1 FTAs, although gains through deeper integration may not be comparable to those of the CPTPP.

¹⁰ They ran a gravity model estimation to investigate the effect of the RoO cumulation on bilateral trade costs amongst FTA members, finding that FTAs with diagonal cumulation and full cumulation reduced trade costs by 15.8% and 25.9%, respectively.

Effects of RCEP¹¹

The positive gains from participating in RCEP will be larger than those from the CPTPP if the comparative advantage of member-specific characteristics is considered. The immediate scale effects generated by larger, more connected memberships will be accelerated over time. Meanwhile, the shallower depth of RCEP relative to the CPTPP could be a worrisome factor in generating substantial long-term gains. Additionally, the arrival of RCEP after the CPTPP could limit additional gains to the RCEP members, especially to dual members, who may prefer to utilise the CPTPP provisions rather than favouring RCEP.

There is no comprehensive study covering all of the aforementioned member- and provision-specific factors considering the sequential process of RTA implementation. However, a few studies have estimated the likely impact of RCEP and CPTPP by applying a commonly used computable general equilibrium (CGE) model analysis with relevant specifications and model frameworks.¹²

Table 3.11 compares the impacts of mega-lateral RTAs on real GDP by independently simulating the liberalisation packages of RCEP and other RTAs reported in Ferrantino, Maliszewska, and Taran (2019) and Chung, Park, and Park (2022). As a conventional approach to measure the likely impact of the mega-lateral RTAs, Ferrantino, Maliszewska, and Taran (2019) used the World Bank's global dynamic CGE model, Linkage, covering 17 production sectors and 35 countries, and simulated a reduction of tariffs and non-tariff measures in both trade in goods and services without and with a change in productivity. To emphasise the significant impact of the RoO cumulation schemes of mega-lateral RTAs, Chung, Park, and Park (2022) used the Global Trade Analysis Project (GTAP) model, covering 140 regions and 57 commodities, and simulated a reduction of bilateral trade costs under different RoO cumulation schemes of RTAs, diagonal or full cumulation without and with capital accumulation over time. The two cases are found to be similar in terms of magnitude. The mega-lateral RTAs increase world GDP as a whole, ranging from 0.09% (CPTPP) to 0.24% (TPP) to 0.29% or 0.56% (RCEP16) to 0.70% or 0.96% (FTAAP).

¹¹ This section reinterprets empirical findings from some existing computable general equilibrium (CGE) model analyses on the impact of mega-lateral RTAs in the Asia-Pacific region, mainly for consistent comparison, considering model types and specifications that are closely related to RCEP and other interdependent FTAs such as the CPTPP. For a more comprehensive study on the impact of RCEP by using the CGE model analysis, see Itakura (2022).

¹² See Lee and Itakura (2018), using the dynamic GTAP model for eliminating tariffs and non-tariff barriers; Itakura and Lee (2019), using the global CGE model with disaggregated imports of intermediate products by country of origin for global value chain connectivity; Ahmed et al. (2020), using the MPSGE model employing GAMS and reducing only tariffs; and Kumagai and Hayakawa (2021), using the IDE-GSM model for tariff reduction. Their predictions unanimously showed that significant positive gains will be enjoyed by RCEP members, and relatively larger gains will be shared by China, Japan, and the Republic of Korea over ASEAN Members.

Interpreting the static model experiments comparing RCEP16 and CPTPP, it is found that

- (i) RCEP16 members draw larger benefits (1.46% in Ferrantino, Maliszewska, and Taran [2019] and 1.14% in Chung, Park, and Park [2022]) than CPTPP members (0.43% and 0.71%, respectively);
- (ii) the differences in members' gains between RCEP16 and CPTPP (i.e. RCEP16 minus CPTPP) are relatively small, as the RoO cumulation schemes (1.03% versus 0.43%, respectively) are considered, indicating more effective full cumulation than diagonal cumulation;
- (iii) the effects on non-members are not significant ($-0.04\% \sim 0.03\%$);
- (iv) the CPTPP is more desirable for ASEAN (0.36%) and Australia and New Zealand (0.45%) than for China, Japan, and the Republic of Korea (0.14%), and RCEP16 is more desirable for China, Japan, and the Republic of Korea (1.66%) than ASEAN (0.38%) and Australia and New Zealand (0.44%) without considering the RoO cumulation; however, both the CPTPP and RCEP16 become more desirable for ASEAN (1.25% and 2.73%, respectively) and Australia and New Zealand (0.87% and 0.99%, respectively) than China, Japan, and the Republic of Korea (0.15% and 0.93%, respectively) when RoO cumulation is considered, indicating that the ASEAN-centred complicated RoO could be problematic before harmonisation under RCEP16;
- (v) both the US's return to the TPP and the expansionary path of the FTAAP generate larger gains for both ASEAN and China, Japan, and the Republic of Korea;
- (vi) productivity improvement and capital accumulation over time generate much stronger positive gains without incurring significant negative effects on non-members;
- (vii) at the county level, RCEP16 is more desirable for Brunei Darussalam, Malaysia, Philippines, China, Japan, the Republic of Korea, and India;
- (viii) if the regional RoO cumulation of RCEP16 is considered, Cambodia, the Lao PDR, Malaysia, Singapore, Thailand, Viet Nam, and the Republic of Korea draw relatively larger gains.

Table 3.11 Impact on Gross Domestic Product by Independently Simulated CGE Model Analysis (% deviation from the baseline)

	Ferrantino, Maliszewska, and Taran (2019)										Chung, Park, and Park (2022)							
	Standard Simulations					Simulations with Productivity Kick					Static Model			Capital Accumulation Model				
	CPTP	RCEP16	RCEP16-CPTP	TPP	FTAAP	CPTP	RCEP16	RCEP16-CPTP	TPP	FTAAP	CPTP: Full Cumul.	RCEP16: Diagonal Cumul.	RCEP16-CPTP	FTAAP: Diagonal Cumul.	CPTP: Full Cumul.	RCEP16: Diagonal Cumul.	RCEP16-CPTP	FTAAP: Diagonal Cumul.
Canada	0.37	0.03	-0.34	0.76	0.95	1.66	0.01	-1.65	1.01	1.68	0.32	-0.03	-0.35	1.74	0.32	-0.08	-0.40	3.44
Chile	0.12	0.14	0.02	0.12	0.14	0.14	0.08	-0.06	0.13	0.29	0.84	-0.07	-0.91	1.57	0.84	-0.67	-1.51	4.63
Mexico	0.13	-0.02	-0.14	0.20	0.36	0.79	0.02	-0.78	0.29	1.69	0.42	-0.06	-0.48	2.06	0.42	-0.26	-0.68	9.27
Peru	0.95	0.16	-0.79	1.23	0.78	1.13	0.07	-1.05	1.33	0.88	0.54	0.02	-0.52	1.01	0.54	-0.08	-0.62	1.83
Australia	0.45	0.52	0.07	0.35	0.54	0.54	2.34	1.81	0.41	0.69	0.87	0.95	0.08	1.02	0.87	2.35	1.48	2.26
Brunei Darussalam	1.88	1.70	-0.18	2.47	2.23	1.90	1.89	-0.01	2.72	2.39	1.93	1.45	-0.48	1.54	1.93	6.79	4.86	5.54
Japan	0.41	0.74	0.33	1.39	1.61	1.04	2.99	1.95	2.12	3.41	0.45	0.62	0.17	0.99	0.45	2.31	1.86	3.31
Malaysia	0.99	0.80	-0.19	1.80	1.49	1.34	0.98	-0.35	2.61	1.70	4.58	4.08	-0.50	4.62	4.58	11.93	7.35	14.47
New Zealand	0.44	-0.31	-0.76	0.67	-0.33	0.48	-0.06	-0.54	0.76	-0.20	0.83	1.29	0.46	1.53	0.83	4.48	3.65	5.12
Singapore	0.80	0.45	-0.36	0.81	0.55	0.81	0.35	-0.46	0.81	0.45	3.17	3.18	0.01	4.02	3.17	11.55	8.38	13.17
Viet Nam	1.13	0.39	-0.73	3.61	1.59	3.50	0.98	-2.53	6.64	2.08	3.83	5.57	1.74	8.23	3.83	10.61	6.78	19.47
US	0.05	0.07	0.02	0.38	0.58	0.05	0.04	0.00	0.51	2.51	-0.01	-0.02	-0.01	0.83	-0.01	-0.09	-0.08	1.56
Thailand	0.24	0.08	-0.16	0.44	0.76	0.24	0.44	0.20	0.44	1.67	-0.18	3.63	3.81	4.13	-0.18	12.70	12.88	15.62
the Republic of Korea	-0.04	1.68	1.72	-0.30	1.68	-0.03	3.88	3.91	-0.29	4.98	0.00	2.09	2.09	2.76	0.00	6.17	6.17	8.19
Philippines	0.04	0.75	0.71	0.17	2.24	0.04	0.88	0.84	0.17	2.84	-0.05	2.06	2.11	2.51	-0.05	8.74	8.79	11.43
Indonesia	0.07	0.18	0.11	0.16	0.89	0.07	0.40	0.32	0.17	1.61	-0.05	1.37	1.42	1.51	-0.05	3.30	3.35	3.83
Cambodia	-0.01	0.53	0.53	-0.04	-0.38	0.00	1.21	1.21	-0.01	-0.31	-0.14	6.07	6.21	0.00	-0.14	13.75	13.89	0.00

	Ferrantino, Maliszewska, and Taran (2019)										Chung, Park, and Park (2022)							
	Standard Simulations					Simulations with Productivity Kick					Static Model			Capital Accumulation Model				
	CPTPP	RCEP16	RCEP16-CPTPP	TPP	FTAAP	CPTPP	RCEP16	RCEP16-CPTPP	TPP	FTAAP	CPTPP: Full Cumul.	RCEP16: Diagonal Cumul.	RCEP16-CPTPP	FTAAP: Diagonal Cumul.	CPTPP: Full Cumul.	RCEP16: Diagonal Cumul.	RCEP16-CPTPP	FTAAP: Diagonal Cumul.
Lao PDR	0.06	0.60	0.53	0.04	0.04	0.07	1.18	1.11	0.05	0.23	0.00	3.95	3.95	0.00	0.00	7.79	7.79	0.00
India	0.06	1.75	1.68	0.20	0.22	0.06	8.17	8.10	0.20	0.24	-0.05	1.08	1.13	0.00	-0.05	2.82	2.87	0.00
China	0.06	1.98	1.92	0.03	3.08	0.06	5.67	5.60	0.03	7.52	-0.06	0.98	1.04	1.70	-0.06	2.11	2.17	3.69
European Union	0.01	0.00	-0.01	0.02	0.00	0.01	-0.02	-0.03	0.02	-0.01	-0.01	-0.03	-0.02	-0.08	-0.01	-0.12	-0.11	-0.49
Rest of World	0.01	0.01	0.00	0.03	0.27	0.02	0.03	0.02	0.03	1.72	-0.03	-0.06	-0.03	0.13	-0.03	-0.31	-0.28	0.10
World	0.09	0.56	0.47	0.24	0.96	0.18	1.73	1.55	0.33	2.69	0.09	0.29	0.20	0.70	0.09	0.77	0.67	1.65
Members	0.43	1.46	1.03	0.65	1.60	1.06	4.64	3.58	0.92	4.60	0.71	1.14	0.43	1.35	0.47	1.42	0.95	3.47
Non-members	0.03	0.03	-0.01	0.03	0.00	0.03	0.02	-0.02	0.04	0.00	-0.02	-0.04	-0.01	-0.12	-0.01	-0.11	-0.10	-0.61
ASEAN	0.36	0.38	0.02	0.72	1.14	0.57	0.60	0.03	1.04	1.70	1.25	2.73	1.48	3.24	1.25	8.18	6.93	10.20
CJK	0.14	1.66	1.52	0.33	2.63	0.29	4.90	4.61	0.51	6.35	0.15	0.93	0.77	1.50	0.15	2.53	2.38	3.91
ANZ	0.45	0.44	-0.01	0.38	0.46	0.53	2.12	1.59	0.44	0.61	0.87	0.99	0.12	1.07	0.87	2.58	1.71	2.56
China	A global dynamic CGE model (Linkage); 17 production sectors and 35 countries; impacts of policy changes up to 2030 as a baseline solution; reduction of tariffs and non-tariff measures in goods and services trade.																	

GTAP Model: 140 regions and 57 commodities of GTAP Data Version 9; reducing trade costs between trading partners by different rules of origin cumulation schemes of regional trade agreements by estimating a gravity regression model.

ANZ = Australia and New Zealand; ASEAN = Association of Southeast Asian Nations; CGE = computable general equilibrium; CJK = China, Japan, and Rep. of Korea;

CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership; FTAAP = Free Trade Area of the Asia-Pacific; GTAP = Global Trade Analysis Project;

Lao PDR = Lao People's Democratic Republic; RCEP = Regional Comprehensive Economic Partnership; RCEP16 = RCEP with India; TPP = Trans-Pacific Partnership;

US = United States.

Source: Author's calculation.

Table 3.12 shows the impacts of mega-lateral RTAs on real GDP by sequentially simulating liberalisation packages of RCEP and CPTPP reported in Petri and Plummer (2020) and Park, Petri, and Plummer (2021). Both used the modified global CGE model, which was introduced in Petri and Plummer (2016) and Petri, Plummer, and Zhai (2012). It encompasses 29 regions and 19 economic sectors, dynamically projecting annual results from a 2015 base year until 2030 as a baseline solution, and liberalising tariff, non-tariff, and foreign direct investment without and with a US–China trade war.

Interpreting Petri and Plummer (2020), the mega-lateral RTAs are found to increase world GDP as a whole, ranging from 0.11% (CPTPP) to 0.25% (RCEP) to 0.29% (RCEP16). The positive gains from the CPTPP (1.04%) are larger, and the additional gains from RCEP (0.60%) on top of the CPTPP are much smaller than the independently simulated model estimations in Table 3.11. Dual members' gains (1.73% or 1.66%) are much larger than single members' gains (0.29% or 0.38%) from participating in both RCEP (either 15 or 16) and the CPTPP together; the lower additional gains derived from RCEP and larger gains shared by dual members explain the larger gains enjoyed by ASEAN and Australia and New Zealand than China, Japan, and the Republic of Korea as a group in Table 3.12.

Conversely, interpreting Park, Petri, and Plummer (2021), a US–China trade war decreases world GDP by 0.38%, and the mega-lateral RTAs offset the negative effect of 0.14% (CPTPP) and 0.33% (RCEP on top of CPTPP). Dual members of RCEP and CPTPP (2.37%) are found to overcome the negative GDP effect incurred because of a trade war, but single members still experience a negative GDP effect (–1.02%). Overall, the additional gains generated by RCEP on top of the CPTPP are negative for all members of RCEP (–0.29%). However, the additional gains generated by RCEP on top of the CPTPP are positive for all members of RCEP excluding China (–1.44%). ASEAN will take advantage of a US–China trade war by collecting 1.31% more GDP and even more additional GDP gains from implementing RCEP on top of the CPTPP (1.31% and 1.80%, respectively).

Table 3.12 Impact on Gross Domestic Product by Sequentially Simulated CGE Model Analysis (% deviation from the baseline)

	Petri and Plummer (2020)					Park, Petri, and Plummer (2021)			
	Business as Usual					With US–China Trade War			
	CPTPP	RCEP after CPTPP	RCEP16 after CPTPP	Incremental Effects of RCEP	Incremental Effects of RCEP16	US-China Trade War	CPTPP	RCEP after CPTPP	Incremental Effects of RCEP
Canada	0.81	0.81	0.81	0.00	0.00	0.22	1.18	1.21	0.04
Chile	0.65	0.65	0.65	0.00	0.00	–0.22	0.65	0.65	0.00
Mexico	0.74	0.74	0.74	0.00	0.00	1.34	2.31	2.35	0.05
Peru	2.26	2.26	2.26	0.00	0.00	0.23	2.94	2.94	0.00

	Petri and Plummer (2020)					Park, Petri, and Plummer (2021)			
	Business as Usual					With US–China Trade War			
	CPTPP	RCEP after CPTPP	RCEP16 after CPTPP	Incremental Effects of RCEP	Incremental Effects of RCEP16	US-China Trade War	CPTPP	RCEP after CPTPP	Incremental Effects of RCEP
Australia	0.46	0.50	0.62	0.04	0.12	-0.08	0.50	0.58	0.08
Brunei Darussalam	3.23	3.23	3.23	0.00	0.00	0.00	3.23	3.23	0.00
Japan	0.93	1.91	1.73	0.97	-0.18	0.14	1.30	2.52	1.22
Malaysia	3.11	3.70	3.56	0.59	-0.15	0.59	4.89	5.93	1.04
New Zealand	1.14	1.52	1.52	0.38	0.00	0.00	1.52	1.89	0.38
Singapore	2.68	2.68	2.89	0.00	0.21	-0.62	2.47	2.47	0.00
Viet Nam	2.21	2.82	2.62	0.60	-0.20	1.01	4.43	5.43	1.01
US	-0.01	0.00	0.00	0.00	0.00	-0.16	-0.17	-0.17	0.00
Thailand	-0.62	-0.12	-0.25	0.49	-0.12	0.74	0.12	0.99	0.86
Rep. of Korea	-0.13	0.89	0.80	1.03	-0.09	0.31	0.13	1.38	1.25
Philippines	0.00	0.29	0.15	0.29	-0.15	0.44	0.44	0.88	0.44
Indonesia	-0.05	0.09	0.00	0.14	-0.09	0.14	0.05	0.23	0.18
India	-0.07	-0.18	0.91	-0.11	1.09	0.31	0.22	0.09	-0.13
China	-0.04	0.27	0.30	0.31	0.03	-1.85	-1.90	-1.44	0.46
Europe	0.05	0.11	0.10	0.06	0.00				
Rest of world	0.01	0.02	0.01	0.01	0.00	-0.09	-0.07	-0.05	0.03
World	0.11	0.25	0.29	0.14	0.04	-0.38	-0.24	-0.05	0.20
Members	1.04	0.60	0.63	0.24	0.09		1.62	-0.29	-0.85
Single		0.29	0.38	0.14	0.13			-1.02	-1.31
Dual		1.73	1.66	0.60	-0.07			2.37	0.79
Non-members	-0.01	0.08	0.09	0.09	0.01		-0.48	0.07	0.70
ASEAN	0.71	1.01	0.92	0.30	-0.09	0.32	1.31	1.80	0.50
CJK	0.09	0.54	0.53	0.45	-0.01	-1.43	-1.32	-0.71	0.61
ANZ	0.53	0.60	0.70	0.07	0.11	-0.07	0.60	0.70	0.11
Model	A modified global CGE model of 29 regions and 19 economic sectors; dynamically projects annual results from a 2015 base year to 2030 as a baseline solution; liberalises tariffs, non-tariffs, and foreign direct investment; sequentially simulates CPTPP followed by RCEP (16); and reports incremental effects.								

ANZ = Australia and New Zealand; ASEAN = Association of Southeast Asian Nations; CGE = computable general equilibrium; CJK = China, Japan, and Rep. of Korea; CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership; FTAAP = Free Trade Area of the Asia-Pacific; Lao PDR = Lao People's Democratic Republic; RCEP = Regional Comprehensive Economic Partnership; RCEP16 = RCEP with India; TPP = Trans-Pacific Partnership; US = United States.

Source: Author's calculation.

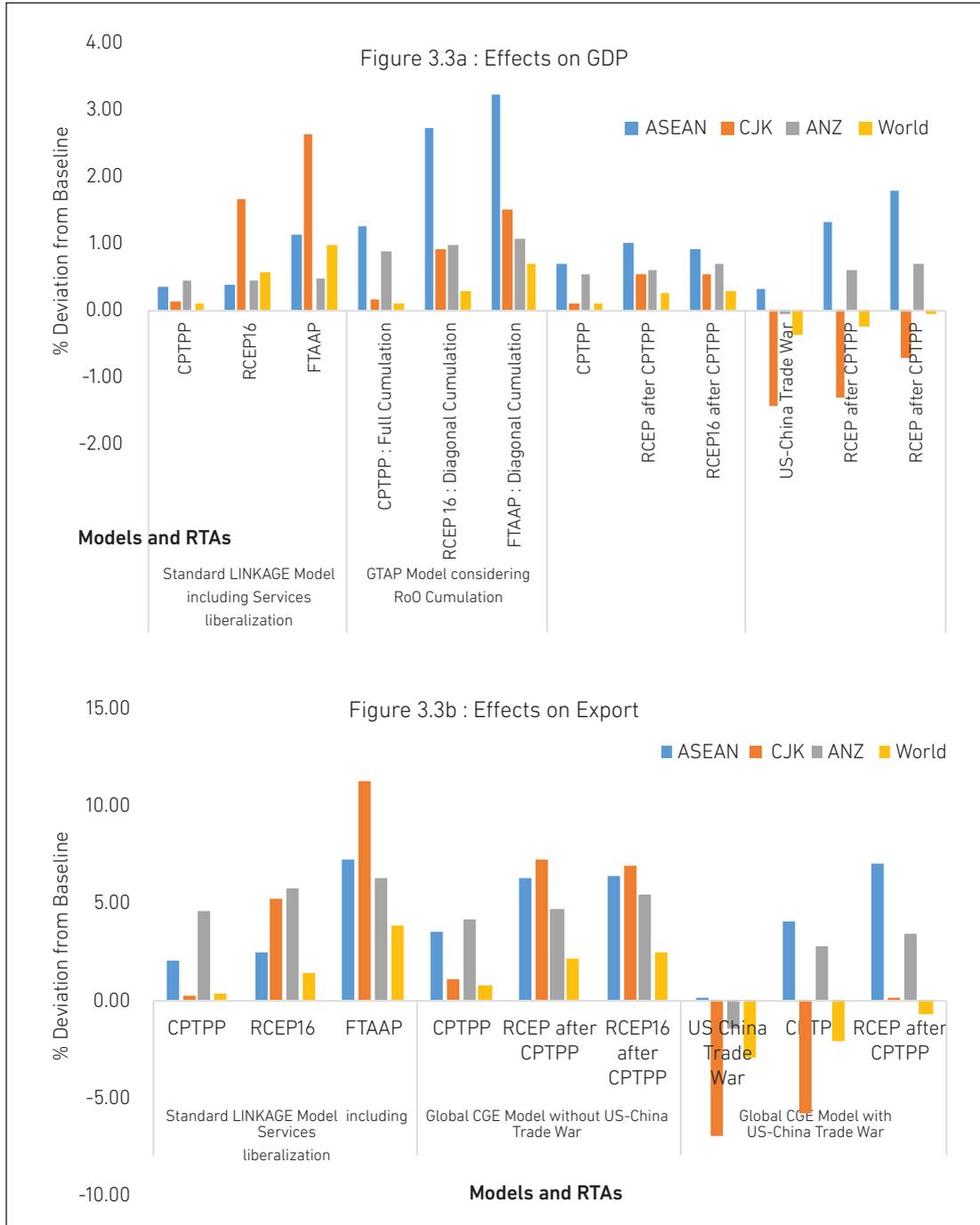
Figure 3.3 illustrates the impact of mega-lateral RTAs on the RCEP members' gains in terms of GDP and exports, observed via adopted models.¹³ As expected, both the scale and RoO cumulation schemes of RTAs matter. That is, the member-specific economic size and interconnectivity and the provision-specific RoO cumulation schemes determine the magnitude of RTA gains. Regardless of models and specifications, the CPTPP is more desirable for ASEAN and Australia and New Zealand; RCEP is more desirable for China, Japan, and the Republic of Korea; and the FTAAP is the most desirable for all. The regime-wide RoO cumulation of RCEP and CPTPP remarkably increases ASEAN's gains. Considering the high interconnectivity of RTA members may explain why the five ASEAN+1 FTAs have been ineffective and why a less restrictive RoO cumulation is required. The additional gains from RCEP on top of the CPTPP are incremental, but not significant for ASEAN; however, they are significant for China, Japan, and the Republic of Korea.

Overall, RCEP and CPTPP are found to be desirable mega-lateral RTAs. Particularly, RCEP significantly offsets the harmful effect on China, Japan, and the Republic of Korea from gains incurred because of a US–China trade war. China, Japan, and Korea's GDPs and exports as a whole will rebound from the loss of –1.43% and –6.97% to –0.71% and 0.19%, respectively. The effects of RCEP on ASEAN's gains (1.80% in terms of GDP and 7.03% in terms of exports) are mainly led by Malaysia (5.93% and 12.22%), Thailand (0.99% and 4.28%), Singapore (2.47% and 5.53%), and Viet Nam (5.43% and 14.85%, respectively) from both diverted trade caused by the trade war and the mega-lateral RTAs.¹⁴

¹³ See the Appendix for impact on exports by country and region in detail.

¹⁴ See Table 3.12 and Appendix.

Figure 3.3 Impact of CPTPP, RCEP, and FTAA on RCEP Members' Gross Domestic Products and Exports



ANZ = Australia and New Zealand; ASEAN = Association of Southeast Asian Nations; CJK = China, Japan, and Rep. of Korea; CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership; FTAA = Free Trade Area of the Asia-Pacific; GDP = gross domestic product; Lao PDR = Lao People's Democratic Republic; RCEP = Regional Comprehensive Economic Partnership; RCEP16 = RCEP with India; TPP = Trans-Pacific Partnership; US = United States.

Source: Author's calculation.

Conclusion

This study evaluated the desirability of RCEP by comparing it with other RTAs, such as the five ASEAN+1 FTAs, CPTPP, RCEP16, and FTAAP. Evaluating the member-specific characteristics that determine the scale effects of RTAs, RCEP is expected to generate significantly larger gains in comparison to the CPTPP. Meanwhile, by evaluating provision-specific characteristics of RCEP, positive gains are expected from the enhanced depth of RCEP by consolidating and upgrading the five ASEAN+1 FTAs. However, the positive gains are not sufficiently large to compare them with the CPTPP.

Interpreting the CGE model analyses of the impacts of mega-lateral RTAs on the GDPs and exports in the Asia-Pacific region, RCEP will generate larger gains than the CPTPP, regardless of the models adopted and their specifications. More specifically, RCEP – as the only trade bloc connecting China–Japan and Japan–Korea – is more desirable for China, Japan, and the Republic of Korea, especially for China and the Republic of Korea. The gains of ASEAN increase as the model considers the effects of the diagonal RoO cumulation scheme on bilateral trade costs. As the sequence of implementing RTAs is considered, the CPTPP will generate larger gains for the dual members of the CPTPP and RCEP; however, gains of single members will not be significant. The incremental gains of members may be even lower than estimated if the dual members do not utilise RCEP liberalising package and stay with the CPTPP – even after RCEP becomes effective.

Considering the gains shared amongst the RCEP members, reforming the RCEP provisions is recommended. The ineffectiveness of the ASEAN+1 FTAs clarifies the importance of raising FTA utilisation rates. Particularly, the ASEAN Members of RCEP should consider the predicted incremental gains generated under the diagonal RoO cumulation scheme. This observation strongly supports ASEAN to initiate RCEP reform; the active reform initiative would strengthen ASEAN centrality as well. For China, Japan, and the Republic of Korea, a step towards upgrading the RCEP provisions comparable to the CPTPP is also required. China, Japan, and the Republic of Korea may consider a trilateral FTA as an alternative sub-regional RTA to generate additional gains and to spur ASEAN to accelerate reformative actions. To upgrade the liberalisation packages of RCEP, the effective operation of the proposed RCEP Secretariat should be emphasised to lead ASEAN and other partners towards accepting more desirable mega-lateral RTAs.

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Appendix Impact on Exports by using CGE Model Analysis (% deviation from the baseline)

	Ferrantino, Maliszewska, Taran (2019)										Petri and Plummer (2020)					Park and Park (2021)			
	Standard Simulations					Simulations with Productivity Kick					Business as Usual					With US-China Trade War			
	CPTPP	RCEP16	RCEP16-CPTPP	TPP	FTAAP	CPTPP	RCEP16	RCEP16-CPTPP	TPP	FTAAP	CPTPP	RCEP after CPTPP	RCEP16 after CPTPP	RCEP after CPTPP	US-China Trade War	CPTPP	RCEP after CPTPP	Incem. RCEP Effects	
Canada	1.5	-0.3	-1.8	3.6	5.7	2.5	-0.2	-2.8	3.8	6.9	4.7	4.6	4.6	4.6	1.0	5.7	5.6	-0.1	
Chile	0.7	-1.0	-1.7	0.4	1.5	0.8	-0.5	-1.3	0.5	2.1	4.1	3.4	3.4	3.4	-1.4	2.7	2.0	-0.7	
Mexico	1.6	-0.2	-1.8	1.7	6.0	2.2	-0.4	-2.5	1.9	7.4	3.4	3.1	3.1	3.1	4.8	8.5	8.4	-0.1	
Peru	1.8	-0.9	-2.7	2.5	5.4	2.0	0.0	-2.0	2.6	6.8	8.9	8.9	8.9	8.9	-0.7	8.1	8.1	0.0	
Australia	4.4	5.6	1.3	3.6	5.6	4.5	8.1	3.6	3.7	7.1	3.9	4.4	5.3	0.5	-1.5	2.5	3.1	0.5	
Brunei Darussalam	1.7	1.3	-0.4	2.9	3.0	1.8	2.0	0.2	3.1	3.7	6.3	6.3	6.3	0.0	0.0	6.3	6.3	0.0	
Japan	1.9	10.3	8.5	4.1	15.3	2.5	12.8	10.3	4.8	17.6	8.2	19.5	17.0	11.3	2.5	8.4	19.6	11.2	
Malaysia	4.6	4.7	0.1	8.1	11.0	5.0	5.4	0.4	8.8	11.6	8.6	10.8	10.6	2.2	-0.2	9.8	12.2	2.4	
New Zealand	6.4	6.2	-0.1	7.5	10.5	6.5	7.8	1.3	7.7	11.9	6.0	7.1	7.1	1.2	0.0	4.8	6.0	1.2	
Singapore	3.8	1.6	-2.2	3.5	3.2	3.8	1.5	-2.3	3.6	3.0	6.2	5.5	6.0	-0.6	0.4	6.0	5.5	-0.4	
Viet Nam	5.0	3.5	-1.5	20.7	14.6	7.2	4.4	-2.8	23.9	15.6	8.7	12.6	12.0	3.9	-0.6	10.4	14.8	4.5	
US	-0.3	-0.7	-0.5	2.8	8.0	-0.1	-0.5	-0.3	3.0	10.1	-0.3	-0.2	-0.2	0.1	0.0	-10.7	-10.8	-0.1	
Thailand	-0.4	0.3	0.7	-0.6	4.1	-0.4	0.8	1.1	-0.6	5.1	-1.2	3.4	3.4	4.6	0.0	-0.7	4.3	5.0	
Rep. of Korea	-0.3	3.4	3.7	-0.7	6.4	-0.3	5.7	6.0	-0.6	9.7	-0.6	5.3	5.0	5.9	-0.4	-0.6	5.4	6.0	
Philippines	-0.1	3.6	3.6	-0.5	11.4	0.0	3.9	3.9	-0.5	12.5	0.0	3.8	2.7	3.8	-1.1	0.5	4.3	3.8	
Indonesia	-0.4	1.6	2.0	-0.9	5.0	-0.4	2.7	3.1	-0.8	6.0	-0.7	2.2	3.4	2.9	1.1	-0.4	1.8	2.9	
Cambodia	-0.4	2.4	2.8	-4.1	-11.5	-0.4	3.0	3.4	-4.0	-11.4									
Lao PDR	0.3	2.9	2.6	0.3	-1.2	0.4	4.5	4.1	0.3	0.0									
India	0.0	7.1	7.2	-0.1	-1.4	0.0	13.4	13.4	-0.1	-1.0	-0.2	-0.7	9.4	-0.4	0.0	-0.2	-0.6	-0.4	

	Ferrantino, Maltyszewska, Taran (2019)										Petri and Plummer (2020)					Park and Park (2021)				
	Standard Simulations					Simulations with Productivity Kick					Business as Usual					With US-China Trade War				
	CPTPP	RCEP16	RCEP16-CPTPP	TPP	FTAAP	CPTPP	RCEP16	RCEP16-CPTPP	TPP	FTAAP	CPTPP	RCEP after CPTPP	RCEP16 after CPTPP	Inc. RCEP Effects	Inc. RCEP16 Effects	US-China Trade War	CPTPP	RCEP after CPTPP	Inc. RCEP Effects	
China	-0.1	4.2	4.3	-0.3	11.4	0.0	8.0	8.1	-0.2	16.3	-0.2	4.7	5.0	4.9	0.2	-10.2	-10.3	-5.6	4.7	
Europe	0.0	-0.5	-0.4	-0.1	-1.2	0.0	-0.5	-0.5	-0.1	-1.3	0.1	0.0	0.0	0.0	-0.1	-0.8	-0.7	-0.7	-0.1	
Rest of World	0.0	-0.5	-0.5	-0.1	0.0	0.0	0.0	0.0	-0.1	1.5	0.1	0.1	0.0	0.0	0.0	-1.0	-0.9	-0.9	0.0	
World	0.3	1.4	1.1	0.8	3.8	0.4	2.6	2.1	0.9	5.5	0.8	2.2	2.5	1.4	0.3	-2.9	-2.0	-0.7	1.4	
Members	2.8	4.9	2.1	4.1	9.4	3.4	7.8	4.4	4.5	12.5	6.2	6.8	7.0	3.9	0.9		7.1	2.1	-1.3	
Single												4.5	5.4	3.4	1.6			-2.4	-4.0	
Dual												12.2	11.4	5.0	-0.8			12.4	5.1	
Non-Members	-0.1	-0.5	-0.4	-0.2	-1.2	-0.1	-0.3	-0.3	-0.2	-0.9	-0.1	0.3	0.3	0.4	0.0			-3.5	-1.8	2.5
ASEAN	2.1	2.4	0.3	4.4	7.2	2.5	3.0	0.6	4.9	7.9	3.6	6.3	6.4	2.8	0.1	0.19	4.0	7.0	3.0	
CJK	0.2	5.2	5.0	0.5	11.3	0.4	8.5	8.1	0.7	15.5	1.1	7.2	6.9	6.1	-0.3	-6.97	-5.8	0.2	6.0	
ANZ	4.6	5.7	1.1	4.1	6.2	4.8	8.1	3.3	4.2	7.8	4.2	4.8	5.5	0.6	0.7	-1.49	2.8	3.4	0.6	
Model	A global dynamic CGE model (LINKAGE): 17 production sectors and 35 countries; impacts of policy changes up to 2030 as a baseline solution; reduction of tariffs, non-tariff measures in goods and services trade.																			
	A modified global CGE model: 29 regions and 19 economic sectors; dynamically projects annual results from a 2015 base year to 2030 as a baseline solution; liberalising tariff, non-tariff, and foreign direct investment; sequentially simulates CPTPP followed by RCEP (16) and reports incremental effects.																			

ANZ = Australia and New Zealand; ASEAN = Association of Southeast Asian Nations; CJK = China, Japan, and Rep. of Korea; CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership; FTAAP = Free Trade Area of the Asia-Pacific; Lao PDR = Lao People's Democratic Republic; RCEP = Regional Comprehensive Economic Partnership; RCEP16 = RCEP with India; TPP = Trans-Pacific Partnership; US = United States.

Source: Author's calculation.



CHAPTER 4

RCEP Services Liberalisation: Key Features and Implications

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The Trade in Services Chapter of the RCEP Agreement establishes the rules for the progressive liberalisation of trade in the region and sets out regulatory disciplines to mitigate barriers to competition. Considered the most significant feature of the RCEP agreement compared to other FTAs of ASEAN is the scheduling of market access commitments using the negative list approach. Thus, an immediate challenge for members that initially adopted the positive list is the transition to the negative list scheduling approach. Furthermore, members will need to implement competitive and robust regulations in liberalising services. Developing countries, especially LDCs, might also face capacity constraints to fully take advantage of the market access given by the RCEP partners.

Introduction

In the last 2 decades, services liberalisation have been bound in regional trade agreements rather than at the multilateral level (World Trade Organization, 2019). The General Agreement on Trade in Services (GATS) establishes a regulatory framework within which the World Trade Organization (WTO) members can undertake and implement commitments for the liberalisation of trade in services. The preamble to the GATS explicitly recognises the rights of the WTO members to regulate and introduce new regulations on the supply of services in their countries in order to meet national policy objectives. Hence, it is obvious that the objective of the GATS is not to deregulate services but rather it allows room for flexibility.

The trend to include services in preferential trade agreements intensified in the 2000s and continues to this day. Moreover, the involvement of developing countries in services agreements has been growing either as part of agreements between developed and developing countries or within developing countries only (Gootiiz et al., 2020). The Regional Comprehensive Economic Partnership (RCEP) is the latest and largest preferential trade agreement to recognise the increasing significance of services.

This chapter reviews the key features of the trade in services chapter of the RCEP Agreement and examines the implications for services liberalisation and the challenges moving forward.

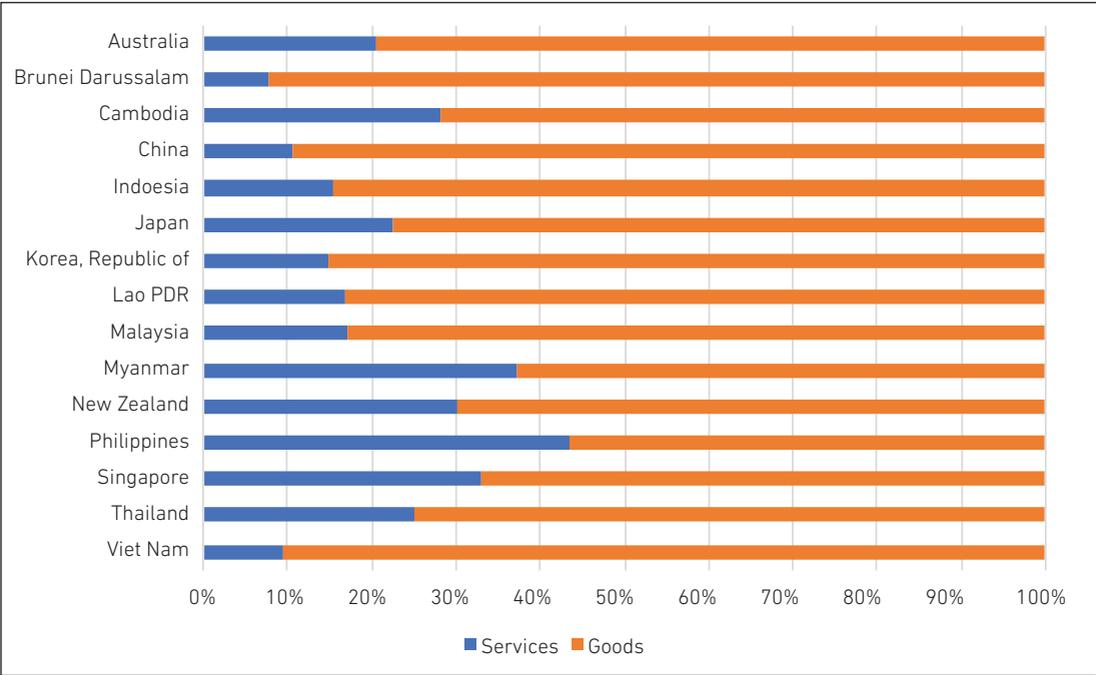
Overview of services trade in the RCEP region

Services play a central role in the world economy as they represent 68.5% of the world’s gross domestic product (GDP).¹ From just under a tenth of global trade in 1970, services today account for over a fifth, and this share is likely to grow to a third of world trade by 2040 (WTO, 2019). The projected 50% increase in the share of services signifies their increasing role in transforming the world economy and, as the WTO states, the potential of services globalisation ‘to scale up growth, deepen integration, and level the playing field in ways that go beyond the changes wrought by the globalization of manufacturing in recent decades’ (WTO, p.17).

Cross-border trade

The share of services in the cross-border trade of RCEP countries varies from 7.67% in Brunei Darussalam to 43.54% in the Philippines (Figure 4.1).

Figure 4.1 Composition of Exports (BOP6), 2019



Source: World Trade Organization, <https://data.wto.org/> (accessed 20 July 2021).

¹ See World Bank, Services, Etc., Value Added (% of GDP), available online at <https://data.worldbank.org/indicator/BG.GSR.NFSV.GD.ZS> (accessed 1 December 2021).

RCEP members account for 18% of global services exports. On average, services exports of RCEP had been growing faster than the rest of the world prior to the 2020 downturn due to the pandemic (Table 4.1).

Table 4.1 Share and Growth Rate of Services Exports

		2015	2016	2017	2018	2019	2020
World	Value (US\$ million)	4,927,868	5,015,246	5,457,881	6,012,230	6,150,175	4,913,807
	Growth rate (%)		1.77	8.83	10.16	2.29	-20.10
Rest of the World	Value (US\$ million)	4,070,525	4,135,224	4,511,386	4,940,823	5,028,097	4,022,156
	Growth rate (%)		1.59	9.10	9.52	1.77	-20.01
RCEP	Value (US\$ million)	857,343	880,022	946,495	1,071,407	1,122,078	891,651
	Share (%)	17.40	17.55	17.34	17.82	18.24	18.15
	Growth rate (%)		2.65	7.55	13.20	4.73	-20.54

Source: World Trade Organization, <https://data.wto.org/> (accessed 20 July 2021).

In terms of cross-border trade, the RCEP region has a mix of net importers and net exporters of services. Countries that relied heavily on tourism, such as Cambodia and Thailand, saw a reversal in their net position from a surplus to a deficit in 2020 due to the global travel restrictions (see Table 4.2).

Table 4.2 Trade Balance in Commercial Services (US\$ million)

RCEP Member	2015	2016	2017	2018	2019	2020
Australia	-8,728	-4,232	-3,042	-3,662	-577	10,652
Brunei Darussalam	-996	-1,107	-687	-995	-1,178	-844
Cambodia	1,575	1,448	1,676	2,215	2,616	-230
China	-215,405	-240,903	-237,744	-250,986	-215,316	-99,444
Indonesia	-9,166	-7,714	-7,927	-7,153	-8,292	-10,195
Japan	-18,325	-13,494	-8,992	-11,973	-1,493	-26,360
Korea, Republic of	-14,342	-16,868	-36,033	-29,343	-27,118	-15,442
Lao PDR	-232	-188	-337	-257	-63	-98

RCEP Member	2015	2016	2017	2018	2019	2020
Malaysia	-5,081	-4,383	-5,000	-4,182	-2,461	-11,280
Myanmar	1,301	1,201	866	1,048	2,875	911
New Zealand	2,904	3,310	3,313	2,707	1,733	480
Philippines	5,692	7,382	8,968	12,107	13,559	13,645
Singapore	-8,582	-6,623	-10,336	6,550	8,914	14,781
Thailand	15,510	20,302	24,282	22,491	24,221	-15,142
Viet Nam	-4,707	4,337	3,954	6,675	8,869	1,763

Source: World Trade Organization, <https://data.wto.org/> (accessed 20 July 2021).

Services trade by mode of supply

It is not easy to calculate the value of services trade as the balance of payments figures only reflect cross-border trade. Experimental data developed by the WTO attempt to estimate services trade by mode of supply (see Wettstein et al. (2019)).

For Australia, China, Japan, the Republic of Korea (henceforth, Korea), New Zealand, and Singapore, the supply of services through commercial presence (Mode 3) is the dominant mode of supply to the rest of the world. For countries with strong tourism sectors, such as Cambodia, the Lao PDR, Myanmar, and Thailand, Mode 2, or consumption abroad, has the biggest share. Mode 1, or cross-border supply, is the leading mode of supply for Brunei, Indonesia, the Philippines, and Viet Nam. For Malaysia, Modes 1 and 2 are almost equally important. The supply of services through the presence of natural persons is most significant for the Philippines, where the share is 9%. Overall, the distribution of exports or the outward foreign affiliates statistics (FATS) of RCEP members closely mirror the world pattern which is dominated by Mode 3 whilst Mode 4 represents the smallest share. See Table 4.3.

Table 4.3 Composition of Exports or Outward FATS, 2017

RCEP Member	Total (US\$ million)	M1 (%)	M2 (%)	M3 (%)	M4 (%)	Total (%)
Australia	239,114	11.36	9.95	77.58	1.10	100.00
Brunei Darussalam	1,134	43.58	21.95	34.37	0.10	100.00
China	856,714	22.27	7.61	66.52	3.60	100.00
Indonesia	38,500	40.38	33.40	23.57	2.66	100.00
Japan	690,419	21.39	4.33	72.22	2.05	100.00
Cambodia	3,954	25.11	73.32	1.06	0.51	100.00

RCEP Member	Total (US\$ million)	M1 (%)	M2 (%)	M3 (%)	M4 (%)	Total (%)
Korea, Republic of	252,858	25.96	5.57	64.82	3.65	100.00
Lao PDR	906	25.06	71.19	3.75	0.00	100.00
Myanmar	3,608	34.15	55.49	5.88	4.49	100.00
Malaysia	50,253	35.71	36.39	23.72	4.18	100.00
New Zealand	29,872	19.28	23.88	55.10	1.75	100.00
Philippines	40,825	54.46	26.62	10.13	8.78	100.00
Singapore	342,855	40.47	7.97	47.74	3.82	100.00
Thailand	78,990	29.76	56.34	11.23	2.66	100.00
Viet Nam	20,021	57.05	36.35	5.46	1.14	100.00
Total RCEP	2,650,023	25.26	10.08	61.66	3.01	100.00
Total World	13,420,090	27.75	10.53	58.61	3.10	100.00

Source: World Trade Organization, Trade in Services Data by Mode of Supply (accessed 20 July 2021).

As Table 4.4 shows, based on the WTO estimates, RCEP accounts for a fifth of total world services trade through the four modes of supply. The same pattern emerges more or less for each mode.

Table 4.4 Share of RCEP Exports or Outward FATS, 2017

	Total	Mode 1	Mode 2	Mode 3	Mode 4
World (US\$ million)	13,420,090	3,724,525	1,413,580	7,865,379	416,606
RCEP					
Value (US\$ million)	2,650,023	669,391	267,016	1,633,900	79,716
Share (%)	19.75	17.97	18.89	20.77	19.13

Source: World Trade Organization, Trade in Services Data by Mode of Supply (accessed 20 July 2021).

Mode 3 accounts for the biggest share of foreign services supplied in most countries in RCEP. In Cambodia and Thailand, Mode 1 leads. The same is true for Malaysia and Singapore, although Mode 3 comes a close second. Overall, the distribution of the imports or inward FATS of RCEP members closely mirrors the world pattern, which is dominated by Mode 3, whilst Mode 4 represents the smallest share. However, unlike the pattern for exports, the shares of Mode 2 imports and Mode 3 inward FATS are somewhat different for RCEP compared to the world shares (see Table 4.5).

Table 4.5 Composition of Imports or Inward FATS, 2017

RCEP Member	Total (US\$ million)	M1 (%)	M2 (%)	M3 (%)	M4 (%)	Total (%)
Australia	167,471	21.63	12.20	64.48	1.69	100.00
Brunei Darussalam	2,674	23.46	16.62	56.79	3.13	100.00
China	1,100,755	21.88	16.41	59.92	1.79	100.00
Indonesia	64,772	34.59	20.67	42.56	2.18	100.00
Japan	408,991	36.82	8.47	50.20	4.52	100.00
Cambodia	4,309	53.88	15.48	28.21	2.43	100.00
Korea, Republic of	267,360	26.37	15.85	54.59	3.19	100.00
Lao PDR	1,832	17.55	36.45	44.87	1.13	100.00
Myanmar	6,823	43.70	2.67	50.35	3.27	100.00
Malaysia	71,256	41.23	13.58	39.34	5.86	100.00
New Zealand	31,848	25.12	12.09	60.81	1.98	100.00
Philippines	46,407	33.68	26.66	37.07	2.59	100.00
Singapore	317,022	41.93	13.30	39.99	4.78	100.00
Thailand	80,893	45.41	16.53	35.70	2.35	100.00
Viet Nam	41,381	41.97	13.95	43.12	0.96	100.00
Total RCEP	2,613,796	29.34	14.56	53.23	2.87	100.00
Total World	13,092,336	27.74	10.24	59.25	2.77	100.00

Source: World Trade Organization, Trade in Services Data by Mode of Supply (accessed 20 July 2021).

Based on the WTO estimates, RCEP accounts for a fifth of total world services imports through the four modes of supply. However, its share is higher in terms of Mode 2, or consumption abroad, accounting for 28% of global imports (Table 4.6).

Table 4.6 Share of RCEP Imports or Inward FATS, 2017

	Total	Mode 1	Mode 2	Mode 3	Mode 4
World (US\$ million)	13,092,336	3,632,362	1,340,857	7,756,963	362,154
RCEP					
Value (US\$ million)	2,613,796	766,813	380,622	1,391,446	74,915
Share (%)	19.96	21.11	28.39	17.94	20.69

Source: World Trade Organization, Trade in Services Data by Mode of Supply (accessed 20 July 2021).

In terms of the trade balance, when all modes of supply are considered, only Australia, Japan, and Singapore are net services suppliers to the rest of the world. However, some countries are net exporters in specific modes of supply. For Mode 1, or cross-border supply, the Philippines and Singapore are net exporters. For Mode 2, or consumption abroad, several countries with competitive tourism sectors enjoy a surplus, namely: Australia, Cambodia, Myanmar, Malaysia, New Zealand, Thailand, and Viet Nam. In terms of Mode 4, or the movement of natural persons, countries with a positive trade balance include China, Korea, the Philippines, and Thailand. For Mode 3, or the supply of services via commercial presence, outward FATS surpass inward FATS in Australia, Japan, Korea, and Singapore (Table 4.7).

Table 4.7 Trade Balance by Mode of Supply, 2017

RCEP Member	M1 (US\$ million)	M2 (US\$ million)	M3 (US\$ million)	M4 (US\$ million)	TOTAL (US\$ million)
Australia	-9,059	3,359	77,535	-192	71,643
Brunei Darussalam	-133	-196	-1,129	-82	-1,540
China	-50,077	-115,431	-89,634	11,100	-244,041
Indonesia	-6,858	-533	-18,495	-387	-26,272
Japan	-2,873	-4,710	293,328	-4,317	281,428
Cambodia	-1,329	2,232	-1,173	-85	-355
Korea, Republic of	-4,837	-28,315	17,954	696	-14,502
Lao PDR	-95	-23	-788	-21	-926
Myanmar	-1,750	1,820	-3,224	-61	-3,215
Malaysia	-11,432	8,613	-16,112	-2,072	-21,003
New Zealand	-2,240	3,283	-2,910	-109	-1,976
Philippines	6,606	-1,504	-13,068	2,384	-5,582
Singapore	5,828	-14,838	36,927	-2,085	25,833
Thailand	-13,226	31,132	-20,008	199	-1,903
Viet Nam	-5,948	1,506	-16,749	-168	-21,360

Source: World Trade Organization, Trade in Services Data by Mode of Supply (accessed 20 July 2021).

Review of the elements or key features of the RCEP chapter on trade in services²

Structure and scope

A typical structure of a chapter on trade in services refers to how services are covered in an agreement in terms of definition and the inclusion of different modes of supply, the relevance of the investment chapter and its relation to the services chapter, other services provisions, and the existence of specific sectoral rules, either in separate chapters or in annexes/annotations to the main services chapter.

The RCEP Agreement includes a chapter on trade in services (Chapter 8) with three sectoral annexes, namely: financial services, telecommunications services, and professional services. A separate chapter on the temporary movement of natural persons (MNP), Chapter 9, covers measures affecting the temporary entry of natural persons engaged in trade in goods, the supply of services, or the conduct of investment. The MNP Chapter is generally a Mode 4 services agreement similar to the ASEAN–Australia–New Zealand Free Trade Agreement (AANZFTA) (Chapter 9) and the ASEAN Framework Agreement on Services (AFAS) (Mode 4). Amongst its salient features is that it facilitates and establishes rules for the parties on the temporary entry and temporary stay of natural persons. However, it does not apply to those seeking access to the employment market or any measures related to citizenship, residence, or employment on a permanent basis. This wording emulates the GATS Annex on the MNP.

The investment chapter (Chapter 10) does not apply to measures adopted or maintained that are covered in Chapters 8 or 9. It covers the four pillars of investments, protection, liberalisation, promotion, and facilitation, which upgrade and enhance the existing ASEAN Plus One free trade agreements (FTAs). The chapter includes a most-favoured-nation (MFN) treatment clause and commitments on the prohibition of performance requirements that go beyond their multilateral obligations under the WTO Trade-Related Investment Measures (TRIMS) Agreement. It also includes a Schedule of Reservations and Non-Conforming Measures, which provides for the parties' investment commitments using the negative list approach with a standstill and ratchet mechanism.

Similar to the GATS, Chapter 8 of the RCEP Agreement defines 'trade in services' as the supply of a service: (i) from the territory of one party into the territory of any other party; (ii) in the territory of one party to the service consumer of any other party; (iii) by a service supplier of one party through a commercial presence in the territory of any other party;

² The RCEP chapter on trade in services was reviewed following the outline in Gootiiz et al. (2020).

and (iv) by a service supplier of one party through the presence of natural persons of a party in the territory of any other party. Also, the supply of a service encompasses the production, distribution, marketing, sale, and delivery of a service.

The scope of application also follows GATS in that the chapter applies to measures affecting trade in services, which concern: (i) the purchase or use of, or payment for, a service; (ii) the access to and use of, in connection with the supply of a service, services that are required by a party to be offered to the public generally; and (iii) the presence, including commercial presence, of persons of a party for the supply of a service in the territory of another party. Moreover, measures include those taken by: (a) central, regional, or local governments and authorities of that party; and (b) non-governmental bodies in the exercise of powers delegated by the central, regional, or local governments or authorities of that party.

Sectoral and policy exclusions

Sectors excluded from the coverage of Chapter 8 are the following: (1) services supplied in the exercise of governmental authority; (2) air traffic rights; (3) air transport services beyond (i) aircraft repair and maintenance services, (ii) the selling and marketing of air transport services, (iii) computer reservation system services, (iv) speciality air services, (v) ground handling services, and (vi) airport operation services; and (4) cabotage in maritime transport.

Chapter 8 also provides that the disciplines do not apply for government procurement, measures affecting natural persons seeking access to employment, measures regarding nationality, citizenship, residence, or employment on a permanent basis, or subsidies or grants, including government-supported loans, guarantees, and insurance (see Table 4.8).

Table 4.8 Structure and Scope of the Trade in Services Chapter of RCEP

Region	Impact
Chapter	Chapter 8 – Trade in Services (covers four modes of supply) Chapter 9 – Temporary Movement of Natural Persons (covers those engaged in trade in goods, the supply of services, or the conduct of investment) Chapter 10 – Investment
Inclusion of provisions clarifying the relationship between the investment chapter and trade in services chapter	Chapter 10: Investment Article 10.2. ‘This Chapter shall not apply to ... (d) measures adopted or maintained by a Party to the extent that they are covered by Chapter 8 (Trade in Services); and (e) measures adopted or maintained by a Party to the extent that they are covered by Chapter 9 (Temporary Movement of Natural Persons).’

Region	Impact
Inclusion of sector-specific provisions in an annex to the Trade in Services Chapter	Annex 8A – Financial Services Annex 8B – Telecommunications Services Annex 8C – Professional Services
Excluded services supplied in the exercise of governmental authority	Yes Art. 8.1(l) Art. 8.2.3(c)
Excluded air traffic rights (cross-border air transport)	Yes Art.8.2.3(e)
Air transport services covered beyond (1) computer reservation systems, (2) marketing and sale services, or (3) maintenance and repair services	Yes Art. 8.2.3(e) (iv) Specialty air services; (v) ground handling services; and (vi) airport operation services
Other sectoral exclusions	Yes Art.8.2.3(d) – Cabotage in maritime transport services
Government procurement excluded	Yes Art. 8.2.3(a)
Job seekers, citizenship, residence or employment on a permanent basis excluded	Yes Art.8.2.4
Subsidies excluded	Yes Art. 8.2.3(b)
Coverage of new issues (i.e. cross-border data flows)	Chapter 12 on E-commerce Art. 12.16 (Dialogue on E-commerce)

Source: RCEP. <https://rcepsec.org/legal-text/> (accessed 21 July 2021).

Liberalisation approach

The main distinction between the Trade in Services Chapters is based on their approach to liberalisation commitments. For a 'negative-list' approach agreement, obligations such as national treatment will apply to all the services sectors falling under the purview of the chapter unless the party lists relevant non-conforming measures (for example, in the Annex on existing non-conforming measures) and/or identifies sectors or subsectors to which the obligation does not apply.

For the 'positive-list' approach, like the GATS, where the national treatment obligation, for example, applies only to those sectors that are listed or committed to in the members' schedule (positive listing) and subject to any conditions and qualifications set out therein. Whilst positive-list-type agreements only allow for reservations on market access and national treatment, negative-list-type agreements allow for reservations not only for market access and national treatment but also most favoured nations, the obligation to forbid local presence requirements, the obligation to eliminate performance requirements, and the obligation not to request nationality/residency senior management personnel and members of boards of directors.

Considered the most significant feature of the RCEP agreement compared to other FTAs of ASEAN is the scheduling of market access commitments using the negative list approach either at the conclusion of the negotiations or within a specified period after the entry into force of the agreement (ASEAN Secretariat, 2021, p.45).

Members that chose the **positive list approach** prepared schedules using a format similar to GATS, whereby limitations on market access and national treatment are inscribed for each service subsector included. Specifically, a member defines under each mode of supply (1) the terms, limitations, and conditions on market access; (b) conditions and qualifications on national treatment; (c) undertakings relating to additional commitments; and (d) where appropriate, the time frame for the implementation of such commitments. Under RCEP, members should also identify sectors or subsectors for future liberalisation with 'FL', which must be bound to the current regulatory practice. Furthermore, any future amendment of the measure cannot be more restrictive. In addition, members are required to make commitments under the MFN treatment or transparency list. However, least developed countries are exempt from these obligations (i.e. identifying sectors or subsectors for future liberalisation, making commitments under MFN, or the transparency list) but may do so voluntarily. The schedule of specific commitments of the members that adopted this approach is contained in Annex II of the agreement.

The transparency list comprises existing measures maintained at the central government level that are inconsistent with national treatment or the market access provisions of the agreement. It is prepared solely for the purposes of transparency, must be made publicly available on the internet, and is a non-binding list of measures in the sectors where specific commitments have been undertaken by the member.

Countries that initially prepared their commitments using the positive list approach in order to transition to a negative list, namely, Cambodia, China, the Lao PDR, Myanmar, New Zealand, the Philippines, Thailand, and Viet Nam, shall submit a proposed Schedule of Non-Conforming Measures, which should reflect an equivalent or a greater level of liberalisation no later than 3 years, or for the least developed country (LDC) members, no later than 12 years, after the date of entry into force of the agreement. The transition process, which involves the preparation, verification, clarification, and adoption of the Schedule of Non-Conforming Measures, including the completion of applicable domestic processes, shall be completed no later than 6 years, or for LDC members, no later than 15 years, after the date of entry into force of the agreement.

The other RCEP members have already adopted the negative list approach, whereby exemptions with respect to the obligations of national treatment, market access, MFN treatment, and local presence are listed in the schedules of reservations and non-conforming measures contained in Annex III of the agreement. Services that are not listed in the schedules are considered fully open. They may also make additional commitments using this approach.

Measures currently maintained at the central, regional, and local levels of government that are inconsistent with the obligations must be included. Each schedule in turn is further divided into two main lists. In List A, members may continue to maintain the limitations identified, which reflect the current regulatory regime. Moreover, any future changes in the measures listed cannot be more restrictive. Thus, List A comes with standstill and ratchet obligations wherein a member (a) binds the existing level of restrictiveness based on the current regulation and (b) commits not to backtrack such that any amendment can only be towards further liberalisation. In List B, a member maintains full reservation in the sectors, subsectors, or activities included. This means that a member can keep existing measures that do not conform to the four liberalisation obligations and may even introduce new limitations. A member also reserves the right to impose future measures that may be more restrictive than the current regulations (see Reyes (2019)). A third list, List C, could be prepared if a member wishes to make additional commitments (for example, regarding qualifications, standards, or licensing matters). Regardless of the approach taken, RCEP allows for the modification of schedules that involve compensatory adjustment accorded on a non-discriminatory basis in the case of backtracking.

Two obligations that are embedded in a negative list approach are the standstill and ratchet provisions. Standstill clauses are intended to lock in the applied regime at the time an agreement enters into force and, thus, prevent a 'binding overhang'. Ratcheting, which is generally included in the negative list approach chapter or agreement, serves to automatically bind liberalisation undertaken autonomously after the entry into force of a commitment. As pointed out by Adlung and Mamdouh (2013, p.8), these features are not unique to a scheduling technique and can be introduced whether in a bottom-up (positive list) or top-down (negative list) approach. To some extent, RCEP obligations for the positive list approach approximate the perceived advantages of the negative list approach (see Table 4.9).

Table 4.9 Preserving Negotiating Objectives in the Scheduling Approach

Objective	Schedules of Specific Commitments (Positive List Approach)	Schedule of Non-conforming Measures (Negative List Approach)
Maintain policy space (called 'water' or binding overhang)	(1) Non-scheduling of subsectors (2) Partial commitment only for scheduled subsectors and binding below actual policy	List B – Full reservations maintained
Transparency of policy space	Transparency list covering sectors where specific commitments were undertaken	List B – Full reservations maintained
Reduce uncertainty (less water, no rollback; future measures not more restrictive)	Future liberalisation ('FL') commitments bound at current regulatory practice Transparency list	List A – Existing non-conforming measures with standstill and ratchet obligations

Source: Authors' compilation.

It should be noted that the ASEAN Trade in Services Agreement (ATISA) signed in 2020 adopts the negative list approach as well. ATISA sets out to create a more stable and predictable environment and the stage for future services integration and liberalisation by establishing commitments that can serve to reduce discriminatory regulatory barriers, for a more transparent regime.³ It provides specific timelines for all ASEAN Member States to transition their final AFAS commitments, which have been scheduled using a GATS-type positive list scheduling of specific commitments, into a negative-list scheduling of reservations. In ATISA, the member states must submit their schedules of non-conforming measures within 5 years after entry into force of the agreement, although Viet Nam can submit within 7 years whilst Cambodia, the Lao PDR, and Myanmar are given 13 years. ATISA will supersede the AFAS, including all of its implementing protocols as signed by the ASEAN Economic Ministers, ASEAN Transport Ministers, and ASEAN Finance Ministers (ASEAN Secretariat, 2021).

The negative list approach is seen to provide greater transparency on the details of the current services regime by listing down all measures that do not conform with, or are not in compliance with, the obligations under the ATISA, which include market access, national treatment, MFN treatment, local presence, and senior management and boards of directors. Therefore, the ATISA increases transparency and predictability, thus providing service suppliers with higher levels of confidence in the economy of the region (ASEAN Secretariat, 2021, p.30).

As to which approach is more liberalising, it has been argued that substance matters more than form (Adlung and Mamdouh, 2013; Tham, 2019). A negative list approach does not automatically lead to greater liberalisation as reservations can be used to exclude a broad range of measures from meaningful liberalisation (i.e. significant reservations). In theory, both the 'positive' and 'negative' approaches can be used to attain the same level of liberalisation, and what matters are the commitments and the limitations in the 'positive' list as well as the reservations in the 'negative' list. As explained by Adlung and Mamdouh (2013, p.13), the desired openness can be achieved using either approach. The real challenge in services negotiations is not the legal architecture, but rather reaching an agreement on a commercially meaningful agenda.

³ See The Straits Times (2019).

Obligations

[General obligations](#)

Most-favoured-nation treatment

In RCEP, the services chapter includes a **most-favoured-nation treatment (MFN)** obligation, which requires members to automatically extend to other members additional liberalisation enjoyed by third countries in subsequent agreements. However, members of ASEAN reserve the right to accord differential treatment to each other in line with the economic integration agenda of ASEAN. Similarly, adjacent countries can extend better treatment to each other to facilitate the exchange of services.

Domestic regulation

Transparency is pivotal to facilitating trade as procedures may be complicated and lengthy for good reasons. Therefore, providing information contributes to more efficient procedures and reduced trade costs by making cross-border business transactions more predictable in terms of time and costs.

In 2016, the Pacific Economic Cooperation Council conducted a survey of regional policies addressing businesses, governments, academics, media, and civil society. It found that the most cumbersome barriers to trade in services were the lack of transparency, multiple layers of bureaucracy, and lack of predictability: 63% of business respondents considered the lack of transparency as a serious to very serious impediment to services trade, compared to 54% of government respondents (Pacific Economic Cooperation Council, 2016).

Many of the 'new generation' agreements have now moved towards addressing regulatory obstacles and cutting procedural red tape. This is intended to promote good governance in services markets and render national regulatory frameworks more transparent, predictable, and conducive to economic activities and, thereby, further boost growth and development (Baiker, Bertola, and Jelitto, 2021). As of 2020, 112 WTO members have concluded at least one regional trade agreement (RTA) with obligations equivalent to the domestic regulation disciplines designed by the Joint Initiative on Services Domestic Regulation. Like the disciplines developed by the initiative, domestic regulation provisions in RTAs do not interfere with substantive requirements that regulators can develop and implement to pursue their national policy objectives (Baiker, Bertola, and Jelitto, 2021). The RCEP members are also committed to regulatory transparency. As in the GATS, transparency is an unconditional general obligation, which applies even to service subsectors that are not included in the respective schedules.

As Table 4.10 shows, the RCEP services chapter contains an obligation to promptly publish all relevant laws and regulations affecting services trade as well as relevant international agreements. To the extent possible, the measures and international agreements should be available on the internet and in the English language or in the chosen language, if not practicable. A contact point must also be designated to facilitate communications amongst the members on any matter covered in the services chapter. Members must also respond promptly to any request for specific information, including any new measures or changes to existing measures that significantly affect services trade.

For sectors and measures included in a member's schedule, regulations affecting services trade must be administered in a reasonable, objective, and impartial manner. Members must also set up judicial, arbitral, or administrative tribunals or procedures for the prompt review and possible remedies for administrative decisions affecting trade in services.

Like the disciplines in the Joint Initiative on Services Domestic Regulation, domestic regulation provisions in RCEP do not interfere with substantive requirements that regulators can develop and implement to pursue their national policy objectives. Regulatory requirements and procedures, particularly on licensing, qualifications, or technical standards, may still act as obstacles to foreign services and service suppliers, even in the absence of market access or national treatment limitations (Gootiiz et al., 2020). Thus, RCEP requires that members exert their best efforts to ensure that for the sectors included in their schedules, such measures are (1) based on objective and transparent criteria, (2) not more burdensome than is necessary to ensure the quality of the service, and (3) in the case of licensing procedures, are not in themselves a trade restriction.

In addition to ensuring that regulations do not constitute unnecessary barriers to trade, there are also disciplines imposed on the regulator, such as an obligation for the competent authority to inform applicants on the decision or the status of an application and to ensure that decisions are made within a reasonable period of time.

Table 4.10 Domestic Regulation

Transparency – Obligation to publish relevant laws and regulations	Yes, including all international agreements Art. 8.14.2 ('shall publish promptly')
Transparency – Obligation to provide for prior comment on proposed regulation	Yes Art. 8.14.6 (b) – Provide information on new or changes to existing measures Art. 17.3.2 – Provide interested persons and other RCEP parties with a reasonable opportunity to comment
Obligation to set up an independent authority for appeals procedures	Yes Art. 8.15.2 ('shall maintain or institute as soon as practicable')

Provisions on qualification, licensing, and technical standards	Yes, for sectors and measures subject to market access (MA) or national treatment (NT). Art. 8.15.5; Art. 8.15.6; Art. 8.15.7; Art. 8.15.8;
Measures on qualification, licensing, and technical standards subject to a necessity test	Yes, for sectors and measures subject to MA or NT Art. 8.15.5 ('shall endeavour to ensure')
Obligation for competent authority to inform applicant on status of application	Yes – Art. 8.15.7(d) Mandatory – Art. 8.15.7 ('shall ensure')
Obligation for competent authority to inform applicant of the decision	Yes – Art. 8.15.7(b) and (f) Mandatory – Art. 8.15.7 ('shall ensure')
Obligation for competent authority to make decisions within a certain period of time	Yes – Art. 8.15.7(b) ('within a reasonable period of time') Mandatory – Art. 8.15.7 ('shall ensure')
Obligation to administer laws/regulations in a reasonable, objective, and impartial manner	Yes, for sectors and measures subject to MA or NT and measures of general application affecting services trade. Art. 8.15.1 ('shall ensure')
Mutual recognition provisions	Yes – Art. 8.16 Voluntary obligation – Art. 8.16.1 ('may recognise')

Source: RCEP. <https://rcepsec.org/legal-text/> (accessed 21 July 2021).

Specific Commitments

Market access

Market access is an obligation universally found in preferential trade agreements (Gootiiz et al., 2020). Following the GATS, limitations on market access that are not allowed in RCEP include:

- a) limitations on the number of service suppliers, whether in the form of numerical quotas, monopolies, exclusive service suppliers, or the requirements of an economic needs test;
- b) limitations on the total value of service transactions or assets in the form of numerical quotas or the requirement of an economic needs test;
- c) limitations on the total number of service operations or on the total quantity of service output expressed in terms of designated numerical units in the form of quotas or the requirement of an economic needs test;
- d) limitations on the total number of natural persons that may be employed in a particular service sector or that a service supplier may employ and who are necessary for, and directly related to, the supply of a specific service in the form of numerical quotas or the requirement of an economic needs test;
- e) measures which restrict or require specific types of legal entities or joint ventures through which a service supplier may supply a service; and
- f) limitations on the participation of foreign capital in terms of a maximum percentage limit on foreign shareholding or the total value of individual or aggregate foreign investment.

National treatment

National treatment, defined as the treatment accorded to foreign services and service suppliers that is no less favourable than the treatment accorded to like domestic services and service suppliers, is another core obligation in RCEP. However, there is no requirement to compensate for any inherent competitive disadvantages that result from the foreign character of the relevant services or service suppliers. In the GATS, the national treatment standard does not require formally identical treatment of domestic and foreign suppliers, as formally different measures can result in the effective equality of treatment; conversely, formally identical measures can in some cases result in the less favourable treatment of foreign suppliers (de facto discrimination) (UNCTAD, 2020b, p.37). This is echoed in RCEP, which considers formally identical or formally different treatment to be less favourable if it modifies the conditions of competition in favour of domestic services or service suppliers.

Another prohibition in RCEP is on **local presence**, which means that a member cannot require the service suppliers of another member to establish a representative office, a branch, or any form of juridical person, or to be resident as a condition to supply a service through Modes 1, 2, or 4.

Table 4.11 provides a summary of the services liberalisation approach and obligations in RCEP.

Table 4.11 Liberalisation Approach and Obligations

Scheduling of commitments	Positive list and negative list – Art. 8.3 Transition from positive list to negative list – Art. 8.12
Market access obligation	As defined in the GATS (by reference to six prohibited market access limitations) Art. 8.5.2 (a)–(f)
National treatment obligation	Art. 8.4
Most-favoured-nation treatment	Art. 8.6
Local presence	Art. 8.11
Ratchet provision	Positive list – Art. 8.7.4 Negative list – Art. 8.8.1 (c)
Standstill provision	Positive list – Art. 8.7.3 Negative list – Art. 8.8.1 (a) on List A
Additional commitments	Yes. Art. 8.9
Gradual liberalisation	Yes – Art. 8.7.3 on future liberalisation Except ASEAN LDCs – Art. 8.7.5

Source: RCEP. <https://rcepsec.org/legal-text/> (accessed 21 July 2021).

Scheduling of services commitments

At the initial stage, RCEP parties may undertake Schedules of Specific Commitments, which is based on the positive list approach or Schedules of Reservations and Non-conforming Measures, based on the negative list as well as additional commitments. However, Chapter 8 provides that the parties are to schedule their services commitments using the negative list approach, either on the date of entry into force of the RCEP Agreement or within a defined time period after the date of entry into force of the RCEP Agreement. Table 4.12 shows the scheduling approach adopted by the parties at the signing of the RCEP Agreement.

Table 4.12 RCEP Members and the Scheduling Approaches Adopted

RCEP Parties	Annex II – Schedules of Specific Commitments for Services (Positive List)	Annex III – Schedules of Reservations and Non-conforming Measures for Services (Negative List)	Annex IV – Schedules of Specific Commitments on Temporary Movement of Natural Persons (Positive List)
Brunei Darussalam		X	X
Cambodia	X		X
Indonesia		X	X
Lao PDR	X		X
Malaysia		X	X
Myanmar	X		X
Philippines	X		X
Singapore		X	X
Thailand	X		X
Viet Nam	X		X
Australia		X	X
China	X		X
Japan		X	X
Rep. of Korea		X	X
New Zealand	X		X

Source: RCEP. <https://rcepsec.org/legal-text/> (accessed 21 July 2021).

Other elements

The chapter also contains provisions on anti-competitive business practices and monopolies. In terms of other policy objectives, similar to GATS, RCEP members can restrict trade in specific cases, regardless of obligations. Examples of such circumstances include the protection of public morals or to maintain public order; the protection of human, animal, or plant life or health; national security; and balance-of-payments difficulties (see Table 4.13).

Table 4.13 Other Elements

Discipline on monopolies	Yes Art. 8.17
Business practices	Yes. Upon request, enter into consultations with the view of eliminating practices that may restrain competition and restrict trade. Art. 8.18 ('shall accord full and sympathetic consideration')
Includes general exceptions (GATS Article XIV)	Yes Art 17.12
Includes prudential exception for financial services	Yes Annex 8A, Art. 4
Includes security exceptions	Yes Art. 17.13
Emergency safeguard provision in a specific sector and/or mode	Yes Art. 8.21
Provision allowing the renegotiation of specific commitments or reservations	Yes Art. 8.13
Provision allowing measures to counter balance-of-payments difficulties	Yes Art. 8.19 Art. 17.5
Dispute settlement	Chapter 19 on Dispute Settlement (State-to-State)
Rules of origin for juridical persons	Be constituted in a member country and have substantial business operations in that country or any other RCEP member – Art. 8.1.e (i) In the case of services supply by Mode 3, owned and controlled by a natural person of a member country or a juridical person as described above – Art. 8.e (ii) For Thailand and Viet Nam, juridical persons are described in Art. 8.1.f
Rules of origin for natural persons	Be a national of a party – Art. 8.1.i (i) Be a permanent resident in the territory of a party – Art. 8.1.i (ii)
Other regional objectives promoted	Increasing participation of LDCs – Art. 8.23 Cooperation – Art. 8.25

Source: RCEP. <https://rcepsec.org/legal-text/> (accessed 21 July 2021).

Maximising the benefits of RCEP: Key challenges and the way forward

The RCEP economies account for a fifth of global services trade. They are home to globally competitive suppliers of distributive services (transportation, communications, and wholesale and retail trade), producer services (financial, insurance, engineering, law, and business services), social services (health and education), and personal services (hotel and accommodation, entertainment).⁴ At the same time, the quality, price, and availability of different types of services vary across countries. Thus, there is significant room to improve the services sectors and the competitiveness of economies more widely by increasing services trade amongst RCEP members through the four modes of supply. The priorities of individual members will differ given their respective economic development requirements.

The Trade in Services Chapter of the RCEP Agreement establishes the rules for the progressive liberalisation of trade in the region. It ensures market access and non-discriminatory treatment in sectors identified by the respective members and sets out regulatory disciplines to mitigate barriers to competition. The chapter, together with the chapter on the Temporary Movement of Natural Persons, is considered substantially better than any of ASEAN's previous FTAs. The terms of market access commitments obtained will help advance economic engagement between ASEAN and its FTA partners (ASEAN Secretariat, 2021). The improved commitments for services, it should be noted, are relevant for non-services companies as well. Goods exporters that are seeking to undertake services-related activities to support their regional operations (for example, by providing after-sales services), would also benefit (New Zealand Foreign Affairs and Trade, 2021).

Although the RCEP Agreement has been signed and is now in force, the work of services negotiations continues. According to Marconini and Sauv  (2010, p.21) the full cycle of trade in services negotiations involves (1) mapping a strategy for services negotiations in development plans, (2) preparing for service negotiations, (3) conducting service negotiations, (4) implementing negotiated outcomes, and (5) supplying newly opened markets with competitive services. Effective implementation of the services agreement requires, amongst other things, strengthening regulatory frameworks to ensure compliance, whilst supplying to new markets entails improving the capacities of the private sector and removing policy and other barriers. For some RCEP members, the transition to a negative list is the next step for full implementation.

⁴ Following the industry classification suggested by Browning and Singelmann (1975).

Transition to the negative list approach

An immediate challenge for members that initially adopted the positive list is the transition to the negative list scheduling approach. Since LDC members in particular were not required to prepare a transparency list (and did not do so at the conclusion of negotiations), the conduct of a regulatory audit would be a good starting point. Laws and regulations at the national and subnational level should be covered along with the agreements entered into by the LDCs. Tham (2019) cautions that for countries with no prior experience, such an exercise could be quite onerous. Citing the case of Malaysia's preparation for the Trans-Pacific Partnership Agreement, the laws and regulations for about 80% of its services subsectors that were not included in previous agreements had to be identified and reviewed.

Whilst the task of conducting a trade-related regulatory audit is quite formidable, it is not insurmountable if adequate technical resources are made available. A proper regulatory audit, however, must go beyond a mechanical exercise of identifying non-conforming measures but also examine the underlying rationale for the regulations. Doing so would facilitate the next step of identifying the list of reservations on restrictions and sensitive sectors or policy space to maintain, change, or adopt new measures in certain sectors or areas.

As earlier discussed, the negative list could still result in limited liberalisation via a long list of reservations. At the same time, a lack of understanding or coordination in government, amongst other things, could result in countries unintentionally opening up sectors or giving up policy space. As Adlung and Mamdouh (2013) argue, it is possible that without thorough evaluation and coordination, the resulting commitments in a top-down approach might be more ambitious than what is intended using the more deliberate bottom-up approach. Given the wide range of agencies involved at different levels of government, officials may be unaware or may not understand how the commitments in a trade agreement might affect their sectors. Regardless of the approach, it is important that countries have a clear vision for the services sector in their development agenda, as this would guide them in determining their liberalisation objectives and sensitivities. Learning how to address their concerns whilst preserving policy options is especially crucial in the context of trade agreements (Sáez, 2010).

Plugging regulatory deficits

In relation to the transition to the negative list, developing countries may have difficulties implementing competitive and robust regulations in liberalising services. In reviewing laws and regulations or related measures, the relevant issues likely include the policy objective behind the measure, the effectiveness and efficiency of the regulation, and implementation of these regulations (Marconini and Sauvé, 2010). Thus, a thorough review will not only identify measures that do not conform with the treaty obligations of market access, national treatment, MFN treatment, and local presence but go deeper into the domestic regulation disciplines.

Equally important, and in some cases possibly more critical, is the identification of missing regulations and/or regulatory authorities to support well-functioning markets. The Annex on Telecommunications, for example, sets the obligations to ensure that the gains from market access commitments are not negated by the lack of pro-competition regulations or the absence of an independent authority. Sound regulations and institutions are especially important for ensuring good quality infrastructure services. Thus, there is a need for coherence and coordination between domestic policymaking, regulation, and trade liberalisation to derive benefits from any trade in services agreement (UNCTAD, 2020a).

Strengthening the export capacities of LDCs

Developing countries, especially LDCs, might also potentially face capacity constraints to be able to maximise the advantages of the market access given by the RCEP partners. The Trade in Services Chapter contains specific provisions to assist members, particularly the LDCs (see Box 1). This is where the Chapter on Small and Medium Enterprises (Chapter 14) and Economic and Technical Cooperation (Chapter 15) in the agreement should also be considered in ensuring the LDCs can benefit well from the agreement.

Box 4.1 Assistance to LDCs in the Trade in Services Chapter of RCEP

Article 8.23: Increasing Participation of Least Developed Country Parties which are Member States of ASEAN

To increase the participation of Least Developed Country Parties which are Member States of ASEAN, this Chapter shall facilitate:

- (a) strengthening their domestic services capacity and their efficiency and competitiveness, inter alia, through access to technology on a commercial basis;
- (b) improving their access to distribution channels and information networks; and the liberalisation of market access in sectors and modes of supply of export interest to them, and
- (c) the provision of market access in sectors beneficial to them

Art. 8.25 Cooperation

The Parties shall strengthen cooperation efforts in sectors, including sectors which are not covered by current cooperation arrangements. The Parties shall discuss and agree on the sectors for cooperation and develop cooperation programmes in these sectors in order to improve their domestic services capacity and their efficiency and competitiveness.

Source: RCEP. <https://rcepsec.org/legal-text/> (accessed 21 July 2021).

To better target support for building capacities, it would be useful to determine the export potential and interests of each country. For example, the Trade Integration Strategy of Cambodia (Ministry of Commerce, 2019) has identified the following subsectors as part of the country's strategy for export diversification: legal services, information technology and information technology-enabled services, animation services, banking services, entertainment services, and tourism services. Technical assistance could be focused on alleviating the supply constraints in these subsectors and addressing regulatory bottlenecks, including market access restrictions (UNCTAD, 2018).

Conclusion

The RCEP Agreement presented an opportunity to the members to consolidate the many proliferating and overlapping FTAs. During the RCEP services negotiations, there were some challenges due to the varying degrees of interest and levels of ambition of each of the members. There have been some vigorous rounds of negotiations on the relative extent to which they seek to undertake commitments on liberalisation in trade in services. Initially, there were to be two baselines in negotiating the chapter i.e. to consider the commitments undertaken by the members under the GATS and also ASEAN+1 FTAs. However, it was deemed a relatively low level of ambition since many of the members have internally liberalised their services sectors to a larger extent than what has been committed to under the GATS. Liberalisation within ASEAN has been fairly conservative, but that of the non-ASEAN members has been rather ambitious, hence culminating in an interesting and diversified chapter that finally entered into force this year.

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CHAPTER 5

Impact of the Regional Comprehensive Economic Partnership: A Global Computable General Equilibrium Simulation

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This study estimates the potential economic effects of the Regional Comprehensive Economic Partnership (RCEP) by using a recursively dynamic computable general equilibrium (CGE) model, which incorporates the global supply chains (GSCs) structure, also referred as the global value chains (GVCs). The tariff reduction schedules for the RCEP agreement are incorporated in addition to other large FTAs, such as the CPTPP. Second, the structure of GSCs is included in the CGE model to take into account the importance of trade in intermediate goods and services. This study implements the RCEP simulation scenarios for tariff reductions, services trade liberalization, logistic improvements, and investment commitments. Results show that the real GDP of RCEP members increases by \$675 billion in total, of which ASEAN grows by \$160 billion

Introduction

The Regional Comprehensive Economic Partnership (RCEP) agreement, which entered into force on 1 January 2022, represents the largest free trade area in the world. Those that ratified RCEP are the Association of Southeast Asian Nations (ASEAN) Members, Australia, China, Japan, the Republic of Korea, and New Zealand. These members account for about 30% of the world's population; gross domestic product (GDP); and trade in goods, services, and intermediate inputs in 2022 (UN, 2019; IMF, 2021; OECD, 2021). A modern free trade agreement (FTA), RCEP covers the liberalisation of trade in goods and services, trade facilitation, investment commitments, and more in 20 chapters (RCEP, 2020). Because of the economic size of RCEP, fulfilment of the agreement is expected to have substantial economic effects on members.

This chapter estimates the potential economic effects of RCEP through a recursively dynamic computable general equilibrium (CGE) model, which incorporates global supply chain (GSC) structure, also referred as global value chains. Literature does exist employing the CGE model to quantify the economic effects of large FTAs in Asia like RCEP, such as Kawai and Wignaraja (2008); Lee, Owen, and van der Mensbrugghe (2009); Cheong and Tongzong (2013); Urata (2014); Lee and Itakura (2018); Itakura (2019a); Petri and Plummer (2020); and Park, Petri, and Plummer (2021). More recently, Nicita (2021) and UNCTAD (2021) reported the expected impact of the RCEP tariff concessions on trade.

This chapter contributes to the existing studies in two ways. Firstly, the tariff reduction schedules for RCEP are incorporated as well as those for other FTAs, such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

¹ ASEAN Members are Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic (Lao PDR), Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam.

Secondly, the structure of GSCs is included in the CGE model to take into account the importance of trade in intermediate goods and services. Indeed, CGE models with GSC structures have begun to explore the impact of trade policies, such as in Carrico (2017), Walmsley and Minor (2018), Dixon and Rimmer (2019), Greenville et al. (2019), Bellora and Fontagné (2019), Itakura (2019b), and Webb et al. (2020).

Simulations are conducted for 2022–2035 based on four different scenarios. Import tariff reductions amongst RCEP members are simulated in the first scenario. For the second scenario, services trade liberalisation is added to the first scenario. Logistics improvements, due to trade facilitation, are included in the third scenario, and investment commitments are added to the last scenario. The simulation results show that real GDP of RCEP members increases by \$53 billion for the first scenario, \$148 billion for the second scenario, \$235 billion for the third scenario, and \$675 billion for the fourth scenario. Also, the real GDP for ASEAN grows by \$12 billion in the first scenario, \$34 billion in the second scenario, \$84 billion in the third scenario, and \$160 billion in the fourth.

An overview of the database and model is given in the next section, followed by a description of the baseline and RCEP scenarios in Section 3. Section 4 reports the simulation results, and the final section provides a summary.

Database and Model

To reflect the current and prospective states of the global economy, the Global Trade Analysis Project (GTAP) Database Version 10 (Aguiar et al., 2019), Inter-Country Input-Output tables (OECD, 2021), and economic forecasts from various international organisations are used. The GTAP database has detailed information on 65 industrial sectors for 141 countries and regions. With this database, the economic structure of production, international trade and protection, and consumption can be observed, benchmarked at the year 2014. The Inter-Country Input-Output tables extend the GTAP database to trade in intermediate goods and services, distinguished from trade in final goods and services. Finally, the extended database is supplemented with international factor income flows from domestic and foreign asset holdings.

To reduce the computational burden, the database is aggregated into 25 countries and regions and 24 industrial sectors (Table 5.1 and 5.2). The extended database covers nine ASEAN Members – Brunei Darussalam, Cambodia, Indonesia, the Lao People’s Democratic Republic (Lao PDR), Malaysia, Philippines, Singapore, Thailand, and Viet Nam. Due to data limitations, Myanmar is included in the rest of South-East Asia along with Timor-Leste. Other RCEP members are also covered in the database as well as major countries and regions in the world.

Table 5.1 Regional Aggregation for the Study

Country	Definition
China	China, Hong Kong
European Union	Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden
Rest of World	Rest of Oceania; Mongolia; Rest of East Asia; Bangladesh; Nepal; Pakistan; Sri Lanka; Rest of South Asia; Rest of North America; Argentina; Bolivia; Brazil; Colombia; Ecuador; Paraguay; Uruguay; Venezuela; Rest of South America; Costa Rica; Guatemala; Honduras; Nicaragua; Panama; El Salvador; Rest of Central America; Dominican Republic; Jamaica; Puerto Rico; Trinidad and Tobago; Caribbean; Switzerland; Norway; Rest of European Free Trade Association; Albania; Belarus; Russian Federation; Ukraine; Rest of Eastern Europe; Rest of Europe; Kazakhstan; Kyrgyzstan; Tajikistan; Rest of Former Soviet Union; Armenia; Azerbaijan; Georgia; Bahrain; Iran, Islamic Republic of; Israel; Jordan; Kuwait; Oman; Qatar; Saudi Arabia; Turkey; United Arab Emirates; Rest of West Asia; Egypt; Morocco; Tunisia; Rest of North Africa; Benin; Burkina Faso; Cameroon; Côte d'Ivoire; Ghana; Guinea; Nigeria; Senegal; Togo; Rest of West Africa; Central Africa; South Central Africa; Ethiopia; Kenya; Madagascar; Malawi; Mauritius; Mozambique; Rwanda; Tanzania; Uganda; Zambia; Zimbabwe; Rest of East Africa; Botswana; Namibia; South Africa; Rest of South African Customs Union; Rest of World

Source: Author's aggregation based on Aguiar et al. (2019).

Table 5.2 Sector Aggregation for the Study

No.	Sector	Definition
1	Primary	Paddy rice; wheat; cereal grains; vegetables, fruit, nuts; oilseeds; sugar cane, sugar beets; plant-based fibres; crops; bovine cattle, sheep, goats; animal products; raw milk; wool, silkworm cocoons; forestry; fishing; bovine meat products; meat products; vegetable oils and fats; dairy products; processed rice; sugar; food products; beverages; tobacco products
2	Extraction	Coal, oil, gas, minerals
3	Textiles and Apparel	Textiles, wearing apparel, leather products
4	Wood, Paper	Wood products, paper products, publishing
5	Petroleum, Coal	Petroleum, coal products
6	Chemicals	Chemical products
7	Pharmaceuticals	Basic pharmaceutical products
8	Rubber and Plastic	Rubber and plastic products

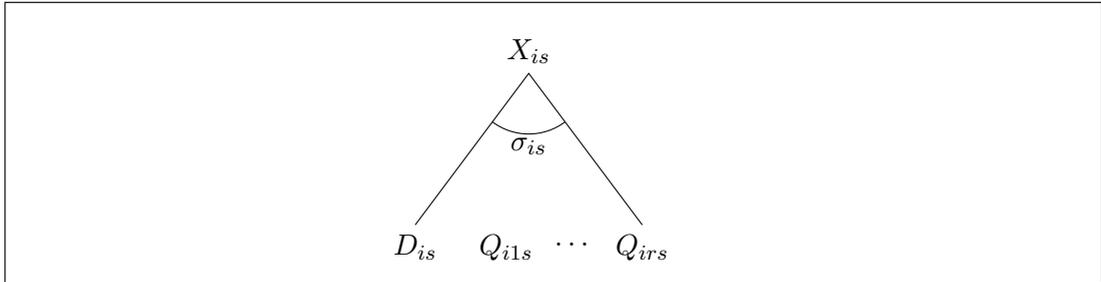
No.	Sector	Definition
9	Minerals	Mineral products
10	Basic Metal	Ferrous metals, metals
11	Metal Products	Metal products
12	Computers, Electronics	Computer, electronics, optics
13	Electrical Equipment	Electrical equipment
14	Machinery	Machinery and equipment
15	Motor vehicles	Motor vehicles and parts
16	Transport Equipment	Transport equipment
17	Other Manufacturing	Manufactures
18	Utilities	Electricity, gas manufacture and distribution, water
19	Construction	Construction
20	Trade	Trade
21	Transport	Transport, water transport, air transport, warehousing and support activities
22	Communications	Communications
23	Finance and Business	Financial services, insurance, real estate activities, business services
24	Other Services	Accommodations, food, and services; recreational and other services; public administration and defence; education; human health and social work; dwellings

Source: Author's aggregation based on Aguiar et al. (2019).

For the RCEP simulations, the GSC structure is incorporated into the dynamic GTAP model, which is a multisector, multiregion recursive dynamic CGE model of global trade (Ianchovichina and McDougall, 2001; Ianchovichina and Walmsley, 2012). The dynamic GTAP model keeps the standard features in the comparative static GTAP model while integrating capital accumulation and international capital mobility (Hertel, 1997; McDougall, 2003). Constant returns to scale and perfect competition are assumed in all sectors. Capital and skilled and unskilled labour are mobile across sectors, while land and natural resources are sector-specific and immobile. Products are differentiated on the basis of their origin, i.e. the Armington assumption (Armington, 1969). The transport sector accounts for the difference between the freight onboard and cost, insurance, and freight prices – i.e. the transport margin – for each commodity shipped along a specific route.

The GSC structure, in which each economic agent decides demand for domestically produced goods and imports, is added to the dynamic GTAP model's demand structure (Figure 5.1). In country s , each agent – such as producer, consumer, or government – decides demands for domestic goods (D_{is}) and imports from different trading partners indexed with r (Q_{irs}), given composite goods (X_{is}) and substitution parameter (σ_{is}). The constant elasticity of substitution (CES) function is assumed. With this GSC structure, each agent has a different source composition of imported products.

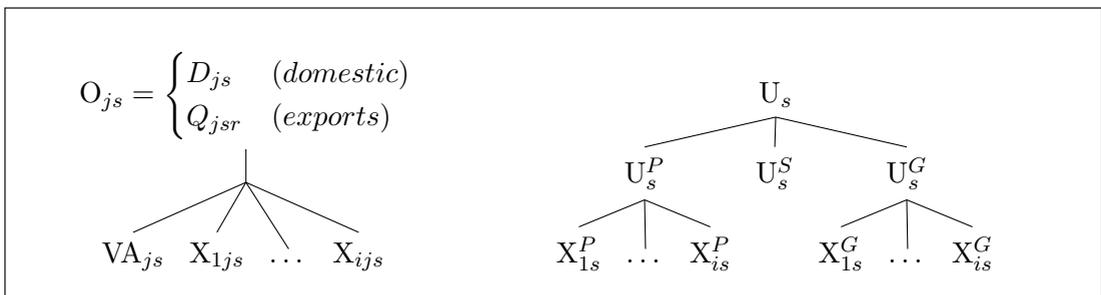
Figure 5.1 Demand Structure for Study



Source: Author.

Producer j determines demand for intermediate inputs (X_{ijs}) and the value added (VA_{js}) composite of skilled and unskilled labour, capital, land, and natural resources, based on the Leontief production function (Figure 5.2, left-hand panel). The output of the producer (O_{js}) is supplied to domestic market (D_{js}) or to foreign markets as exports (Q_{jsr}). A representative household's utility (U_s) is derived from the sub-utility of a private household (U_s^P), government household (U_s^G), and savings (U_s^S), using a Cobb-Douglas-type function (Figure 5.2, right-hand panel). A private household's utility is determined by the constant difference elasticity function of composite goods (X_{is}^P), whereas the government household utility is determined by the CES function. Because of the non-homotheticity in a private household's utility, the adjustment to shift the distribution parameter of expenditures is introduced by McDougall (2003).

Figure 5.2 Structure of Production and Consumption



Source: Author.

Each region is endowed with fixed physical capital stock, which is accumulated with new investments over time. Net investment drives this dynamic, and it is sourced from regional households' savings. Net investment in a region is a composite of domestic and foreign investment. The global trust acts as a financial intermediary for all foreign investment. Regional households own indirect claims to the physical capital stock in the form of equity of two types – equity in domestic firms and equity in foreign firms. While regional households directly own domestic equity, they indirectly own foreign equity by holding shares in a portfolio of foreign equities that the global trust provides.

Values of the households' equity holdings in domestic firms and in the portfolio change over time. The sum of the households' equity holdings in the global trust is equal to the global trust's equity holdings in firms around the world. Incentives for investments or equity holdings are governed by rates of return, which would be equal across regions if capital were to be perfectly mobile. However, this equalisation of rates of return seems unrealistic, at least in the short term. There are empirical observations of home bias in savings and investment, equity holdings by households, and capital flows. Home bias refers to the empirical observations that domestic markets are preferred to foreign markets. These empirical observations suggest that capital is not perfectly mobile, leading to varying rates of return across regions.

The dynamic GTAP model allows interregional differences in rates of return in the short term, which are eventually equalised in the long term. Differences in the rates of return are attributed to errors in investors' expectations about the future rates of return. However, errors in expectations are gradually adjusted to the actual rate of return. Eventually, the errors are eliminated, and a unique rate of return across regions can be attained. Therefore, perfect capital mobility is assumed to apply only in the long term.

RCEP may attract more investment from abroad. Trade liberalisation tends to make prices of goods from partner countries cheaper because of lower tariff rates, stimulating demand for those goods. With the increased demand in destination, producers in exporting countries may increase production. To increase production, more intermediate goods, labour, capital, and other primary factors are demanded. This derived demand for production inputs raises the corresponding prices, wage rates, and rental rates in the competitive markets. Higher rental rates lead to higher rates of return, attracting more investment from both home and foreign countries.

Baseline and Scenarios

Baseline

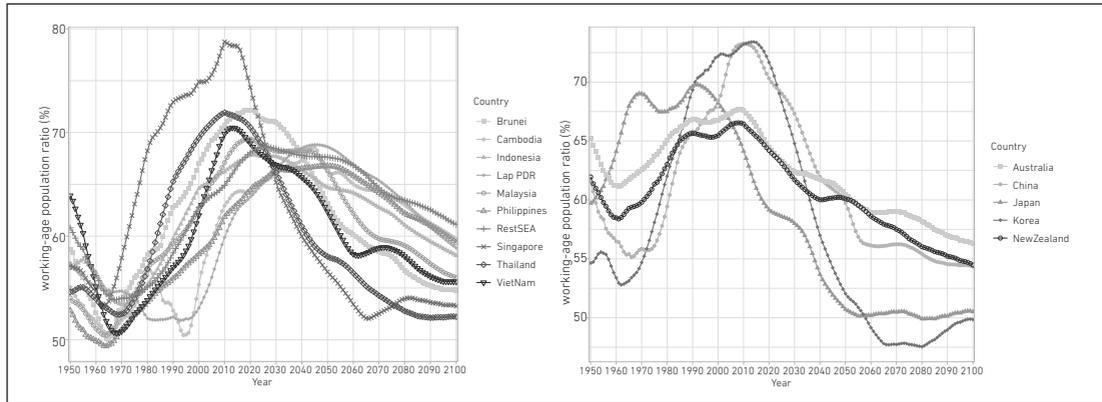
A baseline scenario is constructed for 2014–2035, which is a hypothetical future state of the global economy without RCEP. The baseline scenario is used as the basis to measure the impacts of the four RCEP scenarios. Projections for the total population, working-age population, GDP, and gross investment are used. Projections for the total and working-age population growth rates are computed from UN (2019) based on the medium projection variant. Projections for real GDP and gross investment are obtained from IMF (2021). The real GDP growth rates in 2026 to the end of the simulation period of 2035 are extrapolated. Given the projections for 2014–2035, the model can compute technological change as a measure of productivity.

The baseline scenario includes FTAs that are already in effect. The International Trade Centre's Market Access Map² is an important database of tariff reduction schedules, which covers more than 450 trade agreements enacted by 2019 (Ngavozafy et al., 2020). This database is used to implement the tariff reductions under existing FTAs in the baseline scenario. For example, CPTPP tariff reductions are imposed on the baseline scenario by reflecting the ratification status, as seven countries under the CPTPP begin reducing tariffs in 2019, and other member countries followed later that year.

To illustrate the projections used in the baseline scenario, Figure 5.3 shows the long-term demographic trends for ASEAN Members and other RCEP countries. For the simulation period of 2014–2035, the ratio of the working-age population to the total population declines for most RCEP countries except for Cambodia and the Lao PDR.

² ITC, Market Access Map, <http://www.macmap.org> (accessed 5 January 2021).

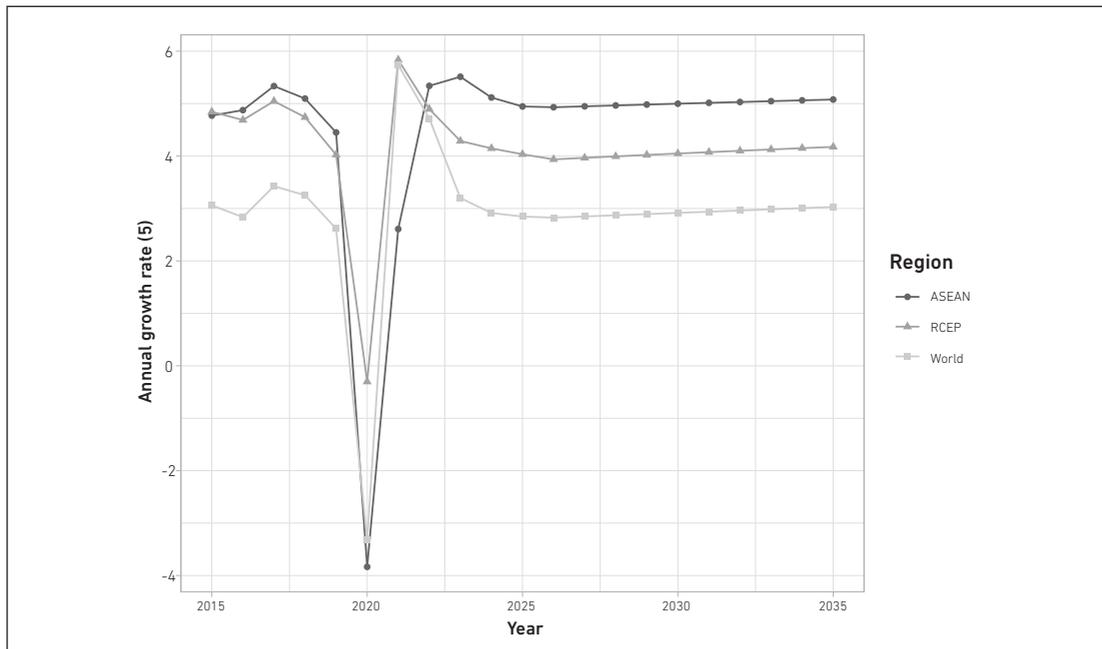
Figure 5.3 Ratio of Working-Age Population to Total Population in RCEP Members



Lao PDR = Lao People's Democratic Republic, RCEP = Regional Comprehensive Economic Partnership, SEA = South-East Asia.
Source: Author's computation based on UN (2019).

Figure 5.4 shows the annual growth rates of real GDP for ASEAN, RCEP members, and the world. ASEAN's annual growth rate of real GDP plummeted in 2020 to -3.8% due to the COVID-19 pandemic, but it is projected to recover quickly to the pre-pandemic level of about 5.0% .

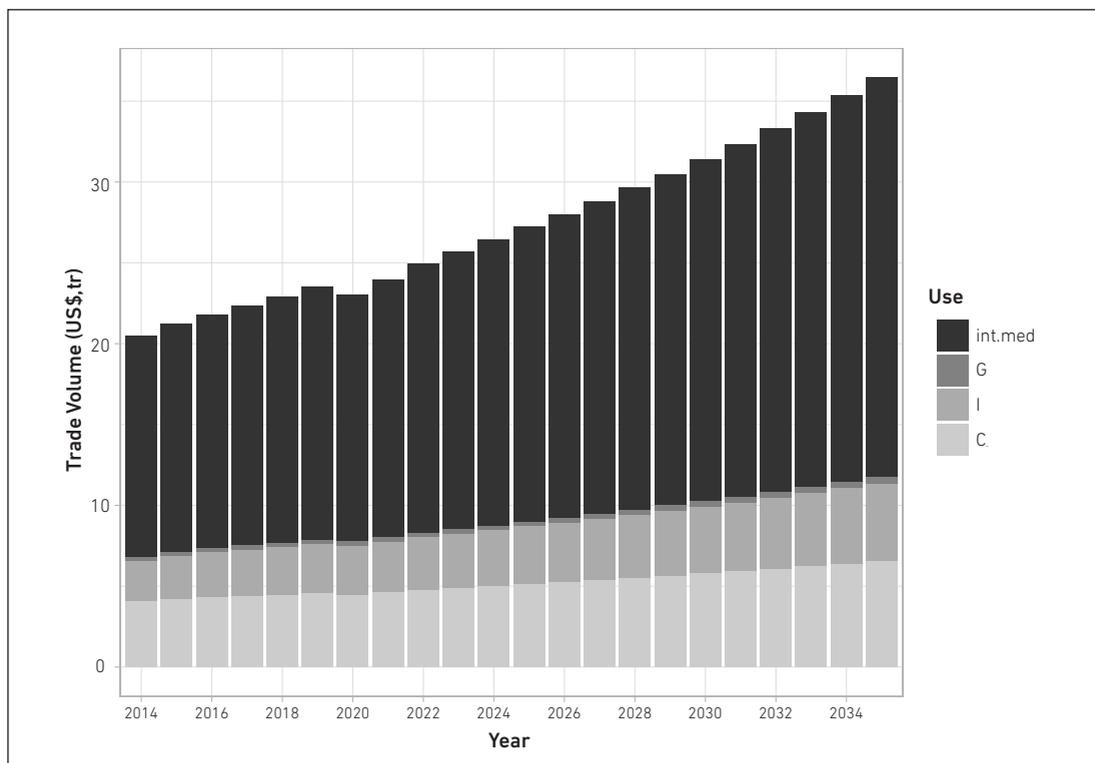
Figure 5.4 Annual Real Gross Domestic Product Growth Rates, Selected Regions



ASEAN = Association for Southeast Asian Nations, RCEP = Regional Comprehensive Economic Partnership.
Source: Author's computation based on IMF (2021).

World trade volume measured in constant US dollars continues to grow (Figure 5.5). Trade in intermediate goods and services has a large share in the world trade volume, about 70%. Thus, most of the world trade volume is used as intermediate inputs to produce final goods and services for consumption, government use, and investment.

Figure 5.5 World Trade Volume (\$ trillion)

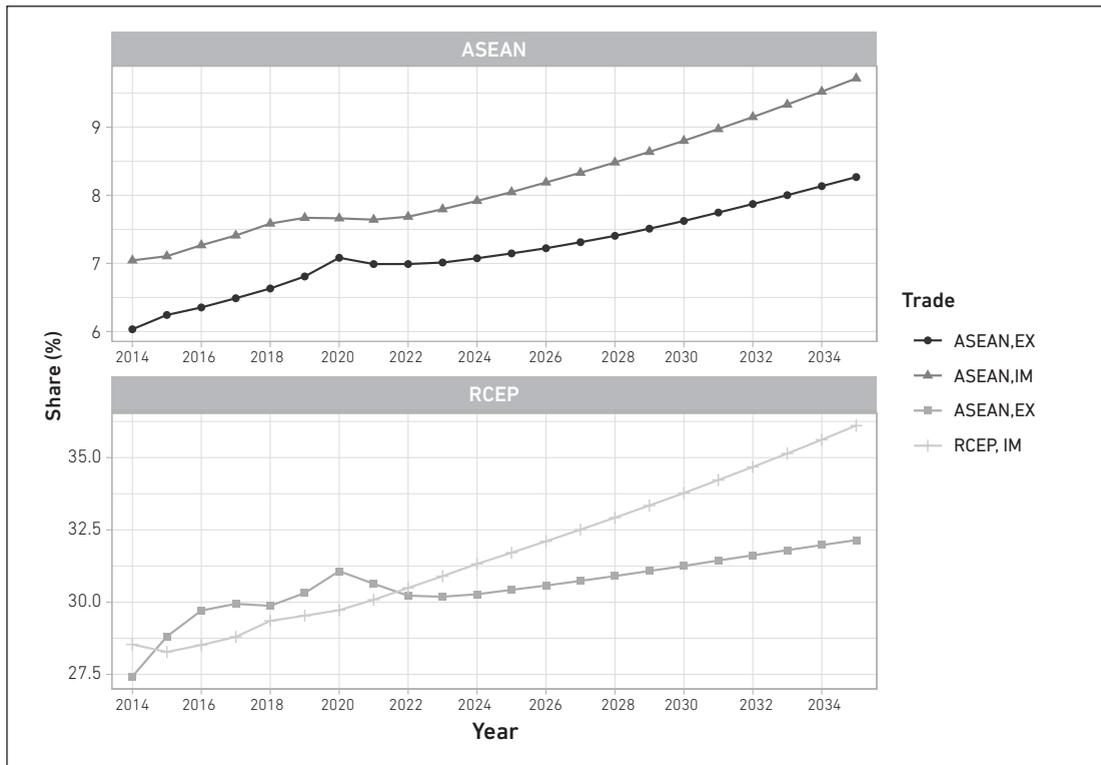


C = consumption, G = government use, I = investment.

Source: Author's baseline simulation results.

In Figure 5.6, RCEP members' share in the world trade volume of intermediate goods and services grows from 27% in 2014 to 32% in 2035 for exports, and from 29% in 2014 to 36% in 2035 for imports. ASEAN's share also continues to grow for both exports and imports.

Figure 5.6 Share of World Trade, ASEAN and RCEP Members (%)



ASEAN = Association for Southeast Asian Nations, EX = exports, IM = imports, RCEP = Regional Comprehensive Economic Partnership.
Source: Author's baseline simulation results.

Scenarios

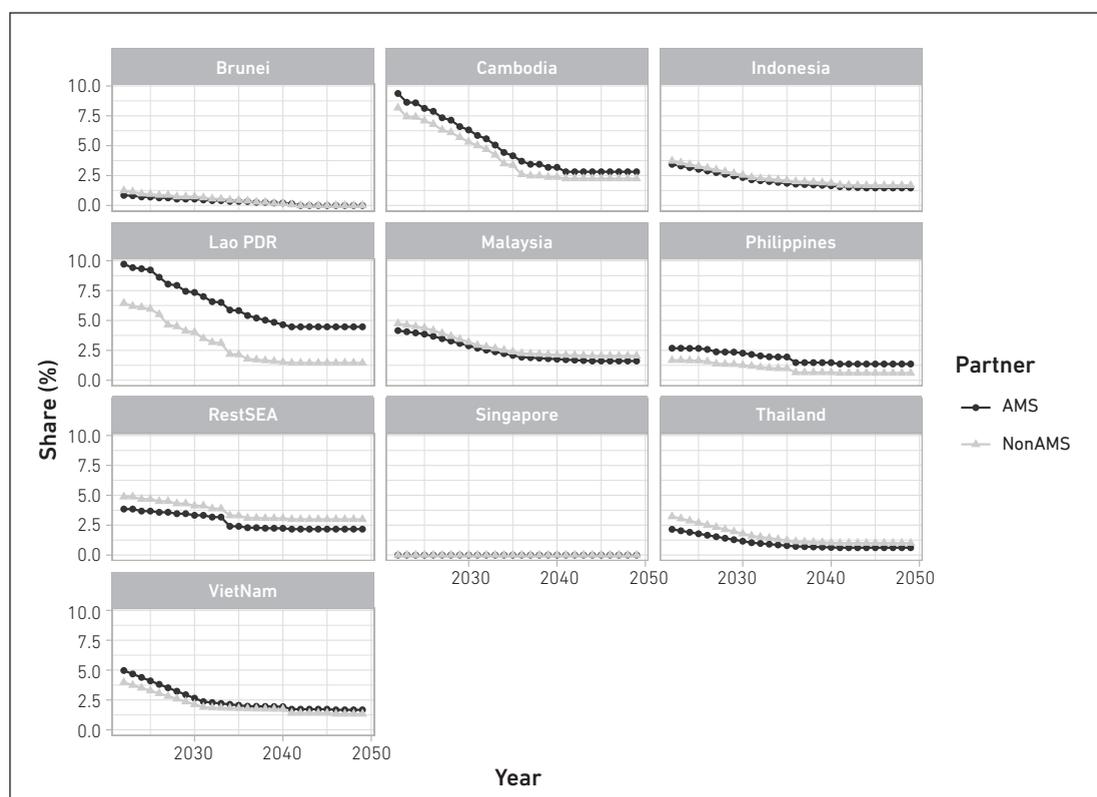
As stated previously, each scenario is constructed to demonstrate a different liberalisation component of RCEP:

- (i) **Baseline.** Baseline scenario without RCEP, 2014–2035.
- (ii) **Scenario 1 (S1).** This includes tariff reduction according to RCEP Annex I, setting 2022 as year 1.
- (iii) **Scenario 2 (S2).** S1 and ad valorem tariff equivalents of services trade are reduced by 20% over 10 years, 2022–2031.
- (iv) **Scenario 3 (S3).** S2 and logistics improvements reducing the time cost of trade by 20%, 2022–2031.
- (v) **Scenario 4 (S4).** S3 plus investment commitments

In Scenario 1, the bilateral import tariffs on goods amongst RCEP members are set to decrease from 2021 levels. The reduction rates are computed from RCEP Annex I (RCEP, 2020), and applied over 2022–2035. Since the schedule of tariff commitments are specified at the national tariff line levels, they are aggregated to the 24 sectors of the extended GTAP database. Also, the schedule differs by RCEP member for duration and applicable partners. For example, Singapore eliminates all tariffs for all partners in 2022, whereas Viet Nam’s schedule spans 25 years and varies for ASEAN Members and other RCEP countries.

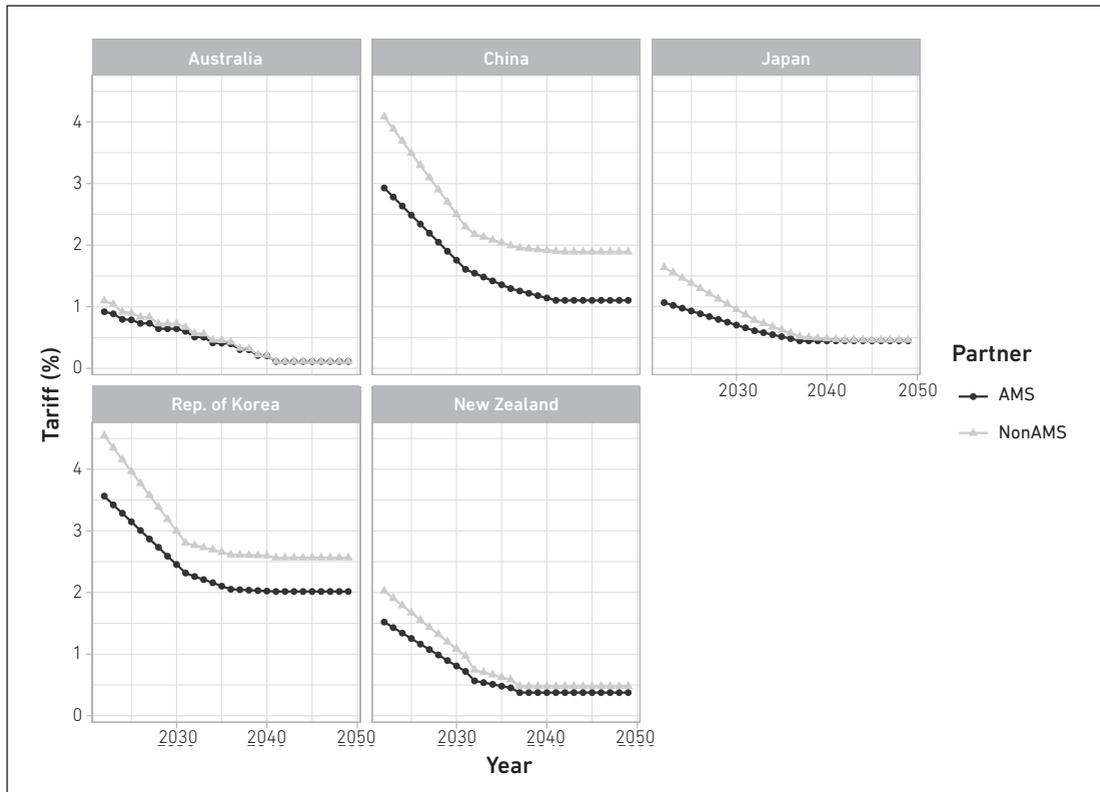
Figure 5.7 and Figure 5.8 show the tariff reduction schedules for RCEP members in which average applied tariffs are aggregated with the partner’s weights. In Figure 5.7, Cambodia and the Lao PDR lower tariffs from relatively higher levels at a faster pace than other ASEAN Members, except for Singapore. These tariff commitments may generate larger economic benefits to Cambodia and the Lao PDR. In Figure 5.8 for other RCEP members, it can be observed that gaps exist in tariff reductions between ASEAN and other RCEP members for China and the Republic of Korea.

Figure 5.7 RCEP Tariff Reduction Schedules, ASEAN Members



AMS = ASEAN Member State, ASEAN = Association of Southeast Asian Nations, RCEP = Regional Comprehensive Economic Partnership.
 Source: Author’s computation based on RCEP (2020), Aguiar et al. (2019) and Horridge et al. (2020).

Figure 5.8 RCEP Tariff Reduction Schedules, Non-ASEAN Members



AMS = ASEAN Member State, ASEAN = Association of Southeast Asian Nations, RCEP = Regional Comprehensive Economic Partnership.
 Sources: Author's computation based on RCEP (2020), Aguiar et al. (2019), and Horridge et al. (2020).

In Scenario 2, the ad valorem tariff equivalents of services trade are assumed to fall by 20% over 10 years, 2022–2031. Ad valorem tariff equivalents in services trade are computed as averages of the gravity-model estimates of Wang, Mohan, and Rosen (2009) and the values employed by Brown, Kiyota, and Stern (2010). There are greater variations in tariff equivalents of services trade than in commodities.

Table 5.3 reports ad valorem tariff equivalents of services trade and average applied tariffs on goods by sector for ASEAN Members for 2021. These estimates are obtained from the baseline simulation results. Benz and Jaax (2020) offered more recent estimates on the costs of regulatory barriers to trade in services, which can be utilised for updating this study.

Table 5.3 Average Applied Tariffs for ASEAN Members, 2021 (%)

Region	Brunei Darussalam	Cambodia	Indonesia	Lao PDR	Malaysia	Philippines	Singapore	Thailand	Viet Nam	Rest of South-East Asia
Primary	0.8	1.9	2.9	4.1	5.6	5.7	1.6	16.2	2.7	0.6
Extraction	0.0	0.6	0.1	0.2	0.6	0.2	0.0	0.0	0.2	0.0
Textiles and Apparel	0.4	0.7	2.0	1.3	0.7	0.9	0.0	2.2	3.7	0.7
Wood, Paper	0.1	2.4	1.3	1.2	2.0	1.8	0.0	1.4	1.2	0.3
Petroleum, Coal	0.0	4.6	0.7	4.8	0.1	0.0	0.0	0.4	5.3	0.5
Chemicals	0.6	0.8	2.0	0.4	1.1	0.8	0.0	1.2	0.7	0.6
Pharmaceuticals	0.0	0.0	1.9	2.7	0.0	1.0	0.0	3.6	0.9	0.4
Rubber, Plastic	0.2	3.2	3.6	2.2	2.9	3.1	0.0	1.8	1.8	1.1
Minerals	0.0	1.1	2.6	1.1	3.3	0.7	0.0	2.9	5.5	0.1
Basic Metal	0.0	0.3	2.4	0.6	2.1	0.5	0.0	0.6	0.6	0.1
Metal Products	0.0	1.3	2.4	0.0	1.3	2.1	0.0	2.4	1.8	0.3
Computers, Electronics	1.2	1.4	0.3	0.3	0.0	0.3	0.0	0.2	0.4	2.1
Electrical Equipment	2.8	2.1	1.9	0.1	0.8	0.8	0.0	2.3	1.3	0.3
Machinery	1.2	2.1	2.5	0.5	1.0	0.5	0.0	1.3	0.5	0.3
Motor vehicles	0.6	16.5	5.6	7.7	4.5	5.5	0.0	15.0	8.0	7.8
Transport Equipment	0.0	4.0	2.0	0.5	0.4	3.6	0.0	1.9	3.9	1.5
Other Manufacturing	0.7	0.6	1.8	1.6	0.4	1.3	0.0	1.6	1.7	0.3
Utilities	20.6	20.6	64.4	20.6	17.4	52.6	0.0	44.9	53.7	20.6
Construction	20.6	20.6	64.4	20.6	17.4	52.6	0.0	44.9	53.7	20.6
Trade	32.5	32.5	98.5	32.5	36.0	80.2	1.3	63.5	82.7	32.5

Region	Brunei Darussalam	Cambodia	Indonesia	Lao PDR	Malaysia	Philippines	Singapore	Thailand	Viet Nam	Rest of South-East Asia
Transport	16.6	16.6	84.2	16.6	27.6	68.0	1.3	53.0	69.7	16.6
Communications	32.8	32.8	88.4	32.8	30.0	71.5	1.3	56.1	73.5	32.8
Finance and Business	20.0	20.0	92.5	20.0	30.2	72.6	1.5	58.1	74.7	20.0
Other Services	15.7	15.7	94.5	15.7	33.2	73.9	2.2	58.2	79.0	15.7

ASEAN = Association of Southeast Asian Nations, Lao PDR = Lao People's Democratic Republic.

Source: Author's computation based on Aguiar et al. (2019); Brown, Kiyota, Stern (2010); and Wang, Mohan, Rosen (2009).

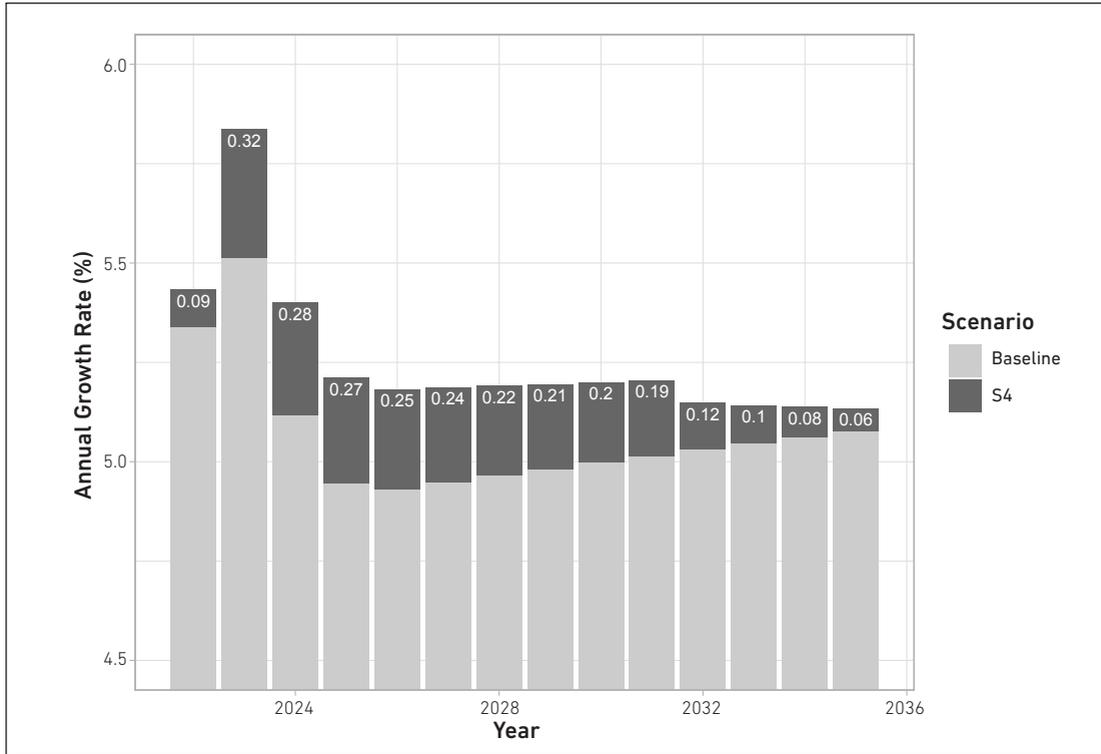
In Scenario 3, the reduction in time costs of trade is added, because RCEP's liberalisation measures are expected to improve the logistics for merchandise goods. Time costs of trade can be considered as the product of the average cost of a 1-day delay in trade multiplied by the number of days of shipping delays. For example, shipping delays arising from regulatory procedures and inadequate infrastructure incur time costs of trade. Hummels and Schaur (2013) provided empirical estimates of the average costs of time delays in trade. Minor (2011) compiled information about time in transit and the empirical estimates in a database. The database is updated with World Bank (2020) to compute the reduction in time costs of trade by 20% over the 2022–2031 period of the RCEP's implementation.

In Scenario 4, for the investment commitments, the empirical relationship between inward foreign direct investment (FDI) flow and investment treaties are incorporated with Scenario 3. There are several empirical studies for the relationship, such as Busse, Köninger, and Nunnenkamp (2010) and Urata (2015). Following Itakura (2019a), investment commitments under RCEP are assumed to reduce country-specific risk, which reflects the difference in rate of return to investment by country. On average, the inward FDI flow following RCEP is assumed to be 19.6% higher. For this fourth scenario, the change in country-specific risk in the rate of return is computed to target the increase in FDI inflow.

Simulation Results

After the four RCEP scenarios are implemented, the differences from the baseline scenario are computed by using GEMPACK software (Harrison and Pearson, 1996). Figure 5.9 shows the impact of RCEP on ASEAN's annual growth rate of real GDP. For Scenario 4, the annual growth rate of real GDP is higher than the baseline's growth rate. Reflecting the increased investment, the second year of RCEP results in the largest impact, 0.32 percentage point higher than the baseline. RCEP's impact on the real GDP growth rate tapers off to 0.08 percentage point higher than the baseline in 2035.

Figure 5.9 RCEP Impact on ASEAN Annual Growth Rate of Gross Domestic Product



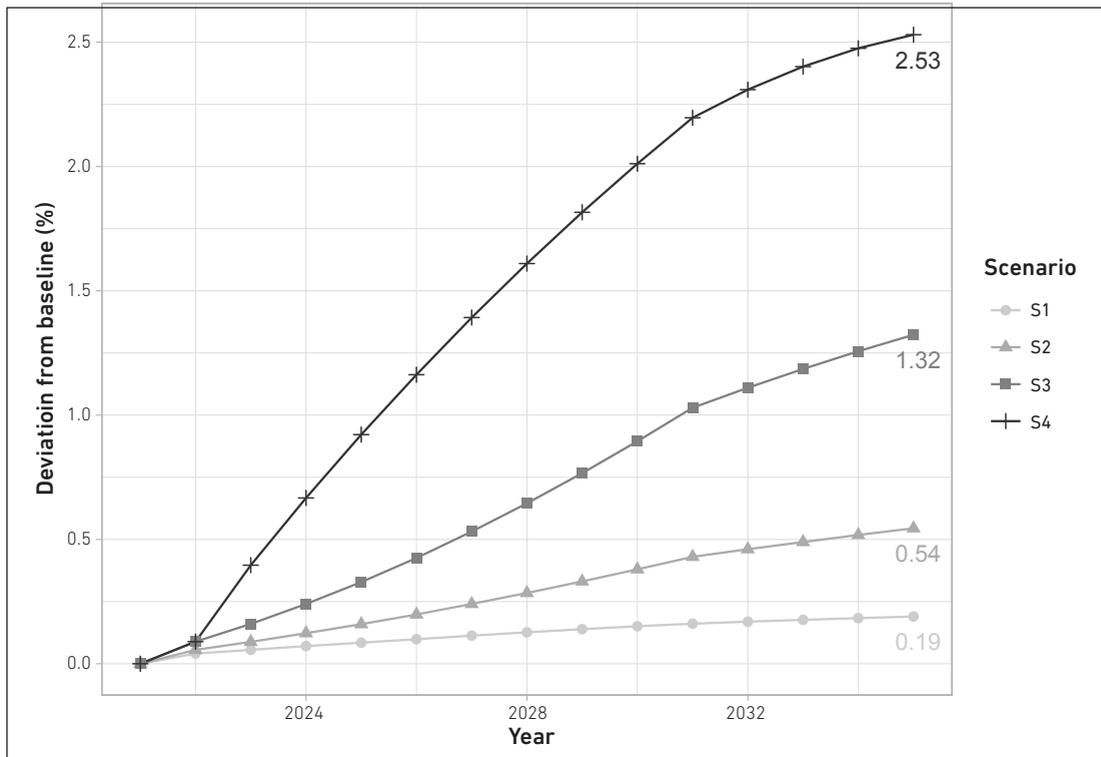
ASEAN = Association of Southeast Asian Nations, S = scenario.

Source: Author.

As RCEP raises the growth rate, the level of ASEAN's real GDP becomes greater than the baseline level. This deviation from the baseline is another measure to evaluate the impact of RCEP. Figure 5.10 illustrates the impact of RCEP on ASEAN's real GDP for the four scenarios in terms of the deviation. When all of the liberalisation components are included in Scenario 4, ASEAN's real GDP shows the biggest impact over time, reaching 2.5% more than the baseline in 2035. The impact of tariff reduction under Scenario 1 is rather small compared to the reductions in services trade barriers (Scenario 2) and logistics improvement (Scenario 3). This is because ASEAN has been lowering tariffs through the existing FTAs within ASEAN as well as with RCEP partner countries.³

³ UNCTAD (2021) explores the effects of tariff concessions of the RCEP in detail.

Figure 5.10 RCEP Impact on ASEAN Real Gross Domestic Product

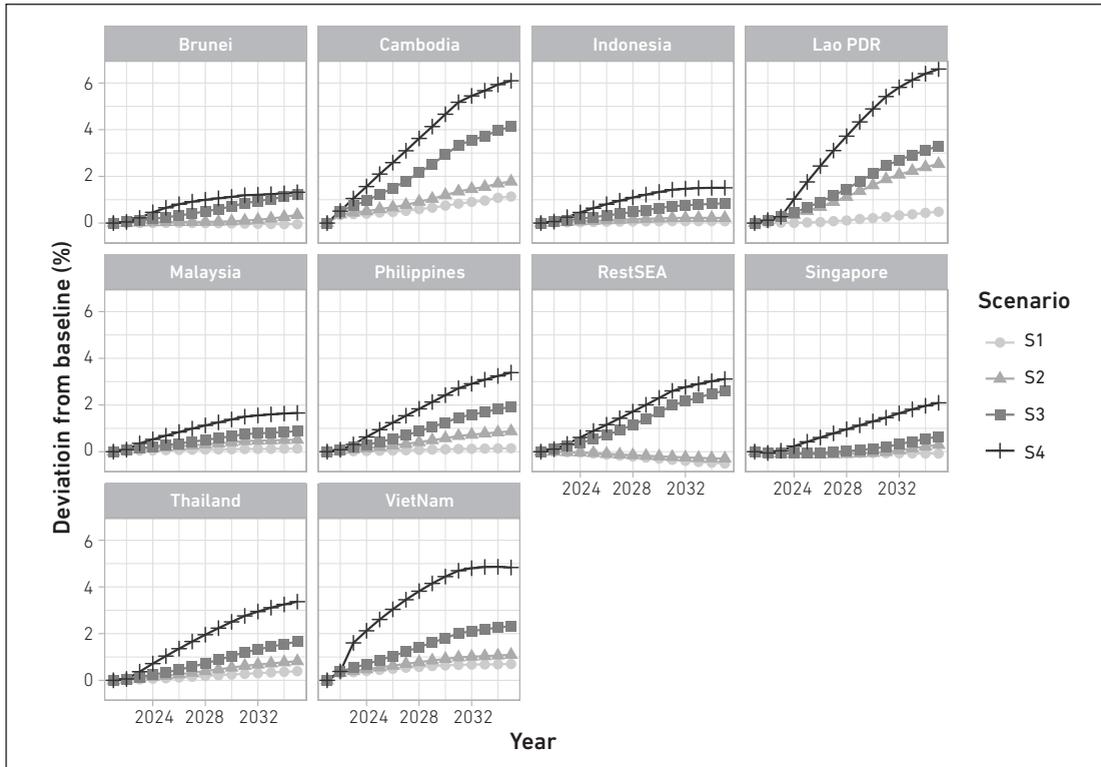


ASEAN = Association of Southeast Asian Nations, RCEP = Regional Comprehensive Economic Partnership.

Source: Author.

More potential gains from RCEP are expected from services trade liberalisation and the seamless movement of merchandise goods. Further, attracting more investment into the region may contribute to gains in real GDP. In Figure 5.11, each ASEAN member confirms these observations.

Figure 5.11 RCEP Impact on Real Gross Domestic Product for ASEAN Members



Lao PDR = Lao People's Democratic Republic, S = scenario, SEA = South-East Asia.
Source: Author.

Table 5.4 reports the impact of RCEP on real GDP in 2035 for all regions in this study. Real GDP of RCEP members increases by \$53 billion in Scenario 1, \$148 billion in Scenario 2, \$235 billion in Scenario 3, and \$675 billion in Scenario 4. Also, ASEAN's real GDP grows by \$12 billion in Scenario 1, \$34 billion in Scenario 2, \$84 billion in Scenario 3, and \$160 billion in Scenario 4 in 2035. The world's real GDP absorbs the largest impact under Scenario 3, because investment is attracted more to RCEP members and diverted from others.

All RCEP members benefit from the increased real GDP under Scenario 3 and Scenario 4. When RCEP implements only tariff reduction in Scenario 1, small negative effects are observed for several RCEP members. It should be noted that the baseline growth rates are positive, except for 2020 due to the COVID-19 pandemic; therefore, the small negative impacts indicate that Scenario 1 is slightly below the baseline level. Since RCEP covers more area for liberalisation beyond tariff reduction, it seems unlikely that RCEP will result in negative real GDP.

Table 5.4 Impact on Real Gross Domestic Product, 2035

	(% changes relative to baseline)				(\$ billion)			
	S1	S2	S3	S4	S1	S2	S3	S4
Brunei Darussalam	0.0	0.3	1.2	1.3	0.0	0.1	0.3	0.3
Cambodia	1.1	1.8	4.1	6.1	0.6	1.0	2.3	3.4
Indonesia	0.1	0.2	0.8	1.5	1.9	5.3	20.2	36.2
Lao PDR	0.5	2.5	3.3	6.6	0.2	0.9	1.2	2.3
Malaysia	0.1	0.5	0.9	1.7	1.1	4.3	7.4	14.0
Philippines	0.1	0.9	1.9	3.4	1.3	7.7	17.0	29.9
Singapore	-0.1	0.3	0.7	2.1	-0.4	1.5	3.3	10.7
Thailand	0.4	0.8	1.7	3.4	2.9	6.1	12.4	25.3
Viet Nam	0.7	1.1	2.3	4.8	5.0	7.8	16.6	34.4
Rest of South-East Asia	-0.5	-0.3	2.6	3.1	-0.5	-0.3	2.8	3.4
Japan	0.4	0.5	0.6	1.3	19.7	26.3	32.4	65.9
China	0.1	0.2	0.3	1.2	16.3	72.3	98.8	377.8
Rep. of Korea	0.2	0.5	0.6	1.4	5.7	12.3	14.7	33.9
Australia	0.0	0.1	0.2	1.2	-0.4	1.7	3.9	29.2
New Zealand	-0.1	0.3	0.4	2.4	-0.2	0.9	1.2	8.1
India	-0.1	-0.1	-0.1	-0.9	-3.4	-6.5	-9.1	-60.2
Taiwan	-0.1	-0.2	-0.2	-0.8	-0.9	-1.4	-2.2	-7.1
United States	0.0	0.0	0.0	-0.3	-4.9	-7.1	-11.4	-79.8
Canada	0.0	0.0	-0.1	-0.5	-0.8	-1.1	-1.9	-13.0
Mexico	-0.1	-0.1	-0.2	-1.4	-1.2	-2.0	-3.2	-25.7
Chile	0.0	-0.1	-0.1	-0.6	-0.2	-0.3	-0.4	-2.6
Peru	0.0	0.0	0.0	-0.3	-0.1	-0.1	-0.2	-1.2
European Union	0.0	-0.1	-0.1	-0.9	-10.2	-17.0	-26.6	-207.6
United Kingdom	0.0	-0.1	-0.1	-0.8	-1.5	-2.4	-3.7	-31.0
Rest of World	0.0	-0.1	-0.1	-0.6	-10.3	-15.2	-24.3	-167.2
ASEAN	0.2	0.5	1.3	2.5	12.0	34.4	83.7	160.0
RCEP	0.1	0.3	0.5	1.4	53.0	147.9	234.6	674.9
World	0.0	0.1	0.1	0.1	19.5	94.8	151.6	79.5

ASEAN = Association of Southeast Asian Nations, Lao PDR = Lao People's Democratic Republic, RCEP = Regional Comprehensive Economic Partnership, S = scenario.

Source: Author's simulation results.

Welfare impacts are reported in Table 5.5. A representative household's utility U_s is used as the welfare measure, as described in section 2. Economic welfare is mainly determined by allocative efficiency, terms of trade, contribution to the equivalent variation of change in the price of investment goods, and contribution to the equivalent variation of change in equity owned by a region. Under Scenario 3 and Scenario 4, the economic welfare of all RCEP members increases in 2035. In percentage terms, welfare gains are relatively large in the Lao PDR and Viet Nam. Cambodia's welfare gains become smaller under Scenario 4 due to the higher price of investment goods and large share of equity owned by foreign countries.

Table 5.5 RCEP Impact on Economic Welfare, 2035

	(% changes relative to baseline)				(\$ billion)			
	S1	S2	S3	S4	S1	S2	S3	S4
Brunei Darussalam	0.0	0.3	0.7	1.0	0.0	0.1	0.2	0.2
Cambodia	2.4	3.1	3.4	0.3	0.3	0.4	0.4	0.0
Indonesia	0.0	0.1	0.5	0.6	-0.2	1.8	8.1	10.0
Lao PDR	0.3	2.6	3.2	6.6	0.1	0.5	0.6	1.2
Malaysia	0.1	0.4	0.7	0.9	0.3	2.3	4.0	5.1
Philippines	0.1	0.9	1.4	1.8	0.2	3.4	5.3	6.8
Singapore	0.0	0.5	0.8	1.4	-0.2	1.9	3.3	5.5
Thailand	0.0	0.4	0.9	1.1	-0.1	1.7	4.2	5.6
Viet Nam	-0.2	0.2	0.6	2.1	-0.6	0.6	2.2	7.6
Rest of South-East Asia	-0.3	-0.1	1.5	1.6	-0.2	-0.1	1.3	1.4
Japan	0.4	0.5	0.6	0.7	17.5	23.4	29.2	33.9
China	0.0	0.2	0.3	0.5	6.7	45.5	66.9	126.9
Rep. of Korea	0.2	0.5	0.6	0.8	3.9	8.9	11.9	15.3
Australia	0.0	0.1	0.2	0.7	-0.7	1.2	2.7	12.0
New Zealand	-0.1	0.3	0.4	1.2	-0.1	0.6	0.8	2.5
India	0.0	-0.1	-0.1	-0.5	-1.5	-3.1	-4.3	-21.2
Taiwan	-0.1	-0.1	-0.2	-0.3	-0.5	-0.8	-1.2	-2.1
United States	0.0	0.0	0.0	-0.1	-1.4	-2.3	-3.5	-28.0
Canada	0.0	0.0	0.0	-0.2	-0.4	-0.4	-0.7	-4.2
Mexico	0.0	0.0	-0.1	-0.5	-0.3	-0.4	-0.8	-5.7
Chile	0.0	0.0	0.0	-0.1	-0.1	0.0	-0.1	-0.3
Peru	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	-0.3

	(% changes relative to baseline)				(\$ billion)			
	S1	S2	S3	S4	S1	S2	S3	S4
European Union	0.0	0.0	0.0	-0.4	-3.1	-5.8	-8.3	-74.2
United Kingdom	0.0	0.0	0.0	-0.4	-0.5	-0.8	-1.2	-11.0
Rest of World	0.0	0.0	0.0	-0.3	-4.1	-3.7	-6.4	-58.0
ASEAN	0.0	0.3	0.8	1.1	-0.5	12.6	29.6	43.5
RCEP	0.1	0.2	0.4	0.6	26.8	92.2	141.0	234.2
World	0.0	0.1	0.1	0.0	15.0	74.9	114.4	29.3

ASEAN = Association of Southeast Asian Nations, Lao PDR = Lao People's Democratic Republic, RCEP = Regional Comprehensive Economic Partnership, S = scenario.

Source: Author's simulation results.

The impact on investment, export volume, and import volume are reported in Tables 5-6, 5-7, and 5-8, respectively. RCEP stimulates more investment in the region, and it contributes to \$490 billion more investment in 2035 under Scenario 4 compared to the baseline. RCEP increases the volumes of exports and imports, and under Scenario 4, the increase in volume grows into more than \$500 billion for both exports and imports. Higher trade volumes in RCEP members translate into greater trade volumes in intermediate goods and services.

Table 5.6 RCEP Impact on Investment, 2035

	(% changes relative to baseline)				(\$ billion)			
	S1	S2	S3	S4	S1	S2	S3	S4
Brunei Darussalam	-0.1	2.0	3.6	3.0	0.0	0.3	0.5	0.5
Cambodia	0.2	0.9	4.7	11.5	0.0	0.2	0.9	2.1
Indonesia	0.0	0.1	1.2	2.1	0.5	1.3	11.7	21.6
Lao PDR	1.1	5.1	6.8	13.3	0.2	0.7	0.9	1.9
Malaysia	0.3	0.6	1.3	3.4	0.5	1.2	2.8	7.1
Philippines	0.2	1.0	2.9	6.2	0.5	2.6	7.7	16.4
Singapore	-0.1	2.4	3.4	5.8	-0.2	5.1	7.3	12.4
Thailand	1.2	1.9	4.0	7.1	3.4	5.3	11.1	19.6
Viet Nam	1.2	1.7	4.8	11.4	3.6	5.0	13.9	33.2
Rest of South-East Asia	-1.5	-0.7	6.0	6.1	-0.6	-0.3	2.5	2.6
Japan	1.5	1.8	2.1	3.2	23.9	29.1	34.2	50.7
China	0.0	0.2	0.2	1.7	3.7	24.0	37.7	263.5

	(% changes relative to baseline)				(\$ billion)			
	S1	S2	S3	S4	S1	S2	S3	S4
Rep. of Korea	0.8	1.2	1.5	3.1	8.2	13.4	15.8	32.7
Australia	-0.1	0.1	0.2	2.3	-0.8	0.6	2.1	19.5
New Zealand	-0.3	0.7	0.9	5.5	-0.3	0.7	1.0	6.2
India	-0.2	-0.3	-0.5	-2.3	-4.9	-9.1	-13.0	-61.6
Taiwan	-0.4	-0.6	-1.0	-2.8	-1.5	-2.4	-3.6	-10.4
United States	-0.1	-0.2	-0.3	-1.2	-9.5	-14.7	-23.6	-94.2
Canada	-0.1	-0.2	-0.4	-1.5	-1.3	-2.0	-3.4	-13.8
Mexico	-0.2	-0.4	-0.6	-3.0	-1.3	-2.1	-3.5	-16.3
Chile	-0.2	-0.3	-0.4	-1.8	-0.2	-0.3	-0.4	-1.9
Peru	-0.1	-0.2	-0.3	-1.2	-0.1	-0.2	-0.3	-1.4
European Union	-0.2	-0.3	-0.5	-2.7	-13.9	-23.2	-36.4	-181.7
United Kingdom	-0.2	-0.3	-0.5	-2.4	-1.9	-3.1	-5.0	-23.9
Rest of World	-1.1	-1.8	-3.0	-2.3	-2.8	-4.4	-7.5	-5.8
ASEAN	0.3	0.9	2.5	5.0	8.0	21.3	59.4	117.3
RCEP	0.2	0.4	0.7	2.3	42.7	89.0	150.2	490.0
World	0.0	0.1	0.1	0.2	5.2	27.5	53.4	79.1

ASEAN = Association of Southeast Asian Nations, Lao PDR = Lao People's Democratic Republic, RCEP = Regional Comprehensive Economic Partnership, S = scenario.

Source: Author's simulation results.

Table 5.7 RCEP Impact on Export Volume, 2035

	(% changes relative to baseline)				(\$ billion)			
	S1	S2	S3	S4	S1	S2	S3	S4
Brunei Darussalam	-0.1	0.4	0.9	1.1	0.0	0.0	0.1	0.1
Cambodia	-0.2	0.2	2.2	5.8	-0.2	0.2	1.9	4.9
Indonesia	1.2	2.5	4.5	5.7	5.1	10.4	18.9	24.2
Lao PDR	0.2	2.2	2.9	6.2	0.0	0.4	0.6	1.2
Malaysia	0.5	1.1	1.8	2.9	3.3	6.9	11.6	18.5
Philippines	0.8	1.3	3.3	5.1	3.1	5.1	13.5	20.7
Singapore	0.0	0.1	1.0	2.4	0.0	1.0	6.6	16.0
Thailand	1.2	1.8	3.1	5.4	6.9	9.9	17.6	30.9
Viet Nam	2.4	2.9	4.7	6.9	14.8	17.9	28.5	42.0

	(% changes relative to baseline)				(\$ billion)			
	S1	S2	S3	S4	S1	S2	S3	S4
Rest of South-East Asia	-0.6	-0.6	3.6	4.7	-0.4	-0.3	2.2	2.9
Japan	3.3	3.9	4.7	6.2	40.1	47.4	56.7	75.3
China	0.9	2.3	3.0	3.9	57.0	141.4	183.3	237.9
Rep. of Korea	1.1	1.7	2.3	3.2	12.4	19.4	26.3	37.3
Australia	-0.1	0.8	1.2	1.8	-0.6	3.2	5.0	7.6
New Zealand	0.0	0.8	1.2	2.9	0.0	0.7	1.0	2.5
India	0.0	0.1	0.1	0.1	-0.3	0.8	0.6	1.8
Taiwan	-0.2	-0.3	-0.5	-0.6	-1.4	-1.8	-3.1	-3.2
United States	0.1	0.1	0.2	0.2	2.2	3.5	4.9	5.0
Canada	0.0	0.0	0.1	-0.2	0.2	0.2	0.4	-1.4
Mexico	-0.1	-0.1	-0.2	-2.0	-0.5	-0.8	-1.3	-14.8
Chile	0.0	-0.1	-0.1	-0.7	-0.1	-0.1	-0.1	-1.0
Peru	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0
European Union	0.0	0.0	-0.1	-0.8	-2.7	-3.2	-5.4	-73.5
United Kingdom	0.0	0.0	0.0	-0.4	0.2	0.4	0.5	-5.2
Rest of World	-0.1	-0.1	-0.1	-0.9	-4.6	-7.7	-12.6	-75.5
ASEAN	0.9	1.5	2.9	4.6	32.6	51.5	101.5	161.4
RCEP	1.1	2.1	3.0	4.2	141.6	263.5	373.9	522.1
World	0.4	0.7	0.9	0.9	134.6	254.9	357.9	354.3

ASEAN = Association of Southeast Asian Nations, Lao PDR = Lao People's Democratic Republic, RCEP = Regional Comprehensive Economic Partnership, S = scenario.

Source: Author's simulation results.

Table 5.8 RCEP Impact on Import Volume, 2035

	(% changes relative to baseline)				(\$ billion)			
	S1	S2	S3	S4	S1	S2	S3	S4
Brunei Darussalam	-0.1	1.9	2.6	2.4	0.0	0.3	0.3	0.3
Cambodia	-0.2	0.2	2.2	5.9	-0.1	0.1	1.2	3.2
Indonesia	0.6	1.5	3.3	3.7	3.2	8.1	17.8	20.0
Lao PDR	0.4	3.7	4.8	10.2	0.1	1.0	1.2	2.6
Malaysia	0.5	1.0	1.8	2.9	2.6	5.4	9.7	15.2

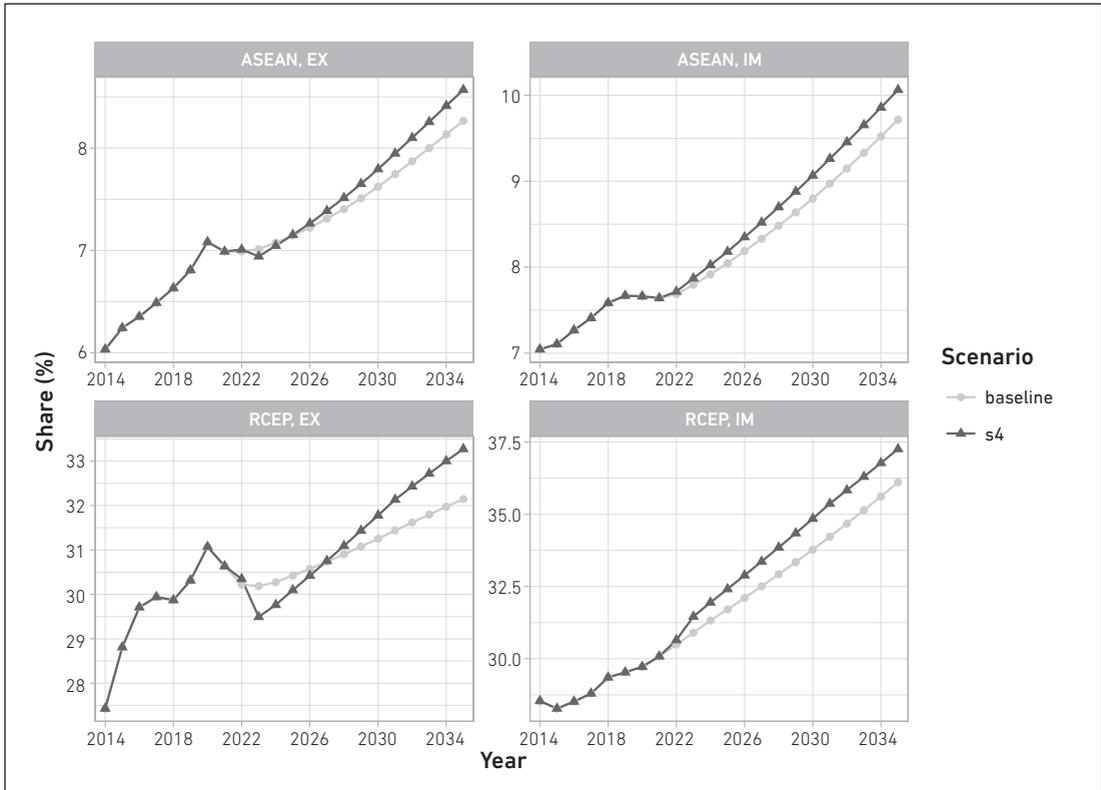
	(% changes relative to baseline)				(\$ billion)			
	S1	S2	S3	S4	S1	S2	S3	S4
Philippines	0.7	1.5	3.5	5.3	2.1	4.4	10.1	15.3
Singapore	0.0	0.9	1.9	3.2	0.1	5.9	13.0	21.6
Thailand	1.2	1.8	3.4	5.3	6.2	9.7	18.4	28.2
Viet Nam	1.9	2.4	4.3	7.7	12.5	15.7	28.7	51.1
Rest of South-East Asia	-1.0	-0.7	4.2	4.8	-0.6	-0.4	2.6	3.0
Japan	3.7	4.4	5.2	5.5	53.5	63.2	74.8	79.3
China	0.8	2.2	2.9	3.8	48.1	126.0	167.1	222.8
Rep. of Korea	1.4	2.1	2.9	3.7	18.2	27.9	37.5	48.3
Australia	-0.3	0.6	1.1	1.9	-2.0	3.7	6.3	11.5
New Zealand	-0.2	1.2	1.7	3.5	-0.2	1.1	1.6	3.2
India	-0.2	-0.3	-0.5	-1.5	-2.6	-4.2	-6.5	-20.4
Taiwan	-0.4	-0.6	-0.9	-1.4	-2.2	-3.2	-5.2	-7.6
United States	-0.1	-0.1	-0.2	-0.8	-3.9	-6.5	-11.2	-40.5
Canada	-0.1	-0.1	-0.2	-0.7	-0.7	-1.1	-1.9	-6.8
Mexico	-0.1	-0.2	-0.3	-1.7	-0.9	-1.5	-2.5	-13.0
Chile	-0.1	-0.1	-0.1	-0.4	-0.1	-0.1	-0.2	-0.6
Peru	-0.1	-0.1	-0.2	-0.5	-0.1	-0.1	-0.2	-0.5
European Union	-0.1	-0.1	-0.2	-1.2	-8.9	-14.1	-21.9	-112.6
United Kingdom	-0.1	-0.1	-0.2	-0.9	-0.8	-1.3	-2.0	-10.4
Rest of World	0.0	0.0	-0.1	0.1	-2.5	-2.3	-5.2	4.2
ASEAN	0.8	1.5	3.0	4.7	26.2	50.1	103.0	160.5
RCEP	1.1	2.2	3.1	4.2	143.8	272.0	390.3	525.7
World	0.3	0.6	0.9	0.8	121.0	237.8	333.7	317.4

ASEAN = Association of Southeast Asian Nations, Lao PDR = Lao People's Democratic Republic, RCEP = Regional Comprehensive Economic Partnership, S = scenario.

Source: Author's simulation results.

When measured in terms of share in the world, the exports and imports of intermediate inputs become larger than the baseline for ASEAN and RCEP (Figure 5.12). It can thus be interpreted that ASEAN and RCEP are connected more deeply to GSCs in the world.

Figure 5.12 RCEP Impact on Share of ASEAN and RCEP in World Trade Volume of Intermediate Goods and Services



ASEAN = Association of Southeast Asian Nations, EX = exports, IM = imports, RCEP = Regional Comprehensive Economic Partnership, S = scenario.

Source: Author.

Summary

The impact of RCEP was evaluated using the modified dynamic GTAP model, which incorporates the GSC structure. For the simulation experiments, a set of economic database and empirical estimates were used to explore the potential economic gains from RCEP. The four RCEP scenarios simulated liberalising goods and services trade, improving the logistics for merchandise goods trade, and fostering investment in the RCEP region. The results show that all participating countries in RCEP gain in terms of real GDP, economic welfare, trade, and investment by liberalising trade and promoting investment. Trade volumes in exports and imports expand for RCEP and ASEAN Members, and this indicates that they are connected more deeply to the GSCs in the world.

This study has some limitations that can be addressed with additional information and updated data. The simulations are limited in the scope of RCEP liberalisation, so other factors affect the results. Also, complexities in RCEP are assumed away in simplifying simulation settings. The cost-reducing effect of consolidating existing FTAs, cost-incurring effect of complying with different rules of origin, and complexities in the liberalisation of services trade and investment are not considered. The methodology will continue to evolve to address the limitations in future studies.

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CHAPTER 6

RCEP and International Production Networks

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This chapter attempts to discuss the potential role of RCEP from the perspective of two kinds of international division of labor, i.e., machinery international production networks (IPNs) and digital-related services trade. To consider the possible contribution of RCEP to the widening and deepening of IPNs, we first provide an overview of machinery IPNs in ASEAN and East Asia by employing international trade data, a value-added based index for global value chain (GVC) activities using international input–output tables, and a gravity equation exercise. Then, we focus on trade in two global innovator services – information and communication technology (ICT) services and other business services exports – to foresee the future of the new international division of labour and highlights some policy issues. RCEP should be an evolving, living one. In terms of liberalisation and facilitation as well as international rule-making, which cover the whole region, RCEP is expected to revise and upgrade the contents to support the dynamic international division of labour in East Asia. At the same time, RCEP may play an important role in reducing policy risks due to ad hoc trade policies based on political intension and defending the rules-based trading regime for the regional economy.

Introduction

The prime purpose of regional trade agreements is to take advantage of the mechanics of the international division of labour and enhance economic dynamism for economic prosperity and an amicable international environment. Thus, to assess the possible contribution of the Regional Comprehensive Economic Partnership (RCEP), it is crucial to understand the present status and future prospects of the international division of labour in this region. This paper reviews two kinds of international division of labour – international production networks (IPNs) and digital-related services trade – and discusses the potential role of RCEP.

First, East Asia – including Northeast Asia and Southeast Asia – has led the world in aggressively using IPNs (Ando and Kimura, 2005) or the second unbundling (Baldwin, 2016). It has also built up 'Factory Asia', the core of which consists of the task-by-task international division of labour, typically in machinery industries. The private economic activities supported by each country's efforts to improve location advantages and connectivity have dictated the evolution of IPNs in the past three decades. The dominance of the electric machinery sector has been particularly enhanced, and East Asia has become the global hub of electronic parts production (Ando and Kimura, 2013). However, the degree of participation in IPNs still widely differs across countries and regions within the Association of Southeast Asian Nations (ASEAN) and East Asia, and ample room remains for widening and deepening IPNs.

In the 2000s, globalisation advanced rapidly particularly by the mid-2000s. The second unbundling was expanded in East Asia, Central and Eastern Europe, and a few Latin American countries. The rest of the developing world, including a number of countries in Latin America and Africa, also enjoyed windfall gains by exporting primary products. However, the global financial crisis (GFC) and the great trade collapse (2008–2009) altered this momentum. The pace of globalisation slowed down, and the world entered the era of 'slowbalization' (ADB et al., 2021).¹ Nevertheless, in ASEAN and East Asia, globalisation did not end. During the period of slow trade (2011–2016), the growth of machinery IPNs in East Asia did not actually slow down (Obashi and Kimura, 2018). After Mr Trump became the President of the United States (US) in 2017, the US–China trade war and geopolitical tensions weakened the rules-based trading regime. On the other hand, ASEAN and East Asia (other than China) kept trying to take advantage of positive trade and investment diversion effects in the reformulation of East Asian IPNs. With the coronavirus disease (COVID-19) pandemic, the trough of international trade in East Asia due to negative supply and demand shocks was shallower than in the rest of the world, and the recovery of East Asian IPNs was also quicker and stronger than elsewhere, partially reflecting positive demand shocks for work-at-home and stay-at-home related goods (Ando, Kimura, and Obashi, 2021; Ando and Hayakawa, 2021). Although inward-looking sentiment seems to be strong in other parts of the world, particularly in the European Union (EU), the momentum of globalisation is still alive in East Asia, and the development strategies including widening and deepening IPNs continue to be relevant. How much RCEP can contribute to IPNs is one of the prime checkpoints.

Second, a new type of international division of labour appears to be emerging with digital technology. One of the major international transaction modes in the future will be services trade in a wider definition. Digital technology generates digitalised services, which are either newly created or detached from traditional industries as the servicification of some activities. Although conventional services are mostly immobile in nature, digitalised services can be highly mobile through the internet – regardless of domestic or cross-border movements. In addition, digital technology is starting to be applied, by digitalising services, to many industries, including services subsectors. Digitalising services are often provided in modes 1 and 3, i.e., cross-border supply and commercial presence, amongst the four modes of supply for trade in services defined by the World Trade Organization (WTO) General Agreement on Trade in Services (GATS). Although such international transactions are still in their infancy, they will surely be one of the major forms of international division of labour soon.

¹ A term of 'slowbalization' is popularized by The Economist to describe the general slowdown in the pace of globalization since around the GFC 2008–2009.

The impact of digital technology on manufacturing IPNs is also an important issue in the medium to long term. Although COVID-19 seems to accelerate the use of communication technology (CT) to overcome geographical distance, the following introduction of information technology (IT) may countervail dispersion forces and promote reshoring. The implications of IT and CT for manufacturing IPNs, particularly from the viewpoint of newly developed economies such as ASEAN, may be a bit complicated (Obashi and Kimura, 2021). In any case, whatever the destiny of Factory Asia, we must start thinking of a desirable policy environment for the novel international division of labour in the long term.

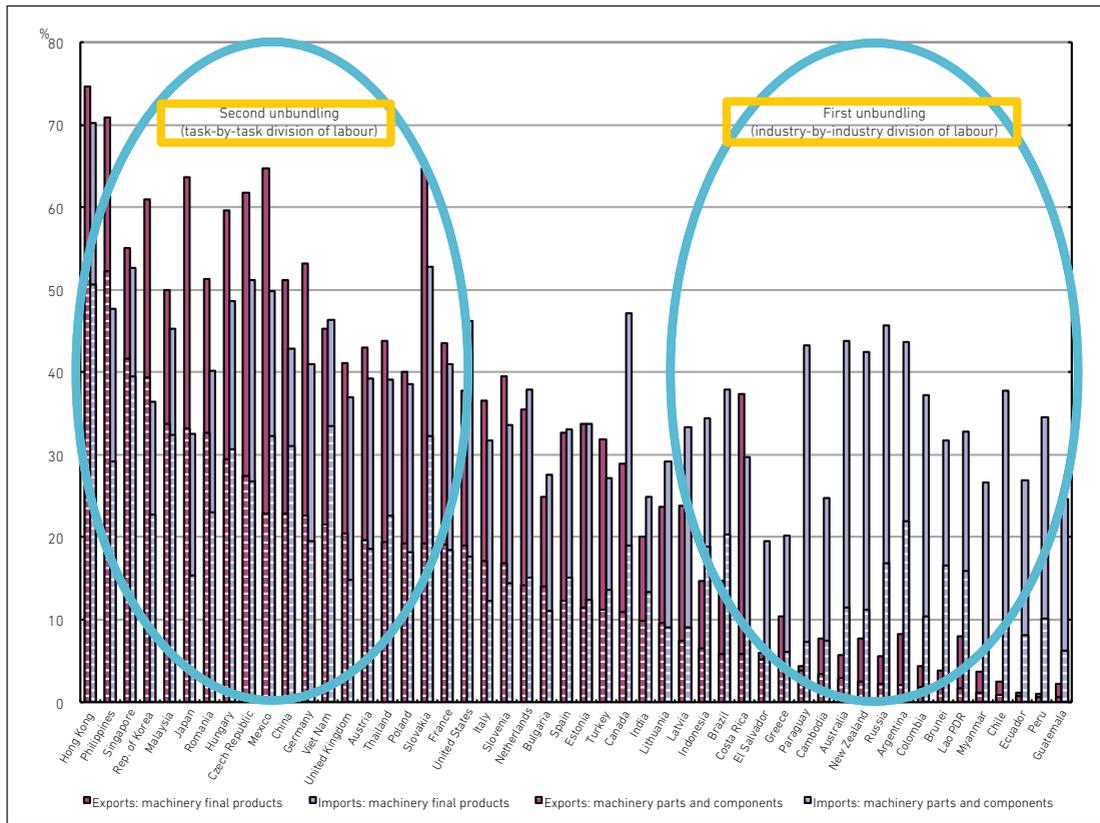
This chapter is structured as follows: the next three sections provide an overview of manufacturing (particularly machinery) IPNs in ASEAN and East Asia by employing international trade data, a value-added based index for global value chain (GVC) activities using international input–output tables, and a gravity equation exercise to discuss the possible contribution of RCEP to the widening and deepening of IPNs. Section 5 focuses on trade in two global innovator services – information and communication technology (ICT) services and other business services exports – to foresee the future of the new international division of labour and highlights some policy issues. The last section concludes.

Significance of Machinery IPNs: Evidence from Machinery Trade Data

Machinery industries typically consist of multilayered production processes with different technologies and diversified materials – involving many players, domestically and internationally. Thus, machinery industries are at the centre of IPNs, or the second unbundling, and have developed sophisticated supply chains, sometimes even beyond the region. This section uses machinery trade data and investigates the significance of machinery IPNs. Figure 6.1 presents each country's machinery shares in the total exports and imports of the major countries in the world in 2019, with a distinction between machinery parts and components and machinery final products.² Machinery industries (Harmonized System (HS) 84–92) here include general machinery, electric machinery, transport equipment, and precision machinery. To focus on participation in IPNs, the figure arranges countries with higher export shares of machinery parts and components from left to right.

² See Kimura and Obashi (2010) for the definition of machinery parts and components for different versions of the HS classification. Machinery final products are regarded as machinery goods other than machinery parts and components.

Figure 6.1 Machinery Shares in Exports to and Imports from the World, 2019



Source: Ando, Yamanouchi, and Kimura (2021).

Figure 6.1 provides several interesting findings for countries in the ASEAN+6 area.³ First, most East Asian countries are actively involved in machinery IPNs. For many East Asian countries, shares of parts and components are high for both exports and imports, suggesting the existence of back-and-forth transactions. In addition, relatively high shares of exports in machinery parts and components indicate export-oriented operations in East Asia. This appears to be the opposite of the typical pattern in Latin America, excluding Mexico; for most Latin American countries, parts shares are low for exports and high for imports, which implies import-substituting operations.

In the early 1990s, most countries with higher export shares of parts and components were developed countries.⁴ By 2000, in line with the expansion of the second unbundling, machinery parts and components trade became more active, and the shares of machinery

³ ASEAN+6 refers to the 10 ASEAN Member States (AMS) plus Australia, China, India, Japan, the Republic of Korea (henceforth, Korea), and New Zealand.

⁴ For the corresponding figures in the early 1990s, 2000, and 2010, see Ando (2006); Ando and Kimura (2005); and Ando, Yamanouchi, and Kimura (2021), respectively.

trade rose in many countries. Reflecting the rapid development of machinery IPNs in East Asia since the 1990s, many East Asian developing countries moved to the left, with high export shares of parts and components in both absolute and relative terms. Now, most countries on the left side are these East Asian developing countries, which actively participate in machinery IPNs, in addition to some developing countries in other regions, such as Mexico and some Central and Eastern Europe countries, which are involved in IPNs in North America and Europe, respectively.

Second, a few East Asian developing countries achieved a drastic change in the 2010s. Unlike many East Asian countries, some countries in the ASEAN+6 area – India, Indonesia, Cambodia, Australia, New Zealand, Brunei, the Lao People’s Democratic Republic (Lao PDR), and Myanmar– still have lower export shares of parts and components. While the low shares could be partially due to their abundant natural resources, those countries are not heavily involved in machinery IPNs. Interestingly, however, Cambodia experienced an outstanding change from 2010 to 2019. Cambodia had the lowest share in the corresponding figure for 2010. Although the absolute level is still not high in 2019, it moved to the left and even exceeded Australia and New Zealand. Moreover, Viet Nam was located on the right side in the corresponding picture for 2010, but by 2019, surprisingly, it moved further to the left and became one of the countries with high export shares of parts and components. This indicates that Viet Nam has been rapidly involved in machinery IPNs during the last decade to become one of the core players.

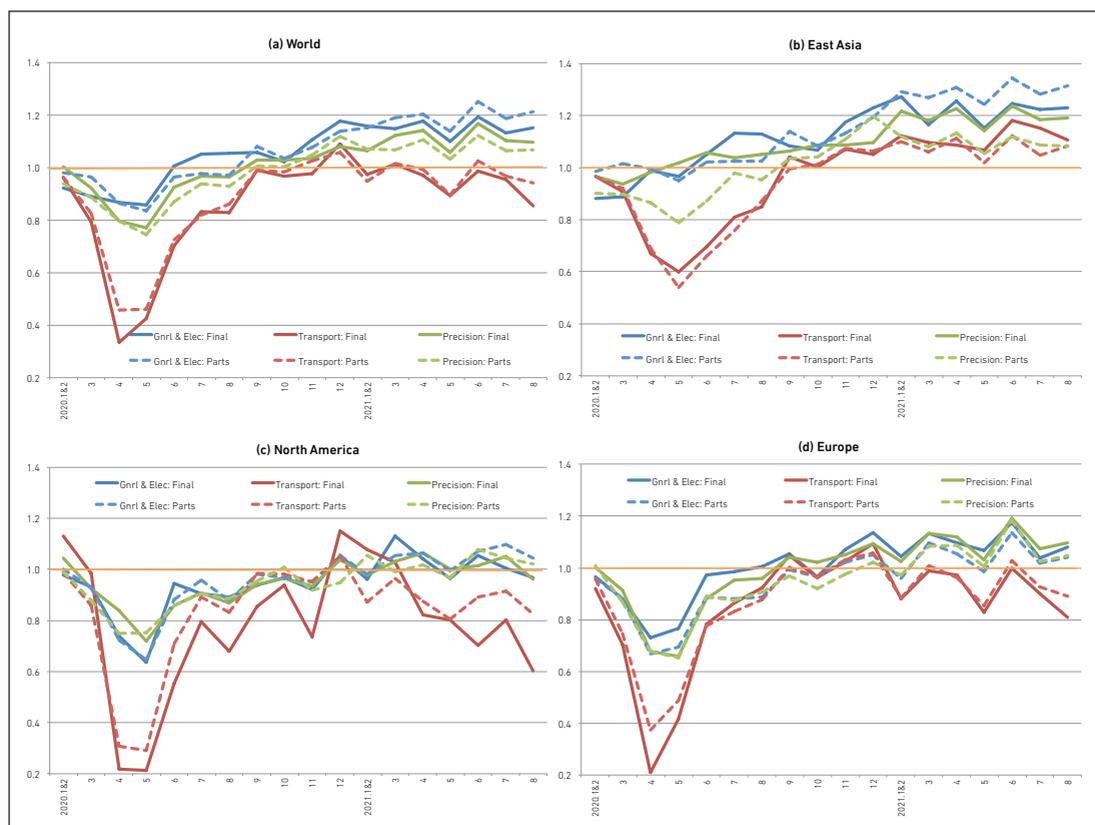
What has happened to machinery IPNs during COVID-19? Since IPNs involve many countries, they are prone to the contagion of shocks through supply chains. Hayakawa and Mukunoki (2021a), for instance, demonstrated the negative supply chain effect, which is the impact of the COVID-19 damage in countries supplying machinery parts and components on countries exporting final machinery products. As experienced in past shocks, however, we observe the robust and resilient nature of machinery IPNs, particularly those in East Asia during COVID-19 (Ando and Hayakawa, 2021).⁵ Figure 2 shows monthly machinery exports to the world in 2020 and 2021 until August, which are indexed to each month of 2019. Worldwide machinery exports recorded their lowest level in April and May 2020, but returned to reach or even exceed pre-pandemic levels by September 2020 in all three machinery sectors. Such a rapid V-shaped recovery in 2020 suggests the resilience of machinery IPNs in general (Figure 6.2 (a)).⁶ One of the reasons is that the transactions of parts and components within machinery IPNs are unlikely to be disconnected because firms intend to make their supply chains optimal, considering

⁵ See, for example, Obashi (2010); Ando and Kimura (2012); and Okubo, Kimura, and Teshima (2014) for the features of machinery IPNs in East Asia during the 1997 Asian financial crisis, the 2008–2009 GFC, and the 2011 Great East Japan Earthquake. Miroudot (2020) explained the terms ‘robustness’ (less likely to be interrupted) and ‘resiliency’ (more likely to be resumed even if interrupted).

⁶ Although all three machinery sectors experienced a V-shaped recovery in 2020, sectoral heterogeneity exists. The transport equipment sector had a more prolonged influence than other machinery sectors, and the negative effects were particularly serious for North America and Europe. For more discussion on IPNs in these two regions, see Ando, Kimura, and Yamanouchi (2022). See also Hayakawa and Mukunoki (2021b) for the heterogeneous trade effects of the first shock across industries, including non-machinery sectors.

both cost reduction and risk management (Ando, Kimura, and Obashi, 2021).⁷ Moreover, the import diversity of inputs mitigated the harmful supply-side effects of COVID-19 – particularly during the early period of February–March 2020 when uncertainty due to COVID-19 suddenly increased – by allowing the flexible adjustment of transactions (Ando and Hayakawa, 2022a). Furthermore, positive demand shocks due to COVID-19-specific demand for certain products related to teleworking, stay-at-home activities, and preventing infection, partially offset negative supply and demand shocks (Ando, Kimura, and Obashi, 2021).

Figure 6.2 Comparison of Major Machinery International Production Networks During COVID-19: Machinery Exports to the World (Each month of 2019 = 1)



ASEAN = Association of Southeast Asian Nations.

Notes: (a) World includes 40 exporting countries; (b) East Asia includes six ASEAN Member States, China, Hong Kong, Taiwan, the Republic of Korea, and Japan; (c) North America includes the United States, Mexico, and Canada; and (d) Europe includes 14 European Union countries, the United Kingdom, and Switzerland. 'GnrI & Elec', 'Transport', and 'Precision' refer to general and electric machinery, transport equipment, and precision machinery, respectively. 'Final' and 'Parts' indicate final products and parts and components, respectively.

Source: Ando and Hayakawa (2021).

⁷ In their analysis of Japan's machinery trade, Ando, Kimura, and Obashi (2021) decomposed the fall in trade into two intensive margins (quantity effect and price effect) and two extensive margins (entry effect and exit effect) and showed a small exit effect for parts and components.

Importantly, the negative impacts were much smaller for machinery IPNs in East Asia (Figure 6.2 (b)) than those in North America (Figure 6.2 (c)) and Europe (Figure 6.2 (d)). In addition, exports of general and electric machinery goods, as well as precision machinery final products, returned to their pre-pandemic levels in April 2020. The positive demand shock products of these sectors, together with activated e-commerce for their purchases amid COVID-19, must have contributed to such a rapid recovery by partially compensating for the effects of the negative supply and demand shocks.⁸ In 2021, machinery IPNs faced several challenges, including a shortage of containers and semiconductors as well as the emergence of the delta variant of COVID-19. Although some sporadic declines are recently observed for specific sectors in several countries, East Asia maintained its machinery exports beyond pre-pandemic levels, at least at the regional level, until August 2021, unlike in other regions.⁹

Although the emergence of COVID-19 became a trigger for increasing concerns about globalisation and IPNs, our findings in this section confirm the significance of machinery IPNs and their robust and resilient nature. At the same time, we observe that the degree of participation in machinery IPNs differs widely across countries and ample room still remains for widening and deepening IPNs. According to Jones and Kierzkowski (1990), countries must satisfy two conditions to participate in IPNs: preparing good location advantages to reduce the production cost per se and reducing service link costs to connect remotely located production blocks. As for the reduction in service link costs, trade liberalisation and facilitation are major policy channels. In many East Asian countries, most tariffs in machinery industries have already been removed in practice either on a most favoured nations (MFN) basis, within a framework of bilateral/regional free trade agreements, or through duty-drawback systems on imported parts and components for the production of exported goods. To further activate IPNs in East Asia, facilitated customs clearance and other trade facilitation measures are expected. RCEP could contribute to providing such trade facilitation covering the whole region. The liberalisation of network-supporting services and overall foreign direct investment (FDI) is also important. Improving location advantages would mostly require domestic policy efforts, but some parts of rule-making chapters (e.g. intellectual property protection) in RCEP could help to improve the business environment.

⁸ See Hayakawa, Mukunoki, and Urata (2021) for the role of e-commerce in international trade during COVID-19.

⁹ For instance, Japan experienced a drastic decline in exports of transport equipment final products in August and September, probably reflecting the shortage of semiconductors; Indonesia showed a severe decrease in July; and several AMS had drastic declines in August and September in the transport equipment sectors (Ando and Hayakawa, 2021).

Features of IPNs Based on GVC Indicators

Although international trade statistics are useful for investigating the transactions of finely disaggregated products, they do not directly consider inter-industry linkages and value-added layers. This section employs the Research Institute for Global Value Chains at the University of International Business and Economics (UIBE) GVC participation indices based on international input–output tables to examine GVC activities from the perspective of value added.¹⁰ This GVC index consists of two types: a forward linkage-based GVC index and a backward linkage-based GVC index. The forward linkage-based GVC index (producer perspective) indicates which types of production and trade are GVC activities, while the backward linkage-based GVC index (consumer perspective) indicates which segments of final goods production and trade belong to GVCs.¹¹ This GVC index allows us to incorporate GVC activities for domestic use.¹² Conventional measures such as vertical specialisation measures, which are expressed as a percentage of gross exports, could omit a large portion of international production sharing activities, and such a bias could be particularly serious for countries with large domestic markets such as China and India.¹³ In addition, this index can be decomposed into simple GVC participation index for single cross-border transactions and complex GVC participation index for transactions that cross borders twice or more times. Therefore, this paper uses these UIBE GVC participation indices in this section.

Figure 6.3 shows (a) the forward linkage-based total GVC participation index and the backward linkage-based total GVC participation index for countries in the ASEAN+6 area and other regions in 2017 in three machinery industries, i.e. electrical and optical machinery, transport equipment, and other machinery.¹⁴ Figure 6.3 also presents (b) the simple and complex GVC participation indices for ASEAN+6 countries plus Hong Kong and Taiwan, considering their involvement in IPNs. We obtain several interesting findings. First, cross-border transactions in terms of both forward and backward linkages are active in machinery industries, particularly in the electrical and optical equipment industry (Figure 6.3 (a)). This suggests that many countries in the ASEAN+6 area, at different income levels, are actively engaged in the upstream/downstream production activities of machinery IPNs.¹⁵ In the previous section, we discussed active machinery

¹⁰ UIBE (n.d.), the UIBE GCV Indicators.

http://rigvc.uibe.edu.cn/english/D_E/database_database/index.htm.

¹¹ See Appendix A for the concept of the UIBE GVC index and the country list, and Wang et al. (2017) for a detailed explanation of the index.

¹² As Wang et al. (2017) explains, this index considers 'exporting its domestic value-added in intermediate exports used by a direct importing country to produce products for domestic consumption' and 'using other countries' value added to produce products for domestic use' in addition to conventional channels, 'exporting its domestic value-added in intermediate exports used by a direct importing country to produce products for a third country' and 'using other countries' value added to produce products for its gross exports'.

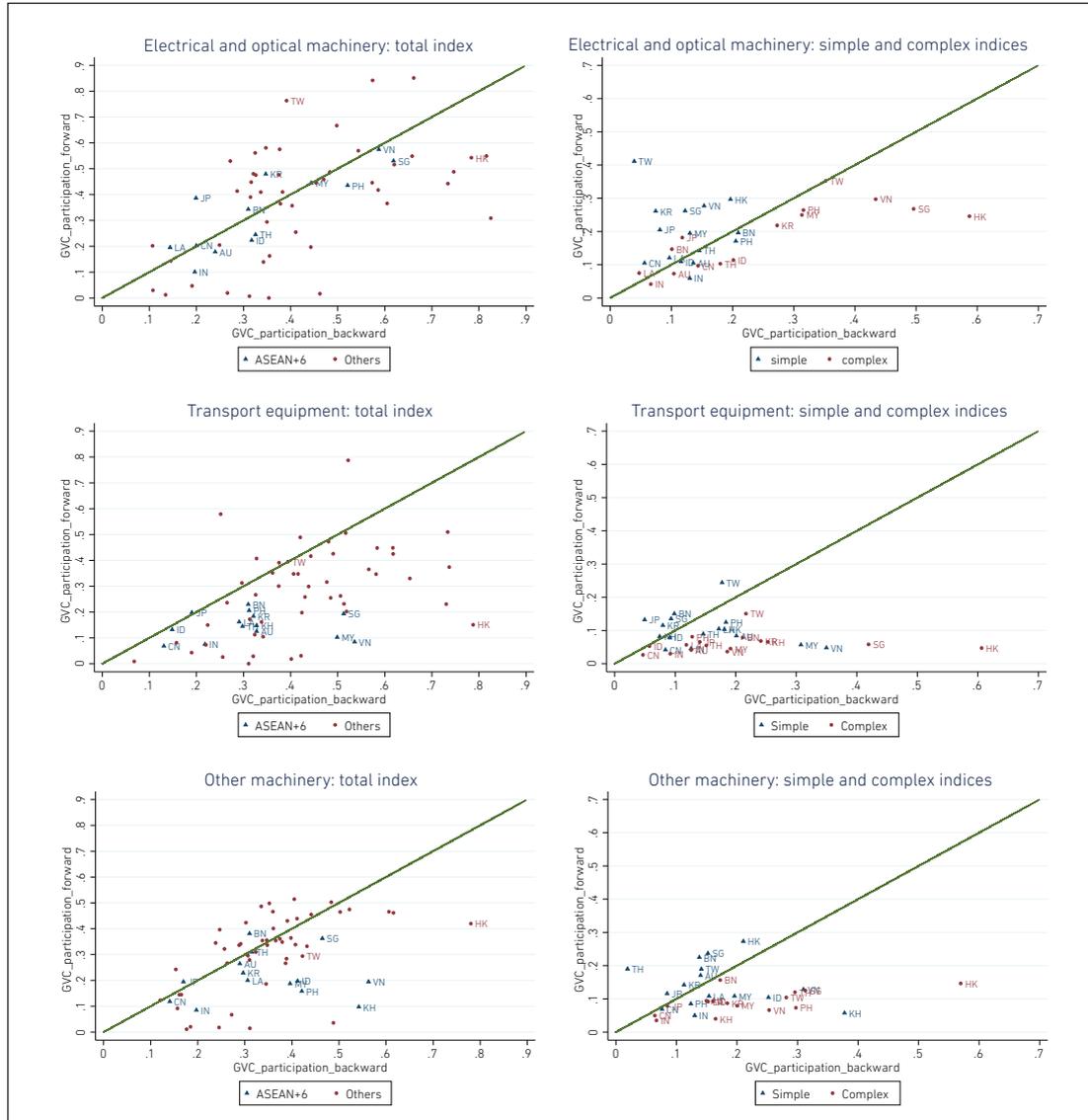
¹³ See Hummels, Ishii, and Yi (2001) for vertical specialisation measures. Another popular measure of the GVC index is the ratio of value added to gross exports, or VAX ratio, proposed by Johnson and Noguera (2012).

¹⁴ A large number of countries included in 'Others' in Figure 3(a) are Organisation for Economic Co-operation and Development (OECD) members.

¹⁵ For instance, Japan, Korea, and Taiwan have a higher degree of forward participation than backward participation for the electrical and optical machinery industry. This implies that these countries are more actively engaged in upstream production activities in this industry.

transactions based on international trade statistics. The similar results based on the value-added statistics confirm that machinery IPNs are active, and many countries in the ASEAN+6 area at various income levels participate in such active IPNs.

Figure 6.3 GVC Participation Index for Machinery Sectors, 2017)



AU = Australia, BN = Brunei, CN = China, HK = Hong Kong (non-RCEP member), ID = Indonesia, IN = India, JP = Japan, KH = Cambodia, KR = Rep. of Korea, LA = Lao PDR, MY = Malaysia, PH = Philippines, SG = Singapore, TH = Thailand, TW = Taiwan (non-RCEP member), VN = Viet Nam.

Notes: The total GVC index is shown for RCEP countries and others (mostly OECD countries), while simple and complex GVC indices are presented only for RCEP countries plus Hong Kong and Taiwan. See Appendix A for the concept of the GVC participation index and the country list. GVC_participation_forward and GVC_participation_backward denote a forward linkage-based GVC index and a backward linkage-based GVC index, respectively.

Source: Authors, based on data available from the UIBE-GVC-indicators.

Second, the electrical and optical machinery industry, in particular, is vigorously involved not only in single cross-border transactions but also in transactions that cross borders multiple times in terms of both forward and backward linkages (Figure 6.3(b)). The previous section discussed the existence of back-and-forth transactions in machinery industries for most East Asian countries based on trade data. This finding, based on value-added statistics here, confirms that back-and-forth transactions are active in IPNs particularly in this industry.

Third, unlike the electrical and optical machinery industry, the forward linkage index tends to be lower than the backward linkage index for the transport equipment industry (Figure 6.3 (a)). Moreover, the complex index is quite low for the forward linkage while it is not as low for the backward linkage in this industry for many countries (Figure 6.3 (b)). This indicates that a large portion of cross-border transactions, particularly transactions that cross borders multiple times, are likely to be downstream production activities, and that back-and-forth transactions are not as active in this industry as in the case of the electrical and optical machinery industry. This finding may arise from the nature of this industry – for instance, this industry tends to prefer forming industrial clusters and using one-way cross-border transactions more heavily.

Our findings in this section, particularly the participation of many countries in the region in IPNs, may emphasise the importance of multilateral agreements, rather than bilateral arrangements, in terms of, for instance, the advantage of cumulative rules of origin, the establishment of stable trading systems, and common trade and investment facilitation measures. As mentioned in the previous section, the extensiveness of import inputs over various countries mitigated the harmful supply-side effects of COVID-19, particularly during the early period of February–March 2020 when the uncertainty due to COVID-19 suddenly increased, probably because it allowed the flexible adjustment of transactions. Encompassing many countries participating in IPNs within a common agreement may help to facilitate the flexible adjustment of transactions, which would mitigate the possible negative impacts on IPNs of shocks if any. RCEP is expected to contribute to forming a favourable environment for such extensive IPNs throughout East Asia.

Evaluation of East Asian Machinery Trade Based on the Gravity Model

This section evaluates the current status and the development in the 2010s of East Asian machinery trade, based on the gap between potential and actual machinery trade values, which are obtained in Ando, Kimura, and Yamanouchi (2022) by using the same methodology applied in Ando, Yamanouchi, and Kimura (2021).¹⁶ Ando, Kimura, and Yamanouchi (2022) first estimated a traditional gravity equation, using data on machinery trade values for 2019 (or 2010). Then, the value of machinery trade predicted by the gravity model was calculated to obtain the ratio of the actual trade value to the predicted value. It indicates the degree of actual machinery trade in terms of the level predicted by the model, considering the economic size and the geographical conditions.

Table 6.1 shows the actual and predicted values of machinery trade and the gap between them for each country/region of the world. In this table, we observe ASEAN's tight connectivity –particularly amongst AMS and with other East Asian countries – in terms of both exports and imports.¹⁷ Specifically, intra-ASEAN trade and ASEAN trade with China, Japan, and the Republic of Korea (henceforth, Korea) are more than twice the predicted values for both exports and imports.¹⁸ This suggests that ASEAN participates in machinery IPNs in East Asia more actively than the predicted levels explained by the economic size and distance, and plays a central role in IPNs. Moreover, while ASEAN's machinery trade with the world was already above the predicted level in 2010, the gap between the actual and predicted values expanded in the 2010s from 229% to 247% for exports and from 168% to 182% for imports. Besides, in all cases of ASEAN trade with each country/region, actual values exceeded the predicted levels and trade values *per se* increased, although the gap declined slightly in some cases, including intra-ASEAN trade and ASEAN exports to China. These findings also confirm that ASEAN contributes to the development of machinery IPNs and has been playing an important role in IPNs.

¹⁶ See Ando, Kimura, and Yamanouchi (2022) for the details of methodology and data. Their gap ratio is essentially the same concept as the export potential proposed in Mulabdic and Yasar (2021).

¹⁷ Ando, Kimura, and Yamanouchi (2022) discussed the inter-regional linkage of ASEAN and other East Asian countries, particularly the link with North America and Europe. They emphasised that trade by East Asia, including ASEAN, is still open to the outside of the region, and that AMS are active suppliers not only to the intra-regional countries but also to countries outside the region.

¹⁸ Trade amongst China, Japan, and Korea are not necessarily as large as expected; China's exports to Japan and Korea (64% and 89%), Japan's exports to Korea (90%), and Korea's exports to Japan (37%) are lower than predicted. In other words, there may be room for strengthening the connectivity amongst these three countries.

Table 6.1 Actual and Predicted Machinery Trade Values for RCEP and Other Countries

Exporter (row) / Importer (column)	Value (\$millions), %	2019										2020	
		China	Japan	Rep. of Korea	ASEAN	Australia and New Zealand	India	North America	EU	Rest of the world	Total (World)	ASEAN	Total (World)
China	Actual (A)		75,889	58,515	161,657	7,708	37,831	296,546	249,381	476,571	1,364,100	70,256	895,159
	Predicted (B) (A)/(B) (%)		118,568 64	65,893 89	72,285 224	9,463 81	50,069 76	163,984 181	177,079 131	295,714 161	953,054 143	40,885 172	554,227 162
Japan	Actual (A)	81,031		20,245	59,962	2,582	5,817	126,272	64,669	110,199	470,778	67,993	517,380
	Predicted (B) (A)/(B) (%)	74,293 109		22,386 90	21,715 276	3,928 66	7,176 81	64,147 197	60,411 107	84,697 130	338,752 139	25,539 266	361,491 143
Rep. of Korea	Actual (A)	84,679	9,161		54,181	744	6,551	66,569	36,682	77,051	335,618	24,744	298,426
	Predicted (B) (A)/(B) (%)	45,860 185	24,865 37		8,639 627	1,307 57	2,996 219	21,772 306	22,348 164	35,613 216	163,400 205	6,059 408	111,639 267
ASEAN	Actual (A)	83,070	39,456	24,559	122,552	4,107	17,733	117,662	83,934	151,101	644,176	98,785	424,888
	Predicted (B) (A)/(B) (%)	39,799 209	18,528 213	6,644 370	45,225 271	2,846 144	8,388 211	34,797 338	38,940 216	65,409 231	260,576 247	33,993 291	185,232 229
Australia and New Zealand	Actual (A)	114	57	66	373	11	45	1,215	930	8,395	11,206	297	13,963
	Predicted (B) (A)/(B) (%)	2,694 4	1,766 3	531 12	1,521 25	300 4	540 8	7,916 15	5,269 18	13,322 63	33,859 33	1,530 19	34,305 41
India	Actual (A)	1,971	792	566	9,107	228	13,273	11,687	27,601	62,224	5,158	35,283	
	Predicted (B) (A)/(B) (%)	56,238 4	12,864 6	4,836 12	18,953 48	2,042 11	32,905 40	45,745 26	87,819 31	261,402 25	15,346 34	202,119 17	
North America	Actual (A)	63,106	28,621	23,338	56,785	5,678	9,328	617,230	161,678	177,220	1,129,577	43,134	839,805
	Predicted (B) (A)/(B) (%)	105,297 60	65,732 44	20,088 116	15,982 126	15,982 36	18,806 50	591,802 104	291,501 55	327,579 54	1,479,047 76	33,137 130	1,183,900 71
EU	Actual (A)	144,804	37,144	30,669	64,599	8,846	24,562	286,773	1,517,637	428,107	2,543,132	49,995	2,032,685
	Predicted (B) (A)/(B) (%)	122,616 118	66,879 56	22,266 138	51,213 126	11,851 75	27,976 88	318,751 90	1,298,753 117	542,040 79	2,462,344 103	42,513 118	2,018,900 101

2019

Exporter (row) / Importer (column)	Value (\$millions),%	2019										2020	
		China	Japan	Rep. of Korea	ASEAN	Australia and New Zealand	India	North America	EU	Rest of the world	Total (World)	ASEAN	Total (World)
Rest of the world	Actual (A)	92,501	22,859	16,508	60,029	8,727	21,201	92,207	180,288	192,063	689,382	41,579	513,239
	Predicted (B)	137,665	59,758	23,082	55,204	17,478	38,627	227,839	380,672	360,433	1,300,757	39,597	919,016
	(A)/(B) (%)	67	38	72	109	50	55	42	47	52	53	105	56
Total (World)	Actual (A)	551,277	213,978	174,456	575,838	38,631	123,069	1,620,747	2,306,885	1,648,311	7,253,193	401,941	5,570,828
	Predicted (B)	584,462	368,959	165,726	317,013	65,196	154,578	1,463,914	2,320,719	1,812,625	7,253,192	238,599	5,570,828
	(A)/(B) (%)	94	58	105	182	59	80	111	99	91	100	168	100
ASEAN	Actual (A)	52,845	30,760	13,488	98,785	2,076	9,417	56,587	57,379	103,551	424,888	41,579	513,239
	Predicted (B)	18,892	19,854	4,628	33,993	2,353	7,120	21,307	28,649	48,436	185,232	39,597	919,016
	(A)/(B) (%)	280	155	291	291	88	132	266	200	214	229	105	56
Total (World)	Actual (A)	425,128	171,618	131,730	401,941	39,297	78,614	1,081,293	1,853,736	1,387,471	5,570,828	401,941	5,570,828
	Predicted (B)	311,111	383,335	119,882	238,599	59,113	129,370	1,041,763	1,835,836	1,451,819	5,570,828	238,599	5,570,828
	(A)/(B) (%)	137	45	110	168	66	61	104	101	96	100	168	100

ASEAN = Association of Southeast Asian Nations, EU = European Union.

Notes: 'Actual (A)' denotes the actual values of specific country/region pairs, 'Predicted (B)' denotes the corresponding predicted values, and '(A)/(B) (%)' denotes the ratio of actual to predicted values in percentage. North America refers to Canada, Mexico, and the United States; EU refers to the 27 EU member countries and the United Kingdom; and 'Rest of the world' refers to 128 countries and regions, including Hong Kong, Macao, and Taiwan. The predicted values for regions are calculated by totaling the member countries' predicted values.

Source: Ando, Kimura, and Yamanouchi (2022).

Conversely, other ASEAN+6 countries – Australia, New Zealand, and India – are not active in machinery trade. ASEAN's export connections with these countries became stronger in the 2010s – from 88% to 144% for Australia and New Zealand and from 132% to 211% for India – but are still weaker than the ASEAN's connections with the world (247%) in 2019. In addition, ASEAN's import connections with these countries are much weaker and even below the predicted levels (25% and 48%, respectively). The connection of China, Japan, and Korea with these countries is low, with much lower actual values than the predicted ones for all cases of exports and imports except the case of Korea's exports to India. The corresponding gap ratios for imports, in particular, are definitely low at less than 10% for imports by China and Japan and 12% for those by Korea.

With a focus on ASEAN, Table 6.2 presents the corresponding table for individual AMS. The actual intra-ASEAN trade of the original AMS – particularly Singapore, Malaysia, Thailand, and the Philippines – is about twice or more than twice as high as the predicted values for both exports and imports.¹⁹ Moreover, these countries already had high gap ratios in 2010. This suggests that they have played an important role in intra-ASEAN machinery trade. Interestingly, the gap ratio of Indonesia's exports to ASEAN increased from 118% to 132% in the 2010s, though it is still substantially lower than the gap ratios of other original members' exports to ASEAN.

¹⁹ These countries have higher export shares of parts and components. See Figure 6.1 and section 2.

Table 6.2 Actual and Predicted Machinery Trade Values for ASEAN Member States

Exporter (row) / Importer (column)	2019												2020		
	Singapore	Brunei	Malaysia	Thailand	Indonesia	Philippines	Viet Nam	Lao PDR	Cambodia	Myanmar	ASEAN	China, Japan, and Rep. of Korea	Total (World)	ASEAN	Total (World)
Singapore	Actual (A)	393	13,234	3,955	5,543	4,543	3,470	30	338	815	32,321	34,344	156,011	30,816	136,061
	Predicted (B)	128	5,444	678	1,469	274	210	34	59	150	8,446	7,468	34,514	6,514	23,950
	(A)/(B) (%)	309	243	583	377	1,657	1,653	88	572	543	383	531	452	473	568
Brunei	Actual (A)	90	55	4	4	2	4	0	0	0	155	62	250	158	200
	Predicted (B)	74	70	25	38	19	10	2	2	6	245	377	1,414	215	1,239
	(A)/(B) (%)	122	79	15	5	11	38	2	0	0	63	13	18	74	16
Malaysia	Actual (A)	19,879	110	6,593	1,785	1,609	2,958	8	97	86	33,125	27,355	147,174	24,981	108,725
	Predicted (B)	8,476	188	1,486	2,124	269	214	36	161	161	13,015	6,308	38,377	9,815	29,125
	(A)/(B) (%)	235	59	444	84	598	1,384	22	156	54	255	434	383	255	373
Thailand	Actual (A)	3,786	49	4,377	3,574	3,860	4,798	915	1,581	827	23,768	22,145	113,417	19,744	93,810
	Predicted (B)	1,310	82	1,844	513	231	283	538	634	538	6,348	11,006	44,997	4,838	31,920
	(A)/(B) (%)	289	59	237	321	888	935	397	559	154	374	201	252	408	294
Indonesia	Actual (A)	3,471	40	1,210	2,311	3,226	1,851	21	91	147	12,367	4,551	30,530	8,968	24,441
	Predicted (B)	3,323	150	3,087	1,305	691	455	71	109	171	9,361	16,248	70,177	7,599	56,494
	(A)/(B) (%)	104	26	177	177	467	407	30	83	86	132	28	44	118	43
Philippines	Actual (A)	5,852	2	1,497	2,189	473	1,061	0	10	6	11,090	17,663	62,111	11,614	47,019
	Predicted (B)	608	74	383	499	678	239	32	44	45	2,423	9,295	27,307	1,876	17,823
	(A)/(B) (%)	962	3	391	438	70	445	0	23	9	423	191	227	619	264
Viet Nam	Actual (A)	1,718	20	1,493	2,535	1,122	1,073	105	295	244	8,606	40,332	131,657	2,197	14,124
	Predicted (B)	492	40	322	472	252	252	162	162	85	2,674	11,129	28,431	1,560	15,145
	(A)/(B) (%)	349	51	464	407	238	425	47	182	286	322	362	463	141	93
Lao PDR	Actual (A)	6	0	8	397	4	0	27	0	0	444	82	770	57	61
	Predicted (B)	45	3	30	159	42	19	127	17	19	462	814	2,460	21	104
	(A)/(B) (%)	13	0	28	250	9	0	21	8	31	96	10	31	267	59
Cambodia	Actual (A)	8	0	16	202	1	62	47	1	2	341	346	1,403	239	394
	Predicted (B)	91	6	62	225	74	30	107	19	10	624	658	2,906	349	1,571
	(A)/(B) (%)	9	0	27	90	2	206	44	7	18	55	53	48	68	25
Myanmar	Actual (A)	133	0	13	113	6	11	60	0	0	336	205	852	11	53
	Predicted (B)	304	19	209	564	153	60	74	30	13	1,426	2,777	9,993	1,204	7,842
	(A)/(B) (%)	44	0	6	20	4	19	81	0	7	24	7	9	1	1
ASEAN	Actual (A)	39,944	614	21,904	18,299	12,510	14,385	14,276	1,082	2,412	2,216	122,552	147,085	644,176	424,888
	Predicted (B)	14,723	690	11,451	5,563	6,613	2,050	1,948	679	752	1,205	45,225	64,971	260,576	33,993
	(A)/(B) (%)	237	89	191	329	203	702	733	159	321	177	271	226	247	229
China, Japan, and Rep. of Korea	Actual (A)	49,071	427	34,230	41,200	31,174	25,148	86,404	995	2,485	4,664	275,800	329,520	2,170,496	1,710,965
	Predicted (B)	18,495	1,609	11,602	16,517	20,509	11,853	14,692	1,893	1,236	4,234	102,639	351,865	1,455,207	72,483
	(A)/(B) (%)	265	27	295	249	152	212	588	52	201	110	269	94	149	167
Total (World)	Actual (A)	154,458	1,729	86,621	81,632	58,174	57,501	119,042	2,257	6,313	8,112	575,838	939,711	7,253,192	401,941
	Predicted (B)	72,025	5,168	47,512	50,633	65,241	27,378	28,933	4,342	4,069	11,713	317,013	1,119,147	7,253,192	238,599
	(A)/(B) (%)	214	33	182	161	89	210	411	52	155	69	182	84	100	168
ASEAN	Actual (A)	33,403	418	21,418	14,133	14,032	8,072	4,859	668	899	882	98,785	94,093	424,888	185,232
	Predicted (B)	10,229	605	9,137	4,210	5,056	1,584	1,264	269	482	1,174	33,993	43,373	165,232	29
	(A)/(B) (%)	327	69	234	336	278	510	384	269	186	75	291	224	229	100
Total (World)	Actual (A)	133,761	1,036	80,507	66,142	49,779	36,022	28,329	1,796	3,378	401,941	728,476	5,570,828	5,570,828	
	Predicted (B)	47,608	4,702	38,589	38,135	56,030	20,257	18,100	1,582	2,717	10,879	814,329	5,570,828	238,599	
	(A)/(B) (%)	281	22	209	173	89	178	157	75	66	31	168	89	100	

Notes: 'Actual (A)' denotes the actual values of specific country/region pairs. 'Predicted (B)' denotes the corresponding predicted values. and '(A)/(B) (%)' denotes the ratio of actual to predicted values in percentage. The predicted values for regions are calculated by totalling the member countries' predicted values.

Source: Ando, Kimura, and Yamanouchi (2022).

In addition to the original AMS, Viet Nam expanded exports to and imports from ASEAN significantly in the 2010s; the gap ratios increased from 141% in 2010 to 322% in 2019 for exports and from 384% to 733% for imports. This indicates how rapidly Viet Nam became involved in IPNs in the 2010s, turning into one of the core players. On the other hand, exports by the Lao PDR, Cambodia, and Myanmar to AMS were still lower than the predicted values in 2019, though the export values expanded in the 2010s. Since Cambodia and Myanmar significantly increased the corresponding ratios for imports, these countries are just starting to be involved in IPNs in East Asia.

In sum, our results imply that East Asian countries, particularly AMS, have positioned themselves at the centre of machinery IPNs. Some countries in the ASEAN+6 area – such as ASEAN latecomers, Australia, New Zealand, and India – do not have strong ties with other East Asian countries and have not yet participated heavily in machinery IPNs.

Participation in machinery IPNs is at the core of development strategies for fast economic growth. Various trade and investment liberalisation and facilitation measures have contributed to the development of machinery IPNs in East Asia in the past decades. In particular, ASEAN's high-level commitment to machinery IPNs is crucial to Factory Asia. RCEP covers the whole East Asia region, with the ASEAN centrality, for the rules-based trading regime. Further progress in the liberalisation and facilitation of trade and investment, which RCEP is expected to achieve, will promote the participation in IPNs by the Lao PDR, Cambodia, and Myanmar as well as potentially India and South Asian countries in the future. Even for AMS that already participate heavily in IPNs, the strength of country-to-country connections is still uneven. RCEP could be helpful in developing more diversified patterns of IPNs. As mentioned in footnote 18, China, Japan, and Korea are not as closely connected as we expected with each other, after controlling for country size and geographical distance. Although the heightening of geopolitical tensions may not allow these three countries to deepen integration, many important parts and components and intermediate materials are already traded with each other. This means that RCEP-based tariff removals, though limited, as well as the cumulative rules of origin, may benefit the whole East Asia region including ASEAN.

Global Innovator Services Trade

To assess the possible contribution of RCEP to trade and investment in East Asia, we need to look at the emergence of new types of the international division of labour. Digital technology has started to transform the mechanics of international trade, which is led by the services sector. The digital economy affects services in two ways. The first way is the expansion of digitalised services. An increasingly large fraction of services is digitalised so that such services can become deliverable online, regardless of whether they are provided domestically or across national borders. An increasingly large portion of the manufacturing sector and other traditional sectors also transform into digitalised services (servicification). The second way is the emergence of digitalising services. This type of services helps to digitalise other industries and services subsectors. Such services are often digitalised services too. Services used to be regarded as not productive, not innovative, mostly non-tradable, and just working as absorbing redundant informal unskilled labour, but this may not be the case from now on. Although manufacturing-led development has been the traditional model for creating jobs and prosperity, some parts of services would be the mainstream of the novel international division of labour.

Since services are increasingly driving economic transformation, Nayyar, Hallward-Driemeier, and Davies (2021) shed light on the services sector and assessed the prospects for services-led development. Their report, which is a recent report published by the World Bank, presented an interesting typology for the services sector based on data for the EU18 and the US. Four groups to be identified are (i) skill-intensive social services (e.g. health and education); (ii) low-skill domestic services (e.g. arts, entertainment, and recreation; retail; personal services; and administrative and support); (iii) low-skill tradable services (e.g. accommodations and food; transportation and storage; and wholesale); and (iv) global innovator services (e.g. information and communication services; professional, scientific, and technical services; and financial and insurance services) (see Appendix B). Amongst global innovator services, information and communication services and professional, scientific, and technical services are referred to as R&D-intensive services, while financial and insurance services are categorised as capital intensive. In addition, the World Trade Organization (WTO) defines (1) ICT services²⁰ and (2) other business services²¹ as a proxy of intermediate commercial services and regards them as important inputs for manufacturing activities.²² Note that other business services are basically the same as 'professional, scientific, and technical services' categorised into global innovator services. Thus, this section focuses on exports of these services subsectors, considering

²⁰ For the balance of payment (BOP)-based services statistics, ICT services consist of (i) telecommunications services; (ii) computer services; and (iii) information services, including news agency services.

²¹ Other business services on the BOP-based services statistics is composed of (i) R&D services; (ii) professional and management consulting services; and (iii) technical, trade-related, and other business services.

²² See WTO (n.d.), WTO 'Trade in Value-Added and Global Value Chains' Profiles: Explanatory Notes. https://www.wto.org/english/res_e/statis_e/miwi_e/explanatory_notes_e.pdf (accessed 2 February 2021) for the definition of intermediate commercial services.

that ICT services and other business services are at the core of digitalised and digitalising services and will become one of the important trade channels.

We employ two statistics on trade in services: (i) Trade in Services data by Mode of Supply (TISMOS)²³ and (ii) balance of payment (BOP)-based data from the WTO STATS portal.^{24 25} The WTO GATS definition of the four modes of supply is significantly broader than the BOP concept of services trade because the BOP counts only transactions between residents and non-residents as services trade. In other words, the BOP does not cover services transactions between the same residents. Thus, BOP statistics are useful to capture services transactions mainly for cross-border supply (mode 1), consumption abroad (mode 2), and the presence of natural persons (mode 4), but do not sufficiently cover services, particularly those via commercial presence (mode 3). In 2019, the WTO provided a new experimental data set, TISMOS, which combines the information available from the BOP statistics and Foreign Affiliates Statistics (FATS) to offer an overall picture of international services trade during 2005–2017 according to the four modes of supply. Thus, TISMOS is useful to capture the overall pattern of services trade, including mode 3 services, while the BOP-based services trade statistics provide more comprehensive information in terms of the coverage of countries, periods, frequency (e.g. quarterly and annually), and sectors/subsectors, in addition to the availability of more recent information.²⁶

Figure 6.4 presents (i) exports by four modes of supply, and (ii) exports by subsectors and modes excluding mode 3 for (a) ICT services and (b) other business services in 2017. Mode 3 is notably large for some countries, and the ranking of these services exports amongst ASEAN+6 countries changes, depending on whether mode 3 is included or not. When mode 3 is considered, Japan is by far the largest exporter, followed by India, China, Singapore, and Australia for ICT services exports, while China is the largest, followed by Japan, India, Singapore, Australia, and Korea for other business services exports.

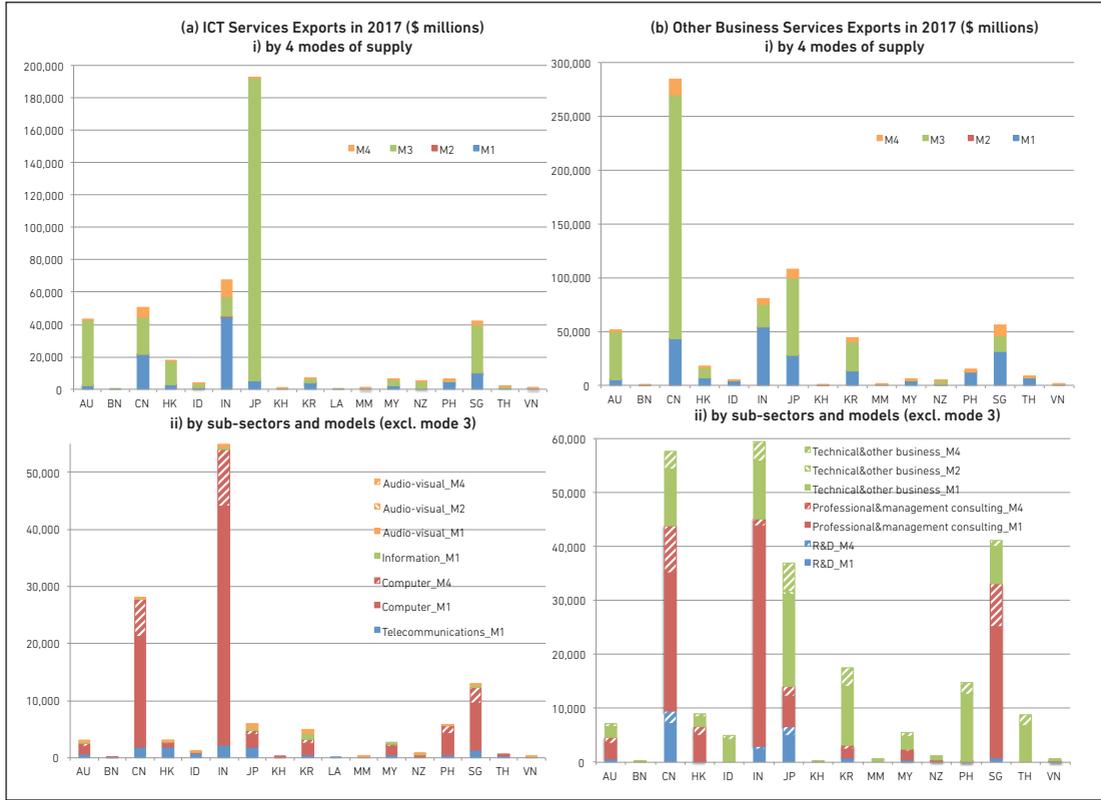
²³ For more details on TISMOS, see WTO (n.d.), Trade in Services Data by Mode of Supply (TISMOS). https://www.wto.org/english/res_e/statistics_e/trade_datasets_e.htm#TISMOS. (accessed 1 August 2021)

²⁴ WTO (n.d.), WTO STATS. <https://stats.wto.org/>.

²⁵ Note that categories of ICT services and other business services are slightly different between TISMOS and the BOP-based statistics. Specifically, the category of ICT services includes audio-visual and related services, while that of other business services does not include trade-related services for data from TISMOS. On the other hand, the category of ICT services does not include audio-visual and related services, while that of other business services includes trade-related services for the BOP-based statistics.

²⁶ We need careful utilisation of services trade data; for instance, TISMOS data for mode 3 cannot be decomposed into subsectors, TISMOS data for some subsectors may be missing even if data for the corresponding sector exists, BOP data basically do not cover mode 3 services, and classifications for these two databases are slightly different. Indeed, we need careful treatment of using services trade data in detail, but we believe that the available services trade data must be useful to understand the trend of services trade and to provide interesting insights.

Figure 6.4 ICT Services and Other Business Services Exports by RCEP Countries in 2017 and Their Decomposition



AU = Australia, BN = Brunei, CN = China, HK = Hong Kong (non-RCEP member), ID = Indonesia, IN = India, JP = Japan, KH = Cambodia, KR = Republic of Korea, LA = Lao PDR, MM = Myanmar, MY = Malaysia, NZ = New Zealand, PH = Philippines, SG = Singapore, TH = Thailand, and VN = Viet Nam, ICT = information and communication technology.

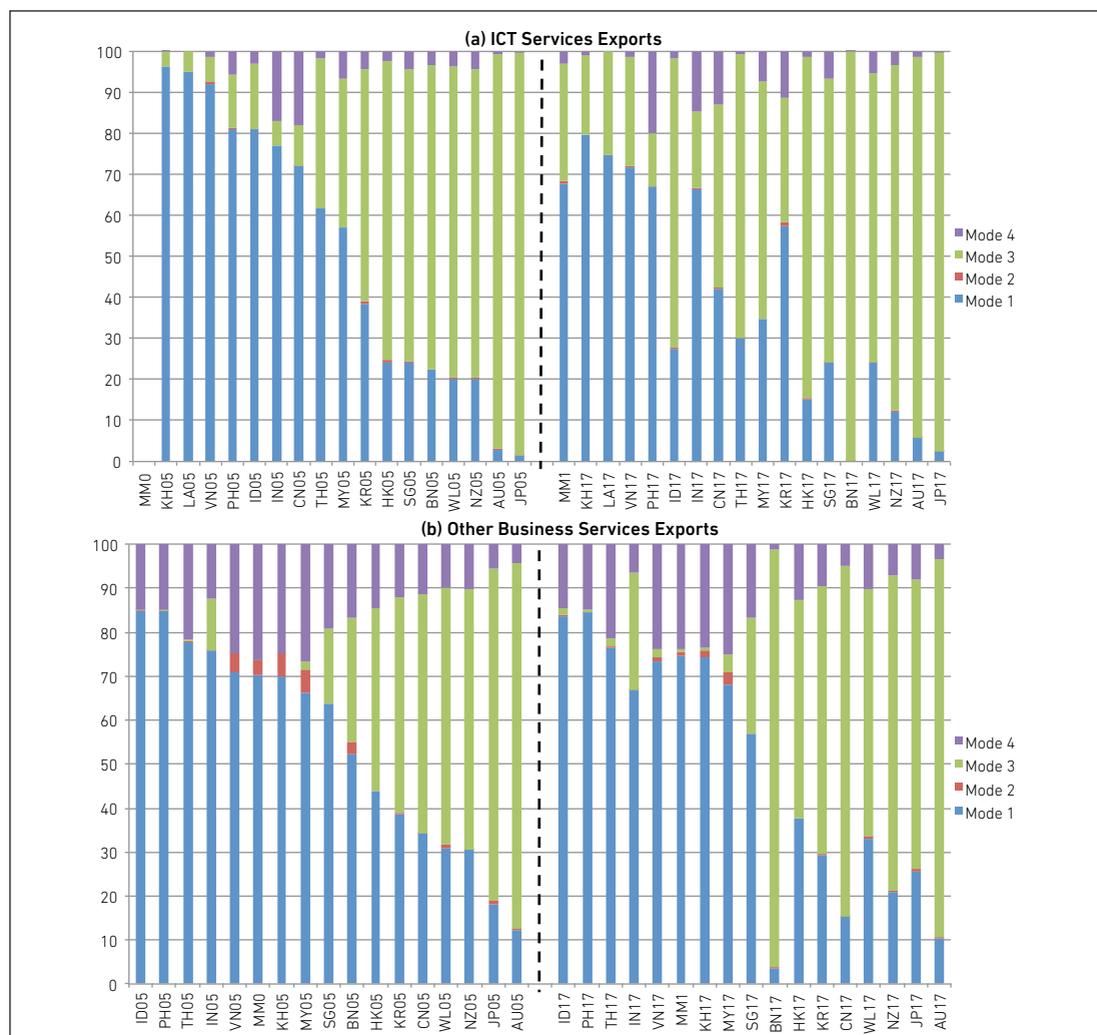
Notes: ICT services include telecommunications, computer, information, and audio-visual and related services. Other business services include R&D, professional&management consulting, and technical&other business services (excluding trade-related services). As data for mode 3 cannot be decomposed into subsectors, mode 3 is not included for figures by subsectors and modes.

Source: Authors' calculation, based on data available from TISMOS.

As the upper part of Figure 6.4 (a-i and b-i) suggests, mode composition seems to be different amongst countries. So, let us check the mode composition of these services exports (Figure 6.5). In this figure, countries are arranged by the order of mode 1 share in 2005 for both 2005 and 2017. As Figure 6.5 (a) shows, for ICT services, mode 3 is becoming a more important supply mode of export services in many countries in the ASEAN+6 area. In addition, lower-income countries tend to have larger shares of mode 1, while higher-income countries are likely to have large shares of mode 3 in 2005. In 2017, however, mode composition (or the share of mode 1) is not exactly along the order of income levels. Such a pattern in terms of the relationship between the mode 1 share and income levels in 2005 does not necessarily apply to other business services sectors,

but at least mode 3 is the most important supply mode for about half the countries in the region in 2017.²⁷ These findings indicate that it is important to liberalise market access for incoming FDI in these services sectors, and even developing countries must have a chance to become services exporters quickly by hosting FDI.

Figure 6.5 Mode Composition of Services Exports by RCEP Countries, 2005 and 2017



AU = Australia, BN = Brunei, CN = China, HK = Hong Kong (non-RCEP member), ID = Indonesia, IN = India, JP = Japan, KH = Cambodia, KR = Rep. of Korea, LA = Lao PDR, MM = Myanmar, MY = Malaysia, NZ = New Zealand, PH = Philippines, SG = Singapore, TH = Thailand, VN = Viet Nam, WL = world, ICT = information and communication technology, R&D = research and development.

Notes: The left half is for 2005 and the right half is for 2017. Countries are arranged by the order of the mode 1 share in 2005 for each year. ICT services include telecommunications, computer, information, and audio-visual and related services. Other business services include R&D, professional and management consulting, and technical and other business services (excluding trade-related services).

Source: Authors' calculation, based on TISMOS.

²⁷ There is also a possibility that exporters may substitute between modes, depending on the restrictions in the import markets.

Unfortunately, mode 3 cannot be decomposed into subsectors in the TISMOS database. Thus, the lower part of Figure 6.4 (a-ii and b-ii) decomposes only mode 1, mode 2, and mode 4 of these services into their subsectors. Apparently, most ICT export services are computer services. Now that India has by far the largest, followed by China, Singapore, the Philippines, and Japan, while Japan is by far the largest, followed by India, China, Singapore, and Australia when mode 3 is included as discussed above. Considering the economic size, computer services must be a very important export mode, particularly for India and the Philippines. Importantly, while mode 1 is dominant for ICT services other than mode 3, as expected, a certain amount of ICT services exports is mode 4. This suggests that the movement of professionals is also important to supply these services, so liberalising and facilitating the movement of professionals, in addition to liberalising market access, may be important to activate these services exports.

For other business services, professional and management consulting services are dominant for some countries such as India, Singapore, and China, while technical and other business services are large for others such as Japan, the Philippines, Thailand, Korea, and Thailand. Like ICT services, mode 1 occupies large shares in these services exports, but a certain number of exports is mode 4. Again, this confirms the importance of liberalising and facilitating the movement of professionals in addition to the liberalisation of the market access of these services.

Table 6.3 presents the latest export trend of these two sectors, based on the BOP-based statistics. During the COVID-19 pandemic, trade in services generally suffered from the negative impacts more severely than trade in goods in 2020.²⁸ Even amongst ICT services, however, worldwide exports of computer services increased in 2020 by 8%, unlike other ICT subsectors with an export decrease, and are becoming more important than before. When we look at exports of computer services by individual ASEAN+6 countries that have corresponding data for 2019 and 2020, most of them increased exports in 2020. In addition, in China, India, and the Philippines, computer services have a share of more than 90% in ICT services exports in total.

²⁸ See Ando and Hayakawa (2022b) for the impacts of COVID-19 on trade in services, using quarterly data from 146 countries in 2019 and 2020.

Table 6.3 Latest Export Trend of ICT Services and Other Business Services for RCEP Countries

(a) ICT Services Exports

	Value for 2019	Subsector's share			Change in 2020: ratio of 2020 to 2019 value			
	(\$ mil-lions)	Tele-com-munica-tions	Comput-er	Informa-tion		Tele-com-munica-tions	Comput-er	Informa-tion
Australia	3,867	21.7%	66.6%	11.7%	1.00	1.06	1.04	0.68
Brunei	1	n.a.	n.a.	n.a.	7.94			
Myanmar	150	85.9%	8.3%	5.7%	0.40	0.23	1.39	1.50
Cambodia	87	69.2%	30.8%	0.00%	0.95	0.98	0.90	
China	53,875	4.5%	95.5%	0.00%	1.10			
Hong Kong	3,091	65.1%	31.4%	3.5%	n.a.			
India	64,933	4.4%	95.2%	0.5%	1.05	0.96	1.06	0.86
Indonesia	1,321	70.9%	29.1%	0.00%	0.97	0.84	1.28	
Japan	6,975	20.5%	74.9%	4.7%	1.39	0.67	1.62	0.98
Rep. of Korea	6,16	8.4%	46.8%	44.8%	1.07	1.01	1.14	1.02
Lao PDR	33	100.0%	0.0%	0.0%	n.a.			
Malaysia	2,991	23.1%	70.5%	6.4%	1.07	1.23	1.00	1.21
New Zealand	918	n.a.	n.a.	n.a.	1.06			
Philippines	6,098	7.8%	90.9%	1.3%	0.91	0.79	0.94	0.05
Singapore	15,496	11.8%	85.5%	2.7%	0.99	0.89	1.01	0.86
Viet Nam	723	8.7%	66.5%	24.8%	n.a.			
Thailand	586	82.4%	n.a.	n.a.	0.82	0.65		
World	682,396	13.0%	80.6%	6.4%	1.04	0.95	1.08	0.80

(b) Other Business Services Exports

	Value for 2019	Subsector's share			Change in 2020: ratio of 2020 to 2019 value			
	(\$ millions)	R&D	Professional and management consulting	Technical, trade-related, and other business		R&D	Professional and management consulting	Technical, trade-related, and other business
Australia	8,428	7,50%	48.5%	44.1%	0.91	1.09	0.92	0.86
Brunei	8	0,00%	12.1%	87.9%	0.66		1.59	0.54
Myanmar	1,476	n.a.	n.a.	n.a.	1.06			
Cambodia	117	0.0%	0.0%	100.0%	1.15			1.15
China	73,247	n.a.	n.a.	n.a.	1.03			
Hong Kong	13,834	1.1%	46.9%	52.0%	n.a.			
India	74,004	6.7%	73.3%	20.0%	1.05	1.04	1.08	0.96
Indonesia	6,592	n.a.	n.a.	n.a.	0.77			
Japan	46,671	16.8%	19.2%	64.0%	0.94	0.83	1.08	0.93
Rep. of Korea	23,364	4.4%	10.7%	84.8%	1.05	0.97	1.11	1.04
Malaysia	7,061	6.6%	43.6%	49.7%	0.91	1.20	0.98	0.81
New Zealand	1,391	8.4%	23.2%	68.3%	0.98	0.93	0.97	0.99
Philippines	17,456	0.4%	0.9%	98.7%	1.01	0.75	0.52	1.02
Singapore	62,778	1.1%	69.9%	29.0%	0.95	0.97	0.97	0.90
Viet Nam	336	0.0%	0.0%	100.0%	n.a.			
Thailand	11,682	0.0%	0.0%	100.0%	1.03			1.03
World	1,407,901	14.2%	41.1%	44.7%	0.95	0.96	0.97	0.93

BOP = balance of payments, ICT = information and communication technology, n.a. = not applicable.

Notes: Data are on a BOP basis, so mode 3 is not covered. Unlike Figures 4 and 5, ICT services here do not include audio-visual and related services, while other business services include trade-related services. Hong Kong (non-RCEP member) is included here.

Source: Authors' calculation, based on data available from the WTO STATS.

As for other business services, worldwide exports in three subsectors declined slightly in 2020. Interestingly, however, the percentage change in exports in 2020 is larger than the world average for more than half of the ASEAN+6 countries with corresponding data for 2019 and 2020 in all three subsectors, and some countries even increased exports in 2020. This suggests that ASEAN+6 countries may have the potential to become important exporters of these services.

Trade in global innovator services is still in its infancy in East Asia. However, the importance of such a form of international division of labour will increase. Global innovator services provide digitalised services as well as digitalising services for other industries, both of which are important to promote digital transformation of the whole economy, productivity growth, and people's welfare. Trade restrictions are likely to delay the deployment of digital technology by losing the momentum of technology transfer and spillover. Together with the system of data-related policies (Chen et al., 2019), services trade liberalisation, particularly for digitalised and digitalising services, must be promoted in the framework of regional trade agreements such as RCEP. In that sense, India's participation in RCEP would play an important role. As the trade specialisation coefficients calculated for individual countries in the ASEAN+6 area in Ando, Yamanouchi, and Kimura (2021) suggested, India is competitive in ICT services. Although India is not yet a member of RCEP, its participation in RCEP could enhance the significance of RCEP because India has been and would be a big player in digitised services networks in East Asia and the world as the third unbundling.

Concluding Remarks

RCEP should be not only a concluded agreement with fixed text but also an evolving, living one. In terms of liberalisation and international rule-making, the current agreement does not yet achieve everything that was originally expected, so we must revise and upgrade its contents to support the dynamic international division of labour in East Asia. At the same time, RCEP may play an important role in reducing policy risks due to ad hoc trade policies based on political intension and defending the rules-based trading regime for the regional economy. To do so, the institutional set-up of the RCEP joint committee, sub-committees, and secretariat, which follows the ASEAN tradition, would become crucial. RCEP must contribute to the effort to maintain economic dynamism in East Asia despite increasing geopolitical tensions.

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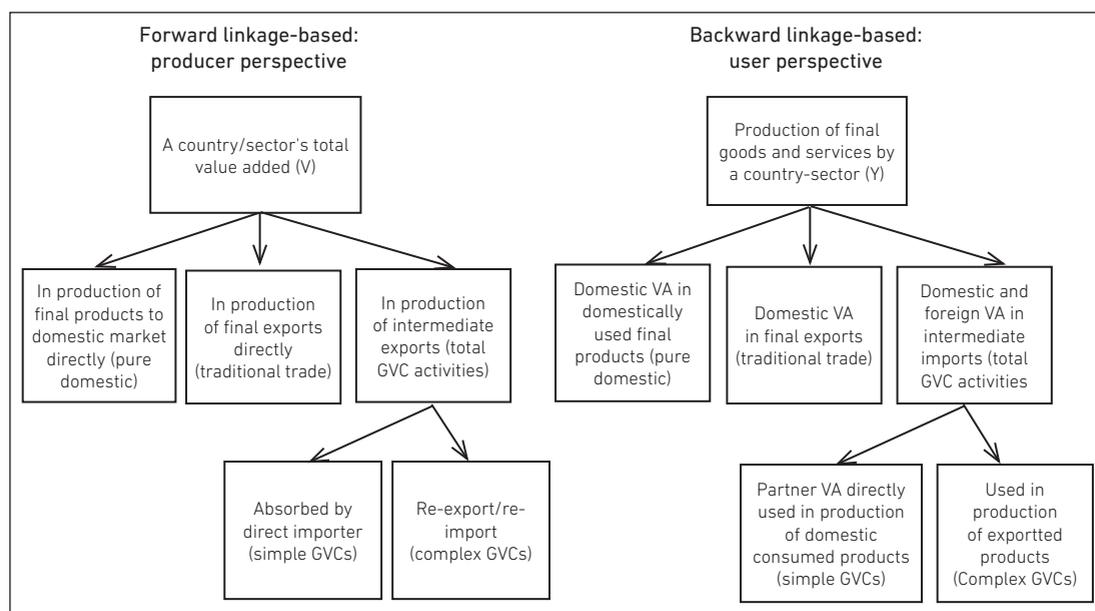
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Appendix A: GVC Participation Index – Concept and Country List

Figure 6.A1 Concept of GVC Participation Index



VA = .value added

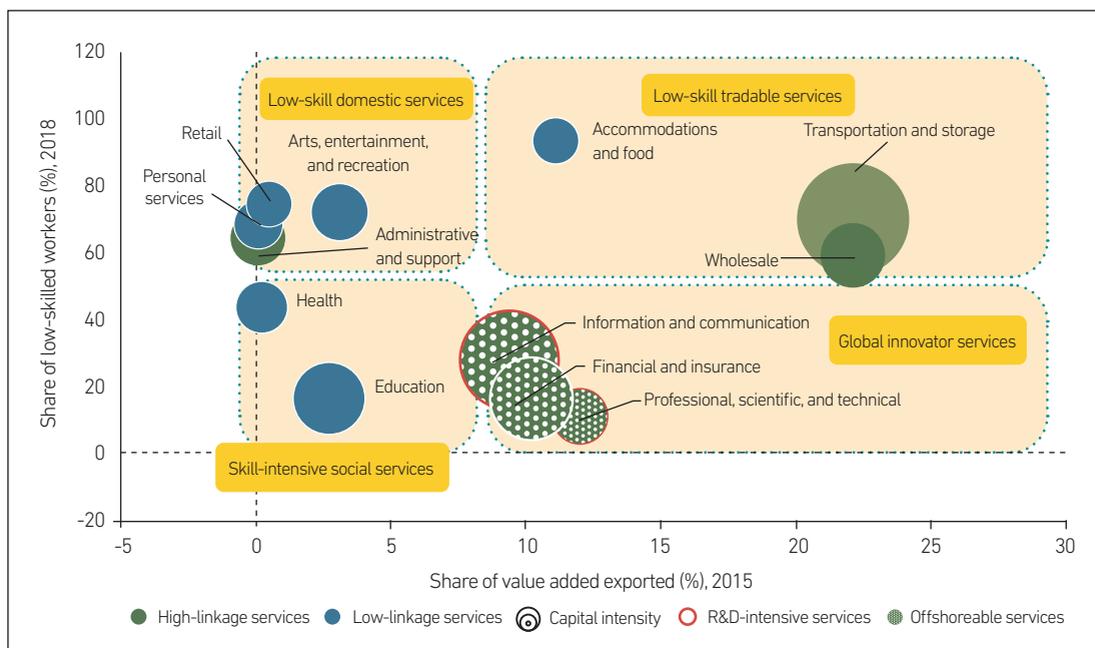
Source: Wang, Wei, Yu, and Zhu (2017).

Table 6.A1 Country List

Group	Countries
RCEP members	Australia, Brunei, Cambodia, China, India, Indonesia, Japan, Lao PDR, Malaysia, Philippines, Rep. of Korea, Singapore, Thailand, Viet Nam
Others (OECD)	Austria, Belgium, Canada, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Mexico, Netherlands, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States
Others (non-OECD)	Hong Kong, Taiwan, Bangladesh, Bhutan, Bulgaria, Brazil, Croatia, Cyprus, Fiji, Kazakhstan, Kyrgyz Republic, Maldives, Malta, Mongolia, Nepal, Pakistan, Rest of the World, Romania, Russia, Sri Lanka,

Appendix B: Typology of Services Subsectors Based on Data for the EU-15 and the US

Figure 6.B1 Concept of GVC Participation Index



EU = European Union, R&D = research and development, US = United States.

Source: Nayyar, Hallward-Driemeier, and Davies (2021).



CHAPTER 7

The Post COVID-19[§] and RCEP: Pandemic Recovery in East Asia

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[§] COVID-19: Coronavirus Disease 2019 ([https://www.who.int/emergencies/diseases/novel-coronavirus-2019/technical-guidance/naming-the-coronavirus-disease-\(covid-2019\)-and-the-virus-that-causes-it](https://www.who.int/emergencies/diseases/novel-coronavirus-2019/technical-guidance/naming-the-coronavirus-disease-(covid-2019)-and-the-virus-that-causes-it))

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The chapter examines the impact of the Regional Comprehensive Economic Partnership (RCEP) on the COVID-19 pandemic recovery of the East Asian countries. Recent studies highlight the positive gains from the RCEP agreement for all 15 of its member countries (Itakura, 2022, Petri and Plummer, 2020; Park, 2022). However, the recovery will be not even across East Asia. The East Asian countries of China, Japan, and the Republic of Korea (CJK) are likely to have the largest gains, as these countries dominate the regional global value chain (GVC) activities. The ASEAN least developed countries of Cambodia, the Lao People's Democratic Republic (Lao PDR), and Myanmar also experience positive gains from RCEP, but need to undertake deeper structural reforms to fully benefit from the agreement. The RCEP framework has elements that will be crucial for the post-pandemic recovery and regional transformation: (i) accelerating and enhancing GVC activities through the single rule-of-origin framework for the 15 RCEP member countries and CJK (China, Japan, and Korea) effects; (ii) services liberalisation and digital transformation in the key services trade of e-commerce, financial, professional, and telecommunications services; (iii) economic cooperation amongst the 15 RCEP member countries to address key contingency issues such as mass vaccination and health infrastructure, protocols for the movement of people, and trade capacity building for ASEAN least developed countries; and (iv) the 'living' nature of the RCEP agreement will be able to create a wider regional integration agenda to address key contemporary issues such as environment and climate change, skills development, green transformation, and developing digital and smart urban centres. ASEAN centrality, as highlighted by the RCEP framework, is critical for the post-pandemic recovery and structural transformation of the region.

Introduction

The Regional Comprehensive Economic Partnership (RCEP), signed on 15 November 2020, is the largest free trade agreement (FTA) in the world. It comprises the 10 Association of Southeast Asian Nations (ASEAN) Member States (Brunei, Cambodia, Indonesia, Lao People's Democratic Republic (Lao PDR), Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam) and five countries in the region with which ASEAN has FTAs – Australia, China, Japan, the Republic of Korea (henceforth, Korea), and New Zealand.^{1,2} RCEP came into effect on 1 January 2022 with the ratification of six ASEAN Member States (Brunei, Cambodia, Lao PDR, Thailand, Singapore, and Viet Nam) and four non-ASEAN member countries (Australia, China, Japan, and New Zealand).

¹ India has opted out of the agreement, but the RCEP agreement allows for it to join in the future.

² The ASEAN Leaders adopted the ASEAN Framework for the RCEP during the 19th ASEAN Summit in November 2011 in Bali, Indonesia. The Joint Declaration of Ministers for launch of RCEP negotiations was made on 20 November 2012 during the 21st ASEAN Summit in Phnom Penh, Cambodia.
https://www.mofa.go.jp/mofaj/press/release/24/11/pdfs/20121120_03_01.pdf

RCEP is the largest global trading bloc in the world, with a combined population of 2.2 billion (30% of the world population), total regional gross domestic product (GDP) of around \$38,813 billion (30% of global GDP in 2019), and nearly 28% of global trade. It sets an important agenda for trade and investment in global trade in terms of opening large domestic markets (demand), releasing huge resources for trade and investment, and creating dynamic regional and global value chain activities.

This chapter examines the impact of the RCEP agreement on ASEAN and the ASEAN least developed countries (LDCs) in the post-pandemic (COVID-19) recovery. RCEP has elements that will be crucial for the post-pandemic recovery and regional transformation, such as (i) a single rule-of-origin framework for the 15 member countries, which could have an accelerating and enhancing impact on global value chains (GVCs) in the region; (ii) the key element of the China–Japan–Korea (CJK) effect, as the RCEP agreement is the first FTA for trade and investment amongst these countries; (iii) elements for digital transformation and services liberalisation in crucial services trade in e-commerce, financial, professional, and telecommunications services; and (iv) ASEAN centrality, which is critical for the post-pandemic recovery and structural transformation of the region in terms of sustainable and inclusive growth.

The impact of RCEP on the East Asian region could be significant as the largest global trading bloc. Its impact in the post-pandemic recovery will be important in terms of strengthening the GVC (GVC activities) and creating structural transformation for ASEAN and its LDCs in the region. For example, RCEP has a new dimension in its rules of origin (RoO) that will develop and expand the regional and global supply chain activities in East Asia (Sawada, 2020). The technical cooperation and capacity building elements of the RCEP agreement allow the ASEAN LDCs to implement key reforms and liberalisation policies to induce structural transformation in their respective economies to fully benefit from regional FTAs. The 'special and differential treatment' of ASEAN LDCs in the RCEP agreement allows the respective member countries sufficient flexibility to undertake the necessary and sufficient reform policies to fulfil the commitments in the FTA (Sawada, 2020; ADB, 2020; ASEAN, 2020a). As RCEP is a 'living' agreement, it will be able to address current and key issues for sustainable regional integration.

The chapter is organised as follows. In section 2, we examine the challenges of regionalism and the importance of RCEP in managing regional integration. Section 3 highlights the importance of RCEP for the pandemic and post-pandemic (COVID-19) recovery. Section 4 provides policy discussion.

Challenges of Regionalism and Importance of RCEP

For the past decade, East Asia has been facing rising protectionism and anti-globalisation in regional and global trade, which will have a large impact on growth and development in the region (Rodrik, 2021). The United States (US)–China trade war tensions will have a significant impact on regional trade and investment in terms of the inward-looking policies and the decoupling effects of the GVC to more developed countries away from China and East Asia (Bown and Irwin, 2019; Evenett and Fritz, 2019).

Uneven Impact of Globalisation in Pre-COVID-19 Era

Several key factors account for the uneven impact of globalisation and trade.

- (i) The gains from trade are unevenly distributed and biased against the unskilled. UNCTAD (2013) showed an uneven distribution of gains from trade in India. Although trade increases the wages of unskilled workers, the study observed that 70% of the income generated from trade goes to the top two income groups. The study also highlighted that the impact of trade on wages depends on the export intensity of the industries. Firms that are less skilled and more labour-intensive, such as the garment and textiles and agricultural sectors, tend to experience less gains from trade in terms of wage increases for the unskilled and less educated (UNCTAD, 2013).
- (ii) As growth increases with trade in more open economies, these countries experience a widening wage gap (between skilled and unskilled workers) and polarisation of semi-skilled jobs (Thangavelu and Wang, 2021). In recent years, ASEAN Member States (AMS) have experienced a large decline in the share of semi-skilled jobs (mostly white-collar jobs) compared with unskilled and skilled jobs. This has a direct impact on the income and wealth of middle-income households.
- (iii) Although trade is increasing, we are also experiencing the rise of protectionist policies in East Asia (Thangavelu, 2021). For the past 2 decades, East Asia has been facing protectionist policy challenges from increasing anti-globalisation trends in regional and global trade. The rise in protectionist policies is reflected in the increasing trends of country-level new trade interventions since 2009, as shown by Global Trade Alert (Thangavelu, 2021). Harmful interventions, as defined by Global Trade Alert (n.d.), accounted for nearly 72% of the total state-level interventions from 2009 to 2021.³ As indicated in Figure 7.A1 in the Annex, the peak of state-level new trade interventions by end of 2018, 1 year after President Trump was elected to office in the US (Annex, Figure 7.A1).

³ Global Trade Alert (n.d.) defines harmful measures (in terms of colour codes) as follows: (i) red colour code: the intervention almost certainly discriminates against foreign commercial interests; (ii) amber colour code: the intervention likely involves discrimination against foreign commercial interests; and (c) green colour code: the intervention liberalises on a non-discriminatory (i.e. most favoured nation) basis or improves the transparency of a relevant policy.

- (iv) Over the past 2 decades, East Asia has experienced massive movement of skilled and unskilled workers, especially international mobility of unskilled workers. The impact of international labour mobility has a direct impact on the wages of unskilled workers and the vulnerability of the local people.
- (v) Trade has a more direct impact on the income and wealth of tradable sectors in urban centres compared with rural centres, creating a rural–urban divide and growth tensions between rural and urban populations.

The key to managing the uneven effects of globalisation and trade in East Asia is to recognise the real impacts of trade in the domestic economy and the region. Balancing the gains of trade with inclusive growth will be the key policy challenge for East Asia as the intensity of anti-trade populism increases in the region and the rest of the world.

Uneven Impact of the COVID-19 Pandemic in the Region

The coronavirus disease (COVID-19) pandemic shock will also increase and intensify the vulnerability of openness and induce more inward-looking policies. The uneven impact of the COVID-19 pandemic shock on unskilled workers and increasing digitalisation in the economy will widen the welfare gap between the skilled and unskilled in the economy (World Bank, 2021). The uneven impact of COVID-19 is also apparent within and between countries, especially as the negative impact is more severe in developing and LDCs that do not have sufficient fiscal resources to mitigate and cushion the economy and people from the pandemic shock.

The COVID-19 pandemic shock in early 2020 disrupted key economic activities within and between countries, as well as regional and global trade and investment. The key dimension of the COVID-19 pandemic shock is the diversion from open economic policies to more inward-looking policies (Kimura et al., 2020). The pandemic shock is likely to have long-term impacts on regional growth. The long-term impacts are expected to induce structural transformation in the region through (i) adopting more digital technology, (ii) intensifying technology adoption and streamlining the supply process in the GVC and to make the GVC more resilient to economic shocks, (iii) transforming human capital and skills via restructuring to a more technology-intensive and skills-based GVC, (iv) increasing the fragmentation of the production process across the countries participating in the GVC, (v) adopting and investing in communications technology to increase the agglomeration of manufacturing and services activities in the region, and (vi) increasing investment in digital and communication infrastructure in the region. These structural transformations will have a significant impact on GVCs in the region and a direct impact on the production structures of ASEAN and its LDCs.

The structural transformation through digitalisation and innovation is expected to change both the consumption patterns as well as the production structures of the GVC in the region. The digitalisation of the GVC will change consumer behaviour and preferences by reducing the face-to-face costs of transactions and will shorten the average product delivery time to consumers. This will strengthen the consumer market and services activities in the region, increasing opportunities for small and medium-sized enterprises (SMEs).

The production structure is also expected to change with digitalisation, as investment in automation and artificial intelligence in the post-pandemic recovery to mitigate the risk of labour-intensive activities and exposure to future pandemic effects. This structural transformation of production is expected to affect industrial activities such as garments, clothing, and textiles; and also key services sectors such as logistics GVCs, thereby reducing the demand for labour.

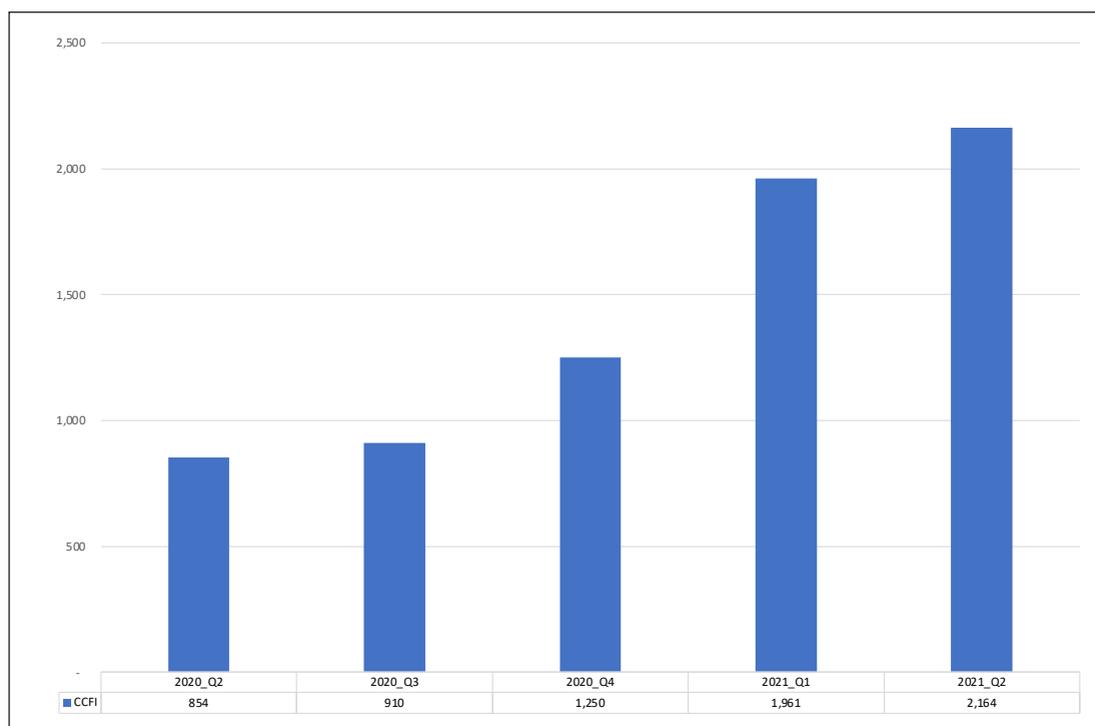
Rising Border and Behind-the-Border Trade Costs Due to Pandemic Shock

The pandemic shock has increased the cost of trade at the border and intensified behind-the-border issues – increasing barriers to trade in goods and services in ASEAN and East Asia. Rising trade costs at the border and behind-the-border issues directly affect trade in goods and services in East Asia and GVC activities (Baldwin and Evenett, 2020; World Bank, 2022).

Recent studies by UNCTAD (2021a, 2021b) have highlighted the rise in border and behind-the-border issues from the increasing logistics and maritime freight costs due to bottlenecks in the logistics supply chains, which directly affect goods and services trade in the GVC production activities. As indicated in Figure 7.1, the China Containerized Freight Index (CCFI)⁴ is given from 2018 to 2020. At the beginning of the pandemic shock, the CCFI stood at 854 points in the first quarter of 2020, and it surged beyond 2,164 points in the second quarter of 2021. The surge in rising freight costs in the second quarter of 2021 was due to increasing demand from the improvements in economic conditions from COVID-19, due to the pandemic policy of vaccinations and less border restrictions. The studies highlighted that the rising freight costs are also due to backlogs and longer waiting times – especially in the China–US trade lanes – leading to higher fees and surcharges. For example, the Shanghai Containerized Freight Index was only \$1,600 per 40-foot equivalent unit (FEU) in April 2020 but escalated to \$5,200 per FEU in July 2021, although this routed capacity expanded by nearly 7% in the first quarter of 2021.

⁴ The CCFI tracks spot and contractual freight rates from Chinese container ports for 12 shipping routes across the globe, based on data from 22 international carriers.

Figure 7.1 China Containerized Freight Index, 2020-Q2 to 2021-Q2

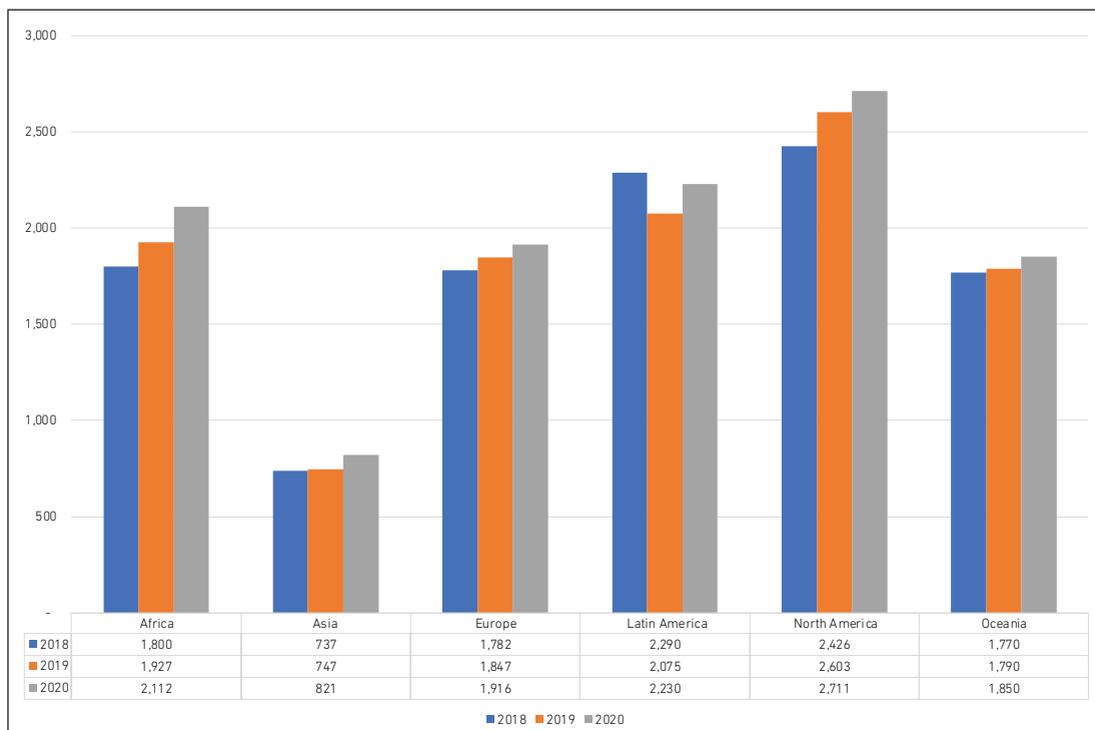


CCFI = China Containerized Freight Index, Q = quarter.

Source: UNCTAD (2021a).

The UNCTAD (2021a) study highlighted that the impact of rising border and behind-the-border costs are also significant in East Asia. Figure 7.A1.3 (Annex) shows the contract freight rates (\$ per 40-foot container) by region from 2018 to 2020. Contract freight rates for containers rose by 7.5% from Asia to North America and Europe from 2018 to 2020; by nearly 4.1% from Asia to North America between 2019 and 2020; and by nearly 9.6% for Africa and 9.9% for Asia, respectively, from 2019 to 2020. The increase in the intra-regional contract freight cost for Asia of 9.9% reflects the rising cost of border and behind-the-border issues, which will have a direct impact on trade and economic recovery in the region (see Figure 7.2).

Figure 7.2 Contract Freight Rates from Asia to Other Regions, 2018–2020
(\$ per 40-foot container)



Source: UNCTAD (2021a).

Impact of Logistics and Transport Cost (Freight) on GVC Activities

The rising logistics and transport costs from freight charges will have a direct impact on the prices of imported goods and intermediate goods, which is expected to have a direct impact on the GVC activities in the region (UNCTAD, 2021a, 2021b).

The UNCTAD (2021a) study also imputed (simulated) the rising freight costs in relation to commodity prices and the cost of production. It is clear that rising border and behind-the-border costs will have a direct impact on GVC activities in the region. In Figure 7.3, the simulated cost of commodity prices shows that the largest increase will be in Computer, Electronics, and Optical products (11.4%); Furniture and Other Manufacturing (10.2%); Textiles, Wearing Apparels and Leather products (10.2%); Rubber and Plastics (9.4%); Pharmaceutical products (7.5%); Electrical Equipment (7.5%); Other Transport Equipment

(7.2%); Motor Vehicles, Trailers, and Semi-trailers (6.9%); and Machinery and Equipment (6.4%). According to Figure 7.4, the simulated results of rising freight costs show that the production cost will increase by 1.4%, intermediate goods will rise by 3.1%, and imports will climb by 11.9%. The rising cost of production and imports of intermediate inputs will directly affect the supply-side activities of the GVC in the region.

Figure 7.3 Simulated Impact of Rising Freight Charges on Commodity Prices (%)

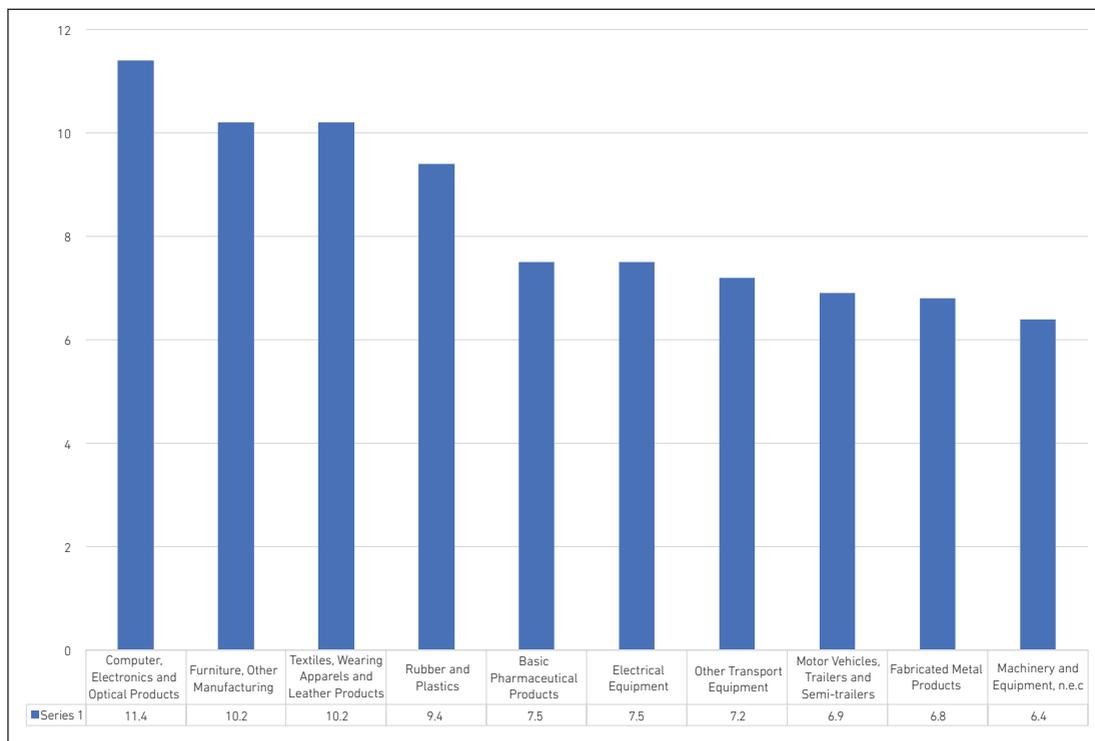
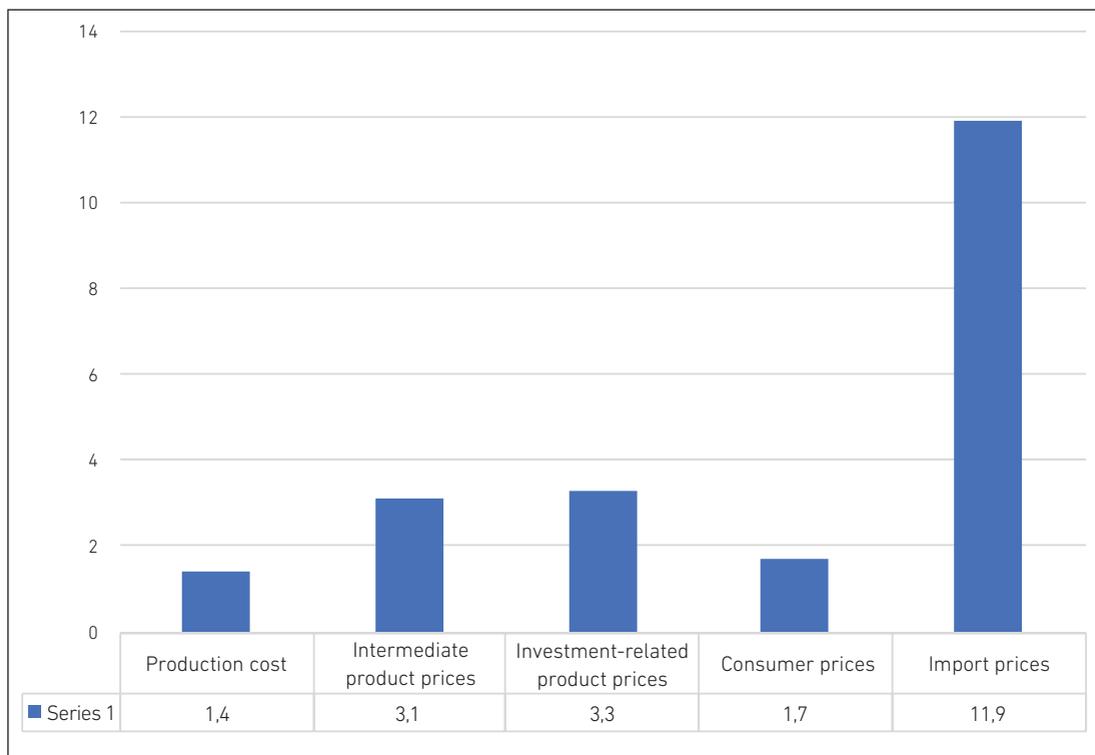


Figure 7.4 Simulated Impact of Rising Freight Cost on the Cost of Production Activities



Source: UNCTAD (2021a).

Significance of RCEP for Managing Regional Integration

It is important to highlight the key role of RCEP in balancing the uneven impact of the trade and pandemic shocks in East Asia. In the subsequent sections, we discuss the importance of RCEP for the pandemic recovery and for creating sustainable growth in East Asia.

Significance of RCEP in Sustainable and Inclusive Growth in the Post-Pandemic Era

RCEP is a critical framework for global trade and regionalism, given the current context of uncertainty and inward-looking policies induced by COVID-19 pandemic and the US–China trade war. It provides the key impetus for global trade and investment and shifts the domestic and regional activities in East Asia to open regionalism and global trade and investment. RCEP is based on four key elements of regional integration: (i) rules-based trade and investment, (ii) market access, (iii) economic cooperation, and (iv) ASEAN centrality. These four key elements are important for East Asia and ASEAN regional recovery in the post-pandemic era and to move the region to the next stage of inclusive and sustainable growth in regionalism and regional and global production value chain activities.

The impact of RCEP will be significant for ASEAN and its LDCs (Itakura, 2022; Park, Petri, and Plummer, 2021; Park, 2022). The dynamic Computable General Equilibrium (CGE) analysis by Itakura (2022) highlighted the positive impact of the RECP on GDP for all RCEP members throughout the 2030s, particularly for the scenario with deeper trade and investment facilitation and addressing behind-the-border issues (S4: tariff reduction, services liberalisation, logistic improvements, and investment facilitation). Cambodia, the Lao PDR, Myanmar, and Viet Nam (CLMV) are particularly likely to have significant positive gains, given their young populations and GVC effects from the CJK effects. This is significant for Cambodia and Viet Nam, which are at a critical stage – shifting to the next stage of growth in the regional and global production value chain activities. For example, ASEAN LDCs such as Cambodia are positioning themselves for higher GVC activities and emerging as an important focal point for regional and global value chain activities in ASEAN and East Asia. Park (2022) highlighted that RCEP will generate more significant gains than the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) for RCEP member countries.

RCEP also provides a new regional integration framework for trade and investment that builds on bilateral FTAs to form multilateral FTAs such as the ASEAN+1 FTAs (Table 7.1): ASEAN–China, ASEAN–Korea, ASEAN–Japan, and ASEAN–Australia–New Zealand FTA initiated in early 2000.

Table 7.1 Building Blocks for Regional FTAs – ASEAN + 1 FTAs

ASEAN + 1 FTAs	Date in effect
ASEAN–China FTA	July 2003
ASEAN–Korea FTA	June 2010
ASEAN–Japan FTA	December 2008
ASEAN–Australia–New Zealand FTA	January 2010
ASEAN–India FTA	January 2011

ASEAN = Association of Southeast Asian Nations, FTA = free trade agreement.

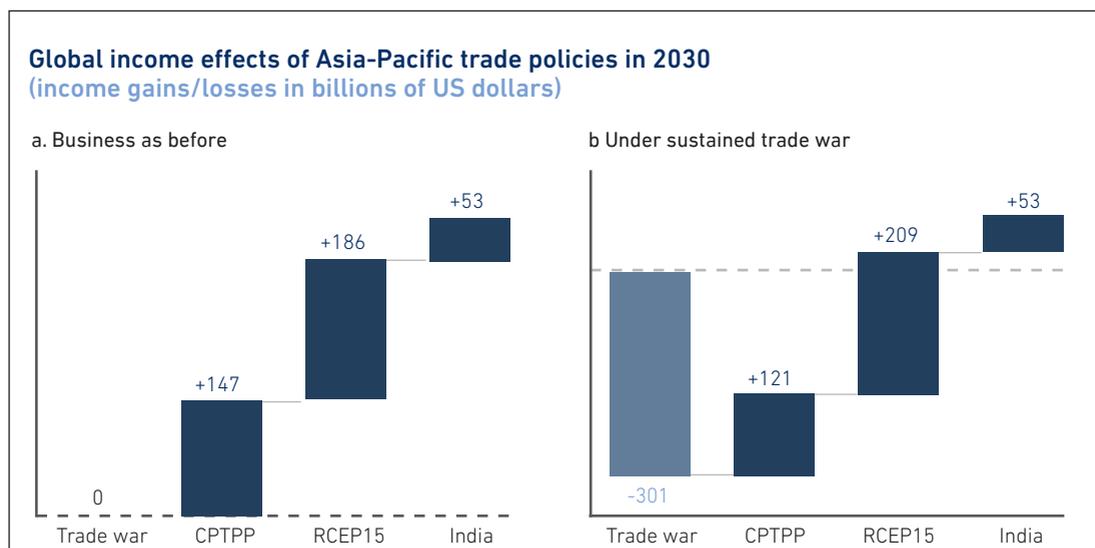
Source: Enterprise Singapore (n.d.).

RCEP provides a greater platform for regional integration in terms of opening up the domestic and regional markets for further trade and investment integration. The key element of RCEP is to drive deeper regional integration for Asia from the existing ASEAN+1 FTAs, to eliminate more than 65% in tariffs and quotas in goods trade upon its entry into force, in addition to those observed in ASEAN+1 FTAs (ASEAN, 2020a; 2020b).

Mitigating Impact of RCEP on the Economic Shock in East Asia

The economic impact of RCEP as a regional trading bloc will contribute significantly to East Asia mitigating the negative effects of the US–China trade war and the COVID-19 pandemic shock (Plummer and Petri, 2020; Park, Petri, and Plummer, 2021). Figure 7.1 shows the impact of RCEP on East Asia, as well as the negative impact of the US–China trade war on the region. The trade agreement under RCEP creates a positive impact on output in the region – mitigating the negative effect of the US–China trade war through market access, creating greater flexibility in the GVC, and inducing better technology adoption in the region. The figure also shows that RCEP has a more significant impact than the CPTPP (see Figure 7.5).

Figure 7.5 Economic Impact of RCEP and CPTPP on East Asia



CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership

RCEP = Regional Comprehensive Economic Partnership

Note: "Business as before" assumes a return to a pre-trade war path; "Sustained trade war" assumes path defined by post-phase one tariffs. Bars show incremental effects of adding each policy to all previous policies. The policy denoted "India" involves adding India to the RCEP15 agreement to form RCEP16.

Source: Petri and Plummer (2020).

Park, Petri, and Plummer (2021) also found a positive impact of RCEP on mitigating the negative impact of the US–China trade war on East Asian countries. The study highlights that RCEP is expected to mitigate the impact more than the CPTPP by generating positive output growth. According to Park, Petri, and Plummer (2021), the US–China trade war is expected to reduce world GDP by 0.38%. The adoption of the CPTPP will offset the negative effect by 0.14%, while RCEP will offset the negative impact by 0.33% on top of the CPTPP effects. The gains from RCEP, in addition to the impact of the CPTPP, are positive for all RCEP member countries.

RCEP also reflects the importance of the CJK effects in the region. The CJK countries are likely to have the largest gain from RCEP, mainly because they dominate the regional GVC activities. China reaps the largest gains from RCEP activities (Petri and Plummer, 2020). The key benefits from RCEP depend critically on the participation and positioning of the respective AMS in the GVC in both manufacturing and services. This is reflected by Indonesia, Malaysia, Thailand, and Viet Nam. The ASEAN LDCs – Cambodia, the Lao PDR, and Myanmar – are also expected to have positive gains from RCEP.

Key Elements of RCEP for the Post-Pandemic Era for Sustainable Growth

RCEP also has several key elements that will be crucial for sustainable regional transformation:

- (i) A single RoO framework for the 15 member countries could have an accelerating and enhancing impact on GVCs in the region. RCEP includes an agreement for a single RoO framework that could be applied across the agreement's 15 member countries. A recent study by the authors (Thangavelu, Narjoko, and Urata, 2021) highlighted that the co-sharing rule adopted in RCEP is less restrictive across other forms of RoO and regulations. Under RCEP, businesses need to show that a product has a regional value content level of 40% or has undergone a change in tariff heading at the 4-digit Harmonized System (HS) code level of classification. The single RoO framework under RCEP will have important implications for GVC activities in the region in terms of greater intra-industry trade and investment, and is likely to create more value-added activities in the region.
- (ii) It has the key element of the CJK effect, as the RCEP agreement sets the first free trade arrangement for trade and investment for these countries. The CJK impact could be significant and could have a positive impact on ASEAN and its LDCs in terms of greater flows of goods and services in the region. The CJK framework under RCEP is expected to intensify the GVC network and activities in the region – increasing the trade and investment activities of AMS that have strong trade linkages to CJK. ASEAN LDCs such as Cambodia are in a unique position to take advantage of the trade linkages to the CJK framework under RCEP and structurally transform their domestic economies.
- (iii) The RCEP agreement also has crucial elements for services liberalisation in key services trade – e-commerce, financial, professional, and telecommunication services. These services will be critical for structural transformation in the post-pandemic recovery in terms of the digital transformation of services in the East Asia region. The digital transformation of services will also accelerate the services linkages in GVCs and the servicification of manufacturing activities (Thangavelu, Wang, and Oum, 2018).

Under RCEP, services trade is expected to grow, as nearly 65% of services in member countries will open up for trade and investment. The service sector liberalisation under RCEP also highlights a shift from the 'positive list' approach adopted in ASEAN+1 FTAs, where only certain service sectors are open for trade and investment, to the 'negative list' approach adopted in RCEP, where most service sectors are open for trade and investment unless specifically excluded. RCEP

members are also given a certain period to shift to the negative list approach after entering into the agreement. The negative list approach reduces uncertainty in service sector liberalisation and increases regional trade and investment in service sectors.

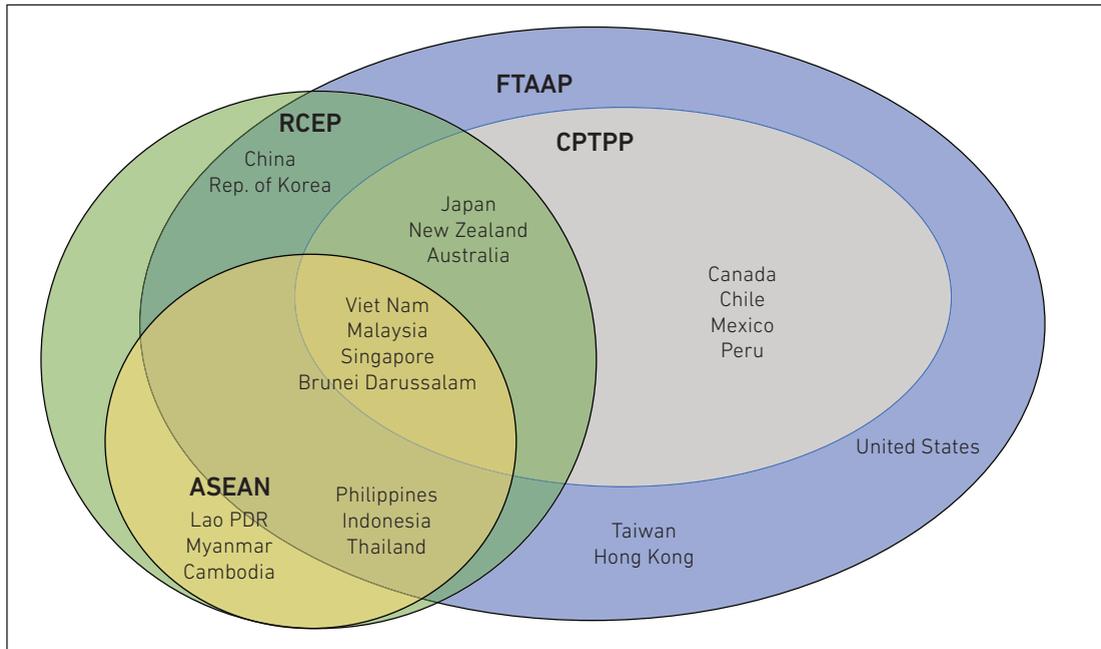
(iv) The RCEP agreement has the key feature of economic cooperation and technical assistance. Under the RCEP agreement, there is differential treatment for member countries to implement the RCEP commitments and economic cooperation support for domestic capacity building and trade reforms in the domestic economy. In particular, technical assistance for human capital development, regional vaccination cooperation, green transformation, and infrastructure investment will be a key area of consideration (Armstrong and Drysdale, 2022). We provide further detail discussion below.

Importance of ASEAN Centrality for Post-Pandemic Transformation

One of the key features of RCEP is the role of ASEAN as the centre of activities for the multilateral FTA. ASEAN centrality is critical for sustainable economic development and regional integration in ASEAN and East Asia.

The East Asian regional integration architecture is shown in Figure 7.6. The centrality of ASEAN is clearly reflected in RCEP in terms of adopting the institutional structure of ASEAN, such as RCEP Secretariat, and as market-driven regional integration. The RCEP Secretariat is expected to maintain the breath of trade and investment across the 15 member countries due to the vast economic and institutional diversity to meet the RCEP commitments, and ASEAN with the ASEAN Secretariat will create the dynamism and depth of integration in terms of deeper economic cooperation in East Asia by accessing new markets and deepening integration through connectivity and technological innovation. ASEAN centrality is critical for the post-pandemic recovery and structural transformation of the region in terms of sustainable and inclusive growth. ASEAN centrality is further necessary for enhancing regional cooperation and inducing greater liberalisation and deeper structural reforms in the region for all AMS to fully benefit from the RCEP agreement.

Figure 7.6 Regional Trade Groupings in East Asia



ASEAN = Association of Southeast Asian Nations, CPTPP = Comprehensive Progressive Trans-Pacific Partnership, FTAAP = Free Trade Area of the Asia Pacific, RCEP = Regional Comprehensive Economic Partnership.

Source: Authors.

Policy Discussion: The Role of RCEP in Balancing the Trade and Pandemic Shocks

The economic impacts of RCEP as a regional trading bloc are significant for East Asia to mitigate the negative effects of trade and economic shocks, such as the US–China trade war (Petri and Plummer, 2020; Park, Petri, and Plummer, 2021). The trade agreement under RCEP is also expected to create positive impacts on output in the region, mitigating the negative effects of the COVID-19 pandemic shock.

A recent study by Petri and Plummer (2020), accounting for only the US–China trade war, highlighted that all RCEP member countries would gain from the trade agreement, and no member country would experience a negative impact (Singapore and Brunei have the smallest marginal gains). RCEP also reflects the importance of the CJK effects in the region, as it provides the first free trade arrangement for CJK that allows for greater movement of goods and services in the region.

The key benefits of RCEP depend critically on the participation and positioning of the respective AMS in GVCs for both manufacturing and services. This is reflected in the gains of Indonesia, Malaysia, Thailand, and Viet Nam, which have stronger GVC participation in regional and global value chain activities. The ASEAN LDCs – Cambodia, Lao PDR, and Myanmar – also experience positive gains from RCEP but need to undertake deeper structural reforms to fully benefit from the agreement.

The importance of regional cooperation under ASEAN and Asia-Pacific Economic Cooperation (APEC) and multilateral trade arrangements such as RCEP – in balancing sustainable and inclusive growth from trade – will be fundamental to manage the impact of globalisation in the region.

The RCEP agreement has a broad framework in terms of economic and technical cooperation (chapter 15) and institutional provisions (chapter 18) to support recovery from the pandemic shock. Technical and economic cooperation (chapter 15) under RCEP could provide the framework to address key concerns to mitigate the pandemic shock. The chapter allows for 'narrowing the development gap and maximizing the mutual benefits for the implementation and utilization of the agreement' (Chapter 15, page 15-1). Under the economic cooperation framework, RCEP could address key issues at the broad and sectoral level related to trade and investment. The institutional provisions under RCEP provide a 'living' agreement framework, setting up specific RCEP Joint Committee to address and review issues related to (i) trade in goods; (ii) trade in services and investment; and (iii) sustainable development in terms of SME development, technical and economic cooperation, and other emerging issues.

Impact of RCEP to Balance the Trade and Pandemic Shocks

World Bank (2022) highlighted the emerging challenges for the global and regional pandemic recovery in terms of macroeconomic imbalances due to higher fiscal debt, supply chain bottlenecks, the widening skilled gap, the increase in poverty, and the importance of the resilience of the GVC. The RCEP economic cooperation and institutional provisions could address the following key issues for regional sustainable recovery from the pandemic shock.

- (i) There is a need to review the rising trade costs at the border and behind the border for the RCEP member countries. The rising trade and transaction costs will have a significant impact on the recovery of developing countries – particularly the recovery of the ASEAN LDCs. UNCTAD (2021a) highlighted the rising cost of production caused by higher intermediate input and import prices directly affecting the efficiency and effectiveness of the regional and global value chain activities. Under technical and economic cooperation, there could be a coordinated effort to identify, monitor, and

address the rising border and behind-the-border trade costs. This is critical for developing the resilience of the GVC activities to rising transaction and trade cost in the region. The issues of rising border and behind-the-border issues from the pandemic shock on RCEP member countries could be reviewed under the institutional provision of the RCEP Joint Committee on Goods.

- (ii) It is likely that the trade and transaction costs will differ across developing and less developed RCEP member countries, hence differential technical and economic cooperation is essential to balance the uneven effects of trade and the pandemic in the region. The differential treatment and support for ASEAN LDCs are a critical part of the RCEP framework to address countries at different stages of growth and the diversity of the RCEP members.
- (iii) The COVID-19 pandemic has uneven economic and social impact on domestic economies and region. The unbalanced effects of the pandemic shock are also felt across sectors as labour-intensive and labour-movement sectors such as garment and textiles in the manufacturing sector and key services such as tourism, logistics, and aviation industries. It is important to review the uneven impact of the pandemic shock across the sectors, and policies could be targeted at supporting the recovery of these labour-intensive industries.
- (iv) The post-pandemic impact will be significant on traditional services trade, which depends on the movement of people, such as through tourism, aviation, and logistics. These industries are critical for ASEAN LDCs in terms of employment and the participation of SMEs. These industries are not expected to recover in the short run until a framework for the movement of people in the region is established. RCEP could provide a platform to develop a framework for the movement of people in the 'new normal' GVC activities.

Impact of RCEP in Creating Sustainable and Inclusive Integration

RCEP is a 'living' agreement, which allows it to address current key issues that affect regional integration in terms of trade and investment under the institutional provisions (chapter 18). The following are the current important issues that RCEP should address urgently for sustainable and inclusive integration of the region.

- (i) The effect of the pandemic shock tends to be felt more by unskilled and older workers. It also has an uneven impact on gender and increases the vulnerability of females in the labour market and households. There could be more support under economic cooperation to increase the technical education and skills of vulnerable groups affected by the pandemic. Economic cooperation to support skills development for the ASEAN LDCs could be undertaken with the support of other international organisations such as the World Bank and the Asian Development Bank.

- (ii) The effects of the pandemic are also felt unevenly on larger firms and SMEs. Given that larger firms have more access to financial markets and banks to leverage their risk of pandemic shock, it is likely that SMEs are 'crowded out' of the financial markets and banks. There is a need to review the financial inclusiveness of SMEs due to the pandemic shock.
- (iii) The RCEP framework also allows member countries to address economic cooperation to develop the regional and domestic capacity to create a more resilient region against external shocks such as the pandemic. Under the RCEP economic cooperation framework, a regional platform for the consideration of mass testing and vaccination rollout against the COVID-19 virus could be an important area of cooperation. This could be critical for ASEAN and its LDCs in the post-pandemic recovery due to the lack of fiscal resources and health infrastructure in these countries. The regional platform for mass testing and vaccination rollout could be reviewed under the RCEP Joint Committee for Sustainable Development.
- (iv) The pandemic has also increased the vulnerability of the fiscal status and sustainability of many East Asian countries and AMS. There is a need to review the fiscal sustainability of the RCEP member countries and to develop a platform for short-term loan support that could be provided under the RCEP framework of economic cooperation.
- (v) RCEP will provide domestic and regional platforms for the structural transformation of GVCs in the post-pandemic recovery. With the persistence of the COVID-19 pandemic, in terms of its restrictions on the movement of people and border lockdowns for more than 15 months (since the virus was first observed in December 2019 in China), the risks and costs of the COVID-19 pandemic for businesses have increased. The higher risk from the COVID-19 pandemic will induce most multinational firms to undertake digital innovation and automation, which will directly affect the GVC activities in the region. This will have implications for domestic industrial activities in manufacturing and services. ASEAN LDCs must undertake policies to induce structural transformation of their industries to higher value-added activities, which will support the GVC activities induced by the CJK effects through RCEP. For example, Obashi (2022) highlighted the rising GVC activities in computers, electronic and electrical products, and transport equipment for Cambodia and Viet Nam. However, there is a need to accelerate the structural transformation of these industries, especially in Cambodia, to increase GVC participation in parts and components. Structural transformation in ASEAN LDCs, such as Cambodia, could be through investing in critical infrastructure, upgrading their Special Economic Zones, or improving the skills and human capital of workers.
- (vi) Digital transformation will accelerate in the post-pandemic recovery and will have a direct impact on services activities and services trade in the region. AMS should develop a policy framework to manage the structural transformation of the services

sector through digital innovation and automation. RCEP could provide the framework to manage the structural transformation of services trade and investment in the post-pandemic period (Ando, Kimura, and Yamanouchi, 2022).

- (vii) During the pandemic recovery, we expect an intensification of the unbundling effects of production and economic activities in the global production value chains, facilitating participation by developing economies, which is important for the structural transformation of East Asian countries and AMS. These processes, in both goods and services value chains, will be intensified by the application of digital technologies. We also expect the acceleration of digital and services trade in the next phase of growth in East Asia (Ando, Kimura, Yamanouchi, 2022; Findlay and Roelfsema, 2022).
- (viii) Under economic cooperation, the development of skills and capacity building of workers will have an important priority under the RCEP agreement. As the region and domestic economies experience structural transformation, it will be important to create the relevant skills for the next stage of growth of the region. Economic cooperation under RCEP could play an important role.
- (ix) The RCEP framework could also address key issues related to climate change and the environment, green transformation of the region in terms of trade and infrastructure, and the development of new urban centres to drive the next phase of economic growth in East Asia.

The objectives of RCEP are to develop a stronger regional integration framework in East Asia that is built on a strong foundation of open regionalism and supporting market and rules-based principles. With rising anti-globalisation and protectionism in East Asia and globally, the market and rules-based trading framework under RCEP will be important in achieving sustainable and strong regional integration and a stable global trading framework. It is critical to emphasise a market and rules-based trading framework that will strengthen and deepen the regional integration of East Asia. Although we recognise the overall positive impacts of RCEP, it is important to keep in mind that multilateral FTAs like RCEP will generate negative impacts from the trade diversion effects. Recognising this point, it is important to expand the membership or multilateralise RCEP, and eventually lead the way to global free trade under the World Trade Organization to eliminate the trade diversion effects.

It is also important to note that RCEP, as a 'living' agreement under the institutional provisions, will be able to address current economic and social issues such as climate change, green transformation, urban agglomeration and trade, skills and human capital development, and digital transformation of the region. ASEAN centrality should play an important role in creating more forward-looking regional integration in East Asia.

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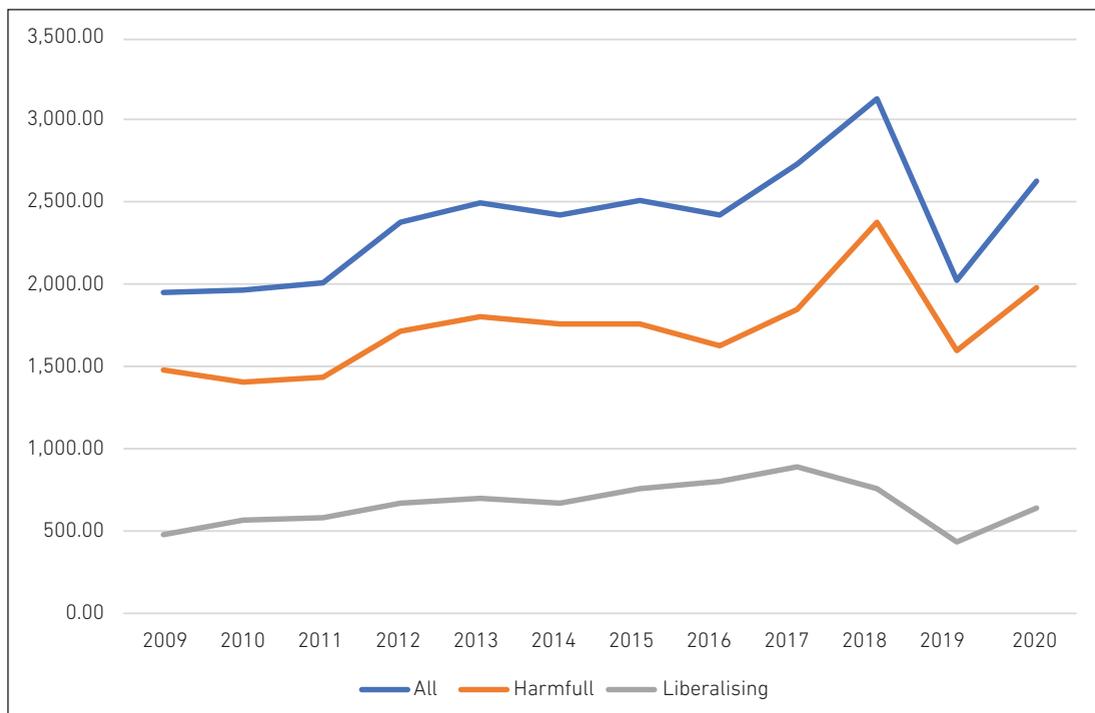
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APPENDIX

Figure 7.A1 Number of New Trade Interventions by Countries
(Harmful and Liberalising), 2009–2020



Source: Global Trade Alert (n.d.).



CHAPTER 8

Potential Impact of RCEP and Structural Transformation on Cambodia[§]

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This chapter examines the potential impact of the Regional Comprehensive Economic Partnership (RCEP) on the Cambodian economy in terms of trade, output growth, and employment. It also provides quantitative (structural gravity model estimation and simulation) and qualitative trade policy evaluation in terms of exports, output, and the structural transformation of the economy in global and regional value chains. The results highlight the importance of RCEP for the pandemic and post-pandemic recovery and the structural transformation of the Cambodian economy. The chapter also provides key policy recommendations to fully maximise the benefits of RCEP for Cambodia for inclusive and sustainable growth.

Introduction

Cambodia is one of the most progressive Association of Southeast Asian Nations (ASEAN) Member States in terms of its market access to regional and global activities. Cambodia completed the Regional Comprehensive Economic Partnership (RCEP), the largest free trade agreement, on 15 November 2020, comprising 10 members of ASEAN (Brunei Darussalam, Cambodia, Indonesia, the Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Viet Nam) and five other regional countries that ASEAN had existing free trade agreements with – Australia, China, India, Japan, the Republic of Korea (henceforth, Korea), and New Zealand (ASEAN Secretariat 2020a; 2020b). The RCEP agreement came into force on 1 January 2022 with ratification by four non-ASEAN members (Australia, China, Japan, and New Zealand) and six ASEAN members (Brunei, Cambodia, the Lao PDR, Singapore, Thailand, and Viet Nam) (ASEAN Secretariat, 2022). Cambodia also completed the Cambodia–China Free Trade Agreement (CCFTA) negotiations in 2020, which came into effect on the same date as RCEP.

In line with the open regionalism¹ and progressive liberalisation of the domestic economy to regional trade and investment, the government also started the negotiation of the Cambodia–Korea FTA (CKFTA) in 2020. The negotiations for the CKFTA were concluded in February 2021, and the agreement was signed in October 2021. A key component of the CKFTA is that both countries have indicated a strong ambition to conclude a bilateral FTA that will have strong welfare impacts for the two countries as well as their business communities. The structure of the CKFTA is to improve and build on the existing ASEAN–Korea FTA (AKFTA) and consider the currently concluded multilateral free trade agreements (FTAs) of RCEP across the 15 member countries of ASEAN and Australia, China, Japan, Korea, and New Zealand.

¹ Open regionalism in ASEAN is described by Drysdale (2017) as, 'Open regionalism seeks to promote economic integration amongst participants without discrimination against other economies', and ASEAN and the AEC are built on such a foundation. Cambodia actively participates in ASEAN and adopts ASEAN's regional integration framework.

Currently, RCEP is the world's largest regional trading bloc, consisting of a combined population of 2.2 billion people (30% of the world's population), total regional gross domestic product (GDP) of around US\$38,813 billion (30% of global GDP in 2019), and nearly 28% of global trade. It sets an important agenda for trade and investment in global trade in terms of opening large domestic markets (demand), releasing huge resources for trade and investment, and creating dynamic regional and global value chain (GVC) activities (see Annex 1, Table 8.A1). The RCEP agreement is expected to benefit not only the East Asian region but will also have a global impact, as indicated by recent studies (Park, 2022; Itakura, 2022; Petri and Plummer, 2020). Open regionalism and global trade will be significantly enhanced by the RCEP agreement, and it is expected to have a significant impact on the post-pandemic recovery of the region.

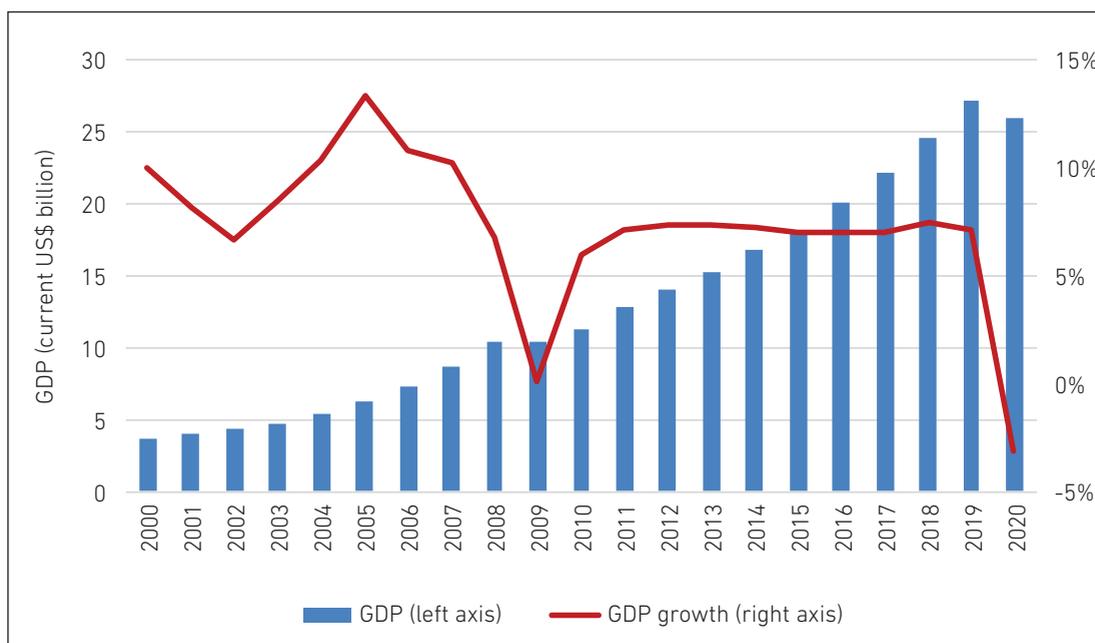
In this chapter, we examine the impact of RCEP on the Cambodian economy in terms of trade in goods, measuring the revealed comparative advantage at the 8-digit trade classification, and GVC activities based on the specific chapters of the RCEP agreement. The chapter also highlights the importance of RCEP for the post-pandemic recovery and structural transformation of the Cambodian economy. The key policy recommendations to fully optimise the benefits of RCEP for Cambodia for inclusive and sustainable growth are also discussed in the chapter.

Structure of the Cambodian economy

The Cambodian economy is one of the fastest-growing economies in ASEAN. The average annual growth of Cambodia has been around 7%–8% for the past decade (see Figure 8.1). In addition, Cambodia is also in a transition and is transforming its economy into a lower middle-income growth economy in terms of its industrial transformation. The manufacturing industry is growing at an average rate of 11.9% with a share of nearly 30% of GDP, services with a growth rate of 8.1% with a share of 40% of GDP, and agriculture accounting for 25% of GDP with an annual growth rate of 3.8% in 2017.

The growth of the Cambodian economy has been driven by the liberal and open economic and trade policy adopted by the government. Cambodia is one of the most liberal and open economies in ASEAN. The economy adopts an open economic policy in terms of trade and foreign direct investment (FDI). However, several key issues have affected the growth of the economy in terms of key fundamentals on progressive institutions, human capital development, and the strong competitiveness of domestic industries. In Figure 8.1, we observe a structural shift in GDP after the global financial crisis (GFC), when the economy shifted from double-digit growth to around an average of 5% from 2010 to 2019.

Figure 8.1 Economic Performance (GDP) of Cambodia



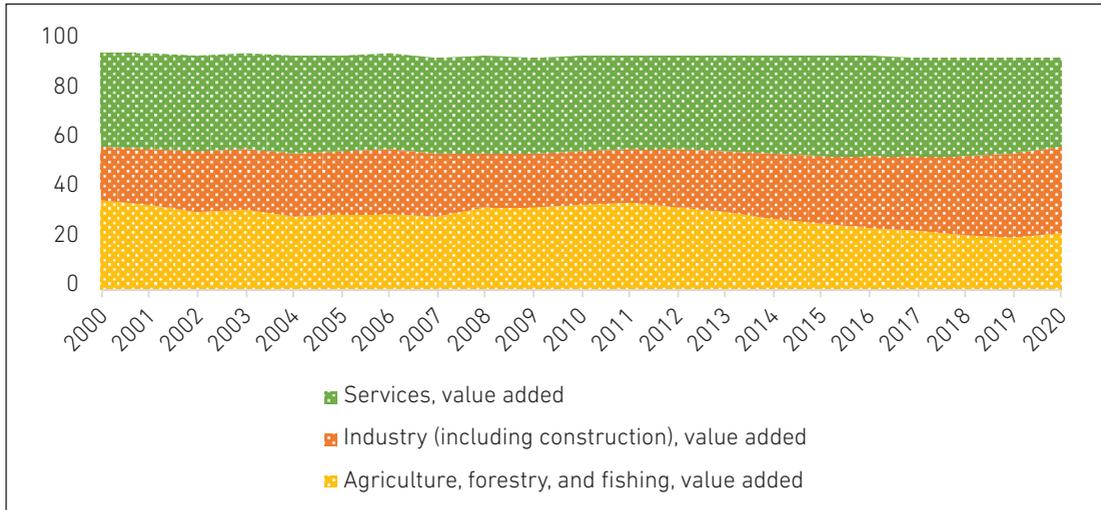
GDP = gross domestic product.

Source: World Development Indicators (accessed 1 August 2021).

Sectoral structure of the economy

The Cambodian economy is driven by manufacturing and services as the twin engines of growth (see Figure 8.2). The manufacturing sector accounted for 36.5% of GDP in 2019 and has shown a rising trend since GFC. We also observe a rising share of services in GDP since the GFC, rising from 40% in 2010 to 41% in 2019. Although the agriculture sector has remained an important sector, its share of GDP declined from 36% in 2010 to around 22% in 2019 through the rapid industrialisation of the economy.

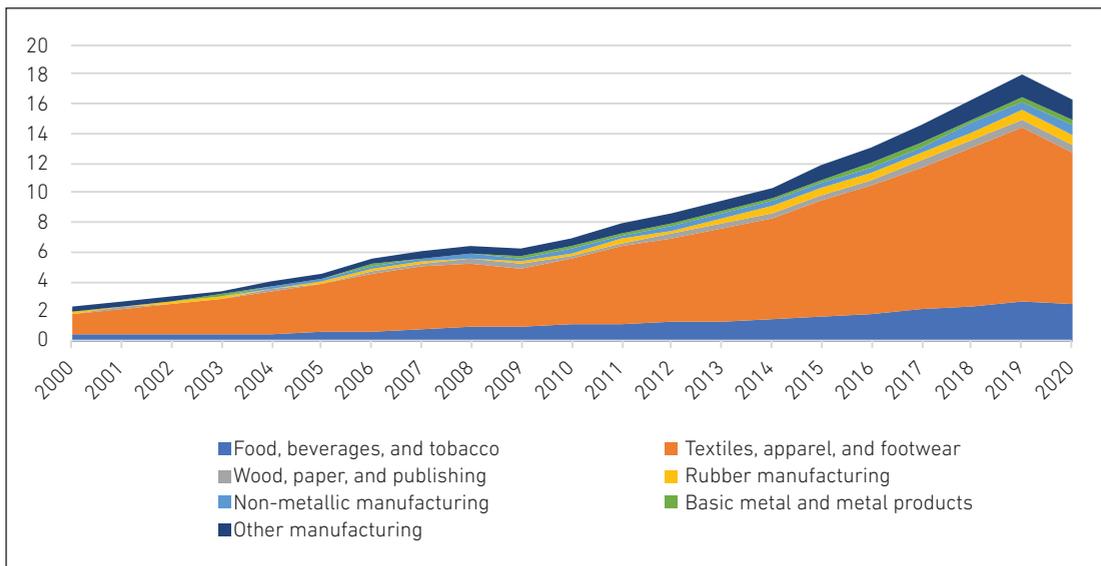
Figure 8.2 Sectoral GDP (% of GDP)



Source: World Development Indicators (accessed 1 August 2021).

In manufacturing activities, the textile and garment sector remain the dominant sector, accounting for a major part of production and export activities. The other key manufacturing activity is in the food, beverage, and tobacco sector, which maintains economic activity of around 10%. We also observe rising trends in non-metallic manufacturing, transport equipment, and electronics parts and components (see Figure 8.3).

Figure 8.3 Cambodia's Manufacturing Subsectors (KR trillion)

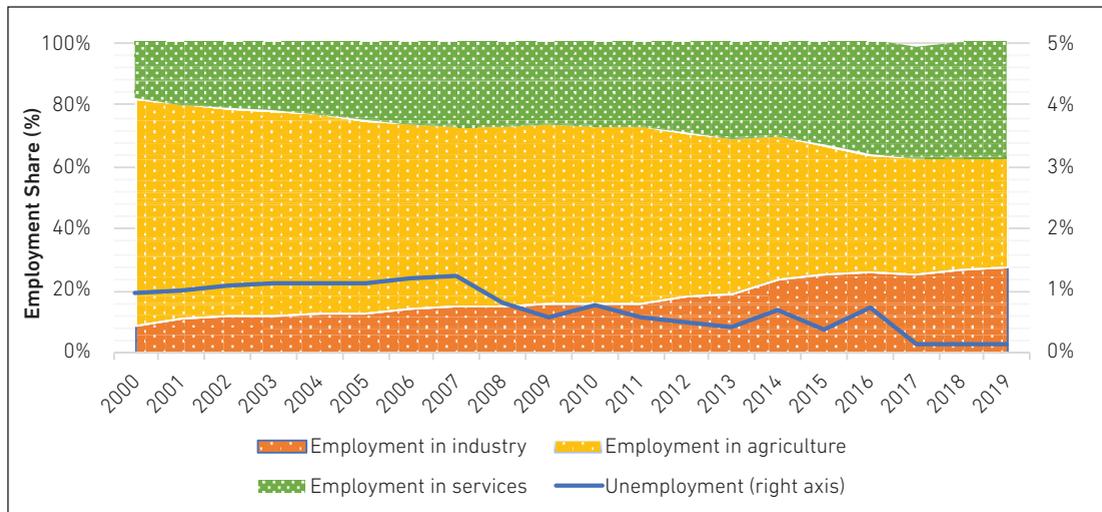


Source: National Institute of Statistics (accessed 1 August 2021).

Labour force structure

Cambodia's labour force consists of a young and dynamic workforce. According to World Population Prospects (2017), the population of Cambodia in 2017 was about 16 million, and this is projected to increase to 18.8 million in 2030 and 22 million in 2050. With the annual population growth rate at 1.9% in the past decade, Cambodia on average added approximately 164,000 people to the labour market each year. The working-age population (15–64) reached 10.1 million in 2015 for the first time, from 8.3 million in 2007. As the structural transformation accelerates, the share of employment in agriculture has shown a sharp decline. Figure 8.6 explains the change in sectoral employment in Cambodia from 2004 to 2016 (Cambodia Socio-Economic Surveys). As clearly shown, employment in agriculture dropped from 58% in 2007 to around 30% in 2019. Correspondingly, the employment share in industry and service sectors steadily increased, absorbing new entrants to the labour market. The share of employment was around 40% for services, and the share of manufacturing was around 30%, respectively, in 2019 for the Cambodian economy (see Figure 8.4). We also observe that the unemployment rate in the economy is showing a declining trend and was less than 1% in 2019.

Figure 8.4 Labour Structure (% of total employment)

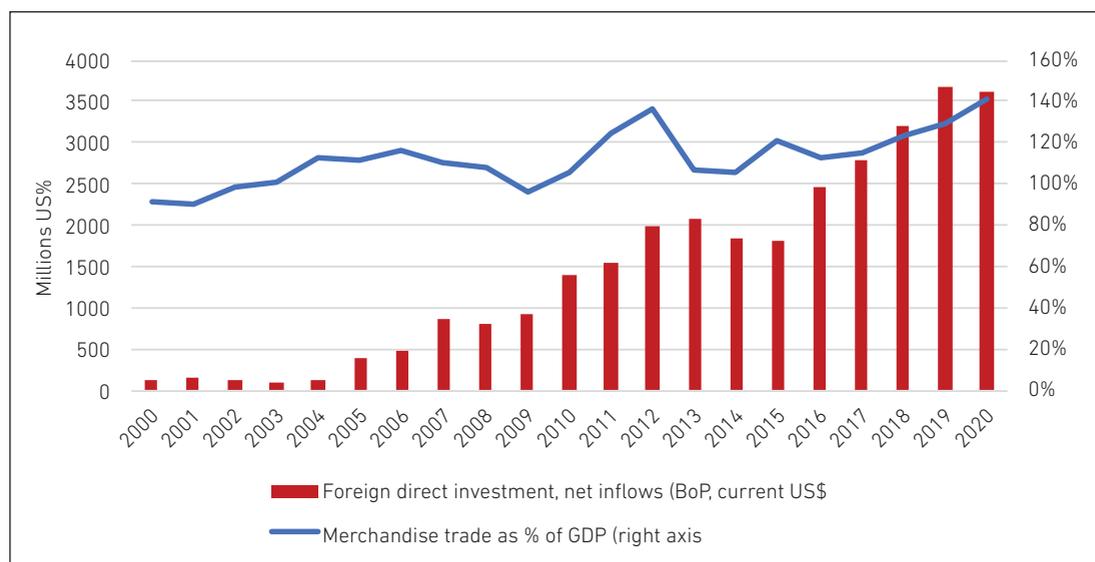


Source: World Bank (accessed 1 August 2021).

Trade and investment

Cambodia is an open economy that relies heavily on trade and investment for economic growth. Merchandise trade accounted for more than 100% of GDP for the past 2 decades. The economy has been running a current account deficit as domestic production could not support the demand, leading to an excessive import of industrial materials as well as consumption of products from abroad. In 2020, imports accounted for almost 63.9% of GDP, whilst exports were around 62.4% of GDP.

Figure 8.5 Trade and Foreign Direct Investment (US\$ million)



Source: World Development Indicators (accessed 1 August 2021).

The economy relies heavily on FDI to augment its domestic investment in economic activities in the domestic economy. FDI activities have been stable from 2000 to 2020. China continued to be the leading investment capital source for Cambodia, followed by the ASEAN region. In 2020, FDI from China, including Hong Kong and Taiwan, accounted for 47.4% of the country's total FDI, an increase of 0.3% compared to the previous year. It was followed by FDI from ASEAN, namely Singapore, Malaysia, and Thailand, accounting for 19.5% of the total in 2020.

Potential impact of RCEP for ASEAN least developed countries: The case of Cambodia

There are large potential gains from RCEP for ASEAN and ASEAN least developed countries (LDCs), particularly Cambodia. In this section, we explore the key RCEP agreement chapters in relation to the impact of RCEP on the Cambodian economy.

RCEP impact on key sectors

RCEP impact on manufacturing exports in GVCs: Simplification of rules of origin

RCEP will accelerate GVC effects and regional integration through the simplification of the rules of origin (RoO) (see a summary of RoO in RCEP in Annex 2). It will facilitate business activities in GVCs in terms of the movement of goods. Under RCEP, there is an agreement for a single RoO framework that could be applied across the 15 member countries in RCEP. Current studies highlight that the co-sharing rule is less restrictive across other forms of RoO rules and regulations (Thangavelu, Narjoko, and Urata, 2021). RCEP allows for a co-sharing rule under the RoO framework. For example, under the machinery and mechanical appliances (Chapter 84) and electrical machinery and equipment (Chapter 85), many articles can be found adopting either CESH or RVC40, or CTH or RVC40. For automobile-related products, motor cars for the transport of persons (HS8703) and motor vehicles for the transport of goods (HS8704) adopt RVC40, whilst parts for motor vehicles (HS8708) are mostly in CTH or RVC40.

Under RCEP, businesses need to show that a product has the regional value content (RVC) level of 40% or has undergone a change in tariff heading (CTH) at the 4-digit HS code level classification. The single RoO framework under RCEP will have important implications for GVC activities in the region in terms of greater intra-industry trade and investment, and it is likely to create more value-added activities in the region. RCEP also includes a flexible provision for an RoO framework in terms of tariff differentials, where an importing party applies different tariff treatments for the same originating good. The different tariff treatment refers to the additional requirements that the members with tariff differential tables impose on an originating good. The additional requirement means the requirement that an exporting party of an originating good must have no less than 20% of the total value of the originating good that has been added in the production of that originating good, as calculated, mutatis mutandis, under Article 3.5 (Calculation of Regional Value Content). There are six RCEP Members with tariff differential tables: China, Korea, Japan, Viet Nam, Thailand, the Philippines, and Indonesia. The rest of the members adopt common concessions. Tariff differential tables consist of less than 100 products.

Structural transformation and export diversification in garments and textiles and agri-processing

The RCEP agreement provides an opportunity for Cambodia to induce structural transformation in the Cambodian economy and to diversify from more concentrated textile and garment exports. Revealed comparative advantage (RCA) analysis for China, Japan, and Korea (CJK) shows that Cambodia's exports to CJK are in consumer final products, which are labour-intensive in terms of 'cut, make, and trim' in clothing exports (see Annex 6). It is important to develop more functional service activities in garments and export such as branding, marketing, and sourcing that will allow the textile and garment industry in Cambodia to move up the value chain.

RCEP also provides an opportunity to develop agricultural exports in agri-processing, production, and exports. Key to agri-production and exports are the GVC activities in key agricultural services, such as branding, marketing, warehousing, and storage, that allow for the movement of agricultural products to key destinations. In addition, the key value-added activities are in the manufacturing and processing of agri-products in GVCs.

Enhancing trade facilitation and technical standards under RCEP: Non-tariff barriers

RCEP provides the framework to harmonise trade regulations and enhance the adoption of best international practices in trade facilitation. Non-tariff measures (NTMs) suggest more transparent customs rules and procedures that enable greater trade facilitation for the RCEP member countries. RCEP also provides a framework for standards and technical regulations for more transparent and better regulatory frameworks for regional trade.

Trade liberalisation through tariff reductions has been the key element in increasing trade and investment in the region for the past 2 decades. Recent evidence indicates rising non-tariff barriers as impediments to regional trade and investment. In fact, the application of NTMs tends to be more complicated and difficult to manage, going beyond the key objectives of ensuring safety and health, public goods, and protecting the welfare of people, animals, and the environment. NTMs by the respective RCEP countries in terms of the types of NTMs are given in Annex 3, Figure 8.A1. China has the highest number of NTMs in technical barriers to trade, sanitary and phytosanitary, and export measures. We also observe high NTMs in Australia, Korea, Thailand, and New Zealand. The NTMs in Cambodia are one of the lowest amongst the RCEP countries (see Annex 3, Figure 8.A2 for specific NTMs for Cambodia). The RCEP framework will reduce the current non-tariff barriers by reducing and creating more transparency in NTMs.

The RCEP agreement includes a trade facilitation framework and elements that are World Trade Organization (WTO)-plus, i.e. going beyond the commitments in the WTO Trade Facilitation Agreement in terms of the release of goods, perishable goods,

and advance rulings. The agreement provides a transparent framework for customs clearance and management in terms of advance ruling based on tariff classification, a timeline for the issuance of advance rulings, and a risk management approach for customs controls and post-clearance audits. In addition, the sanitary and phytosanitary (SPS) framework under RCEP for biosecurity and food safety will be critical in the post-pandemic recovery of the region.

The RCEP agreement also allows for differential treatment for respective member countries to adopt and implement the commitments under the Trade Facilitation chapter. For example, Cambodia is given a 5-year extension to implement the application of digital technology in its customs control and management system.

Services and structural transformation of the Cambodian economy

It is expected that RCEP will induce structural transformation in the region by accelerating technology adoption in digital technologies, increasing regional connectivity in hard and soft infrastructure and the development of small and medium-sized enterprises (SMEs), and allowing for stronger investment activities and commitment in the East Asia region. The services liberalisation from the RCEP agreement will have a significant impact on service sector development and services trade for Cambodia.

The key trends of services trade across RCEP member countries and Cambodia are given in Annex 4. Table 8.A3 shows the share of services trade in GDP for the RCEP countries in 2010 and 2019. Cambodia has the second-largest services trade share in GDP across the RCEP countries, after Singapore. In fact, services trade has increased significantly since 2010, rising from 27% to 35% of GDP in 2015.

ASEAN is the largest trading partner in services trade for Cambodia. The services trade of Cambodia with ASEAN increased from US\$214 million in 2010 to nearly US\$437.5 million in 2015. The CJK impact on services trade for Cambodia is also significant and important. The services trade of Cambodia with CJK increased from US\$85.3 million in 2010 to US\$4,222.4 million in 2015. We observe a significant increase in services trade with China, where services trade increased from US\$42 million in 2010 to US\$133 million in 2015. We also observe significant services trade between Australia and Cambodia, with an increase to US\$85.3 million in 2015 from US\$52.8 million in 2010. Cambodia's exports of services to RCEP members are mostly in traditional services trade, such as transportation and accommodation and food services (tourism sector), and this is followed by a rising trend in telecommunications, information, finance and other business services (see Annex 4).

Figure 8.A4, Annex 4 shows the Services Trade Restrictiveness Index (STRI), indicating that most of the RCEP member countries still have high restrictiveness in services

trade. For Cambodia, the average percentage of the STRI is 24%. In Table A4, we observe that the financial sector has less restrictiveness in Cambodia as compared to other services trade.

In the post-pandemic recovery, the liberalisation and reforms in the services sector will play an important role in the post-pandemic recovery. There is a need to reform traditional trade in services, such as tourism, logistics, aviation, financial, and medical tourism. These forms of services trade rely heavily on the movement of people (Mode 4) to remain competitive in the region, and the transformation to the 'new normal' in the post-pandemic period will reduce the activities in traditional services trade. Recent evidence indicates the rising services share in GDP for Cambodia in these sectors. RCEP is expected to provide the framework for structural transformation in services trade.

Under RCEP, there will be greater market access to services trade in the region as services trade is expected to grow nearly as much as 65% as member countries open up for trade and investment. RCEP also emphasises the key framework for deeper service liberalisation in the sectors of e-commerce, financial, telecommunications, and professional services. The service sector liberalisation under RCEP also highlights the shift from the 'positive' list approach, where only certain service sectors are open for trade and investment, to the 'negative' list approach, where most service sectors are open for trade and investment unless specifically excluded. The RCEP members are also given a certain time period to shift to the 'negative' list approach after entry into the RCEP agreement. It is important to highlight that the emphasis of RCEP member countries to shift to the 'negative' list approach goes beyond the existing ASEAN Plus 1 FTAs. The negative list approach reduces the uncertainty in service sector liberalisation and increases regional trade and investment in service sectors.

The RCEP agreement will enable the Cambodian economy to structurally transform its services activities to more digital- and technology-based services trade. The RCEP services chapter highlights the importance of e-commerce, financial, professional, and telecommunications services, and provides the liberalisation framework for the development of the key new service sectors to become part of deeper liberalisation across the 15 member countries.

Investment facilitation

The investment chapter under RCEP goes beyond the investment framework provided in the ASEAN Plus 1 FTAs. The RCEP agreement on investment highlights the importance of: (a) the protection of foreign investment, (b) liberalisation, (c) promotion, and (d) facilitation. Investment liberalisation also adopts the 'negative' list approach with a ratchet mechanism framework. The key rules-based investment activities will provide more investment in critical industries and GVC activities in the Cambodian economy.

RCEP and SMEs

The SME chapter under RCEP is very critical and important for ASEAN LDCs, especially for the development of SMEs in ASEAN. SMEs play an important role in creating employment and also service linkages to manufacturing activities in GVCs. It is critical to examine the role of SMEs in traditional services (tourism, aviation, and logistics) as well as in the RCEP-focused services of financial, professional, and telecommunications services.

The SME agreement under RCEP will provide the potential to develop local businesses to participate in regional GVC activities. The framework could provide necessary policy developments in terms of financial inclusion, market access, and developing critical skills and training for the internationalisation of SMEs in the region.

E-commerce and RCEP

The development of e-commerce will be critical in managing the post-pandemic recovery in Cambodia and the ASEAN region. The importance of digital trade and the creation of the necessary institutional and infrastructure framework for e-commerce activities will be critical for ASEAN. The RCEP framework for e-commerce could provide the necessary framework for ASEAN to develop a competitive e-commerce sector in the region.

Export comparative advantage of Cambodia in higher value-added GVC activities

Increasing the competitiveness of higher value-added activities in GVCs: Electronics and electrical, machinery, and transport equipment

We explore the sectoral results that we obtained from our gravity model in terms of the integration and diversification of the exports of Cambodia in electronics and electrical equipment, machinery, and transport equipment (see the results below). It is expected that RCEP will accelerate the intensity and integration of Cambodia in regional GVCs. Recent evidence indicates that the production structure of Cambodia is diversifying to more intermediate input production, particularly in (a) computers, electronics, and optics, and (b) transport equipment.

A recent study by Obashi (2020) shows that Cambodia and Viet Nam's competitiveness (empirical comparative advantage) in (a) computers, electronics, and optics and (b) transport equipment is improving and closely following similar trends in Viet Nam. The study highlights that both countries are increasing their participation in parts-and-components activities in regional GVCs. Viet Nam appears to have attracted assembly bases and has transformed them into an export platform of electronics and electrical equipment. Whilst Cambodia has been much slower in this GVC transformation, we can observe similar trends in the shift in competitiveness (see Annex 5, Figure 8.A5). RCEP is expected to accelerate the GVC transformation of Cambodia's production and exports.

Cambodia's export comparative advantage in higher value-added GVC activities

We explore the dynamic comparative advantage of Cambodian exports in higher value-added activities by analysing the RCA index of key exports. The key discussions on the derivation of the RCA index are given in Annex 6. In summary, the RCA index ranges from 0 to infinity, with 1 as the break-even point, where an RCA value of less than 1 means that the product has no export comparative advantage, whilst a value above 1 indicates that the product has an export comparative advantage. In this study, we utilised the export data from 2004 to 2019 at the 6-digit level of HS code (analysis undertaken at the 8-digit level and aggregated to a 6-digit classification) by using Cambodia as the reporter and UNCTAD-SoPs for grouping the products by the stage of processing into raw materials, intermediate goods, consumer goods, and capital goods.

Based on the results of the RCA calculation by broad categories (see Annex 6, Figure 8.A6), we observe a rise in the comparative advantage of intermediate goods since 2012, indicating a shift in Cambodian export competitiveness in higher value-added GVC activities. The rise in the RCA for intermediate goods indicates that Cambodia is positioning deeper GVC activities in terms of greater intra-industry activities as intermediate inputs for further production. However, the rising comparative advantage in intermediate goods exports is still less than 1, indicating there is a need for further reforms at the border and behind-border issues in the intermediate goods industries. The rising RCA of intermediate goods exports over time is consistent with the observation by Obashi (2020) of the rising comparative advantage of Cambodia in the exports of computers, electronics and electrical products, and transport equipment. We also observe the positive impact of RCEP on these intermediate goods exports in our gravity model estimation.

Impact of RCEP and GVCs: Export comparative advantage to China, Japan, and Korea

The key element of RCEP is the CJK impact on regionalism, as the regional agreement allows for the free movement of goods across these countries. The CJK impact will be significant for ASEAN as RCEP is the first agreement to allow for a free trade framework for CJK for trade and investment.

We examine the competitiveness of Cambodian exports to China, Japan, and Korea and the GVC impact. We examine the RCA of Cambodian exports at the 6-digit and 8-digit trade classification to China, Japan, and Korea for the top 20 products from 2015 to 2019. We classified the top 20 products into (a) consumer final goods, (b) intermediate inputs, and (c) raw materials (see Annex 6). For the top 20 export products, we observe rising RCA (competitiveness) for exports of intermediate goods from Cambodia to China, Japan, and Korea. We observe a rising RCA for parts and components products in motor parts, and parts and accessories for export to China; electrical conductors exports to Korea; and ignition wire sets for motor vehicles exports for Japan. The CJK impact of RCEP will accelerate the GVC transformation of Cambodia for greater competitiveness in parts-and-components activities in the region.

We do not observe any shift in comparative advantage for raw materials. We also observe that most of the textiles and garment goods exports are in final consumption goods to CJK, and, generally, the RCA is stable at the disaggregated product level. However, the overall trend of the RCA for final consumption goods exports, as given by Figure A6, indicates a declining trend, which suggests a need to diversify the export industries in Cambodia. The RCEP framework is likely to provide the necessary framework for the structural transformation of Cambodia to higher value-added activities.

Impact of RCEP on Cambodia's potential trade and GVC activities

We examine the economic impact of RCEP on trade and then calculate the export potential that Cambodia would have had with RCEP member countries. We adopt a structured gravity model that allows us to capture multi-country and multi-sectoral effects using disaggregated trade data (Pfaferamy, 2020; Yotov et al., 2016). There are several advantages to the gravity model. It is very flexible and based on a strong theoretical foundation that not only can explain bilateral trade flow but also allows one to capture the average effect of trade policies. This unique feature has made the gravity model more

popular in applied international trade analysis (Head and Mayer, 2014; Yotov et al., 2016). The current literature on the structured gravity model also allows for counterfactual simulations of various policy scenarios.

The structured gravity model is given as:

$$\ln X_{ijt} = \alpha \times RTA_{ijt} + \mathbf{Z}'_{ij} \beta_1 + \mathbf{Z}'_{it} \beta_2 + \mathbf{Z}'_{ij} \beta_1 + \mathbf{Z}'_{jt} \beta_3 + \epsilon_{ijt} \quad (1)$$

where X_{ijt} is the export values from countries i to j in year t . \mathbf{Z}_{ij} , \mathbf{Z}_{it} , and \mathbf{Z}_{jt} are vectors of time-invariant country pairs, time-variant exporters, and time-variant importer characteristics, respectively. The time-invariant country pair characteristics include geographical distance, language similarity, and cultural similarity. GDP and multinational resistance (e.g. the price index) are examples of time-variant exporter and importer characteristics. ϵ_{ijt} is a disturbance term. The coefficient for the RTA dummy indicates the trade creation effects of RTAs, that is, the average effects of RTAs on trade amongst RTA member countries. The RTA dummy in our model captures all the current FTAs that are implemented in Cambodia, which includes AFTA and ASEAN Plus 1 FTAs (the Cambodia–China FTA is excluded as it was only concluded in 2020).

There are a few empirical issues in the estimation of the above gravity model. Firstly, it is important to introduce multilateral resistance terms in the gravity model estimation (Anderson and van Wincoop, 2003). As suggested in Feenstra (2002), since those elements differ by country, we control for these by introducing exporter-year and importer-year fixed effects. Secondly, there is the issue of zero-value trade as trade values could be systematically zero and eliminating them in the sample would potentially remove useful information and also develop sample selection bias (Melitz, 2003). We adopted the Pseudo-Poisson Maximum Likelihood (PPML) technique to overcome this issue (Silva, Santos, and Tenreyro, 2006). Finally, there is the endogeneity issue on the RTA dummy variable as it could be influenced by trade activities. A recent study by Baier and Bergstrand (2007) highlighted that the most plausible estimates of RTA effects on international trade are obtained from the gravity estimation using panel data with time-invariant country-pair fixed effects. We introduce the country-pair fixed effects to control for the endogeneity of the RTA variable in our estimation.

In our empirical model, we use more recent trade data at the 4-digit trade classification of products for Cambodian bilateral exports during 2002–2019 obtained from the UN Comtrade World Integrated Trade Solution (WITS) dataset. All the key gravity variables are obtained from CEPII. The WITs data for Cambodia consists of exports for nearly 110 countries that Cambodia trades with. We also undertake the gravity estimation with the Trade in Value Added (TiVA) database obtained from OECD–WTO that allows for sectoral analysis from 2005 to 2015. The TiVA database consists of bilateral trade with 64 countries for 36 sectors. The results of the gravity model for Cambodia are reported in Table 8.1.

Table 8.1 Impact of FTAs and RCEP on Cambodia's Aggregate Exports

Variables	(1) OLS (WITS)	(2) PPML (WITS)	(3) PPML (TiVA)
Distance	0.592*** (0.000125)		
Contiguity	3.586*** (0.000308)		
Common colony	1.575*** (0.000118)		
FTA	0.141*** (0.000389)	0.250*** (1.15e-05)	0.280* (2.34e-09)
Constant	-11.04*** (0.000956)	4.428*** (0.170)	-4.832** (7.18e-09)
Observations	29,142	29,145	7,106
R-squared	0.216	0.078	0.142
Exporter-time FE	Yes	Yes	Yes
Importer-time FE	Yes	Yes	Yes
Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1			

FE = fixed effects, FTA = free trade agreement, OLS = ordinary least squares, PPML = Pseudo-Poisson Maximum Likelihood, TiVA = Trade in Value Added.

Source: Authors' calculations.

The fully accounted results controlled for endogeneity effects are given in columns 2 and 3. The coefficients are positive for RCEP (FTA) indicating that FTAs have a positive impact on the export activities of Cambodia for both datasets. Based on the estimated coefficients, the positive impact of RCEP is given by an average increase in exports of around 9.2%–18.4% for the Cambodian economy.

The second stage of our analysis is to translate the export changes from FTAs to output and employment. The results obtained from the structured gravity model are adopted for input–output (2017 Input–Output Table from the Asian Development Bank) simulations of the Cambodian economy. The results are shown in Table 8.2.

The results indicate that RCEP's impact of a 9.4% increase in exports could have an annual growth impact of 2.0% on the baseline growth rate. We also see a positive impact on employment with a 3.2% increase in employment. We also simulated a higher impact of an 18% increase in exports on the domestic economy, which translates into a 3.8% increase in GDP and a 6.2% increase in employment. This expansion of trade reflects the 'catching-up' and 'leap-frogging' phase for Cambodia in terms of investment in key human capital and skills and the alignment of key industries in the GVC.

Table 8.2 Simulations of Export Growth on the Cambodian Economy (4-digit product classification)

Region	Country	Impact
	Export Growth: 9.4% (Manufacturing and Services)	Export Growth: 18% (Manufacturing and Services)
GDP Growth	2.0%	3.8%
Employment Growth	3.2% (283,281)	6.2% (542,453)
Tax Revenue*	2.0%	3.9%

Notes: The figures in parentheses reflect the number of employees.

* Tax revenue includes direct and indirect taxes. The tax revenue reflects the gross revenue and does not include the tariff elimination effects on tax revenue.

**The higher threshold reflects full liberalisation of the Cambodian economy, including the movement of skills, behind border issues, trade facilitation, investment facilitation, and institutional and labour market reforms.

Source: Authors' calculations.

The second-stage simulation of RCEP's effects on the domestic economy is similar to the simulation by Itakura (2022) using a recursive dynamic computational general equilibrium (CGE) model with more current data on population demographics, GVC frameworks for East Asia, and the tariff elimination effects of RCEP for the Cambodian economy. Itakura (2022) shows that the Cambodian economy benefits significantly from RCEP implementation with a positive impact on GDP and investment. The Itakura (2022) results show a GDP growth rate with respect to the baseline of 1.8% with tariff reductions for manufactured to services trade (based on RCEP Annex 1 for manufactured goods and ad valorem tariff equivalents of services trade are reduced by 20% over 10 years); and 6% GDP growth for the full implementation of RCEP commitments with trade and investment facilitation, improving the logistics cost and implementing services commitments under RCEP. We also observe an 11.5% increase in investment from the full implementation of RCEP commitments with trade and investment facilitation in the Cambodian economy.

Sectoral gravity analysis

We also examine the impact of FTA and RCEP on exports in the key manufacturing sectors. The results of the gravity model are given in Table 8.3. The coefficients are robust and statistically significant for exports of electronic and electrical equipment, machinery equipment, and transport equipment. However, we do not find statistically significant coefficients for food and beverage and textile and garment exports. The results clearly indicate that FTAs will have a greater impact on those emerging competitive industries than those sectors that are already very liberalised sectors such as the textile and garment sector. The textile and garment sector is very liberalised with few impediments

for trade and most of the export products of the textile and garments of Cambodia are already having very low or zero tariff rates. This result clearly suggests greater and deeper border and behind-border reforms to increase the competitiveness of the textile and garment sector to shift to higher value-added exports in the GVC. In contrast, FTAs tend to complement and support competitive and emerging industries such as electronic and electrical, machinery equipment, and transport equipment that experience greater barriers to trade.

Table 8.3 Impact of FTA and RCEP on Cambodia's Sectoral Export

	(1)	(2)	(3)	(4)
	Food & Beverage	Textiles & garments	Electronic, Electrical & Machinery equipment	Transport equipment
FTA	-0.0294 (0.363)	-0.307 (0.573)	0.989*** (7.92e-11)	0.659* (0.371)
Observations	411	604	704	336
R-squared	0.180	0.022	0.656	0.767
Exporter-time FE	Yes	Yes	Yes	Yes
Importer-time FE	Yes	Yes	Yes	Yes
Pair country FE	Yes	Yes	Yes	Yes

Robust standard errors in parentheses
 *** p<0.01, ** p<0.05, *p<0.1

Source: Authors' calculations.

The sectoral results point out the importance of FTAs and multilateral agreements such as RCEP in fostering structural transformation and diversification of Cambodia's exports. The evidence also signifies that RCEP would further accelerate the GVC transformation of Cambodian production and export. It is expected that RCEP will accelerate the intensity and integration of Cambodia into the regional GVC through a number of channels. First, RCEP brings together CJK (China, Japan and Korea) into a broader and rule-based trade and investment liberalisation that allows for freer movement of parts and components across the region. The CJK impact will be significant for Cambodia as they are the important connectors for regional and global value-chain activities in ASEAN and the East Asian region. Second, RCEP has a simpler rule of origin that facilitates business activities in the GVC in terms of the movement of goods. Under RCEP there is an agreement for a single RoO framework that could be applied across the 15-member countries in RCEP

(see a summary of RoO in RCEP at Annex 2). RCEP also includes the flexible provision for RoO framework in terms of tariff differentials, where different tariff treatment that an importing party applies for the same originating good. Current studies highlight that the co-sharing rule is less restrictive across other forms of RoO rules and regulations (Thangavelu, Narjoko, Urata, 2021). Such a new dimension in the RoO embodied in RCEP will develop and expand the regional and global supply chain activities in East Asia.

The results of the sectoral analysis are also in line with Ando, Kimura, and Yamanouchi (2022) on the impact of RCEP on international production networks in the GVC. Their study highlights the importance of GVC impacts on machinery trade and CJK impacts on international production networks in regional and GVC production networks for RCEP members. Cambodia has the potential (difference between actual and potential trade) to increase its machinery trade by 55% to ASEAN, 53% to CJK, and 48% to the total global trade (total world) using 2019 as the baseline.

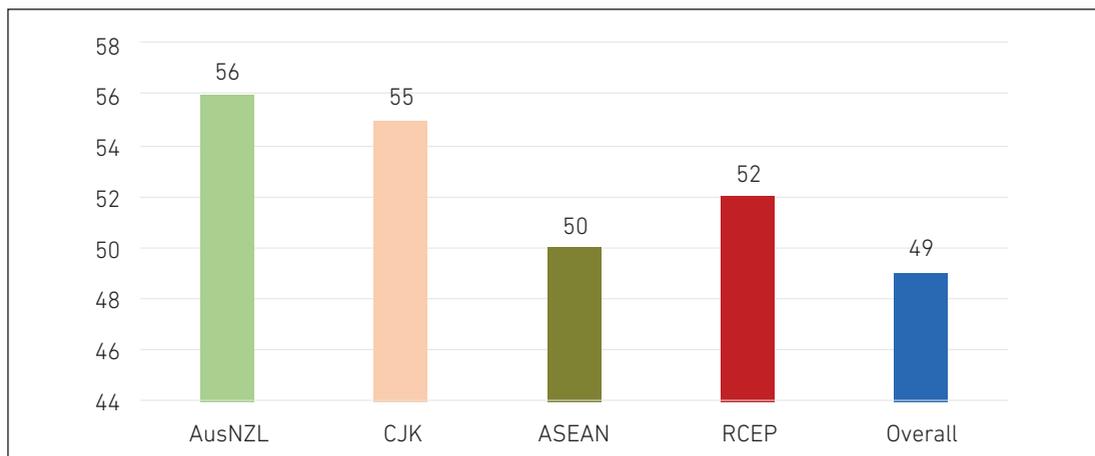
Export potential with RCEP members

We analyse Cambodia's trade potential with RCEP partners using the gravity model. Specifically, we adopted the framework used by Mulabdic and Yasar (2021) to construct what they call the 'index of missing exports' based on observed and predicted trade flows. The index of missing exports is calculated as follows:

$$\text{Index of missing exports} = \left(\frac{\sum_j \hat{X}_{ijt} - \sum_j X_{ijt}}{\sum_j \hat{X}_{ijt} + \sum_j X_{ijt}} \right) * 100$$

Where \hat{X}_{ijt} is the predicted export value from Cambodia to partner country j at time t , and X_{ijt} is the actual export value. The value of the missing exports index varies from -100 , which represents minimal exports, to 100 , implying the highest export potential. We calculate the index at the aggregate and country-pair levels. The results of Cambodia's bilateral index of missing exports are given in Figure 8.6.

Figure 8.6 Cambodia's Aggregate and Bilateral Index of Missing Export



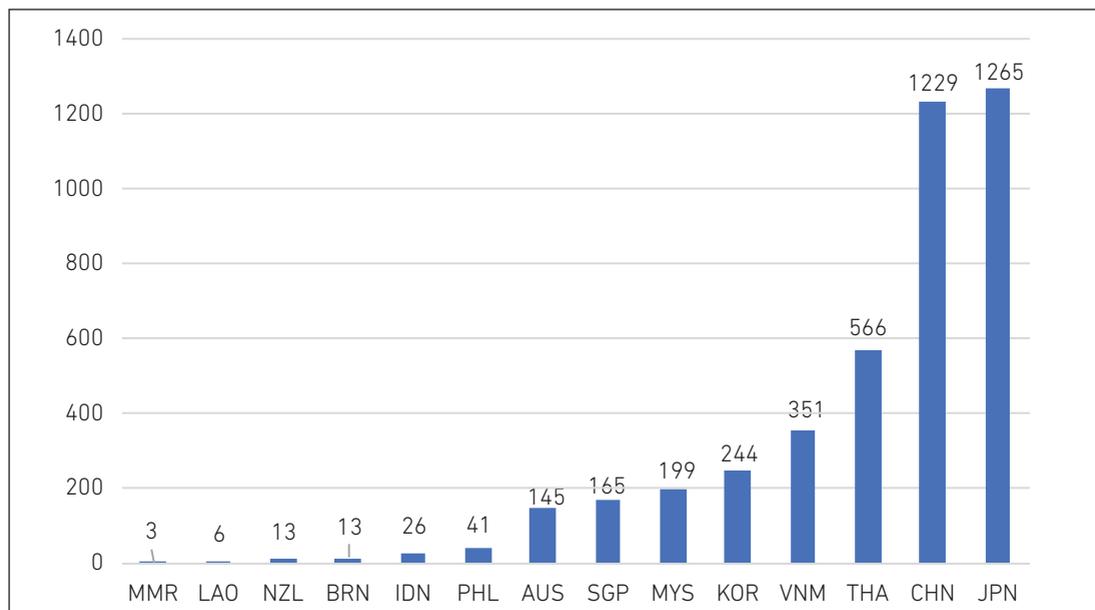
ASEAN = Association of Southeast Asian Nations, AusNZL = Australia and New Zealand, CJK = China, Japan, and the Republic of Korea, RCEP = Regional Comprehensive Economic Partnership.

Source: Authors' calculations after gravity estimation based on trade data from WITS.

The aggregate index is equal to 49, which suggests that Cambodia exports less than its potential exports to the East Asian region, reflecting there is a greater potential to increase its exports to the region. The level of untapped exports to RCEP members is higher at an index score of 52. Amongst RCEP members, Australia and New Zealand represent the highest export potential for Cambodia, followed by China, Japan, and Korea. The results indicate the window of opportunity associated with RCEP for Cambodia to expand its exports.

To better understand the export potential of Cambodia based on the market size, we predict export flows in value terms for 2019. As shown in Figure 8.7, Cambodia's export potential is much higher than the actual value, and it could have been exporting US\$4.27 billion extra to the RCEP countries. China, Korea, and Japan offer a larger opportunity for Cambodia's exports, with export potential amounting to US\$2.74 billion. The results provide extra evidence of the importance of CJK in promoting export and integration in regional value chain activities. Further, the large export potential for Cambodia is in implementing the RCEP commitments and undertaking deeper structural reforms to align the domestic economy with regional integration.

Figure 8.7 Cambodia's Trade Potential with RCEP Countries, 2019 (US\$ million)



Source: Authors' calculations after gravity estimation based on trade data from WITS.

Policy discussion

RCEP is expected to have a significant impact on ASEAN and ASEAN LDCs. In particular, we expect a positive impact on the Cambodian economy. This chapter examined the impacts of RCEP on the structural transformation and border and behind-border issues of the Cambodian economy. The key policy recommendations are as follows:

1. Firstly, the progressive market-based reforms in Cambodia in both manufacturing and services have been successful in lifting Cambodia closer to the next stage of growth. Cambodia has to maintain the progressive market-based reforms in the post-pandemic recovery for deeper regional integration with the framework provided by RCEP (Kimura et. al, 2020).
2. RCEP provides the opportunity to undertake key structural reforms in domestic industries to higher value-added activities. Specifically, reforms to the RoO in RCEP will accelerate GVC activities in the region. The empirical analysis in this chapter and also the recent evidence from Obashi (2020) indicate the rising export competitiveness in (a) computers, electronics, and electrical products; (b) machinery parts and components;

and (c) transport equipment. However, the upward shift of these industries in the GVC was only moderate and, thus, there is a need to accelerate the competitiveness of these industries. There is a need to attract more GVC activities and multinational activities in these industries into Cambodia.

- a. There is a need to increase the competitiveness and linkages of Special Economic Zones (SEZs) to GVC activities to attract multinational activities in these industries. Recent evidence indicates that SEZs are losing their attractiveness in higher value-added activities to create linkages to regional GVCs (Thangavelu, Soklong, and Hing, 2021). There is a need to update SEZs to higher value-added activities to attract more quality FDI into the Cambodian economy.
 - b. There is a need to improve and increase GVC linkages, such as logistic service linkages and infrastructure, and increase the participation of domestic SMEs in regional GVC activities. The logistic service linkages are critical for the movement of intermediate goods in higher value-added activities.
 - c. Higher value-added activities are driven by strong human capital and the semi-skilled and skilled labour force. Cambodia needs to improve the skills of workers to more technical and vocational skills that will complement and increase the adoption of new technologies in higher value-added industries. This is very critical for Cambodia at this stage of development.
3. RCEP provides a key framework for CJK to form a regional agreement for trade and investment. The CJK framework under RCEP is expected to intensify the GVC network and activities in the region, thereby increasing the trade and investment activities of ASEAN countries that have strong trade linkages to CJK. Cambodia is in a unique position to take advantage of the trade linkages to the CJK framework under RCEP and structurally transform the domestic economy. It is expected that light manufacturing, advanced manufacturing, and trading services are expected to grow under the CJK framework in RCEP.
- d. A key dimension of RCEP is the alignment of the free trade arrangements of CJK in terms of trade and investment. Cambodia could play an important role in the CJK effect in terms of the effects on lower-tier parts and components GVC activities in the region. There is a need to map and align domestic industries to the regional GVC activities.
 - e. There is a need to align domestic service industries supporting manufacturing activities with CJK GVC activities. The logistics and transportation activities are expected to increase with the GVC activities driven by CJK.

4. The RCEP agreement provides an opportunity for Cambodia to induce structural transformation in the Cambodian economy and to diversify from more concentrated textile and garment exports in the post-pandemic recovery. Labour-intensive production is expected to undergo significant structural changes in the post-pandemic recovery due to restrictions on the movement of people. This will provide an opportunity to induce structural changes in the textile and garment industry in Cambodia.
 - f. The RCA analysis for CJK shows that Cambodia's exports to CJK are in consumer final products, which are labour-intensive in terms of 'cut, make, and trim' in clothing exports. It is important to develop more functional services activities in garments exports in services; such as branding, marketing, and sourcing, that will allow the textile and garment industry in Cambodia to move up the value chain.
 - g. There is a need to introduce more capital-intensive production and innovation into the garment and textile industries to shift to higher value-added activities.
 - h. There is also a need to improve the skills of workers to improve their productivity and ability to work with new technologies.
5. RCEP also emphasises a key framework for deeper services liberalisation in the sectors of e-commerce, financial, telecommunications, and professional services. The service sector liberalisation under RCEP also highlights the shift from a 'positive list' approach, where only certain service sectors are open for trade and investment, to a 'negative list' approach, where most service sectors are open for trade and investment unless specifically excluded.
 - a. It is important to highlight that Cambodia's need to shift to the negative list approach goes beyond the existing ASEAN Plus 1 FTAs. The negative list approach reduces the uncertainty in service sector liberalisation and increases regional trade and investment in service sectors.
 - b. The RCEP agreement will enable the Cambodian economy to structurally transform its services activities to more digital- and technology-based services trade. The RCEP services chapter highlights the importance of e-commerce, financial, professional, and telecommunications services and provides the liberalisation framework for the development of key new service sectors to become part of deeper liberalisation across the 15 member countries.
6. There is a need to reform the traditional trade in services, such as tourism, logistics, aviation, financial, and medical tourism. This services trade relies heavily on the movement of people (Mode 4) to remain competitive in the region, and the transformation to the 'new normal' in the post-pandemic era will reduce activities

in traditional services trade. RCEP could provide the regional cooperative framework to increase the competitiveness of the traditional services sector by focusing on (a) digitalising some of the traditional services trade, (b) increasing the technical capacity of the labour force in the traditional services, and (c) creating a new 'pandemic' protocol for the movement of people at the regional level (Thangavelu, Urata, and Narjoko, 2021).

7. RCEP is expected to induce innovation in services through e-commerce, financial services, telecommunication services, and professional services. These services are likely to be driven by digital and telecommunications technologies. However, these services are likely to be more effective and dominant in the big cities and megacities that have high technology densities and urban connectivity.
 - a. Cambodia needs to undertake key reforms to move key cities to higher innovation and technology-driven urban centres. These urban centres will be key focal points for digital services and trade in terms of connections to other key major cities in the region, driving key service activities and trade in digital platforms.
 - b. The key investments in infrastructure linking several domestic regions of Cambodia will provide the key resources to move key activities to major cities, such as Phnom Penh, Siem Reap, and Sihanoukville, which will allow first-tier cities to drive key economic growth in the economy and also provide key linkages for the growth of second-tier cities. The city linkages will provide service linkages for managing the movement of people and the movement of goods across the cities.
8. Investment liberalisation adopts the 'negative list' approach with a ratchet mechanism framework, which is critical for aligning industrial policy strategies with the trade policy framework at the regional level. The RCEP agreement provides a key platform for the alignment of domestic industrial policy strategies with the regional integration framework. The key rules-based investment activities will provide more investment in critical industries and GVC activities in the Cambodian economy.
9. RCEP provides the framework to harmonise trade regulations and enhance the adoption of best international practices in trade facilitation. NTMs suggest more transparent custom rules and procedures that enable greater trade facilitation for the RCEP member countries. RCEP also provides a framework for standards and technical regulations for a more transparent and better regulatory framework for regional trade. There is a need to improve trade facilitation in Cambodia by introducing more digital technology for the customs clearance and management system.
10. The role of SMEs will be critical in the alignment of domestic industrial policy with the regional GVC integration framework. RCEP provides the framework for a stronger role for SME activities in manufacturing and services. There is a need to undertake

a mapping of SME activities with services and manufacturing activities in the GVC framework for greater regional integration.

11. The young population will provide the key impetus for developing critical human capital for deeper integration in GVC activities based on the RCEP framework. The development of skills in technical and vocational education and training is critical for the workers in Cambodia.
12. The policy of open regionalism adopted by the Cambodian government, such as the current bilateral FTAs with China and the initial FTA negotiations with Korea and the Eurasian Economic Union (EAEU), will also provide a more dynamic framework for structural reforms to align the domestic resources for more competitive activities in the region.
13. There is a need to increase public–private partnership activities in Cambodia focusing on key areas such as (a) training and re-tooling for workers, (b) vocational training and education, (c) SME linkages and technology transfers, and (d) internships and on-the-job training for workers.
14. Under the RCEP agreement, there is differential treatment for member countries to implement the RCEP commitments and also economic cooperation support in terms of Official Development Assistance (ODA) and aid for domestic capacity building and trade reforms in the domestic economy. The Cambodian government can provide a framework to increase technical assistance and economic cooperation for economic reforms in key sectors and increase their competitiveness. In particular, technical assistance for human capital development will be a key area of consideration.
15. However, there are still several challenges facing Cambodia in terms of developing the human capital needed for GVC activities in the next stage of value-added activities in GVCs. Secondly, there is a need for more coordination in linking foreign investment to domestic activities, thereby developing the domestic capacity of local businesses to undertake more value-added activities in the region. Thirdly, it is important for Cambodia to create leading domestic companies in key GVC activities that will provide key linkages to regional and global activities (Hing, Thangavelu, and Narjoko, 2020).

For ASEAN and Cambodia to fully benefit from regional integration and diversify to the global production value-chain, there is a need for further liberalisation and deeper structural reforms of the domestic economy in terms of improving the competitiveness of domestic firms, especially SMEs, developing key soft and hard infrastructures, facilitating new domestic and foreign investment, improving service linkages and services trade, creating digital trade and investments, and developing key human capital in skills that will allow for greater GVC activities in the region.

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Annex 1

Table 8.A1 Economic Impact of East Asian Regional Integration

Region	Real Gross Domestic Product (US\$ billion)		Trade (US\$ billion)		Foreign Direct Investment Inflows (US\$ billion)		Population (Billions)	
	Value	Share	Value	Share	Value	Share	Value	Share
World	81,984.30		21,045.70		1,495.20		7.6	
United States	19,611.80	0.24	1,917.40	0.09	253.5	0.17	0.33	0.04
China	13,376.10	0.16	2,624.90	0.12	138.3	0.09	1.43	0.19
Japan	4,536.90	0.06	747.90	0.04	9.8	0.01	0.13	0.02
Germany	3,573.90	0.04	1,634.00	0.08	73.5	0.05	0.08	0.01
France	2,570.70	0.03	620.30	0.03	38.1	0.03	0.07	0.01
India	2658	0.03	366.80	0.02	42.1	0.03	1.35	0.18
Korea, Rep. of	1,598.10	0.02	616.90	0.03	12.1	0.01	0.05	0.01
Australia	1,340.00	0.02	325.00	0.02	68	0.05	0.02	0.00
Brunei Darussalam	12.7	0.00	6.90	0.00	0.4	0.00	0.0004	0.00
Cambodia	22.2	0.00	15.90	0.00	3.2	0.00	0.016	0.00
Indonesia	999.1	0.01	195.70	0.01	15.5	0.01	0.267	0.04
Lao PDR	17.4	0.00	6.70	0.00	1.3	0.00	0.007	0.00
Malaysia	348.6	0.00	255.00	0.01	7.6	0.01	0.031	0.00
Myanmar	75	0.00	20.20	0.00	3.5	0.00	0.002	0.00
Philippines	354.6	0.00	75.90	0.00	6.6	0.00	0.106	0.01
Singapore	337.9	0.00	492.60	0.02	79.7	0.05	0.005	0.00
Thailand	449.2	0.01	263.20	0.01	10.3	0.01	0.069	0.01
Viet Nam	234.7	0.00	259.20	0.01	15.5	0.01	0.095	0.01
New Zealand	196.9	0.00	41.50	0.00	1.9	0.00	0.006	0.00
ASEAN	2,851.90	0.03	1,596.80	0.08	148.9	0.10	0.65	0.09
RCEP (less India)	23,899.90	0.29	5,953.30	0.28	379.10	0.25	2.29	0.30
ASEAN+3	22,363.00	0.27	5,586.80	0.27	309.2	0.21	2.26	0.30
ASEAN–China	16,228.00	0.20	4,221.70	0.20	287.20	0.19	2.08	0.27
ASEAN–Korea	4,450.00	0.05	2,213.70	0.11	161.00	0.11	0.70	0.09
ASEAN–Japan	7,388.80	0.09	2,344.70	0.11	158.70	0.11	0.78	0.10
ASEAN–ANZ	4,388.80	0.05	1,963.30	0.09	218.80	0.15	0.68	0.09

Region	Real Gross Domestic Product (US\$ billion)		Trade (US\$ billion)		Foreign Direct Investment Inflows (US\$ billion)		Population (Billions)	
European Union	14,511.10	0.18	6,343.20	0.30	349.8	0.23	0.51	0.07
NAFTA	22,516.70	0.27	2,897.10	0.14	331.7	0.22	0.49	0.06
CPTPP	10,384.40	0.13	3,246.10	0.15	274.8	0.18	0.5	0.07

ANZ = Australia and New Zealand, ASEAN = Association of Southeast Asian Nations, RCEP = Regional Comprehensive Economic Partnership, Source: Computed from UNCTAD Statistics (2017).

Annex 2

Rules of origin in RCEP

The Rules of Origin (RoO) Chapter comprises 35 Articles that are divided into two sections:

- (i) Section A: Rules of Origin (from Article 3.1 to Article 3.15), and
- (ii) Section B: Operational Certification Procedures (from Article 3.16 to Article 3.35).

The chapter comes with two Annexes:

- (i) Product-specific Rules, which cover all tariff lines at the HS 6-digit level; and
- (ii) Minimum Information Requirements, listing the required information for a Certificate of Origin and a Declaration of Origin.

Key features of RCEP's RoO

One of the key benefits of RCEP is that it consolidates the existing ASEAN+1 agreements into one single trade platform. This provides traders with a single set of rules and procedures for preferential tariff treatment to access tariff preferences for trade with other RCEP parties, which should reduce complexity and compliance costs for participating traders who previously had to navigate origin rules under various ASEAN+1 agreements.

RCEP's common RoO could foster contemporary production processes and trade logistics arrangements, and thereby provide greater levels of certainty and consistency for businesses in managing their supply chains across the region.

Under the Product-specific Rules (PSR), most products adopt co-equal rules, which provide some flexibility for traders to utilise either a change in tariff classification (CTC) or a regional value of content (RVC) rule of 40% to meet the RoO requirement. With RCEP, this will provide the opportunity to include multiple countries in the calculation of origin

rules and access to preferential duty rates, which is critical with global supply chains. For machinery and mechanical appliances (Chapter 84) and electrical machinery and equipment (Chapter 85), many articles can be found adopting either CTSH or RVC40, or CTH or RVC40. Automobile-related products, motor cars for the transport of persons (HS8703), and motor vehicles for the transport of goods (HS8704) adopt RVC40, whilst parts for motor vehicles (HS8708) are mostly in CTH or RVC40.

Table 8.A2 RoO and Chapters

Chapters	Product-specific Rules
Article 10: Cereals (Rice...)	WO (Wholly Obtained)
Article 11: Products of the Milling Industries, Malt, Starches, Inulin, Wheat Gluten	CC (Change in Classification) CC except from Chapter 10
Chapter 84: Machinery and mechanical appliance	CTSH (Change in Tariff Sub-Headings) or RVC40 (Regional Value Content of 40%) CTH (Change in Tariff Headings) or RVC40
Chapter 85: Electrical Machinery and equipment	CTSH or RVC40 CTH or RVC40
Chapter 87: Vehicles and parts and accessories thereof	RVC40 CTH or RVC40 CC or RVC 40

Source: Rules of Origin Chapter in RCEP Agreement.

In terms of Proof of Origin, RCEP provides exporters with flexibility in either obtaining a:

- a. Certificate of Origin, or
- b. Declaration of Origin by an approved exporter, or
- c. Declaration of Origin by an exporter or producer.

It should be noted that for (c), 12 member states are given 10 years to implement the Declaration of Origin by an exporter or producer, whilst Cambodia, the Lao PDR, and Myanmar are given up to 20 years after the entry into force to implement it.

Another main feature of RCEP is the regional cumulation between the 15 participating members. The cumulation provision allows manufacturers to source materials and utilise production processes from across the RCEP Parties and then include these materials and processes in the final determination of whether a good has origin status. This cumulation is limited to originating goods only, that is goods that already have origin status.

However, there is a provision for RCEP Parties to undertake a future review to consider the full cumulation, which allows inputs, whether or not they meet the originating criteria, to be counted as part of the qualifying content for goods produced and traded between all RCEP Parties.

Tariff differentials

As stipulated in Article 2.6 of Chapter 2 on Trade in Goods, a Tariff Differential refers to different tariff treatments that an importing party applies for the same originating good. The different tariff treatment refers to the additional requirements that the members with tariff differential tables impose on an originating good.

An Additional Requirement means the requirement that an exporting party of an originating good is the party where no less than 20% of the total value of the originating good has been added in the production of that originating good, as calculated, mutatis mutandis, under Article 3.5 (Calculation of Regional Value Content).

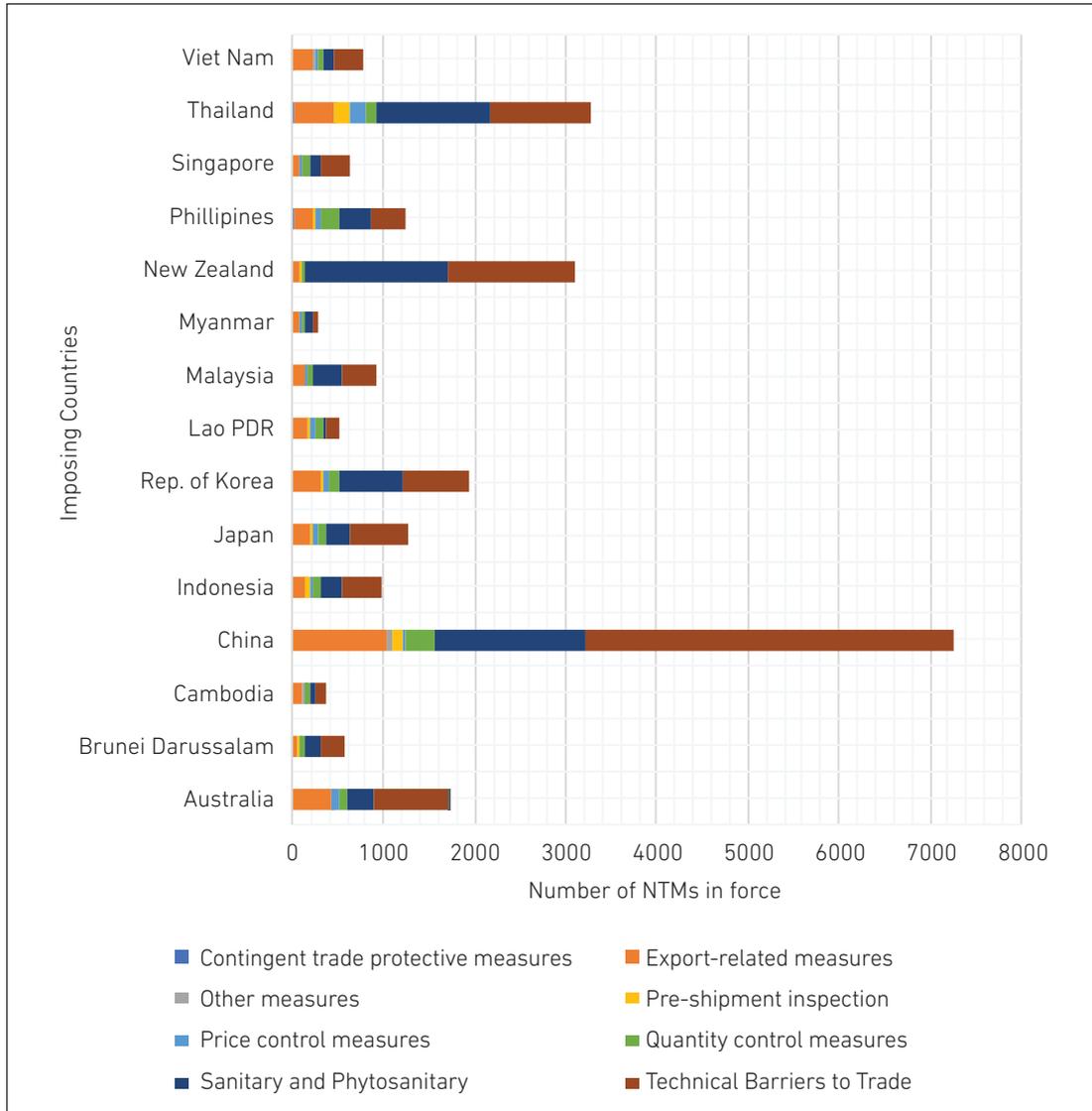
There are six RCEP Members with Tariff Differential tables: China, Korea, Japan, Viet Nam, Thailand, the Philippines, and Indonesia. The rest of the members adopt common concessions. Tariff Differential tables consist of less than 100 products.

Annex 3

Analysis of non-tariff measures in RCEP countries

The study has utilised the available data on non-tariff measures (NTMs) that are imposed by the RCEP countries from the TRAINS database, which is the global database on NTMs developed by the WTO and adapted by UNCTAD. The results have shown that the top five countries amongst all 15 RCEP countries, which have largely imposed NTMs, are China, Thailand, New Zealand, Australia, and Korea. However, since the NTM applications have principally involved the degree of transparency, predictability, and accountability in the respective countries, a large number of the NTMs imposed by each country cannot fully explain the restrictiveness of the application of the NTMs or their use as a basis for comparison with other countries. Nevertheless, based on the database for all NTMs, the technical barriers to trade (TBT) and sanitary and phytosanitary (SPS) measures appear to be the two main NTMs that have been mostly imposed by the RCEP countries.

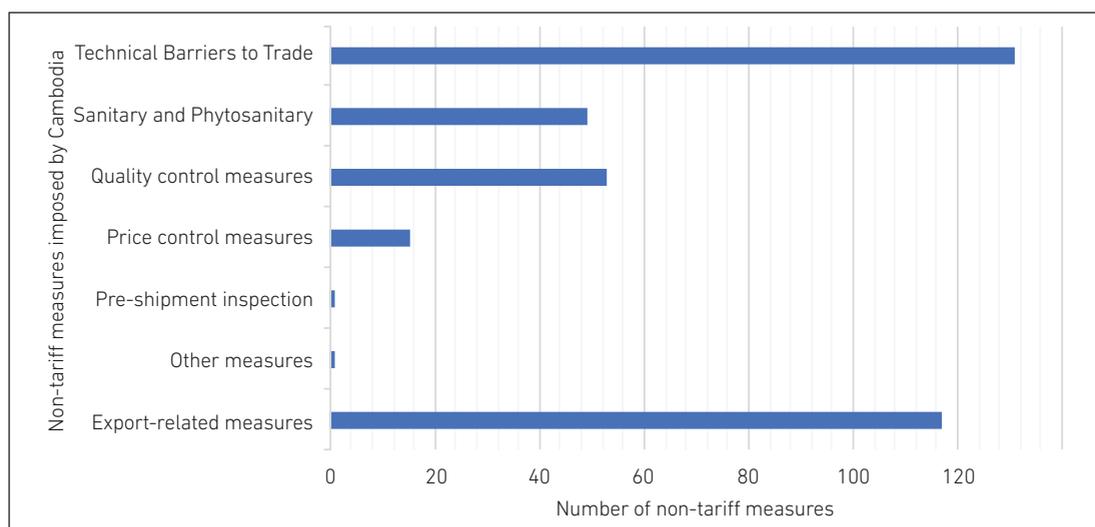
Figure 8.A1 Non-Tariff Measures in RCEP Countries



Source: Extracted from TRAINS; RCEP countries as reporters, as of 27 May 2021 (in force).

On a closer look, the NTMs imposed by Cambodia largely include TBT, export-related measures, quantity control measures, and SPS. Interestingly, NTMs of export-related measures are the second-largest NTM imposed by Cambodia. These could potentially create unwanted barriers to exportation. The NTMs on export-related measures of Cambodia should be scrutinised and streamlined to facilitate trades flow and boost exports from Cambodia.

Figure 8.A2 Non-Tariff Measures in Cambodia



Source: Extracted from TRAINS; Cambodia as the reporter, as of 27 May 2021 (in force).

Annex 4

Trade in services

Table 8.A3 shows the share of services trade to GDP for the RCEP countries in 2010 and 2019. Cambodia has the second-largest services trade share of GDP amongst the RCEP countries, after Singapore. Services trade has increased significantly since 2010, rising from 27% to 35% of GDP. Cambodia stands third amongst RCEP countries in terms of changes in the share of services trade in GDP (7.45%), where the share of services to GDP increased from 27.1% in 2010 to 34.55% in 2019. Singapore achieved the fastest growth with a 24.77% difference between the two periods. ASEAN LDCs have also seen their shares of GDP increase significantly.

Table 8.A3 Trade in Services (% of GDP)

No.	Country	Trade in Services (% of GDP)*		Change in share: 2019–2010**
		2010	2019	
1	Singapore	83.78	108.55	24.77
2	Myanmar	2.34	13.60	11.26
3	Cambodia	27.10	34.55	7.45

No.	Country	Trade in Services (% of GDP)*		Change in share: 2019–2010**
		2010	2019	
4	Brunei Darussalam	12.63	18.00	5.37
5	Philippines	14.30	18.36	4.06
6	Thailand	22.18	25.39	3.21
7	Japan	5.25	8.14	2.89
8	Lao PDR	10.86	13.35	2.49
9	Australia	8.55	10.24	1.69
10	New Zealand	14.88	16.00	1.12
11	China	4.25	5.25	1.01
12	Indonesia	5.71	6.34	0.63
13	Korea, Rep. of	15.72	14.47	-1.25
14	Viet Nam	14.99	13.60	-1.39
15	Malaysia	26.40	23.20	-3.20
	RCEP average	17.93	21.94	4.01
	ASEAN average	22.03	27.49	5.46

ASEAN = Association of Southeast Asian Nations, RCEP = Regional Comprehensive Economic Partnership.

* Trade in services is the sum of service exports and imports divided by the value of GDP, all in current US dollars.

** Sorted in descending order.

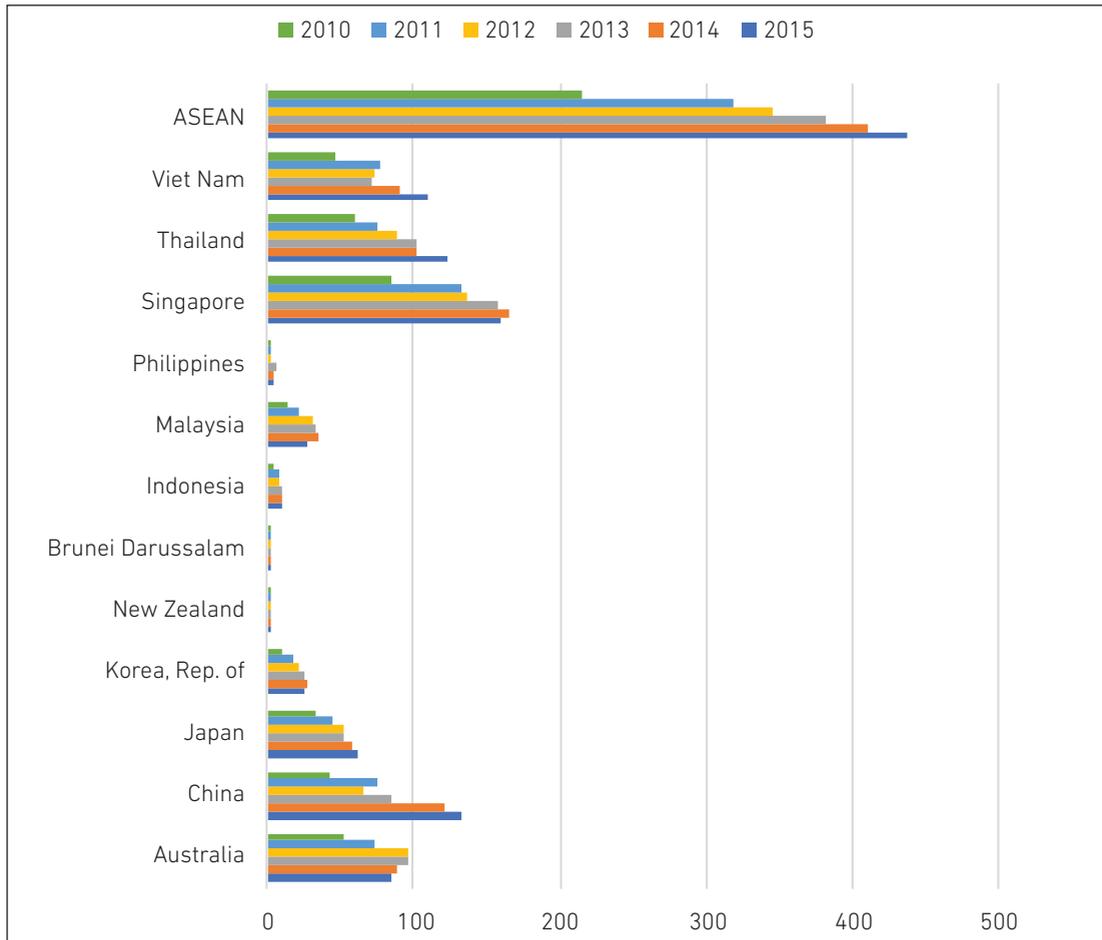
Source: World Bank, World Development Indicators.

Cambodia's services exports

Figure 8.A3 illustrates Cambodia's total services exports to the RCEP member countries. Services trade with ASEAN increased from US\$214 million in 2010 to nearly US\$437.5 million in 2015. Overall, Cambodia's services exports continued to increase since 2010.

Cambodia's exports of services to RCEP members are mostly in traditional services trade, such as transportation and accommodation and food services (tourism sector), followed by a rising trend in telecommunications, information, finance, and other business services.

Figure 8.A3 Cambodia's Total Services Exports to RCEP Members (US\$ million)



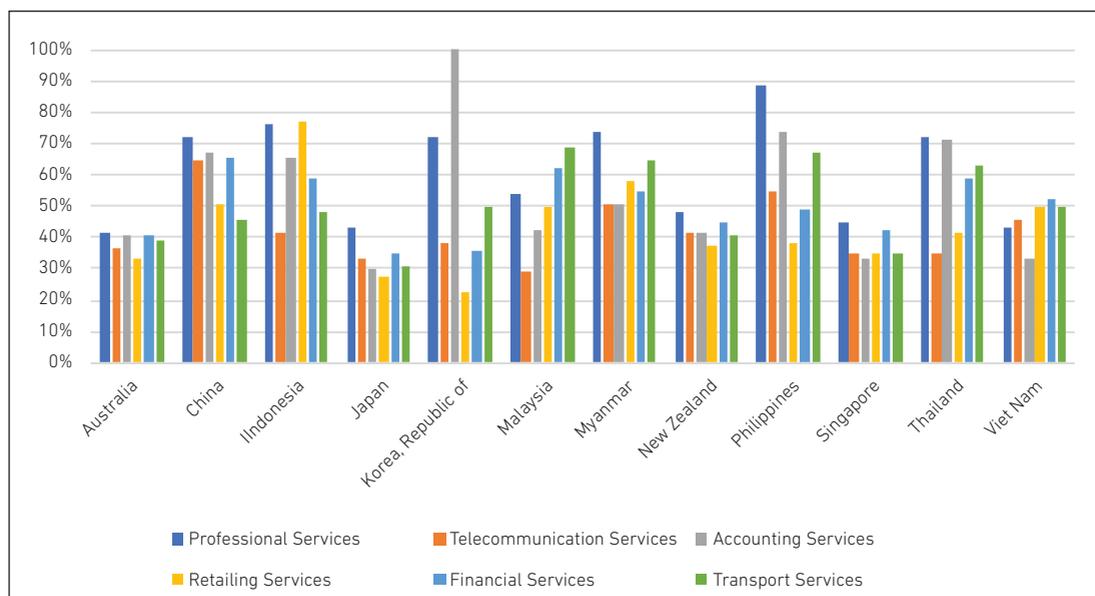
ASEAN = Association of Southeast Asian Nations.

Source: OECD Statistics.

Services Trade Restrictiveness Index

Figure 8.A4 shows the Services Trade Restrictiveness Index (STRI) indicating that most of the RCEP member countries still have high restrictiveness in services trade. For Cambodia, the average percentage for the STRI is 24%. In Table 8.A4, we observe that Cambodia's financial sector is less restrictive compared to other services trade.

Figure 8.A4 Services Trade Restrictiveness Index by Industry for RCEP Member Countries, 2016



Source: World Bank's Service Trade Restrictions Database.

Table 8.A4 Cambodia's Services Trade Restrictiveness Index, 2017

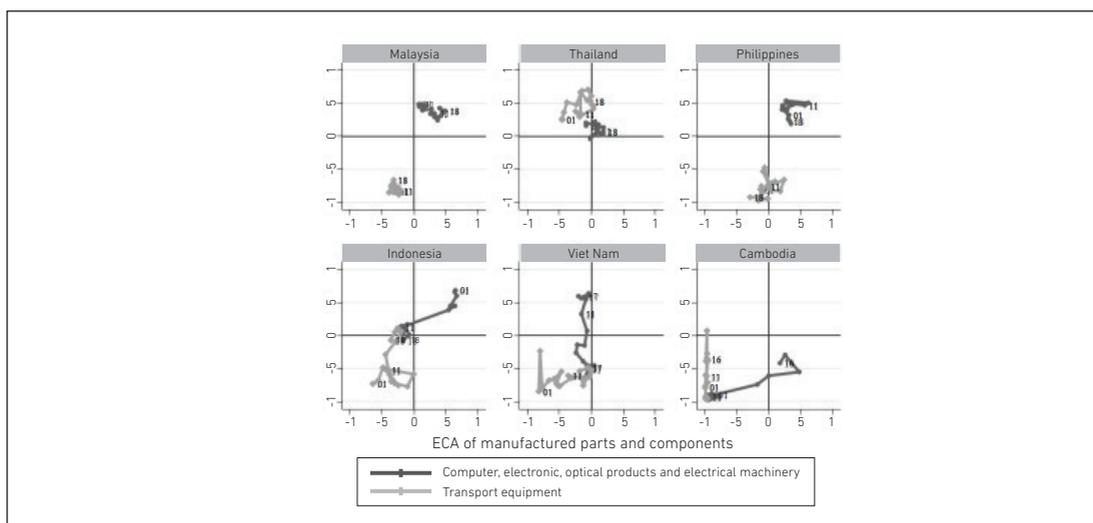
Industry	Percentage	Mode 1	Mode 3	Mode 4
Average	23.7	42.95	18.73	75
Finance	5.8	29.08	3.23	NA
Banking	NA	NA	NA	NA
Lending by banks	NA	NA	NA	NA
Acceptance of deposits by banks	NA	NA	NA	NA
Insurance	15	75	8.33	NA
Automobile insurance	10	100	NA	NA
Life insurance	10	100	NA	NA
Reinsurance	25	25	25	NA
Telecommunications	25	NA	25	NA
Fixed-line telecommunications	25	NA	25	NA
Mobile telecommunications	25	NA	25	NA
Retail	NA	NA	NA	NA
Transportation	35.5	25	34.03	NA

Industry	Percentage	Mode 1	Mode 3	Mode 4
Air passenger domestic	NA	NA	25	NA
Air passenger international	38.8	50	12.5	NA
Maritime shipping international	7.5	NA	25	NA
Maritime auxiliary services	75	NA	75	NA
Road freight domestic	25	NA	25	NA
Rail freight domestic	25	NA	25	NA
Professional	60	66.67	40	75
Accounting and auditing	70	100	50	75
Accounting	70	100	50	75
Auditing	70	100	50	75
Legal	53.3	NA	33.33	75
Legal advice foreign law	10	NA	NA	25
Legal advice domestic law	50	NA	NA	100
Legal representation in court	100	NA	100	100

Source: ERIA Research Project Report 2019, No. 16.

Annex 5

Figure 8.A5 Cambodia's Export Diversification in Electronics, Computers, and Transport Equipment



ECA = empirical comparative advantage.

Source: Obashi (2020).

Annex 6

Revealed comparative advantage

The revealed comparative advantage (RCA) measure, as proposed by Balassa (1965), defines the export performance of a specific product/industry from a country – as measured by the revealed comparative advantage index – as the relative share of the country's exports of the product in world exports of the same product, divided by the overall share of the country in world exports.

$$RCA = \frac{\frac{X_{Ai}}{\sum_{i \in P} X_{Ai}}}{\frac{X_{wi}}{\sum_{i \in P} X_{wi}}}$$

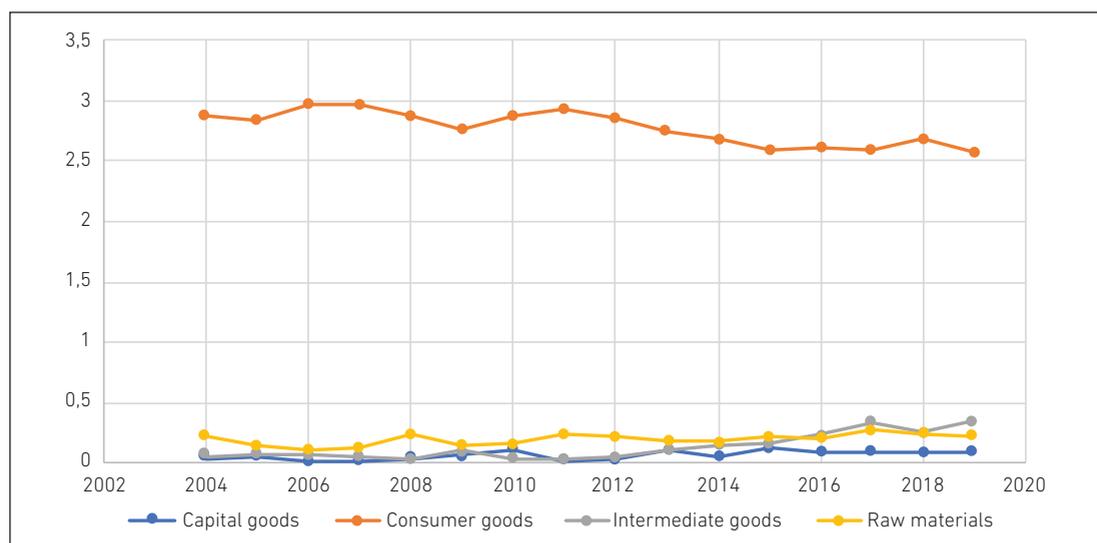
The RCA index can be defined as below:

Where

- P is the set of all products (with $i \in P$),
- X_{Ai} is country A's exports of product i ,
- X_{wi} is the world's exports of product i ,
- $\sum_{i \in P} X_{Ai}$ is country A's total exports (of all products j in P), and
- $\sum_{i \in P} X_{wi}$ is the world's total exports (of all products j in P).

The RCA index ranges from 0 to infinity, with 1 as the break-even point, where an RCA value of less than 1 means that the product has no export comparative advantage, whilst a value above 1 indicates that the product has an export comparative advantage.

Figure 8.A6 Revealed Comparative Advantage of Cambodia, 2004–2019



Source: Authors' calculations based on data from Trade Map.

Export RCA between Cambodia and China

**Table 8.A5 Cambodia's Top 20 Export Products to China, 2015–2019
(US\$ thousand)**

No.	Product Code	Product Label	Average 2015–2019		Staging Category	Product Level
			Value	Share		
1	43021100	Tanned or dressed whole fur skins of mink, not assembled	188154.8	17.67%	A	I
2	90139020	Parts & accessories of appliances of 9013.8030	76104.8	7.15%	A	I
3	10063010	Semi or wholly milled long grain	59354.2	5.57%	F	C
4	10063020	Semi or wholly milled rice (length6mm or l-w ratio2)	46915.2	4.41%	F	C
5	61102000	Jerseys, pullovers, etc, of cotton, knitted or crocheted	36150.4	3.39%	B	C
6	61091000	T-shirts, singlets & other vests, of cotton, knitted or crocheted	29401.8	2.76%	B	C
7	74031111	Refined copper cathodes, Cu99.9935% by wt., unwrought	26965	2.53%	B	I
8	85011099	Electric motors of an output37.5 W, nes	26181.2	2.46%	A	I
9	61112000	Babies' garments, etc, of cotton, knitted or crocheted	25716.4	2.41%	C	C
10	61034200	Men's or boys' trousers, etc, of cotton, knitted or crocheted	21299.4	2.00%	A	C
11	61103000	Jerseys, pullovers, etc, of man-made fibres, knitted or crocheted	20825.8	1.96%	C	C
12	64039900	Footwear with rubber... soles, leather uppers, not covering the ankle	18465.4	1.73%	A	C
13	85044014	Other DC voltage-stabilised suppliers, < 1 kW, accuracy to 0.0001	17368.2	1.63%	A	I
14	11081400	Manioc (cassava) starch	15918.2	1.49%	A	I
15	61099090	T-shirts, singlets, etc, of other textiles, nes, knitted/ crocheted	15091.2	1.42%	B	C
16	35051000	Dextrins & other modified starches	13844.4	1.30%	A	C
17	25051000	Silica sands & quartz sands	13477.8	1.27%	A	R
18	07141020	Dried manioc	13115	1.23%	A	R
19	64041990	Other footwear with outer soles of rubber/plastics, and uppers of textile materials	12664	1.19%	D	C
20	62034390	Men's or boys' trousers, breeches, nes, of synthetic fibres	11758.8	1.10%	B	C
Total of top 20 products			688772	64.67%		
Rest of the products			376255.2	35.33%		
Total			1065027.2	100.00%		

* Staging Category: 'A' means 0% at the entry into force, 'B' means 10-year elimination, 'C' means 15-year elimination, and 'F' means exclusion.

** Product Level: C – final consumption, I – intermediate input, R – raw materials (based on UNIDO classification).

Source: Extracted from Trade Map (2015–2019); China as the reporter; HS 8-digit level.

Table 8.A6 RCA of Cambodia's Top 20 Export Products to China, 2015–2019

No.	Product Code	Product Label	Revealed Comparative Advantage						
			2015	2016	Average 2015–2016	2017	2018	2019	Average 2017–2019
1	430211	Tanned or dressed whole fur skins of mink, not assembled	241.7	494.0	367.9	569.29	566.34	466.05	533.9 (†)
2	901390	Parts & accessories of appliances of 9013.8030	0	0	0	0	0	0.001	0.001 (†)
3	100630	Semi or wholly milled long grain	32.2	33.5	32.9	30.8	31.9	27.6	30.1 (↓)
4	100630	Semi or wholly milled rice (length 6mm or l-w ratio 2)	32.2	33.5	32.9	30.8	31.9	27.6	30.1 (↓)
5	611020	Jerseys, pullovers, etc, of cotton, knitted or crocheted	4.1	3.9	4.0	6.2	11.5	28.0	15.3 (†)
6	610910	T-shirts, singlets & other vests, of cotton, knitted or crocheted	75.3	63.4	69.4	59.2	54.4	28.3	47.3 (↓)
7	740311	Refined copper cathodes, Cu99.9935% by wt., unwrought	0	0	0	0.001	0.001	0.002	0.002 (†)
8	850110	Electric motors of an output 37.5 W, nes	2.5	3.1	2.8	4.88	5.54	8.18*	6.2 (†)
9	611120	Babies' garments, etc, of cotton, knitted or crocheted	10.9	20.8	15.8	36.8	29.9	56.4	41.0 (†)
10	610342	Men's or boys' trousers, etc, of cotton, knitted or crocheted	28.8	23.9	26.3	27.4	40.5	49.8	39.3 (†)
11	611030	Jerseys, pullovers, etc, of man-made fibres, knitted or crocheted	0.52	1.97	1.2	3.2	6.3	21.4	10.3 (†)
12	640399	Footwear with rubber... soles, leather uppers, not covering the ankle	1.8	1.8	1.8	0.9	1.6	6.0	2.8 (†)
13	850440	Other DC voltage-stabilised suppliers, < 1 kW, accuracy to 0.0001	0.1	0.2	0.1	0.3	0.2	1.2*	0.6 (†)
14	110814	Manioc (cassava) starch	22.0	14.3	18.1	29.2	29.7	19.1	26.0 (†)
15	610990	T-shirts, singlets, etc, of other textiles, nes, knitted/crocheted	44.6	39.5	42.0	41.8	45.0	34.5	40.4 (↓)
16	350510	Dextrins & other modified starches	21.5	50.6	36.0	30.1	2.03	0.01	10.7 (↓)
17	250510	Silica sands & quartz sands	2.1	1.0	1.5	7.2	8.2	2.7	6.0 (†)
18	071410	Dried manioc	15.8	16.1	15.9	11.8	10.5	2.4	8.2 (↓)
19	640419	Other footwear with outer soles of rubber/plastics, and uppers of textile materials	20.0	16.8	18.4	16.3	19.9	12.4	16.3 (-)
20	620343	Men's or boys' trousers, breeches, nes, of synthetic fibres	1.6	2.9	2.2	4.3	7.2	20.5	10.6 (†)

* Rising comparative advantage in part and components.

Source: Extracted from Trade Map (2015–2019); Cambodia as the reporter; HS 6-digit level.

Export RCA between Cambodia and the Republic of Korea

Table 8.A7 Cambodia's Top 20 Export Products to the Republic of Korea, 2016–2020 (US\$ thousand)

No.	Product Code	Product Label	Average 2016–2020		Under RCEP		Product Level
			Average Value	Average %	Base Rate	Staging Category (RCEP)	
1	85444929	Electric conductors, for a voltage <= 1.000 V, insulated, not fitted with connectors, n.e.s. ...	21659.2	11.64%	8	C	I
2	76020000	Aluminium waste or scrap	11273.2	6.06%	0	A	R
3	64034000	Footwear, incorporating a protective metal toecap, with outer soles of rubber, plastics, leather ...	9695.6	5.21%	13	A	R
4	22071000	Undenatured ethyl alcohol, of actual alcoholic strength of >= 80%	9342	5.02%	-	U	I
5	64032000	Footwear with outer soles of leather, and uppers which consist of leather straps across the ...	7795	4.19%	13	A	C
6	61034900	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches ...	5138.2	2.76%	13	A	C
7	61091010	T-shirts, singlets and other vests of cotton, knitted or crocheted: Of cotton: For men or boys	4773.4	2.57%	13	A	C
8	61046900	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, ...	4033	2.17%	13	A	C
9	61109000	Jerseys, pullovers, cardigans, waistcoats and similar articles, of textile materials, knitted ...	3580.8	1.92%	13	A	C
10	61091020	T-shirts, singlets and other vests of cotton, knitted or crocheted: Of cotton: For women or ...	3552.6	1.91%	13	A	C
11	61082100	Women's or girls' slips, petticoats, briefs, panties, nightdresses, pyjamas, négligés, bathrobes, ...	3290.8	1.77%	13	A	C
12	40012950	Natural rubber in primary forms or in plates, sheets or strip (excl. smoked sheets, technically ...	3281.2	1.76%	0	A	R
13	61034300	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches ...	3118.4	1.68%	13	A	C
14	61082900	Women's or girls' slips, petticoats, briefs, panties, nightdresses, pyjamas, négligés, bathrobes, ...	2999.8	1.61%	13	A	C
15	61099020	T-shirts, singlets and other vests of textile materials, knitted or crocheted (excl. cotton): ...	2921.8	1.57%	13	A	C

No.	Product Code	Product Label	Average 2016–2020		Under RCEP		Product Level
			Average Value	Average %	Base Rate	Staging Category (RCEP)	
16	42022900	Handbags, whether or not with shoulder strap, incl. those without handle, with outer surface ...	2407.4	1.29%	8	A	C
17	64041900	Footwear with outer soles of rubber or plastics and uppers of textile materials (excl. sports ...	2315	1.24%	13	A	C
18	61102000	Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted ...	2297.8	1.23%	13	C	C
19	61032900	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches ...	2279	1.22%	13	A	C
20	61046200	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, ...	2061.4	1.11%	13	A	C
Total top 20			107815.6	57.95%			
Rest of the products			78244.2	42.05%			
Total			186059.8	100.00%			

* Staging category: 'A' means 0% at the entry into force, 'C' means 15-year elimination, 'U' means exclusion.

**Product Level: C – consumer final products, I – intermediate products, R – raw materials.

Source: Extracted from Trade Map (2016–2020); Cambodia as the reporter; HS 8-digit level.

Table 8.A8 RCA of Cambodia's Top 20 Export Products to the Republic of Korea

HS Code	Product Label	Revealed Comparative Advantage (RCA)				
		2016	2017	2018	2019	Average RCA
854449	Electric conductors, for a voltage <= 1.000 V, insulated, not fitted with connectors, n.e.s.	1.7	1.2	1.6	2.3	1.7 (↑)
760200	Aluminium waste or scrap	1.4	1.9	1.9	2.0	1.8 (↑)
640340	Footwear, incorporating a protective metal toecap, with outer soles of rubber, plastics, leather ...	0.2	0.2	14.6	20.5	8.9 (↓)
220710	Undenatured ethyl alcohol, of actual alcoholic strength of >= 80%	1.4	4.0	2.0	2.3	2.4 (↑)
640320	Footwear with outer soles of leather, and uppers which consist of leather straps across the ...	1159.8	1119.6	1016.5	708.7	1001.2 (↓)
610349	Men's or boys' trousers, bib and brace overalls, breeches and shorts of textile materials, ...	822.5	786.3	757.6	306.7	668.3 (↓)
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	53.8	50.9	47.3	25.3	44.3 (↓)
610469	Women's or girls' trousers, bib and brace overalls, breeches and shorts of textile materials, ...	669.7	681.2	605.9	281.0	559.5 (↓)
611090	Jerseys, pullovers, cardigans, waistcoats and similar articles, of textile materials, knitted ...	368.0	349.3	320.9	173.7	303.0 (↓)

HS Code	Product Label	Revealed Comparative Advantage (RCA)				
		2016	2017	2018	2019	Average RCA
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	53.8	50.9	47.3	25.3	44.3 (↓)
610821	Women's or girls' briefs and panties of cotton, knitted or crocheted	28.1	30.3	31.0	19.8	27.3 (↓)
400129	Natural rubber in primary forms or in plates, sheets or strip (excluding smoked sheets, technically ...	488.8	448.5	504.8	510.7	488.2 (-)
610343	Men's or boys' trousers, bib and brace overalls, breeches and shorts of synthetic fibres, knitted ...	6.6	13.1	18.8	51.5	22.5 (↑)
610829	Women's or girls' briefs and panties of textile materials, knitted or crocheted (excluding ...	201.2	231.5	454.3	181.9	267.2 (↑)
610990	T-shirts, singlets and other vests of textile materials, knitted or crocheted (excluding cotton)	32.5	34.4	37.4	29.3	33.4 (-)
420229	Handbags, whether or not with shoulder strap, incl. those without handle, with outer surface ...	134.4	188.5	292.0	205.1	205.0 (↑)
640419	Footwear with outer soles of rubber or plastics and uppers of textile materials (excluding ...	14.6	14.1	17.9	11.5	14.5 (-)
611020	Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted ...	4.4	6.9	12.5	29.2	13.3 (↑)
610329	Men's or boys' ensembles of textile materials (excluding wool, fine animal hair, cotton or ...	665.9	607.3	674.9	186.1	533.5 (↓)
610462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton, knitted ...	19.1	16.8	21.0	38.4	23.8 (↑)

Source: Extracted from Trade Map (2016–2020); Cambodia as the reporter; HS 6-digit level.

Export RCA between Cambodia and Japan

Table 8.A9 Cambodia's Top 20 Export Products to Japan, 2016–2020 (US\$ thousand)

No.	HS Code	Description	Average Value 2015–2019	Share	Staging Category	Product Level
1	620462200	Women's/girls' trousers and shorts, of cotton, not knitted: Other	101587.8	7%	EIF	C
2	620342200	Men's/boys trousers and shorts, of cotton, not knitted: Other	64243.6	5%	EIF	C
3	640399029	Footwear with outer soles of rubber, plastics or composition leather, with uppers of leather ...	47790.8	4%	Y15	C
4	420292000	Travelling-bags, toilet bags, rucksacks, shopping-bags, map-cases and similar containers, with ...	46689.6	3%	Y15	C
5	854430010	Ignition wirg sets & oth wirg sets used in vehicles, aircraft etc: For motor vehicles	38675.2	3%	EIF	I
6	640419290	Footwear o/t sports, w outer soles of rubber/ plastics & uppers of tex mat: Other: With the uppers ...	33563.6	2%	Y15	C

No.	HS Code	Description	Average Value 2015–2019	Share	Staging Category	Product Level
7	620463200	Women's/girls; trousers and shorts, of synthetic fibres, not knitted: Other	31255.8	2%	EIF	C
8	620469200	Women's/girls' trousers & shorts, of other textile materials, not knitted: Other	30272.6	2%	EIF	C
9	640399015	Footwear with outer soles of rubber, plastics or composition leather, with uppers of leather ...	30230.2	2%	Y15	C
10	620343200	Men's/boys trousers and shorts, of synthetic fibres, not knitted: Other	26457.8	2%	EIF	C
11	620311200	Men's/boys suits, of wool or fine animal hair, not knitted: Other	22691.4	2%	Y15	C
12	610910020	T-shirts, singlets and other vests, of cotton, knitted: Other	21960.8	2%	EIF	C
13	640399016	Footwear with outer soles of rubber, plastics or composition leather, with uppers of leather ...	21792.6	2%	Y15	C
14	620520000	Men's or boys' shirts, of cotton	19201.8	1%	EIF	C
15	611030099	Jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibres, knitted ...	17231.6	1%	U	C
16	620312200	Men's/boys suits, of synthetic fibres, not knitted: Other	17083.0	1%	Y15	C
17	620630210	Women's/girls' blouses and shirts, of cotton, not knitted: Other: Blouses, shirt-blouses, open ...	17026.2	1%	EIF	C
18	660199000	Other umbrellas	16039.6	1%	Y15	C
19	640299010	Footwear with outer soles and uppers of rubber or plastics (excl. covering the ankle or with ...	15374.8	1%	Y15	C
20	640219000	Sports footwear, excluding ski footwear, with outer soles and uppers of rubber or plastics	13299.4	1%	Y15	C
Total top 20 products			632468.2	47%	Y15	C

* Staging category for RCEP tariff elimination.

** Product Level: C – consumer final product, I – intermediate product, R – raw materials.

Source: Extracted from Trade Map (2016–2020); Cambodia as the reporter; HS 10-digit level.

Table 8.A10 Cambodia's Top 20 Export Products to the Republic of Korea, 2016–2020 (US\$ thousand)

No.	HS Code	Description	Revealed Comparative Advantage					Average
			2015	2016	2017	2018	2019	
1	620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton (excluding ...	68.5	58.1	54.4	55.7	57.3	58.82 (↓)
2	620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excluding ...	45.1	39.9	37.1	37.8	30.9	38.2 (↓)
3	640399	Footwear with outer soles of rubber, plastics or composition leather, with uppers of leather ...	89.0	68.1	74.1	58.2	46.7	67.2 (↓)

No.	HS Code	Description	Revealed Comparative Advantage					
			2015	2016	2017	2018	2019	Average
4	420292	Travelling-bags, insulated food or beverage bags, toilet bags, rucksacks, shopping-bags, map-cases, ...	8.9	7.9	8.9	11.8	11.1	9.7 (†)
5	854430	Ignition wiring sets and other wiring sets for vehicles, aircraft or ships	4.4	3.8	4.4	3.4	5.4	4.5 (†)
6	640419	Footwear with outer soles of rubber or plastics and uppers of textile materials (excluding ...	10.4	13.8	12.4	11.6	13.0	12.2 (†)
7	620463	Women's or girls' trousers, bib and brace overalls, breeches and shorts of synthetic fibres ...	26.6	25.0	26.6	26.6	24.8	25.9 (-)
8	620469	Women's or girls' trousers, bib and brace overalls, breeches and shorts of textile materials ...	55.6	50.0	75.3	72.8	65.6	63.9 (†)
9	620343	Men's or boys' trousers, bib and brace overalls, breeches and shorts of synthetic fibres (excluding ...	14.8	15.4	15.1	18.2	23.8	17.4 (†)
10	620311	Men's or boys' suits of wool or fine animal hair (excluding knitted or crocheted, tracksuits, ...	35.9	27.7	32.4	26.8	26.9	29.9 (↓)
11	610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	11.2	14.7	20.5	18.7	20.5	17.1 (†)
12	620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets and ...	9.1	15.4	17.1	18.9	22.8	16.7 (†)
13	611030	Jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibres, knitted ...	10.1	11.3	11.0	13.0	12.9	11.7 (†)
14	620312	Men's or boys' suits of synthetic fibres (excluding knitted or crocheted, tracksuits, ski suits ...	45.6	50.0	50.1	48.3	46.7	48.2 (†)
15	620630	Women's or girls' blouses, shirts and shirt-blouses of cotton (excluding knitted or crocheted ...	19.2	16.4	15.0	18.7	21.6	18.2 (↓)
16	660199	Umbrellas and sun umbrellas, incl. walking-stick umbrellas (excluding umbrellas having a telescopic ...	32.7	30.8	36.9	58.4	66.4	45.0 (†)
17	640299	Footwear with outer soles and uppers of rubber or plastics (excluding covering the ankle or ...	4.6	3.7	5.9	9.3	10.3	6.8 (†)
18	640219	Sports footwear with outer soles and uppers of rubber or plastics (excluding waterproof footwear ...	42.4	55.0	42.9	32.4	36.0	41.7 (↓)

Source: Extracted from Trade Map (2016–2020); Cambodia as the reporter; HS 6-digit level.

Export RCA between Cambodia and Australia

**Table 8.A11 Cambodia's Top 20 Export Products to Australia, 2015–2019
(US\$ thousand)**

No.	Product Code	Product Label	Average 2015–2019		Staging Category*
			Value	Share	
1	6404119003	Sports footwear; tennis, basketball, gym and training shoes and the like, with outer soles ...	7,059	4.77%	A
2	6111209071	Babies' ensembles, playsuits, romper suits, suits and track suits, of cotton, knitted or crocheted	6,061	4.10%	A
3	1006300010	Semi-milled or wholly milled rice, whether or not polished or glazed	5,510	3.72%	A
4	6104630038	Women's or girls' trousers (excl. padded skiwear or jeans) of synthetic fibres, knitted or ...	5,077	3.43%	A
5	7108130026	Non-monetary gold (incl. gold plated with platinum), semi-manufactured	4,586	3.10%	A
6	6109100037	Women's, girls' or infants' singlets and other vests (excl. t-shirts), of cotton, knitted or ...	4,091	2.76%	A
7	6107110030	Men's or boys' underpants and briefs, of cotton, knitted or crocheted	3,851	2.60%	A
8	6203430004	Men's or boys' shorts of synthetic fibres (excl. padded skiwear and of knitted or crocheted ...	3,240	2.19%	A
9	6110200057	Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted ...	3,207	2.17%	A
10	6109100006	Women's, girls' or babies' t-shirts, of cotton, knitted or crocheted	3,127	2.11%	A
11	6103420011	Men's or boys' trousers (excl. jeans), of cotton, knitted or crocheted	2,956	2.00%	SL
12	6203420023	Men's or boys' shorts and breeches (excl. trousers and swimwear), of cotton	2,732	1.85%	SL
13	6109100005	Men's or boys' t-shirts, of cotton, knitted or crocheted	2,670	1.80%	A
14	6210101001	Garments, made up of fabrics of felt or of nonwovens, or being fabric not impregnated or coated	2,619	1.77%	A
15	6110300053	Jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibres, knitted ...	2,243	1.52%	A
16	6403910007	Male footwear exceeding size 1, 2nd series, with outer soles of rubber, plastics or composition ...	2,091	1.41%	A
17	6109900037	Women's, girls' or infants' singlets and other vests (excl. t-shirts), of textile materials ...	2,024	1.37%	A
18	6109100028	Men's or boys' singlets and other vests (excl. t-shirts), of cotton, knitted or crocheted	1,982	1.34%	A
19	6104620011	Women's or girls' trousers (excl. jeans), of cotton, knitted or crocheted	1,725	1.17%	A
20	6108210041	Women's or girls' briefs and panties, of cotton, knitted or crocheted	1,577	1.07%	SL
Total of top 20 products			68,427	46.24%	
Rest of the products			79,541	53.76%	
Total			147,968	100.00%	

* Staging Category: 'A' means 0% at the entry into force, 'SL' means Sensitive List.

Source: Extracted from Trade Map (2015–2019); Australia as the reporter; HS 10-digit level.

Table 8.A12 RCA of Cambodia's Top 20 Exporting Products to Australia, 2015–2019 (US\$ thousand)

No.	Product Code	Product Label	Revealed Comparative Advantage					
			2015	2016	2017	2018	2019	Average
1	640411	Sports footwear; tennis, basketball, gym and training shoes and the like, with outer soles ...	2.87	2.68	2.46	2.09	4.24	2.86
2	611120	Babies' ensembles, playsuits, romper suits, suits and track suits, of cotton, knitted or crocheted	10.94	20.81	36.83	29.93	56.40	35.99
3	100630	Semi-milled or wholly milled rice, whether or not polished or glazed	32.27	33.55	30.85	31.88	27.65	30.98
4	610463	Women's or girls' trousers (excl. padded skiwear or jeans) of synthetic fibres, knitted or ...	10.17	10.64	9.87	13.64	40.92	18.76
5	710813	Non-monetary gold (incl. gold plated with platinum), semi-manufactured	0.26	1.38	1.42	0.20	2.11	1.27
6	610910	Women's, girls' or infants' singlets and other vests (excl. t-shirts), of cotton, knitted or ...	75.34	63.43	59.23	54.46	28.34	51.36
7	610711	Men's or boys' underpants and briefs, of cotton, knitted or crocheted	9.35	14.99	23.39	18.77	23.85	20.25
8	620343	Men's or boys' shorts of synthetic fibres (excl. padded skiwear and of knitted or crocheted ...	1.60	2.96	4.34	7.26	20.51	8.77
9	611020	Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted ...	4.12	3.96	6.26	11.55	28.01	12.44
10	610910	Women's, girls' or babies' t-shirts, of cotton, knitted or crocheted	75.34	63.43	59.23	54.46	28.34	51.36
11	610342	Men's or boys' trousers (excl. jeans), of cotton, knitted or crocheted	28.88	23.99	27.45	40.54	49.88	35.46
12	620342	Men's or boys' shorts and breeches (excl. trousers and swimwear), of cotton	2.92	2.50	2.96	3.97	10.59	5.00
13	610910	Men's or boys' t-shirts, of cotton, knitted or crocheted	75.34	63.43	59.23	54.46	28.34	51.36
14	621010	Garments, made up of fabrics of felt or of nonwovens, or being fabric not impregnated or coated	0.41	0.55	6.30	16.83	43.72	16.85
15	611030	Jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibres, knitted ...	0.52	1.97	3.20	6.34	21.46	8.24
16	640391	Male footwear exceeding size 1, 2nd series, with outer soles of rubber, plastics or composition ...	0.00	0.02	0.67	1.24	5.30	1.80
17	610990	Women's, girls' or infants' singlets and other vests (excl. t-shirts), of textile materials ...	44.66	39.54	41.89	45.00	34.54	40.24
18	610910	Men's or boys' singlets and other vests (excl. t-shirts), of cotton, knitted or crocheted	75.34	63.43	59.23	54.46	28.34	51.36
19	610462	Women's or girls' trousers (excl. jeans), of cotton, knitted or crocheted	15.65	21.47	18.34	22.69	43.51	26.50
20	610821	Women's or girls' briefs and panties, of cotton, knitted or crocheted	19.39	32.40	32.96	35.05	22.48	30.72

Source: Extracted from Trade Map (2015–2019); Cambodia as the reporter; HS 6-digit level.

Table 8.A13 Cambodia's Top 20 Import Products from Australia, 2015–2019 (US\$ thousand)

No.	Product Code	Product Label	Average 2015–2019		Staging Category*
			Value	Share	
1	11071000	Malt (excl. roasted)	10,603	27.79%	EL
2	27011900	Coal, whether or not pulverised, non-agglomerated (excl. anthracite and bituminous coal)	9,349	24.51%	EIF
3	10011900	Durum wheat (excl. seed for sowing)	3,095	8.11%	EIF
4	10011100	Durum wheat seed for sowing	1,779	4.66%	EIF
5	11072000	Roasted malt	893	2.34%	EIF
6	04011010	Milk and cream of a fat content by weight of <= 1%, not concentrated nor containing added sugar ...	892	2.34%	EL
7	30049099	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes, ...	801	2.10%	EIF
8	95030099	Tricycles, scooters, pedal cars and similar wheeled toys; dolls' carriages; dolls; other toys; ...	506	1.33%	EL
9	48052590	Other uncoated paper and paperboard, in rolls or sheets, not further worked or processed than ...	456	1.20%	B15
10	02013000	Fresh or chilled bovine meat, boneless	454	1.19%	B15
11	48041900	Kraft liner, uncoated, in rolls of a width > 36 cm (excl. unbleached and goods of heading 4802 ...	353	0.93%	B15
12	01022100	Pure-bred cattle for breeding	326	0.85%	EIF
13	02021000	Frozen bovine carcasses and half-carcasses	323	0.85%	B15
14	48026190	Uncoated paper and paperboard, of a kind used for writing, printing or other graphic purposes, ...	308	0.81%	B15
15	90089090	Parts and accessories for image projectors, photographic enlargers and reducers, n.e.s. : Other	269	0.70%	B13
16	02023000	Frozen, boneless meat of bovine animals	243	0.64%	HSL
17	85287292	Reception apparatus for television, colour, whether or not incorporating radio-broadcast receivers ...	232	0.61%	EL
18	25081000	Bentonite	186	0.49%	B15
19	22042111	Wine of fresh grapes, incl. fortified wines, and grape must whose fermentation has been arrested ...	181	0.47%	HSL
20	90189090	Instruments and appliances used in medical, surgical or veterinary sciences, n.e.s.: Other	167	0.44%	EIF
Total of top 20 products			31,416	82.35%	
Rest of the products			6,732	17.65%	
Total			38,148	100.00%	

* Staging Category: 'EIF' means 0% at the entry into force; 'B15' means 15-year elimination; 'EL' means exclusion.

Source: Extracted from Trade Map (2015–2019); Cambodia as the reporter; HS 8-digit level.

Export RCA between Cambodia and New Zealand

Table 8.A14 Cambodia's Top 20 Export Products to New Zealand, 2015–2019 (US\$ thousand)

No.	Product Code	Product Label	Average 2015–2019		Staging Category*
			Value	Share	
1	1006300000	Semi-milled or wholly milled rice, whether or not polished or glazed	1,216	6.49%	EIF
2	6104630211	Trousers and breeches; women's or girls', of synthetic fibres, knitted or crocheted	778	4.15%	EIF
3	6109901200	T-shirts; of textile materials (other than cotton), knitted or crocheted, of sizes exceeding ...	671	3.58%	EIF
4	6110200209	Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted ...	607	3.24%	Y10
5	6403911933	Footwear; covering the ankle, outer soles of rubber, plastics or composition leather, uppers ...	605	3.23%	HSL
6	6109101200	T-shirts; of cotton, knitted or crocheted, of sizes exceeding 81cm chest measurement	604	3.22%	Y15
7	6210100200	Garments; of felt or non-wovens (not knitted or crocheted)	563	3.01%	Y15
8	8712000109	Bicycles; other than racing type with wheel diameter not less than 658mm, not motorised	525	2.80%	EIF
9	6109102200	Singlets and other vests; of cotton, knitted or crocheted	489	2.61%	SL
10	6110200201	Sweatshirts; of cotton, knitted or crocheted	465	2.48%	Y10
11	6402991929	Footwear; not covering the ankle, n.e.c. in heading no. 6402, with outer soles and uppers of ...	441	2.35%	EIF
12	6403991949	Footwear; not covering the ankle, outer soles of rubber, plastics or composition leather, uppers ...	425	2.27%	Y15
13	6203430205	Shorts; men's or boys', of synthetic fibres (not knitted or crocheted)	377	2.01%	EIF
14	6110300209	Jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibres, knitted ...	362	1.93%	EIF
15	6107110200	Underpants and briefs; men's or boys', of cotton, knitted or crocheted	354	1.89%	Y10
16	6103420201	Trousers and breeches; men's or boys', of cotton, knitted or crocheted	343	1.83%	HSL
17	6404112911	Sports footwear; tennis, basketball, gym, training shoes and the like, outer soles of rubber ...	305	1.63%	Y15
18	4015900000	Rubber; vulcanised (other than hard rubber), articles of apparel and clothing accessories (other ...)	291	1.55%	EIF
19	6402191901	Sports footwear with outer soles and uppers of rubber or plastics (excl. waterproof footwear ...)	270	1.44%	Y10
20	6107120200	Underpants and briefs; men's or boys', of man-made fibres, knitted or crocheted	242	1.29%	Y10
Total of top 20 products			9,932	53.04%	
Rest of the products			8,793	46.96%	
Total			18,725	100.00%	

* Staging Category: 'EIF' means 0% at the entry into force, 'Y10' means 10-year elimination, 'Y15' means 15-year elimination, 'HSL' means Highly Sensitive List, 'SL' means Sensitive List.

Source: Extracted from Trade Map (2015–2019); New Zealand as the reporter; HS 10-digit level.

Table 8.A15 RCA of Cambodia's Top 20 Export Products to New Zealand, 2015–2019

No.	Product Code	Product Label	Revealed Comparative Advantage					
			2015	2016	2017	2018	2019	Average
1	100630	Semi-milled or wholly milled rice, whether or not polished or glazed	32.27	33.55	30.85	31.88	27.65	30.98
2	610463	Trousers and breeches; women's or girls', of synthetic fibres, knitted or crocheted	10.17	10.64	9.87	13.64	40.92	18.76
3	610990	T-shirts; of textile materials (other than cotton), knitted or crocheted, of sizes exceeding ...	44.66	39.54	41.89	45.00	34.54	40.24
4	611020	Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted ...	4.12	3.96	6.26	11.55	28.01	12.44
5	640391	Footwear; covering the ankle, outer soles of rubber, plastics or composition leather, uppers ...	0.00	0.02	0.67	1.24	5.30	1.80
6	610910	T-shirts; of cotton, knitted or crocheted, of sizes exceeding 81cm chest measurement	75.34	63.43	59.23	54.46	28.34	51.36
7	621010	Garments; of felt or non-wovens (not knitted or crocheted)	0.41	0.55	6.30	16.83	43.72	16.85
8	871200	Bicycles; other than racing type with wheel diameter not less than 658mm, not motorised	45.85	70.33	71.23	67.39	63.82	68.19
9	610910	Singlets and other vests; of cotton, knitted or crocheted	75.34	63.43	59.23	54.46	28.34	51.36
10	611020	Sweatshirts; of cotton, knitted or crocheted	4.12	3.96	6.26	11.55	28.01	12.44
11	640299	Footwear; not covering the ankle, n.e.c. in heading no. 6402, with outer soles and uppers of ...	0.89	1.09	3.10	4.21	6.02	3.60
12	640399	Footwear; not covering the ankle, outer soles of rubber, plastics or composition leather, uppers ...	1.80	1.86	0.88	1.59	6.02	2.59
13	620343	Shorts; men's or boys', of synthetic fibres (not knitted or crocheted)	1.60	2.96	4.34	7.26	20.51	8.77
14	611030	Jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibres, knitted ...	0.52	1.97	3.20	6.34	21.46	8.24
15	610711	Underpants and briefs; men's or boys', of cotton, knitted or crocheted	9.35	14.99	23.39	18.77	23.85	20.25
16	610342	Trousers and breeches; men's or boys', of cotton, knitted or crocheted	28.88	23.99	27.45	40.54	49.88	35.46
17	640411	Sports footwear; tennis, basketball, gym, training shoes and the like, outer soles of rubber ...	2.87	2.68	2.46	2.09	4.24	2.86
18	401590	Rubber; vulcanised (other than hard rubber), articles of apparel and clothing accessories (other ...)	6.65	12.92	13.53	18.64	7.76	13.26
19	640219	Sports footwear with outer soles and uppers of rubber or plastics (excl. waterproof footwear ...)	0.90	4.00	6.41	20.12	49.99	20.13
20	610712	Underpants and briefs; men's or boys', of man-made fibres, knitted or crocheted	0.58	2.32	3.06	15.15	24.51	11.26

Source: Extracted from Trade Map (2015–2019); Cambodia as the reporter; HS 6-digit level.

**Table 8.A16 Cambodia's Top 20 Import Products
from New Zealand, 2015–2019**

No.	Product Code	Product Label	Average 2015–2019		Staging Category*
			Value	Share	
1	27101944	Medium oils and preparations, of petroleum or bituminous minerals, not containing biodiesel, ...	850	13.59%	HSL
2	04059010	Fats and oils derived from milk, and dehydrated butter and ghee (excl. natural butter, recombined ...)	747	11.94%	B13
3	27011900	Coal, whether or not pulverised, non-agglomerated (excl. anthracite and bituminous coal)	742	11.86%	EIF
4	08081000	Fresh apples	613	9.80%	B15
5	04022190	Milk and cream in solid forms, of a fat content by weight of > 1.5%, unsweetened: Not containing ...	476	7.61%	SL
6	04051000	Butter (excl. dehydrated butter and ghee)	371	5.93%	EL
7	48041100	Unbleached kraft liner, uncoated, in rolls of a width > 36 cm	352	5.62%	EIF
8	04069000	Cheese (excl. fresh cheese, incl. whey cheese, curd, processed cheese, blue-veined cheese and ...)	198	3.17%	EL
9	04011010	Milk and cream of a fat content by weight of <= 1%, not concentrated nor containing added sugar ...	185	2.95%	EL
10	02021000	Frozen bovine carcasses and half-carcasses	121	1.93%	B15
11	04011090	Milk and cream of a fat content by weight of <= 1%, not concentrated nor containing added sugar ...	115	1.84%	HSL
12	04012090	Milk and cream of a fat content by weight of > 1% but <= 6%, not concentrated nor containing ...	106	1.70%	B20
13	15021090	Tallow of bovine animals, sheep or goats (excl. oil and oleostearin) Fats of bovine animals, ...	90	1.44%	EIF
14	90318090	Instruments, appliances and machines for measuring or checking, not elsewhere specified in ...	80	1.28%	HSL
15	02042100	Fresh or chilled sheep carcasses and half-carcasses (excl. lambs)	78	1.25%	EIF
16	44071100	Pine 'pinus spp.' sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded ...	70	1.12%	EIF
17	20097900	Apple juice, unfermented, Brix value > 20 at 20 °C, whether or not containing added sugar or ...	53	0.84%	B15
18	02023000	Frozen, boneless meat of bovine animals	50	0.79%	HSL
19	04014010	Milk and cream of a fat content by weight of > 6% but <= 10%, not concentrated nor containing ...	43	0.69%	B20
20	84729030	Office machines, n.e.s.: Other, electrically operated	39	0.62%	SL
Total of top 20 products			5,376	85.97%	
Rest of the products			877	14.03%	
Total			6,254	100.00%	

* Staging Category: 'EIF' means 0% at the entry into force, 'B13' means 13-year elimination, 'B15' means 15-year elimination, 'B20' means 20-year elimination, 'HSL' means Highly Sensitive List, 'SL' means Sensitive List, 'EL' means exclusion.

Source: Extracted from Trade Map (2015–2019); Cambodia as the reporter; HS 8-digit level.



CHAPTER 9

The Implications of the Regional Comprehensive Economic Partnership for Asian Regional Architecture[§]

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East Asia's Regional Comprehensive Economic Partnership (RCEP) came into force in 2022 as the world's largest free trade agreement. RCEP was concluded, signed and brought into force in the face of major international uncertainty and is a significant boost to the global trading system. RCEP brings Australia, China, Japan, South Korea and New Zealand into the same agreement with the ten member ASEAN group at its centre. It keeps markets open and updates trade and investment rules in East Asia, a major centre of global economic activity, at a time of rising protectionism when the WTO itself is under threat. The agreement builds on ASEAN's free trade agreements and strengthens ASEAN centrality. One of the pillars of RCEP is an economic cooperation agenda which has its antecedents in ASEAN's approach to bringing along its least developed members and builds on the experience of capacity building in APEC and technical cooperation under the ASEAN Australia-New Zealand Free Trade Agreement. There is an opportunity to create a framework that facilitates deeper economic cooperation that involves experience-sharing, extending RCEP's rules and membership at the same time as strengthening political cooperation. The paper suggests some areas that might be best suited to cooperation — that is confidence and trust building instead of or before negotiation — and discusses how non-members such as India may be engaged and the membership expanded. Options such as multilateralising provisions and becoming a platform for policy convergence and coordinating unilateral reforms are canvassed.

A New Era for East Asia's Economy

East Asia's Regional Comprehensive Economic Partnership (RCEP) agreement came into force on 1 January 2022 as the world's largest regional economic agreement in terms of its coverage of gross domestic product (GDP), population, and trade. a from a pandemic-induced recession. The conclusion of RCEP would have been important to the global economy at any time but that it was even more so in the context of the growing political divide between the United States and China, rising global protectionism, a trade war between the United States and China and the added protectionist pressures arising from the COVID-19 pandemic that have put the global trade regime under extreme pressure.

The agreement consolidated the free trade agreements (FTAs) of the 10-member Association of Southeast Asian Nations (ASEAN) with Australia, China, Japan, the Republic of Korea, and New Zealand. India walked away from the agreement on the eve of the conclusion of negotiations in November 2019. That 11 of its 15 members ratified RCEP by the end of 2021 – while managing the devastating waves of COVID-19-related health crises and economic shocks – demonstrates the commitment to the agreement. Indonesia, Malaysia, Myanmar and the Philippines were unable to ratify RCEP before the end of 2021, but Myanmar is the only member where there is still uncertainty around ratification in early 2022 due to political instability.

RCEP was negotiated in parallel to the Trans-Pacific Partnership (TPP) agreement and has been compared with that agreement since both negotiations began. The TPP was thought to have higher standards than RCEP given the US-led push for stronger intellectual property protections, stricter rules on state-owned enterprises (SOEs), and other rules more suited to developed economies. After President Donald Trump withdrew the US from the TPP in 2017, the remaining members¹ salvaged the agreement in the form of the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP) in the hope that the US might join at a later date. The CPTPP includes exemptions from the stricter rules for many countries, although it retains measures on SOEs as well as labour and environmental standards that are not included in RCEP. RCEP is liberalising for its members and committed them to new rules where none existed before. Some provisions go further than the TPP. RCEP includes phase-in liberalisation with built-in support for less-developed members, an economic cooperation agenda, and an institutional base in ASEAN. The simplified rules of origin (RoO) in RCEP — a single RoO — is a critical innovation and will help facilitate the growth of regional supply chains and deepen economic integration in East Asia. RCEP is often and incorrectly said to be China-led or -centred. ASEAN, however, is central to the agreement — which had its genesis in Indonesia — and its leadership brought the agreement towards its conclusion. Indeed, the economic cooperation agenda builds on and extends ASEAN processes, which may go well beyond countries implementing the agreement to expand cooperation to new areas where principles of cooperation and interaction can be built and consensus forged.

RCEP brings the three large North-East Asian economies (that is, China, Japan, and South Korea) into a binding regional trade agreement for the first time.² With ASEAN acting as the hub, new liberalisation and trade rules will help govern and deepen China–Japan and Japan–South Korea economic relationships. The three North-East Asian economies were brought together in an agreement through the consolidation — and to an extent multilateralisation — of their ASEAN+1 FTAs.

ASEAN Origins and Centrality

When ASEAN initiated RCEP, its core ambition was to protect and extend the centrality of ASEAN in Asia Pacific economic and political cooperation. Today, ASEAN remains central to broader regional cooperation and institution building in the region, and its economic integration will underpin its centrality in Asian affairs. RCEP will entrench the institutional precedence of ASEAN in the management of economic and political security interests with the region's neighbours. Originally conceived for security purposes, ASEAN helps

¹ The eleven members of CPTPP are: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam

² Except for the China–Korea FTA.

its member states manage relations with its big power neighbours, the United States, Japan and China. Better connecting existing regional economic and political cooperation arrangements will help ASEAN and its partners navigate and manage present and future challenges to regional prosperity (Drysdale, Narjoko, Sta Maria, 2020).

Some regional cooperation arrangements, such as Asia-Pacific Economic Cooperation (APEC) process or the various ASEAN plus frameworks, are not hardwired institutionally into ASEAN, but they were born of the same parentage and are genetically inseparable from the principles and practices that sustain ASEAN's success economically and politically (Drysdale, 2017). They are also tightly aligned with multilateral goals. The RCEP arrangement presents an opportunity to strengthen the institutional hardwiring.

RCEP was designed by ASEAN policy strategists to buttress regional trade reform and Asia's growth potential in the global economy. At the time of its conclusion, RCEP was the only active credible multilateral endeavour anywhere in the world positioned to deliver a significant push-back on the retreat from globalisation and the advance of protectionism. ASEAN has also pursued its centrality mainly by establishing FTA networks with its dialogue partners. The RCEP framework is an extension of that framework, consolidating its FTAs and providing a mechanism for securing them in the future. It is also strategically linked to the ASEAN Economic Community Blueprint 2025 that sets out ASEAN's ambitions for integration (Armstrong, Drysdale, Tay, 2019). RCEP is not simply another free trade and investment agreement, however. It incorporates a cooperation agenda, which is an essential element in building capacity for economic reform and mutually reinforcing regional development in South-East Asia (Armstrong, Drysdale, Tay, 2019).

A narrow conception of the cooperation agenda is of a technical cooperation agenda that helps less-developed RCEP members to implement RCEP commitments. A broader conception involves experience sharing, economic and political cooperation, and the creation of a framework for extending rules and membership. The RCEP cooperation agenda has a political and security pay-off that will assist in ameliorating regional tensions and managing relations with bigger powers, like China, Japan, and perhaps eventually India, on economic and geopolitical issues such as the China's Belt and Road Initiative (BRI) for investment in connectivity and geo-strategic territorial issues. RCEP also facilitates collective leadership, ASEAN centrality, and strengthening the ASEAN institutional ecosystem and its dealings with those outside of it, like the US and Europe, in staking out the region's interest and claims of ownership in and support of the global public good of an open international economy.

With ASEAN at its core, the 15-member RCEP grouping is the first inclusive regional effort at a binding economic agreement (Armstrong et al, 2019). RCEP will only go as far as ASEAN will. It will be difficult for any of the Plus 5 members to push ASEAN or other members too far in making commitments. ASEAN's own cooperative framework with capacity building

may not appear to be meeting all of the targets and commitments, but in the past some services and investment commitments have lagged behind actual practice (Dee, 2009). In addition, its mode of cooperation has led to a sustainable integration process. There may be frustration about the slow pace of reform and integration within ASEAN, but the region has made substantial progress in economic opening and reform. The nature of the integration process – which can go only as fast as domestic processes will allow with regional consensus and no supranational authority or hegemonic enforcement – has created a mostly sustainable regional integration process suited to the political economy and circumstances of South-East Asia.

Having a committed, ambitious ASEAN is necessary for the success of RCEP. Building a framework that provides the venue and forum for making further commitments and achieving ongoing cooperation goals is a collateral, and important, benefit.

Key Features

RCEP has a large share in the global economy, including all major trading nations in East Asia. It is more than twice the size of the CPTPP in terms of the scale of the economies involved and trade volume – although it does not pretend to the same standards. It is not simply a trade arrangement; it is an economic cooperation arrangement, incorporating elements that will see its members continuing to deepen their economic integration.

While the RCEP agreement does not have some of the disciplines of other agreements such as CPTPP, it does represent a large commitment to economic liberalisation by East Asia. It allows developing countries in the arrangement to phase in their liberalisation over considerable periods of time, in contrast to many other free trade agreements, while still ensuring an endpoint of substantial liberalisation across a comprehensive range of goods and services. This approach recognises the wide range of economic development and market conditions found in members and helps them meet their commitments through cooperation rather than with the threat of punishments or sanctions. Indeed, RCEP provisions on government procurement, intellectual property, and the digital economy signal the willingness of members to commit to a shared rule book for emerging areas of trade despite bilateral disagreements and intersecting FTAs. These are all areas more amenable to an economic cooperation agenda than a negotiating endpoint.

RCEP also extends ASEAN+1 FTAs significantly. Low or no tariffs are applied to a much larger proportion of intraregional trade. It is comprehensive, overseeing about 90% of trade, compared to 60% or less in some of the bilateral ASEAN arrangements with regional partners. Some members, such as China, South Korea, and Japan, did not

have any FTAs amongst themselves prior to RCEP (except a low standard agreement between China and South Korea). Specifically, the RCEP agreement spans 20 chapters, with provisions across trade in goods and services, e-commerce and digital trade, trade facilitation, rules of origin, investment, and intellectual property. The removal of tariffs and customs duties is accompanied by common rules of origin for all tradable goods, which allows originating goods from one member to be considered as originating in a second member. Common rules of origin allow cumulation, where products originating in one country can be further processed or added to products originating from another country – as if they had originated in the second country. This is a significant advance on the bilateral rules of origin arrangements that apply in CPTPP.

RCEP also includes provisions that extend the scope for liberalisation in trade in services. The negative-list approach to services exposes all sectors to foreign competition unless specifically excluded. These market access, most-favoured nation (that is, treating foreign suppliers at least as well as suppliers and investors of any other non-RCEP country), national treatment (treating local and foreign suppliers equally), and local presence provisions for services go beyond existing FTAs; at least 65% of service sectors will be fully open. Measures protecting sectors of national security and technological importance are complemented by a chapter on transparency in public procurement, particularly in telecommunications. The section on public procurement goes beyond that of existing ASEAN+1 arrangements, and RCEP is the first agreement in which Indonesia, Philippines, and Thailand have made commitments of this kind (ADB, 2020).

The RCEP chapter on investment goes beyond members' World Trade Organization (WTO) obligations but rejects an investor–state dispute settlement mechanism for resolving disputes. Foreign investors will receive most-favoured nation access and national treatment. Some countries, such as China, have – for the first time – signed onto negative-list commitments on foreign investment in non-services sectors such as manufacturing and mining (GOA, 2020). RCEP also includes provisions that prevent performance requirements in local content and technology transfer in exchange for market access. On the digital economy, RCEP sets out a framework for the digitalisation of trade and addresses cybersecurity as well as consumer and privacy concerns in e-commerce. These provisions are similar to those in the CPTPP agreement, as they commit members to protecting personal data and maintaining the current practice of refraining from imposing customs duties on electronic transmissions between members. Although RCEP nominally prohibits members from preventing cross-border data and information flows, there are strong national security and public policy carve-outs for doing so. Provisions to liberalise goods, services, and investment are reinforced by those to eliminate non-tariff barriers and to promote mutual understanding amongst members on customs, technical standards, and other regulatory barriers that may otherwise impose administrative or transaction costs on businesses.

The trade gain within the region under RCEP is conservatively estimated to be about \$438 billion to 2030 (Petri and Plummer, 2020). It is likely, however, to be much higher. For countries not in RCEP, the loss through trade diversion is estimated at \$48 billion (Petri and Plummer, 2020). Within the region, lower value-added producers in China will suffer as a consequence of the shift of production to lower labour-cost countries in South-East Asia. However, more sophisticated manufacturing and higher value-added exports from China should expand under RCEP. There will be some large adjustments in production and trade over time, which will tend to follow where comparative advantage lies across the region and boost incomes and economic growth.

The three features that distinguish RCEP reflect its ASEAN origins and diplomatic philosophy: its inclusiveness and openness to new membership, its whole-of-region approach to integration, and its ongoing economic cooperation agenda that marks it as a 'living agreement' able to address issues of shared interest and priority as they evolve.

ASEAN Institutional Underpinnings

RCEP's institutional setting within ASEAN will reinforce its inclusive character and encourage ASEAN's multilateral orientation and role. RCEP's economic cooperation agenda provides a platform for sorting through some of the most important issues that confront regional economic diplomacy today. Doing this will be helped by the fact that RCEP involves not just a once-off trade agreement. It will be implemented over time. There is an ongoing economic cooperation agenda. It therefore includes a set of processes which will establish a secretariat in order to manage the gradual liberalisation which RCEP will bring about through technical cooperation as well potentially as cooperation on a broader range of high policy issues of common interest.

The technical cooperation agenda will be supported by member-funded programmes for overseas development assistance-eligible members to implement the RCEP provisions. Its Regional Trade for Development Initiative will also support economic recovery from the COVID-19 pandemic and dialogue on strengthening RCEP partnerships. Some members, such as Australia, have already committed funding to this programme, drawing on experience from the ASEAN–Australia–New Zealand FTA.

Like all ASEAN-led agreements, RCEP includes a chapter on institutional provisions that promote its evolution. The ASEAN-based RCEP secretariat will provide the locus of coordination amongst members. There is provision for regular ministerial meetings, joint committees of senior officials, and subsidiary committees. Officials are mandated to establish a secretariat for these purposes and to provide technical support, which establishes a framework that can evolve and develop as required.

The RCEP secretariat will, inevitably, become a platform from which this Asia-wide liberalisation and integration is managed, as well as a coordination mechanism for the economic cooperation process, which is a pillar of RCEP. It also has the potential to address issues such as monitoring the implementation of the agreement, opening avenues for dispute settlement (given that the WTO process on which RCEP was heavily reliant is currently blocked), or working through unresolved and evolving issues of services and digital trade. China may wish to encourage internationalisation of its Belt and Road Initiative (BRI) in this context. A flexible agenda is required that allows the creation of working groups to report to ministers on pressing issues of shared concern beyond the negotiated outcomes in RCEP, such as infrastructure investment principles and standards, dispute mediation, energy transition, the digital economy, supply chain resilience, sovereign debt management, and pandemic recovery issues such as travel protocols.

Regular ministerial- and leader-level meetings of RCEP around the ASEAN+ summits have potential to reduce political uncertainties and build a foundation for political cooperation. A joint committee will establish four subsidiary bodies: a committee on goods, a committee on services and investment, a committee on sustainable growth, and a committee on the business environment (RCEP, 2020). While these bodies will oversee the implementation of the agreement, they will also provide an outlet for discussions on matters related to the economic and political architecture of the region. The agreement also stipulates that RCEP ministers meet at least annually to consider matters concerning the agreement (RCEP, 2020). The first RCEP ministerial and summit meetings to be held late in 2022 will be crucial for setting the tone and direction of RCEP, as Indonesia takes over the role of ASEAN chair.

Immediately, RCEP provides a mechanism for routine economic dialogue amongst ASEAN members and their regional partners. Dialogue around the East Asian Summit has not encompassed regular dialogue on economic issues and while such dialogue could be readily initiated, it has not been part of the habit of East Asian plus cooperation arrangements. This is a serious deficiency in regional architecture, a deficiency that the establishment of RCEP can now fill.

Political Confidence

RCEP's anchor in ASEAN institutional arrangements is also important as insulation for the agreement from today's geopolitical competition across the region, especially given that China is a participant in the agreement. The pressure on US allies and partners to decouple their trade – especially technology – from China has grown. China's assertiveness in its dealings with the US and internationally and its use of economic

coercion, particularly in its regional neighbourhood — earlier against Japan and South Korea and recently blatantly against Australia — have aggravated uncertainties about the nature of its rise. There is a growing attenuation of trust between China and other powers. The multilateralism that helps to restrain and shape great power settlements and is essential to East Asia's prosperity and security, is harder to sustain.

The RCEP economic settlement is an important opportunity to bridge these fractures and to undergird political confidence and trust. Political confidence is a much-underestimated element in realising international trade and economic potential. The institutional arrangements in ASEAN that will power RCEP economic cooperation will help reinforce political trust and confidence in deeper economic ties.

The first meeting of RCEP ministers and summit provides a crucial opportunity to signal the ambitions that RCEP offers to build trust and confidence amongst members and commitment to reinforcing the multilateral trading system. Simple affirmation of RCEP's WTO roots and adherence to its principles; a declaration of members' intention to explore the value of the multiparty interim appeal arbitration arrangement (MPIA) to all RCEP members while the WTO dispute mechanism is in abeyance (only Australia, China, New Zealand and Singapore are currently participants amongst RCEP members); a statement of resolve to achieve best practice norms in trade behaviour; alongside specific initiatives on COVID recovery and economic cooperation would be hugely important to stabilisation and defence of the global regime and impetus to regional integration and political stability.

RCEP also reinforces ASEAN's neutral broker role within the region. The current state of relations between the US and China makes it difficult, because of fear of losing national face, for either side to take steps that might re-establish trust in the other's intentions. RCEP can provide an opportunity to demonstrate good intentions, a direction in economic reform, political accommodation, and a stronger foundation for confident and constructive dealings with the US — three of whose major regional allies are members of RCEP. RCEP also offers a valuable space for articulating and implementing the reforms and liberalisation to which China has committed. These will extend market opening in China, boosting its trade and economic performance. With commensurate market openings in key East Asian economic partners and consistent rules, regional economic integration will deepen.

Reform and market opening will, of course, have more impact if extended multilaterally, beyond RCEP membership. RCEP provides a platform for demonstrating progress in reform, including to the US; building consensus on rule-making; as well as multilateralising new commitments and rules. There is an opportunity to phase in most-favoured nation provisions into RCEP, especially for its less-developed members as ASEAN's original members did.

China has indicated intentions to seek membership in CPTPP. There are important hurdles to entry, however; its provisions have significant implications for Chinese SOE reform, intellectual property protections, and environmental and labour standards. A strong economic rationale for China joining CPTPP is to mobilise the pressure for domestic reform, in the same way that it did along the way to WTO accession.

In its long journey to WTO accession, China undertook major unilateral reforms and liberalisation to demonstrate its commitment to openness. Similarly, RCEP can provide a platform for China – similar to that which APEC offered for its WTO accession – in its commitment to SOE and other reforms. This will, in time, also elevate the prospects for the Free Trade Agreement of Asia and the Pacific (FTAAP) to build an economic bridge across the Pacific to engage the US.

Economic Cooperation Platform

The RCEP cooperation framework that is an essential element in RCEP, offers opportunity to help members make progress in areas that are not suited to negotiation, such as cooperation on recovery from the coronavirus pandemic, the regulation of the increasingly important digital economy, or opening the services economy. It also presents an opportunity to build cooperation on regional infrastructure investment, helping manage China's BRI, China–Japan cooperation, and other initiatives in a multilateral context. RCEP is open to the participation of non-RCEP members, especially India, through the economic cooperation process around particular agendas.

The economic cooperation agenda can deliver the most on market access and stronger rules. Economic and technical co-operation are often understood to be limited to capacity building for developing countries; yet, with the experience in East Asia, it can also contribute to the development of a strategic framework that helps tackle broader reforms, build institutional capacity and mutual trust, and enhance economic policy deliberations and political cooperation amongst members. This was the objective of the economic cooperation that stems from ASEAN.

Economic cooperation can support RCEP implementation as well as market access commitments, domestic institution building, and ongoing engagement amongst members towards economic integration. The inclusion of economic cooperation in RCEP as a key outcome is likely to determine how important the agreement is in supporting economic growth and development in the region. Existing economic cooperation arrangements between ASEAN and its FTA partners provides the foundation for economic and technical cooperation in RCEP, narrowing development gaps amongst the parties and maximising mutual benefits.

East Asia has experience in building economic cooperation through ASEAN, APEC, and the ASEAN–Australia–New Zealand FTA. These arrangements include mechanisms that allow officials – and to a lesser extent, businesses and other stakeholders – to interact routinely, develop familiarity and understanding, and build trust. Structured economic consultations and cooperation on a continuing basis is a feature of RCEP that goes beyond traditional FTAs or the technical aspects on implementing commitments under the FTA element of RCEP.

The implementation of RCEP commitments and economic integration can help build understanding on how to deal with the barriers in each country to progressing domestic reforms, including trade and investment barriers, conflicting policy priorities, and sensitivities. The RCEP economic cooperation agenda can help socialise ideas and policy strategies. Policy strategy convergence is an objective that can be achieved over time; members of APEC built up common understandings of the importance of openness and progressively removing barriers to trade. RCEP presents that opportunity to its members over the whole range of new and rapidly changing issues that have to be dealt with in modern commerce. Developing robust economic governance arrangements that converge around member interests is an important objective of the economic cooperation agenda. Not all aspects of economic integration should be negotiated between countries. Many behind-the-border issues are embedded in domestic institutions and regulatory structures. To build community support to change them requires longer time frames, capacity, and understanding of their linkages with other policies. ASEAN was able to multilateralise its FTA preferences over time by deepening interaction, dialogue, and cooperation, which has since helped ASEAN's integration into the global economy and the growth of value chains in East Asia. ASEAN sets non-binding targets against which Members are assessed in the same way that APEC and G20 member commitments are subject to a measure of public review. While many fall short of timetables and standards, the direction of reform is defined in a process that allows for changed circumstances. Monitoring progress will be a key element in RCEP's successful implementation.

The diversity amongst RCEP members – with economies at different stages of development and with different institutional and political systems – means that gains from integration are greater. Complementarity, diversity, and geography are powerful forces that will drive economic integration. Creative approaches are required for dealing with the differences and creating opportunities to build capacity for the entire RCEP group and its integration into the global economy. Thicker interaction at the policy level is needed on political and economic cooperation. Progress on issues – including regional approaches to cross-border infrastructure and energy transition – requires consultations amongst relevant experts and stakeholders, including the business sector, and confidence building. Issues, such as strengthening social safety nets and undertaking complicated reforms, need to be promoted by sharing experience, building capacity, and applying peer pressure.

The RCEP economic cooperation agenda can bring about large gains over time – beyond negotiated market access and rules commitments of an FTA. Many countries cannot easily identify or deal with non-tariff barriers in their own economies, and not all non-tariff barriers are barriers to integration. Some non-tariff trade barriers can be dealt with in a negotiating framework, but many need to be dealt with in a purely domestic setting with domestically initiated reform packages. The economic cooperation agenda can help this process.

Embracing Non-Members

The economic cooperation agenda will benefit from avoiding exclusion of the interests of non-RCEP members given the global interests of RCEP economies and provides a pathway to multilateralisation of RCEP reforms. A core focus of RCEP must be on the grouping's membership but that should not exclude the participation of others where relevant and where agreement can be forged over time.

RCEP's openness to new members compared with similar economic arrangements is one of its key strengths. But the ASEAN philosophy of inclusiveness that has shaped the thinking behind RCEP, gives more immediate priority to the important opportunities there are for embracing non-members where there is interest in its work on economic cooperation.

This interest is most prominent and a priority in respect of India, to which the door of membership has been left open.

RCEP members can define a protocol of engagement with India which leaves a path for eventual Indian membership of the grouping but in the meantime actively promotes cooperation not only with India itself but also its neighbours in South Asia. Bangladesh amongst others have expressed interest in participation. That will help to keep markets open to Indian suppliers and ensure medical, food and energy supplies to India that help it manage the health and economic challenges it faces from the pandemic. As India is a potentially important producer of a vaccine and supplier of equipment, maintaining Indian openness to foreign investment and exports will be crucial in the global effort to fight the COVID-19 pandemic and sustain India's recovery and long-term development.

RCEP is a natural champion of open regionalism — that is, regional cooperation that does not come at the expense of non-members and is dedicated to global objectives — with structures that are open and flexible and engage external interests. Cooperation can be extended without compromising the core RCEP goal of deepening regional integration

– and actually help entrench it. The RCEP grouping is systemically important enough to the global economy that its interests are best served with an inclusive approach that deepens trans-Pacific and trans-Asian economic integration.

The economic cooperation agenda can be used flexibly to involve key non-member countries and economies around issues where economic cooperation is mutually beneficial. The cooperation around recovery from COVID-19, the digital economy, energy transition and infrastructure investment are not exclusive to RCEP members.

Further, with RCEP recognised as part of the pathway towards the FTAAP in APEC, engagement of Taiwan – a member economy of APEC and WTO – is possible. Taiwan is an important part of the regional economy and East Asian supply chains.

RCEP is positioned to build understanding and confidence in economic integration through areas of mutual interest with non-RCEP countries that are in close proximity to the RCEP grouping. This can help socialise East Asian economic integration and expand value chains across East and South Asia, which would prepare for the eventual return of India to RCEP and facilitate the expansion of membership in South Asia and beyond.

RCEP's global role

RCEP provides ASEAN space to press the multilateral agenda where the United States and China have abandoned it. It has the potential to enlarge ASEAN's and Asia's voice in global forums such as the WTO and the G20, for the multilateral cause. RCEP needs to signal this at every step.

Multilateral cooperation and global institutions have never been more important than now; RCEP emphasises multilateralism and entrenches institutions for multilateral cooperation at a time when they are under threat. The locus of RCEP in ASEAN in constraining big power behaviour that might damage and weaken the entire global trade regime is one aspect. Another is that in-built dialogue and cooperation amongst members makes the arrangement a potential vehicle for enlarging ASEAN's and Asia's voice on multilateral reform issues in global forums such as the WTO and the G20.

RCEP allows ASEAN to press a multilateral agenda where the US and China have abandoned it. It has the potential to amplify the voice of ASEAN and all of Asia in global forums such as WTO and G20 for the multilateral cause. RCEP needs to signal this at every step. For example, RCEP members have a critical interest in WTO reform, and their constructive participation is essential to a successful outcome. Indonesia outlined a

strategy on WTO reform in a non-paper to the 2019 G20 Summit in Osaka. As G20 chair in 2022, in pursuing its strategy for WTO reform, Indonesia can appeal to ASEAN and the RCEP membership to work through issues in the reform agenda that require time to reach common ground. The active engagement of key Asian economies is necessary to build high-level commitment for system repair, and a consensus favouring multilateral solutions on which the RCEP settlement was promoted provides a foundation for reforming the global trading system.

COVID-19 Recovery

Asian economies are central to the global recovery from the COVID-19 pandemic because of their weight in the world economy. Struck down by the virus first, they are now positioned to sustain economic recovery sooner. Asia can help lead the exit from the COVID-19 crisis and be a vital driver of the global economic recovery. RCEP reinforces this claim to economic leadership by pioneering the opening up of regional value chains and trade openness, both of which have been shaken by ongoing vaccine protectionism and supply chain insecurity, which have slowed the global vaccine drive.

East Asia, including India, accounted for over 34% of global GDP valued at market prices in 2019 and is now the world's biggest region in terms of purchasing power parity. The ASEAN+6 group is a natural choice for Asian initiative on the COVID-19 crisis, incorporating six G20 members and anchored in ASEAN (Armstrong et al., 2020). Assembling the necessary scientific, medical, and professional expertise to assist progress with the implementation of health, social, and economic policy strategies will be important to constructive cooperation at all levels.

Collaboration amongst professionals is still needed to plan to open borders. Participating governments can issue public health certifications to their citizens, who can then travel under agreed quarantine guidelines to other participating countries. This programme can be opened to any country willing to comply with the necessary public health requirements. Facilitating people's movements is critical to the recovery of key sectors such as tourism and education and the resumption of migration. RCEP members are positioned to take early initiative on these recovery measures.

Digital Economy

The same platform can be used to support trade, economic, and political cooperation, which underpins the open regionalism that will support recovery and resumption of the region's long-term growth potential. RCEP can work to update rules for the digital economy. Indeed, RCEP includes one chapter on the digital economy, which addresses multilateral rules, liberalisation of e-commerce customs duties on electronic transmissions, and data localisation requirements. These provisions are a good start but beg cooperation in securing the potential of the digital economy.

RCEP can play a critical role in exploring rules for new economic opportunities and security challenges from new technologies, such as 5G telecommunications and digital trade. Multilateral rules in WTO may cover trade in goods adequately but are mostly non-existent for a large proportion of international commerce in the 21st century, as services, investment, data flows, and new forms of technology proliferate. The patchwork of rules from smaller agreements leaves major gaps and causes economic fragmentation.

Digital transformation needs to be more effectively governed through multilateral agreements to harness it as a driver of international economic recovery and social development in Asia. Current restrictions on cross-border data flows hamper the operation of these tools, delay the pandemic response, and raise costs for businesses. The agreement can be updated to include cybersecurity guidelines and assistance, with cloud procurement and cloud-first policies, and to build trust in domestic and cross-border data flows through policies that address concerns over privacy, consumer protection, and security.

RCEP provisions on e-commerce and the digital economy are similar to those included in the CPTPP, with stronger carve-outs for national security and public policy measures that may stifle the free flow of data and information. Despite being narrower in coverage than agreements such as the Australia–Singapore Digital Economy Agreement, RCEP provisions reflect the extent to which the RCEP agreement represents the current consensus amongst countries of varying size and levels of development (Findlay and Pedrosa, 2020). Given that most RCEP economies, excluding Cambodia, Indonesia, the Philippines, and Viet Nam, are part of the WTO Joint Statement Initiative, RCEP demonstrates how any future multilateral agreement on e-commerce could be framed (Findlay and Pedrosa, 2020).

Despite their shortcomings, regional agreements with e-commerce provisions, such as RCEP, have a role to play in updating the global rules for the digital economy. Ensuring that subsequent agreements pursue an open regionalism approach will guarantee that this global perspective is reflected in the future governance regime for the digital economy in Asia and the Pacific (Armstrong, Sta Maria and Watanabe, 2021).

Energy Transition

Although RCEP does not contain any specific environmental standards or provisions, and climate change mitigation is outside the scope of the agreement, it can use its economic cooperation agenda to boost access to green technologies and to help build cooperation on the transition to cleaner energy sources. The region is one of the most climate-exposed regions in the world, with a patchwork of members having committed to Paris Climate Goals. Australia, China, Japan, and Korea have all set net-zero emissions targets for 2050 or 2060.

RCEP can play a critical role in encouraging technical cooperation amongst members in renewable energy, fuel sources, and research and development. Ongoing ministerial and technical discussions under RCEP should be an opportunity to expand formerly bilateral attempts at coordinating investment in alternative fuel sources.

The agreement could lower trade barriers and standardise rules to encourage foreign direct investment in green technologies and renewable ventures (Kalirajan and Liu, 2016). RCEP provisions on government procurement, intellectual property, and other non-tariff trade barriers reduce uncertainties that may otherwise stymie the commercialisation of low-carbon technologies. This positive-sum framework will help facilitate a green transition without resorting to carbon tariffs or other trade barriers, which jeopardise the international trade regime, reduce efficiencies, and are likely to be poorly targeted.

RCEP ministerial and joint committee meetings can be used to standardise environmental and social governance regulations across East Asia and in global bodies such as WTO. Although Asia is gradually adopting these regulations, mobilising private capital for green investments is still limited by a lack of common standards, dearth of quality information, and maturity mismatches, all of which raise the search costs of investment in green assets.

Consistent regulation and standards for sustainable and green finance will facilitate the energy transition and help channel investment to more environmentally friendly projects with higher returns. Getting financial markets right across RCEP members can help intermediate the region's savings for investment in energy transition. Regional cooperation can also help achieve common standards and regulations.

RCEP should be careful to avoid the fragmentation of global environmental and social governance and the complexity around green finance and investment opportunities that can result around green finance and investment. Building on the European Union–China development of a common green taxonomy, RCEP could provide multilateral pushback against the splintering of green governance and regulatory principles that have the potential to hinder cross-border technology flows and climate cooperation.

Belt and Road Initiative

RCEP also has the potential to provide a coordinated and consistent approach to the BRI or other international infrastructure and connectivity initiatives, which the *Master Plan on ASEAN Connectivity 2025* and other ASEAN initiatives do not yet provide. The BRI was conceived and is implemented largely bilaterally, with China as a hub and individual recipients as spokes, although its ultimate aim is to further multilateral connectivity amongst participating economies. Alongside the benefits that the BRI has provided to recipient countries, there have been difficulties in its roll-out, with logistical, economic, political, and financing challenges leading to scepticism and political pushback. This can be avoided through a more multilateral approach, which would provide lessons learned and a model for sustainable infrastructure investment beyond the region. Similarly, China and Japan are cooperating on infrastructure investment in third-country markets; Australia, Japan, and the US have also initiated cooperative approaches that attempt to mobilise the private sector.

RCEP should focus on issues around project assessment, sustainable debt, environmental impact, and dispute mediation and resolution that are important to both providers and recipients of investment capital. Further, a coherent, consistent ASEAN response to the BRI would insulate ASEAN members from perceptions of weak governance, reduce the likelihood of failed projects, and deliver higher returns to Chinese investments and recipient communities. Cooperation can expand to cross-border infrastructure investment, and the principles and the framework for cooperation can be multilateral.

RCEP includes economies that provide capital, have the capacity to manage projects, and possess access to major financial markets and their disciplines, alongside a range of recipient countries with varying capacities to regulate and manage those investments. Many issues that surround the management of cross-border infrastructure include governance and capacity constraints that are not suited to negotiated outcomes. Instead, confidence and trust-building around a common set of interests can be pursued under a cooperation framework.

China and Japan's joint infrastructure projects in third-country markets – including in South-East Asia where many of the 50 projects are located – is an example of how Chinese policymakers are open to working towards the quality infrastructure standards that Japan made explicit in the G7 and later G20, and onto which China has signed. Japan's experience of infrastructure investment abroad can help shape the BRI without Japan formally joining it (Armstrong, 2018). The Australia–Japan–US Blue Dot Network initiative and others can be managed alongside the BRI, with ASEAN as an important mediator and beneficiary through RCEP and APEC. China–US strategic competition may mean cooperation in APEC is difficult, and not all ASEAN members are party to APEC. Therefore, RCEP cooperation can aim to foster broader multilateral cooperation in APEC and elsewhere.

These are some examples of how the cooperation agenda might develop, not a specific pathway forward. That will depend on the priorities for common action that emerge. But certainly, COVID recovery, digital trade, infrastructure investment and climate change are amongst the possible candidates.

Unfinished Business

The global order has changed in ways that now threaten the shared prosperity and security that has been promoted over the past 70 years. Asia's economic cooperation arrangements were formed around the principles of multilateralism that are central to that order. The change is a product of big shifts in the structure of global power, with the rise of China and other emerging economies; China's posture is now a cause of anxiety amongst the established powers (Drysdale, King and Triggs, 2021).

The huge growth of the Chinese economy has required substantial adjustments in other countries. South-East Asia has made the most of the opportunities that a growing China has presented and has benefited from the expansion of global value chains that ASEAN helped realise. North-East Asian economies, such as Japan, Korea, and Taiwan, have become more closely integrated with the Chinese economy, helping to drive the development of regional supply chains. Australia, in particular amongst the resource-rich countries, has also benefited enormously from the commodities boom that China's industrialisation has brought – with the exchange rate absorbing much of the shock of managing that change, and macroeconomic policies maintaining full employment.

Not all countries have managed the adjustment to the China shock as well as East Asia. In the US, the impact of Chinese import growth amongst large-scale technological change, has put pressure on lower-end manufacturing activities and employment. The policies and institutions needed to cope with these social and economic pressures have been inadequate and provided fertile ground for unleashing the populist protectionist sentiment and politics under the Trump Administration. The response to these changes and a withdrawal from globalisation are reflected in the US's surge in protectionism and a retreat from multilateralism.

The conflicts and trade-destroying strategies that have emerged ignore the established rules of international trade, which evolved from Bretton Woods institutions and WTO. While there are significant gaps in the rules and new issues, strategies that tear down the established rules corrode the open multilateral order. These developments have undermined trade and investment flows, disrupted supply chains, and caused long-term damage to the confidence and predictability that underpin cross-border commerce. The downturn in global foreign direct investment – which dropped 23% in 2017 and 18% in

2018, stabilised in 2019 and fell by 35% in 2020 – illustrates the impact of the retreat of confidence in the international trading system before the impact of the COVID-19 pandemic (Drysdale and Pangestu, 2019).

The weight that Asia now has in the multilateral system recommends that leadership must come from within that region. No one country can lead Asia, which has several large powers with divergent interests. Yet Asian collective leadership is critical to global economic policy outcomes, and ASEAN is at its core. RCEP embeds structures for dialogue and cooperation at the highest level that have the potential to make collective Asian leadership in reinvigorating the global economic system a practical proposition. RCEP's institutionalisation can help manage these dangers. The nature of its structure and rules means that RCEP will further encourage the development of Asia-wide positions and strategies and strengthen their impact on the direction of global trade and commercial policy.

ASEAN centrality has been an organising framework for Asian economic policy cooperation over the past half century. The retreat of the US under President Trump from its leadership of the global economic order; the rise of China with its assertive stance on the South China Sea and its strategically challenging BRI; a Quad configuration of Indo-Pacific powers around the US, India, Japan, and Australia; and the continuing North Korea crisis all present significant difficulties for ASEAN's central role in the region. Yet RCEP can help restore the core role of economic integration to securing regional prosperity and political stability. This will not happen without significant regional political will. Buttressing the multilateral economic order to create space for China, the US and other rising countries in South and South-East Asia has become a priority. This is unlikely to succeed without strengthening a security architecture around the alliance frameworks that embed mutual assurances on the use of political power across the region.

RCEP provides a region-wide organisational framework to achieve security for Asia through economic integration and development. But this is only one of the three pillars necessary for comprehensive security across the region and beyond. The other two are a framework that addresses the sustainability of development for one-third of the world's people, and one of mutual assurances of political amity. Such a comprehensive security framework that incorporates all three pillars has inspired constructive Asian diplomacy in the past – not only in South-East Asia through the understandings on which ASEAN was constructed – and is on the minds of leading strategic thinkers in Indonesia, a crucial player in any effort to build stronger regional architecture (Natalegawa, 2013).

No one country, however big, ought to dominate East Asia, the Asia Pacific or Indo-Pacific and multilateral principles can set terms of engagement that help to constrain the exercise of raw political power. A comprehensive security arrangement that affirms commitment to multilateral economic rules and ASEAN Treaty of Amity and Cooperation principles can help secure a free, open, inclusive, prosperous, and politically stable region. It frames a vision in which the region can shape a future; RCEP now makes that more possible.

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