

**ERIA Discussion Paper Series****No. 433****Australia's Interests in East Asia's Regional  
Comprehensive Economic Partnership<sup>1</sup>**

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**Abstract:** *The Regional Comprehensive Economic Partnership (RCEP) agreement was seen as important for Australia economically and politically from its inception. RCEP economies account for roughly two-thirds of Australia's total trade and being part of an Association of Southeast Asian Nations (ASEAN)-led initiative that progressed broader East Asian economic integration was consistent with the structure of Australia's trade interests and with Australia's support for the multilateral trading system. Australia has a track record of pursuing regional cooperation that supports multilateral trade and for supporting regional integration that is outward oriented. RCEP became more important economically, politically, and strategically throughout its negotiations. It furthered East Asian economic integration that avoided fragmentation but also to entrench the ASEAN Economic Community project. Concluding RCEP took on greater importance and urgency as a ballast against the rising protectionism globally in the latter half of 2010. The ASEAN–Australia–New Zealand Free Trade Area (AANZFTA) included an economic cooperation agenda focused on capacity building that was seen as a success for its members and shaped Australia's approach and support towards economic cooperation being a pillar of RCEP. Negotiations for RCEP were chaired and led by Indonesia and ASEAN. Australia played a proactive role in pushing for high standards – credible market access commitments and new rules – in negotiations. Australia was one of the RCEP member countries that was also negotiating the Trans-Pacific Partnership (TPP) in parallel. The interest in the TPP was to keep the United States productively engaged in the region and to further rule-making and liberalisation amongst the TPP members. Having overlapping membership between the TPP and RCEP would mean that there was less chance of significant divergence or inconsistencies between them, although the approach differed. The deterioration of Australia's economic and political relationship with China makes the RCEP framework potentially more important for facilitating the rebuilding of trust and confidence.*

**Keywords:** RCEP; Australian trade policy; Asian economic integration

**JEL classification:** F5; F13; F55

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## **1. RCEP and Increasing Global Trade Uncertainty**

From its inception, Australia's membership of the Regional Comprehensive Economic Partnership (RCEP) agreement was seen as economically and politically important. The RCEP economies account for roughly two-thirds of Australia's total trade. Being part of an Association of Southeast Asian Nations (ASEAN)-led initiative that progressed broader East Asian economic integration was consistent with the structure of Australia's trade interests and with Australia's support for the multilateral trading system. As an open and trade-dependent country, Australia has a track record of pursuing regional cooperation that supports multilateral trade and regional integration that is outward-oriented.

RCEP became more important economically, politically, and strategically during the course of its negotiation (Armstrong, 2017). It grew out of regional institution building that accelerated significantly in response to the Asian financial crisis, starting with the ASEAN+3 (ASEAN members plus China, Japan, and the Republic of Korea) process and the ASEAN+1 free trade agreements (FTAs). RCEP was negotiated in parallel to the Trans-Pacific Partnership (TPP) agreement that included the United States, Australia, New Zealand, Peru, Chile, and four Southeast Asian countries – Singapore, Malaysia, Brunei Darussalam and Viet Nam – and later Japan, Canada, and Mexico. The RCEP grouping was seen as a way to further East Asian economic integration and later as a way to avoid fragmentation within the region from the TPP, but also to entrench the ASEAN Economic Community (AEC) project (Armstrong, Drysdale, and Tay, 2019). The conclusion of RCEP took on still greater importance and urgency as a ballast against the rising protectionism globally and trade war between the United States and China in the latter half of the 2010s.

RCEP 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. RCEP would have been important to the global economy at any time but that is more so in the context of the growing political divide between the United States (US) and China, rising global protectionism, a trade war between the United States and China, and the added protectionist pressures arising from the novel coronavirus disease (COVID-19) pandemic that have put the global trade

regime under extreme pressure. It was always going to be in Australia's economic and strategic interest to be part of the world's largest regional economic agreement. For Australia there was never any doubt about being involved in RCEP, but instead a concern about being left out.

US political leaders, including then President Barack Obama falsely described RCEP as China-led to help galvanise a coalition of domestic support behind the TPP.<sup>2</sup> Many journalists also described RCEP as China-led,<sup>3</sup> misunderstanding the role that ASEAN played in its conception and leading its negotiation. China was the single largest economy from the beginning of negotiations and its share of the RCEP economy steadily increased over the course of negotiations.

Successive Australian trade ministers emphasised that RCEP was based on ASEAN centrality.<sup>4</sup> This was important given the involvement of a broad range of significant regional economies and pointed to the potential benefits of liberalisation with such a grouping. Australian trade ministers managed to continue this narrative and reassure the public and other policymakers even as the Australia–China bilateral relationship began to deteriorate from 2017. The geopolitical implications of RCEP were downplayed in public discussion but the agreement was seen as a way to strengthen ASEAN by entrenching its centrality and creating a new framework to help manage economic and political relations in the broader region, including with China.

This paper reviews Australia's strategic economic interests in RCEP. The next section explains Australia's economic interests which are global but centred on East Asia. The paper then explains Australia's approach towards RCEP in the context of other agreements and arrangements it was pursuing in parallel. The management of the domestic politics of the agreement, as tensions increased in Australia–China relations, is then discussed. The paper concludes with a discussion of the implications for Australia's diplomacy towards the East Asian economy and the RCEP members.

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<sup>2</sup> See for example, Reuters (2016).

<sup>3</sup> See for example, New York Times (2020).

<sup>4</sup> See direct quotes from Australia's former Trade Ministers Simon Birmingham (Birmingham, 2020b) and Dan Tehan (Tehan, 2022).

## 2. Australia’s Strategic Economic Interests

Driven by geography, comparative advantage, and the region’s large and growing economies, Australia’s trade is heavily concentrated in East Asia. The three large Northeast Asian economies are geographically relatively close to Australia and are major importers of Australian natural resources. Production and the export of strategic raw materials and fossil fuels are crucial for economic security in China, Japan, and the Republic of Korea. In addition, Australia’s trade with ASEAN as a group was larger than Australia’s trading relationships with Japan or the United States over the decade of the 2010s (Table 1). Together the ASEAN+6 group (ASEAN members plus China, Japan, the Republic of Korea, India, Australia ,and New Zealand) accounts for two-thirds of Australian trade. The RCEP group accounted for 71.5% of Australian exports in 2020. Complex interdependence with the East Asian economies best describes Australia’s supply chain-led integration with East Asia. In the 2010s, China has been by far the largest export destination and trading partner for Australia, largely driven by iron ore and raw materials demand, as well as tourism and education exports and a range of China-sourced but often foreign branded imports.

**Table 1: Australia’s Major Trading Partners by Share, 2000–2020 (%)**

	2000	2005	2010	2015	2020
ASEAN	13.8	14.9	14.2	13.6	11.9
Exports to	13.7	11.5	9.5	10.3	10.1
Imports from	14.0	20.1	19.3	16.5	15.2
China	6.6	12.7	22.0	26.5	35.1
Exports to	5.4	11.5	25.1	30.1	40.5
Imports from	7.7	13.7	18.6	23.1	28.6
CJK	29.0	33.6	42.2	44.3	49.3
Exports to	33.5	39.8	52.8	53.1	59.0
Imports from	24.9	28.0	30.6	36.1	37.7

<b>RCEP 15</b>	<b>47.7</b>	<b>53.4</b>	<b>59.9</b>	<b>60.9</b>	<b>63.9</b>
Exports to	53.1	57.8	65.8	66.8	71.5
Imports from	42.7	49.4	53.4	55.5	55.4
<b>India</b>	<b>1.1</b>	<b>2.8</b>	<b>4.2</b>	<b>2.9</b>	<b>2.3</b>
Exports to	1.7	5.0	7.2	4.1	2.7
Imports from	0.6	0.8	0.9	1.8	1.8
<b>United States</b>	<b>15.1</b>	<b>10.4</b>	<b>7.3</b>	<b>8.4</b>	<b>8.1</b>
Exports to	9.9	6.7	4.0	5.4	5.3
Imports from	19.9	13.8	10.8	11.1	11.7
<b>Europe</b>	<b>17.0</b>	<b>17.4</b>	<b>12.9</b>	<b>11.4</b>	<b>12.2</b>
Exports to	11.6	10.7	7.9	5.1	7.2
Imports from	22.1	23.3	18.3	17.2	18.4
<b>Rest of World</b>	<b>19.1</b>	<b>16.1</b>	<b>15.8</b>	<b>16.4</b>	<b>13.5</b>
Exports to	23.8	19.8	15.0	18.6	13.3
Imports from	14.7	12.8	16.6	14.4	12.7

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

Note: Europe is EU27 plus the United Kingdom.

Source: Australian Bureau of Statistics.

China accounted for over 40% of Australian exports in the late 2010s. Australia is no stranger to having one country dominate its international trade shares. At its peak in the 1970s and 1980s, Japan accounted for roughly the same share of Australia's trade as China does today. Trade with the United States peaked during World War II, accounting for 39% of Australian imports and 40% of its exports. The United Kingdom consistently accounted for over half of Australia's trade, and up to 60 %, until the end of Commonwealth preferences after World War II.

The structure of Australia’s trade has been market driven and is the result of a commitment to open international markets and confidence in the multilateral trading system.

Australia’s largest investment relationships follow a different pattern with the largest sources of direct investment being the United States, Japan, the United Kingdom, the Netherlands, Canada, and China in that order with China accounting for 4.3% the stock of foreign investment in Australia in 2020 (Table 2). ASEAN countries as a group are the fourth largest source of direct investment into Australia. Australian direct investment abroad is driven more by shared culture, language, and history with the Anglophone countries being the largest destinations of Australian investment.

**Table 2: Australia's Main Sources of Foreign Direct Investment Stock, 2010–2020**

<b>2020 Rank</b>	<b>Economy</b>	<b>2010 A\$ billion</b>	<b>2010 % Share</b>	<b>2020 A\$ billion</b>	<b>2020 % Share</b>
1	United States	110.3	21.2	196.3	19.1
2	Japan	51.1	9.8	131.8	12.8
3	United Kingdom	53.7	10.3	123.5	12
4	ASEAN	25.8	5.0	59.0	5.7
5	Netherlands	27.6	5.3	52.8	5.1
6	Canada	14.9	2.9	46.2	4.5
7	China	12.9	2.5	44.3	4.3

ASEAN = Association of Southeast Asian Nations.

Source: Tang, E. (2021), ‘Who Invests in Australia? Analysing 2020’s \$4 trillion Record for Foreign Investment’, Austrade 26 May (<https://www.austrade.gov.au/news/economic-analysis/who-invests-in-australia-analysing-2020-s-4-trillion-record-for-foreign-investment>).

Australia's international economic diplomacy seeks to maintain a constructive US economic and political presence in East Asia alongside its military presence, manage the rise of China, and preserve an open multilateral trading system that underpins the economic rules-based order (Australian Government, 2017). Central to achieving these aims is strengthening ASEAN, its institutions and centrality, and broadening economic integration of India into the Asian and global economy – RCEP was an important opportunity to further these aims.

The idea of RCEP was consistent with Australia's international economic priorities. The goal of further entrenching the US economy and US rule-making leadership in East Asia was being pursued in the TPP, which was being negotiated in parallel with RCEP and was conceived as the more 'ambitious' agreement in terms of new rules and higher standards.

The RCEP agreement was seen from the beginning as a strategically important agreement for Australia, beyond the economic benefits that it would deliver. The Australian government understood the strategic as well as economic significance of RCEP.

The Australian government's recognition and understanding of the strategic significance of RCEP was maintained steadfastly throughout the negotiations and was not tested significantly even though the circumstances changed and there was not always deep appreciation of the potential economic benefits. That was partly due to the TPP attracting much more public scrutiny, but largely because of a pervasive understanding within the Australian government of the importance of the agreement for managing Australia's economic security in its own region. This is the focus of the rest of this paper.

### **3. Multilateral Trade and RCEP**

The most successful period of Australia's trade liberalisation occurred unilaterally throughout the 1980s in concert with Asian neighbours. Australia's unilateral trade liberalisation at that time subsequently played into multilateral commitments in the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) negotiations (Vines, 1995). Australia became a champion of non-

discriminatory trade arrangements and concerted unilateralism that helped Asian economies collectively open up to the global economy, in a strategy of open regionalism – regional cooperation that deepens integration and pursues open non-discriminatory economic policies that do not come at the expense of the rest of the world (Garnaut, 1994). The strong support for multilateralism was reflected in the leadership at the Cairns Group<sup>5</sup> and the Asia-Pacific Economic Cooperation (APEC) forum, for example, that complemented the GATT and later the World Trade Organization (WTO).

Australia's support of multilateral trade adopted a new strategy from the mid 2000s starting with the bilateral Singapore–Australia Free Trade Agreement in 2003 and, more significantly, the Australia–US Free Trade Agreement in 2005 (Productivity Commission, 2010). The decisive turn towards bilateral agreements coincided with a regional and global trend towards discriminatory bilateral agreements – that had lower tariffs and favourable treatment between signatories – to make progress on trade liberalisation and rule-making when that stalled in the WTO. Later, recognition that many smaller bilateral agreements did not deliver significant economic gains and the overlapping ‘noodle bowl’ of arrangements was complicating rather than simplifying trade, encouraged the development of regional agreements (Hayakawa, Urata, and Yoshimi, 2017).

Australia's support for bilateral and regional agreements to supplement the multilateral trading system included agreements that eventually covered all RCEP partners except India. The ASEAN–Australia–New Zealand Free Trade Area (AANZFTA) included an economic cooperation agenda focused on capacity building that was seen as a success for its members and shaped Australia's approach and support for economic cooperation as a pillar of RCEP (Healey, 2017).

Australia was negotiating bilateral agreements with Indonesia and India in parallel with RCEP negotiations in an attempt to make progress where possible. The bilateral agreement with Indonesia – the Indonesia–Australia Comprehensive

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<sup>5</sup> The Cairns Group (Cairns Group of Fair Trading Nations) is an interest group of 19 agricultural exporting countries, composed of Argentina, Australia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Pakistan, Paraguay, Peru, the Philippines, South Africa, Thailand, Uruguay, and Viet Nam. The Cairns Group seeks to liberalise global trade in agricultural produce.



Economic Partnership Agreement – would conclude soon after RCEP was finalised but the Indian agreement stalled and is yet to be concluded. The strategy of pursuing new rules and liberalisation with partners in bilateral and regional agreements was consistent with the approaches towards other partners. The three Australian agreements with Northeast Asian partners signed in 2015 were ground-breaking and included material access to the Japanese agricultural market for the first time for any country and new services and significant goods market liberalisation commitments in China. The value-add from RCEP would include further investment and services liberalisation in China and bringing China, Japan, and the Republic of Korea under the same regional agreement for the first time, furthering East Asian supply chains and economic integration through region-wide rules-of-origin arrangements.

Negotiations for RCEP were chaired and led by Indonesia and ASEAN. Australia played a proactive role in pushing for high standards – credible market access commitments and new rules – in the negotiations. Australia also worked with ASEAN and Japan in particular to involve external experts from academia and think tanks, including the Economic Research Institute for ASEAN and East Asia (ERIA), in the negotiating rounds for input at critical times.

Australia was one of the RCEP member countries that was also negotiating the TPP in parallel. The interest in the TPP was to keep the United States productively engaged in the region and to further rule-making and liberalisation amongst the TPP members. Having overlapping membership between the TPP and RCEP would mean that there was less chance of significant divergence or inconsistencies between them, although the approach differed in each arrangement. The TPP was US-led and had high entry barriers. The United States, as a major innovator and exporter of intellectual property (IP), pushed a key agenda on IP protections, but some of its proposals were strongly resisted by Australia and several other TPP members as unbalanced and not reflecting the trade-offs between encouraging innovation whilst still maximising the take-up and dissemination of the results of innovation. There is evidence that strengthening IP protections in trade agreements result in transfers instead of mutually beneficial net gains, and even result in outcomes that are globally welfare reducing (Deardorff, 1992). RCEP,

given its more diverse membership and with ASEAN at its core, took a more gradual approach of commitments that were in line with the level of development of each member and economic cooperation that would help countries achieve those commitments and go further.

The process of negotiating the TPP also differed from that in RCEP. The TPP negotiations were very much US-led and the US preferred to engage with countries bilaterally. In RCEP with Indonesia chairing the Trade Negotiating Committee and ASEAN at its centre, working groups and sub-working groups all reported to the committee for strategic oversight (Fukunaga, 2015). The TPP negotiations proceeded largely in silos. Whilst there was some ‘friendly competitive pressure’ between the Australian RCEP and TPP negotiating teams, the structure of negotiations was very different. RCEP started from ASEAN+1 FTAs. There was no routine or formal consultation process but the RCEP negotiators kept abreast of developments in the TPP and other bilateral agreements and the WTO.

With India deciding to walk away from RCEP on the eve of its completion in 2019, Australia had bilateral agreements with all the other members. But the significance of simplifying the regional ‘noodle bowl’ of overlapping bilateral agreements and consolidating or multilateralising the ASEAN+1 agreements with China, Japan, the Republic of Korea, and Australia plus New Zealand meant there would be further gains from the agreement. Having the three Northeast Asian economies in a binding regional trade agreement for the first time was significant. Northeast Asian economic cooperation required ASEAN as a hub because of the difficult bilateral relationships in that group.

In response to a question about the absence of India in RCEP on 6 November 2019, Australia’s trade minister Simon Birmingham responded that:

‘India are choosing at this time not to proceed with RCEP. Now, the door remains firmly open to India... RCEP itself still remains very commercially viable and beneficial to the parties that are there.’ and went on further to explain ‘more generally in terms of RCEP, the strategic benefit there is that the ASEAN nations sit at the heart of RCEP. Those ten sovereign ASEAN nations, many of them very rapidly growing economies, and they are the ones who have driven RCEP from concept stage to execution. They are the leaders

within RCEP in terms of chairing the negotiations, and so strategically it really does in our region cement the centrality of ASEAN and that's very important' (Birmingham, 2019).

The Australian Department of Foreign Affairs and Trade argued to a parliamentary hearing that 'the benefits to Australia from RCEP lie in the inclusion of both ASEAN and Australia's other major trading partners under a single agreement, enabling easier trade for Australian businesses across the region and the commitment by RCEP Parties to integrate their economies into the international trade environment (pp. 47–48)'.<sup>6</sup>

The reputation of RCEP was one of low ambition or standards, especially compared to the TPP, which was negotiating rules on environmental and labour standards and had disciplines on state-owned enterprises, as well as strong intellectual property provisions. The inclusion of India – a perennial laggard in international trade negotiations – and less developed countries meant that parts of RCEP appeared to have low ambition. But RCEP has strengthened rules that build on AANZFTA and can be built on further and developed over time. Significantly, RCEP is the first ASEAN-related FTA to include a Government Procurement Chapter and the E-Commerce Chapter's data flows and localisation provisions are the first obligations of this kind for several RCEP parties. The Intellectual Property Chapter usefully requires RCEP parties to be party to eight major multilateral agreements administered by the World Intellectual Property Organization.

RCEP has modern architecture, including on services and investment commitments, built-in agendas, and innovative institutional arrangements. Establishment of a RCEP Secretariat and the move away from traditional siloed committee structures found in FTAs with a focus on outreach and broader engagement is significant. There will be a RCEP Ministers meeting at least annually; and the establishment of a RCEP Joint Committee with four subsidiary bodies: (i) Goods, (ii) Services and Investment, (iii) Sustainable Growth, and (iv) Business Environment usefully reflects the integrated and cross-cutting nature of

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<sup>6</sup> Joint Standing Committee On Treaties Inquiry into the Regional Comprehensive Economic Partnership Agreement, Monday, 10 May 2021.

trade, investment, and global supply chains. There are also provisions for the parties to engage with business, experts, academia, and other stakeholders.

Former Australian prime minister Malcolm Turnbull described RCEP to a US audience in 2020 as an ‘old-fashioned’ and ‘a really low ambition trade deal’ (McDonald, 2020). The final report of the Australian Parliament’s Joint Standing Committee on Treaties in August 2021 – a necessary process for ratification of a treaty in Australia – described RCEP as ‘not a particularly ambitious trade agreement, and in terms of market access does not deliver much in the way of additional benefit for Australia’. But it recognised that the ‘RCEP’s significance, however, lies in the broad composition of its membership—accounting for almost one-third of the world’s population and Gross Domestic Product (GDP)—its reinforcement of ASEAN’s regional leadership role, and its simplification and harmonisation of rules of origin and other trading standards which should facilitate growing supply-chain integration’ (Parliament of the Commonwealth of Australia, 2021).

The report did not emphasise China and the difficult bilateral relationship but did emphasise ASEAN’s regional leadership role.

The sentiment that the agreement was low ambition was not shared by Trade Minister Simon Birmingham who in November 2020 explained that RCEP ‘gives a more common set of rules and standards and a higher ambition in areas that are important to Australia, like intellectual property and digital trade and commerce’ (Birmingham, (2020a).

ASEAN remains central to broader regional cooperation and institution building. The process of its economic integration underpins its centrality in Asian affairs. RCEP is important to ASEAN as it entrenches and expands its centrality in the management of economic and political security interests with its neighbours. Originally conceived for security purposes, ASEAN helps its member states manage relations with its big power neighbours, the United States, Japan, and China. It gives the region a buffer that the diverse group of Southeast Asian nations can project power beyond the sum of its parts.

Economic integration has been seen as important for managing political relations and contributing to security in Southeast Asia. Better connecting existing

regional economic and political cooperation arrangements has helped ASEAN and its partners navigate and manage the challenges to regional prosperity (Drysdale, Narjoko, and St Maria, 2021).

An important recent development alongside RCEP has been the ASEAN Outlook on the Indo-Pacific. In response to a reframing of regional affairs by Canberra, Tokyo, and Washington away from an Asia Pacific conception of regional cooperation to different versions of the Indo-Pacific idea, some of which had their origins in maritime security and were less open and inclusive, ASEAN proposed its Outlook in late 2019 that appeals to ASEAN principles of multipolarity through inclusiveness and openness (Armstrong, Drysdale, and Tay, 2019; Sukma, 2019). ASEAN was able to gain support for its conception of the Indo-Pacific that embeds multilateral principles with Australia, Japan, and the United States supportive of the idea, but also China and other East Asia Summit members. ASEAN also explicitly included economic integration and inclusive regional architecture (the arrangements for cooperation) at the core of its Indo-Pacific idea alongside the security aspects that Japan and Australia's Indo-Pacific initiatives emphasised.

#### **4. Managing the China Relationship**

Like Japan and many other countries that were negotiating both the TPP and RCEP, in Australia the TPP attracted political attention whilst the RCEP negotiations received very little public attention or scrutiny. Reporting of RCEP increased as the agreement concluded in late 2019.

Although the RCEP agreement was incorrectly portrayed by former US President Barack Obama and much of the media as China-led, Australia made clear the agreement was ASEAN-led. ASEAN was the hub and no matter how much larger the Chinese economy was than any other single RCEP member, it was only one of the five ASEAN+1 FTA partners.

The conclusion of the RCEP negotiations and the 2 years that followed through its signing and ratification coincided with an acceleration of the

deterioration of Australia's relationship with China,<sup>7</sup> by far its largest trading partner accounting for 40% of its exports and one quarter of its imports. The fact that the bilateral relationship between Australia and China did not derail Australia's support for RCEP may be partly due to the agreement's not receiving a lot of public attention, but is more importantly due to the agreement's being portrayed as an ASEAN-led agreement by successive Australian trade ministers. The centrality of ASEAN and the new trade opportunities it presented were sold successfully to the public.

On 16 November 2020 in response to a question about the conclusion of RCEP in relations to the deteriorating relationship with China, Trade Minister Simon Birmingham made clear the core of the agreement was ASEAN: 'What we have made clear, including in the signing of this new regional agreement with those 10 ASEAN nations at its core, is that we continue to be open to dialogue with China at any time, our door is open, and the ball is very much in their court' (Birmingham, 2020b).

This message was repeated by Minister Birmingham in other radio interviews in response to questions about China in RCEP after its signing in November 2020: 'this is a trade deal that is important because, as you say, it's a 15-nation trade agreement, and at the centre of it are the 10 Southeast Asian economies, who when you put them together, are our second largest trading partner collectively and [have] some of the strongest growth potential in terms of new export, new economic opportunities. And so we're in this very much because of the leadership of the ASEAN nations and our desire to make sure that we support them as being seen through not only to the prosperity of our region, but also to the peace and stability of our region' (Birmingham, 2020c).

Although RCEP does not include labour and environment standards, or disciplines on state-owned enterprises, it does lock its members into new rules in e-commerce, intellectual property, government procurement, for example, and

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<sup>7</sup> The political relationship between Australia and China deteriorated throughout 2020 and 2021 with all political communications frozen, Chinese trade sanctions on Australian goods, and mutual rhetorical hostility from both governments. The bilateral relationship started to deteriorate from around 2017. See Chubb (2022) for an explanation of the securitisation of 'China influence' in Australia that explains the hardening of the Australian position.

entrenches market openings in services trade and foreign investment. China for the first time signed onto ‘negative list’ commitments on foreign investment in non-services sectors such as manufacturing and mining. RCEP is also the first time that China (and ASEAN) signed onto ‘negative list’ commitments on foreign investment in services sectors. RCEP requires those parties initially utilising positive listing (China, New Zealand and 6 ASEAN Member States – Cambodia, Lao People’s Democratic Republic, Myanmar, Philippines, Thailand, and Viet Nam) to complete their transition to negative list services schedules no later than 6 years after RCEP’s entry into force (that is, 2028 for the non-CLM<sup>8</sup> parties) and no later than 15 years in the case of CLM parties.

Having the Chinese economy sign on to new rules, disciplines and agree to liberalisation in RCEP helps other countries in the management of economic relations with China. It also further integrates the Chinese economy into the regional and global economy, shaping and constraining political behaviour. A big test along these lines will be on China’s bid to enter the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). On China’s entry to the TPP, former Trade Minister Robb explained in 2014 that ‘if they sign up to the same rules, the same ambitions for reducing protection, they will be able to join’ (Kerin, 2014). That approach will be tested during negotiations since bilateral relations have deteriorated significantly since then. Trade Minister Tehan reiterated the position that Robb outlined, with the additional requirement that Chinese trade sanctions would need to be dropped for consideration of entry to the CPTPP.

From earlier on in the negotiations, Australian political leaders were emphasising the role of ASEAN and building on AANZFTA. On the occasion of the launch of the RCEP negotiations in November 2012 Australian Prime Minister Julia Gillard said in a statement:

RCEP will build on the high-quality free trade agreement that Australia already has with ASEAN and New Zealand. It will complement Australia’s participation in bilateral trade negotiations and in Trans-Pacific Partnership (TPP) negotiations (Gillard, 2012).

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<sup>8</sup> CLM stands for Cambodia, Lao PDR, and Myanmar as a group.

The Joint Statement by Prime Ministers Tony Abbott of Australia and John Key of New Zealand on 28 February 2015 explained:

Both countries are also committed to progressing the Regional Comprehensive Economic Partnership (RCEP) negotiations alongside ASEAN, China, India, Japan and Korea. The Prime Ministers agreed they will continue to push for a modern, comprehensive, high quality agreement which significantly builds on... the ASEAN–Australia–New Zealand Free Trade Area (AANZFTA) (Abbott, 2015).

That message was echoed in a press release by the Australian Trade and Investment Minister Dan Tehan when RCEP came into force on 1 January 2022:

RCEP will enhance Australia's economic engagement in the Indo-Pacific through strengthened trade rules that build on the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA) and complement Australia's bilateral agreements with RCEP parties and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). RCEP will further strengthen Australia's trade relationship with ASEAN at a crucial point in ASEAN's economic development (Tehan, 2022).

Then Australian Minister for Trade and Investment Andrew Robb also recognised the importance of RCEP in the context of rising protectionism globally when he explained ‘there are clearly pressures around the world but the strongest area in the world is ASEAN plus related countries around the ASEAN, so we clearly understood that and there is a determination to continue with all of these various agreements so we can maintain this growth and prosperity’ (Channel News Asia, 2015).

The process of negotiating RCEP helped Australian ministers and the government appreciate the importance of ASEAN and ASEAN-centred institution building.<sup>9</sup>

RCEP was designed by ASEAN policy strategists to buttress regional trade reform and lift Asia’s growth potential in the global economy by building on, and

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<sup>9</sup> Interview with Mugliston and Church, 29 September 2021.



consolidating, the achievement of the ASEAN+1 FTAs. RCEP is tightly aligned with ASEAN's multilateral goals and multipolar characteristics, a feature that would allow progress with economic cooperation regionally despite bilateral political tensions.

The deterioration of Australia's economic and political relationship with China makes the RCEP framework potentially more important for facilitating the rebuilding of mutual trust and confidence. The difficulty in making progress in a bilateral setting means that cooperation in a broader setting with other countries has potential to help alleviate economic tensions and cooperation on shared interests of the RCEP group, such as recovery from the coronavirus pandemic, and facilitating vaccine and health supply chains. The economic cooperation agenda that would facilitate these discussions is detailed later in this paper.

Chinese trade restrictions on a range of Australian goods in the late 2020s and the concentration over 40% of Australian exports on the Chinese market led to increasing debate about diversifying Australian trade from around 2018. RCEP was seen as part of that strategy by some, by opening up services markets in ASEAN (Australia Financial Review, 2020). That is despite the one rule of origin and 'cumulation' – where products originating in one country can be further processed or added to the value of products originating in another country, just as if they had originated in the second country – deepening supply chains that include China, the largest RCEP member. A more deeply integrated East Asian economy as a result of RCEP with China as a central element was not seen as inconsistent with the rhetoric of diversifying trade away from China. China may not continue to play the final assembly role of production networks and is already supplying higher value-add input into the value chains. Diversifying trade away from China is equivalent to diversifying away from East Asian supply chains.

## **5. Strengthening Regional Architecture**

Australia has actively participated in regional arrangements, including spearheading the creation of APEC and proposing new regional arrangements like the AEC, to help project its economic and strategic interests in Asia. The overriding

goals have been to keep the United States engaged in the Western Pacific, maintain open markets in East Asia and manage stable relations with large Asian powers. APEC was created to help manage the rise of Japan and create a framework for economic and political cooperation. The East Asia Summit and RCEP provide new arrangements to help manage the China relationship. RCEP was also a way to integrate India into the East Asian economy although thus far without success.

After the Asian financial crisis in 1997 and 1998, Asian economic cooperation deepened around the ASEAN+3 (China, Japan, and the Republic of Korea) framework that left Australia out. During the 2000s there was debate and competition in the region about developing an ASEAN+6 grouping to include Australia, India and New Zealand, and whether the region should pursue an East Asian Free Trade Agreement amongst the ASEAN+3 grouping or a Comprehensive Economic Partnership in East Asia agreement with the ASEAN+6 grouping. ASEAN, Australia, and New Zealand agreed to start negotiations for an agreement in 2004, which they managed to conclude in 2010 in the form of AANZFTA. Having a 'bilateral' agreement like AANZFTA would end up being a prerequisite for joining the RCEP negotiations in 2013.

Some ambivalence towards ASEAN in the Australian government's economic and security strategy was a product of the difficulty of the Australian government engaging ASEAN as a collective and the slow pace of the consensus-driven decision-making process. By the mid 2010s that had significantly shifted to an Australian appreciation of ASEAN centred institutions and cooperation in the region with its convening power around the East Asia Summit and the RCEP negotiation process. By 2012 when RCEP was first proposed by Indonesia at the ASEAN Economic Ministers Meeting, Australia was ready to participate in negotiations given it was an ASEAN Dialogue Partner and had an existing bilateral economic agreement with ASEAN.

RCEP does not include the United States, Australia's security ally and guarantor. The importance of that trans-Pacific relationship was reflected by Trade and Investment Minister Andrew Robb's emphasis of RCEP as an agreement being negotiated in parallel to the TPP and both agreements as a pathway towards a Free Trade Area of the Asia Pacific.

Then Trade Minister Robb said in 2014 that the ‘RCEP is a mirror image of the TPP and it does include some common members like ourselves, the New Zealanders and a few others. My hope would be that these two trade groupings, which are ambitious and have open architecture, could lead to something which came together as the basis for a more regional approach’ (23 July 2014). He then said in 2015 that ‘RCEP would set the region up for some enormous opportunities in the years ahead on account of an exploding middle class. Together with the TPP this would lay the groundwork for helping to realise the ambition of a free trade area across the Asia Pacific’ (Earl, 2015).

With the US retreat from the TPP in 2017, Australia, along with Japan, were able to exercise joint leadership in concluding the CPTPP and salvage the agreement that same year with the remaining 11 members and contribute to further market opening and new rules for international commerce. The CPTPP kept open the possibility of a US return to the TPP, whilst RCEP was concluded in late 2019, signed in late 2020, ratified by most countries in late 2021, and came into force on 1 January 2022.

Trans-Pacific economic cooperation with the United States continues through APEC and various bilateral and global processes but US absence in the TPP leaves a large gap in its role as a rule maker and in its ability to influence outcomes in East Asia. The Biden Administration’s Indo-Pacific Economic Framework aims to remedy that and there are discussions of leadership in digital economy rules but a strategy is yet to be articulated (White House, 2020).

Trans-Asian economic cooperation with India and South Asia failed to progress with India’s withdrawal from RCEP in late 2019. That was a significant missed opportunity for India and East Asia. Australia has since restarted negotiations on a bilateral economic agreement with India.

Australia had a strong interest in India’s membership of RCEP beyond the bilateral relationship. A bilateral deal would have limited effect in opening up the Indian market, beyond giving Australia some narrow preferential access, instead of acting as leverage for larger market-opening reforms. A bilateral agreement with India would likely have been complementary with RCEP by delivering greater market access in areas directly of interest to Australia, whilst the broader agreement

would help open up the Indian economy. Despite the disappointment from India's retreat from RCEP, Australia's interest was for the agreement to conclude with the remaining 15 members. Japan wavered on proceeding with the remaining 15 members, with public statements and a diplomatic effort in Southeast Asia that would have stalled the agreement (Bloomberg, 2019). India was seen as a counterweight against China's influence and without India's participation, China was seen as too dominant in RCEP. Japan ultimately agreed that holding up the entire agreement because of India's failure to sign on was not in its strategic interests, as Australia and ASEAN were firm on the overriding importance of RCEP even absent India.

Australian Prime Minister Scott Morrison was unequivocal and made it clear the door will remain 'wide open' for India to join RCEP (Economic Times, 2019). Trade Minister Birmingham explained 'we have to make sure that progress is realised amongst the 15 nations who are there without India. These make it easier for Australian businesses to do business through the region and that is what allows us to keep growing our exports' Economic Times, 2019).

RCEP door has been left open for India, just as the TPP door has been left open for the United States. East Asian economies will continue to court both transregional powers and the ASEAN-centred processes have the best chance at arrangements with the United States and India that are multilateral in character. As of May 2022 the United Kingdom, China, and Taiwan have submitted formal bids to join CPTPP with the Republic of Korea deciding to do so imminently. Hong Kong and Bangladesh have indicated interest in joining RCEP.

RCEP was designed by ASEAN policy strategists to buttress regional trade reform and lift Asia's growth potential in the global economy. The innovation and significance of RCEP for regional architecture is in its strengthening of ASEAN, entrenchment of the AEC process, consolidating four ASEAN+1 agreements, and bringing Northeast Asia into a binding agreement. It is also important because of its scale and conclusion at a time of rising protectionism and weakening of the WTO. At the time of its conclusion and ratification, RCEP was the only active, credible multilateral endeavour anywhere in the world positioned to deliver a significant pushback on the retreat from globalisation and the advance of protectionism.

The RCEP is not simply another free trade and investment arrangement, however. It incorporates a cooperation agenda which is an essential element in building capacity for economic reform and mutually reinforcing regional development in Southeast Asia over time.

## **6. The Economic Cooperation Opportunity**

RCEP is the first region-wide binding agreement for East Asia with tariff cuts and new rules made legally binding. The mode of cooperation in APEC and the ASEAN processes like the AEC were voluntary and non-binding. Like the G20, they relied on forging consensus followed by unilateral action backed by peer support and peer pressure. That meant some countries would not keep pace with commitments but it has proven a more sustainable model for integration, with East Asia becoming one of the most economically interdependent regions in the world driven by complex supply chains resulting in some of the world's highest intra-regional trade shares. Intra-ASEAN trade shares are relatively low compared to those of other regions but ASEAN has used the AEC and regional processes to integrate into the global economy, especially with its large neighbours in Northeast Asia (Pangestu and Armstrong, 2021).

For East Asia, open regionalism was a way to ensure there was no region-wide preferential treatment that discriminated against large and important partners in North America or Europe. APEC entrenched that process across the Pacific. Many East Asian countries could not agree to preferential arrangements with neighbours with unresolved history or uneasy political relations at the expense of allies or the rest of the global economy (Armstrong and Drysdale, 2011).

The economic cooperation agenda in RCEP builds on and extends ASEAN processes to help countries implement the agreement, recognising the diversity of levels of development and capacity. That stands in contrast with other agreements that simply expect countries to meet agreed commitments. The cooperation agenda in RCEP goes well beyond countries implementing the agreement to expand cooperation to new areas where principles of cooperation and interaction can be built and consensus forged. It provides a framework for deeper economic and

political cooperation around reform, new rules, and be used creatively to engage other countries, including India.

The experience in economic cooperation has developed through ASEAN, APEC, and AANZFTA. These arrangements include mechanisms that allow officials, and to a lesser extent businesses and other stakeholders, to interact routinely, to build familiarity and understanding and ultimately to build trust. Structured economic consultations and cooperation on a continuing and regular basis will be a feature of RCEP that goes beyond the agreements that define traditional FTAs.

The economic cooperation in RCEP has the potential to be deeper than that in APEC, focused on an East Asian agenda. The presence of the United States, the Russian Federation, and others means the agenda is much broader in APEC and cooperation in East Asia focused on issues of common interest need not detract from trans-Pacific interests of RCEP members.

The Australian government has been an active leader in economic cooperation in forums like APEC. The experience in AANZFTA of successful capacity building and technical cooperation support for ASEAN in areas like competition policy helped to build support for enshrining economic cooperation as one of the RCEP's pillars. But the economic cooperation in AANZFTA demonstrated the value of experience sharing and deeper cooperation beyond one-way capacity building (Healey, 2017). The Australian government has committed A\$46 million to a Regional Trade for Development Initiative for elevating economic cooperation in AANZFTA and RCEP (Birmingham, 2020d).

Beyond capacity building and technical cooperation, the economic cooperation agenda makes the RCEP agreement a 'living agreement' able to address issues of shared interest and priority as they evolve. There is an opportunity to sort through some of the most important issues that confront regional economic diplomacy today. Armstrong and Drysdale (2022) propose coordination of pandemic recovery such as travel protocols, digital economy, infrastructure investment principles and standards, dispute mediation, energy transition, supply chain resilience, and sovereign debt management as potential issues from which to

choose for initial cooperation. The agenda can be flexible around pressing issues of common interest, backed up by four joint committees that report to ministers.

The economic cooperation agenda in RCEP will be supported by a secretariat and regular ministerial level and leader level meetings around the ASEAN plus summits. That has substantial potential to reduce political uncertainties and build a foundation for political cooperation. Sharing reform experiences and building confidence and trust through economic cooperation necessarily has a payoff for political cooperation.

The 15 member grouping and the cooperation agenda provides a framework for making progress on shared interests between countries that are experiencing difficult bilateral political relations. Australia, and China, and Japan and the Republic of Korea, for example will be able to cooperate on shared regional issues of importance despite tensions that make bilateral cooperation difficult.

There are many politically difficult relationships embraced within the RCEP membership that are likely to surface from time to time. These are most obvious in Northeast Asia but also currently between Australia and China. Managing to conclude the RCEP agreement despite the political differences within the membership, and during a once in a lifetime pandemic, and in the face of US–China strategic competition that all act as significant headwinds is a testament to ASEAN and its centrality in regional cooperation.

The dispute settlement provisions in RCEP can complement the WTO's dispute settlement system and has the opportunity to strengthen one of the WTO's most important features. Ministers and leaders in RCEP have the opportunity to promote and support initiatives like the Multiparty Interim Appeal Arbitration Arrangement to all RCEP members, whilst the WTO dispute mechanism is in abeyance (only Australia, China, New Zealand, and Singapore are currently participants amongst the RCEP members).

Whilst RCEP is a departure from open regionalism with preferential tariffs and other arrangements that discriminate against non-members, RCEP's institutional setting within ASEAN will reinforce its inclusive character and encourage its multilateral orientation and role. Progress on rules and reforms that result from the economic cooperation in RCEP are likely to be non-discriminatory.

The economic cooperation agenda provides a platform for multilateralising RCEP over time, just as ASEAN multilateralised the preferences in the ASEAN FTA (Hill and Menon, 2014). Just as the ASEAN members reduced their most favoured nation tariffs to the preferential tariff rates in the ASEAN FTA, RCEP can extend the provisions to non-members over time.

RCEP is the world's largest regional agreement and adds significant confidence to the global economy at a time when global trade and the WTO are under threat. If RCEP is able to multilateralise over time, that would further open up East Asian markets to the rest of the world and add further confidence.

## **7. Conclusion**

RCEP helps to secure Australia's economic, political, and strategic interests internationally. Australia's economic engagement is concentrated in East Asia and the RCEP agreement helps to keep the East Asian markets open, more predictable with new rules and commitments. RCEP also elevates political cooperation with ASEAN and Northeast Asian partners because of the regular ministerial meetings and annual leaders' level meetings alongside ASEAN-chaired meetings that it incorporates.

ASEAN and its centrality has become more important for Australia, and is increasingly appreciated as vital to its interests in the region. Australia now has an annual summit with ASEAN leaders. RCEP was sold to the Australian public as an ASEAN-led and ASEAN-centred agreement, involving significant regional economies. The agreement and its economic cooperation agenda can help Australia manage its difficult relationship with China across issues of shared interest from pandemic recovery, new rules and disciplines, and continuing market-oriented reforms. The new rules can be significantly upgraded over time through consensus-building in the cooperation framework. And there will be an opportunity to gradually multilateralise RCEP consistently with East Asia's approach to open regionalism.

RCEP remains open to India, an important economic and strategic partner for Australia. It is also a pathway towards the Free Trade Area of the Asia Pacific and



better connecting the trans-Pacific economies. The trans-Pacific and trans-Asian economic relationships remain plagued by uncertainty but the RCEP economic cooperation agenda could develop into a framework for engaging non-members like the United States and India around shared interests. RCEP brings a significant degree of certainty to East Asian economic and political affairs.

Australia's interests in an open multilateral trading system face major challenges and uncertainty from pandemic recovery, great power competition and a weakened WTO. RCEP helps to secure those interests in East Asia, which is already a major centre of the global economy.

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