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RCEP gathers momentum

Regional Comprehensive Economic Partnership offers improvements and benefits to current state of global trade

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For China Daily Asia Weekly

All signs point to negotiations for the Regional Comprehensive Economic Partnership (RCEP) being on track.

After the second leaders' meeting on RCEP, on Nov 14 in Singapore, the city-state's Prime Minister Lee Hsien Loong announced that negotiations regarding seven out of 18 chapters in the agreement have concluded.

Leaders from other participating nations, such as Indonesia's President Joko Widodo and India's Prime Minister Narendra Modi, have shown their support and encouragement of the mega free trade agreement (FTA).

The RCEP was first raised at the 19th Association of Southeast Asian Nations (ASEAN) meeting in 2011 and negotiations started in November 2012. Since then, there have been 24 rounds of RCEP negotiations in various countries.

The RCEP has 16 members, comprising the 10 member states of ASEAN (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam) and six FTA partners of ASEAN — Australia, China, India, Japan, the Republic of Korea and New Zealand.

A huge agreement, RCEP includes half of the global population and covers close to one-third of the world's total GDP as well as almost one-third of trade flows. It encompasses trade in goods, services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement, e-commerce, small and medium-sized enterprises and other issues.

Some observers believe the RCEP could be signed soon, even though the sheer size of the agreement and the fact that negotiations started in 2012 could mean that it still takes some more time to come online.

Speaking in Singapore, Chinese Premier Li Keqiang said China hopes to complete RCEP negotiations next year.

There are clear improvements and benefits that RCEP could make on the current state of trade in the region and beyond.

"The current situation is that many goods traded between countries have tariffs imposed upon them. The tariff is essentially a tax on an imported good, causing the price of the good to be higher than it could be. This means that local consumers are going to find



Premier Li Keqiang speaks in Singapore on Nov 13. He says China hopes to complete negotiations for the Regional Comprehensive Economic Partnership next year. AFP

the imported good less attractive than without the tariff, and therefore that demand for imports will be lower," said David Broadstock, deputy director of Hong Kong Polytechnic University's Center for Economic Sustainability and Entrepreneurial Finance.

While there are many economic justifications for tariffs, such as the protection of local businesses and jobs, and the creation of government revenue, there is also a clear loss of efficiency.

"This stems from the fact that consumers are not allowed to pay the lowest possible price, and also because the tariff artificially inflates the price, permitting some less efficient producers to remain in business. Less efficient in this case means they are unable to operate at the scale, or with enough skill to produce goods at the lowest possible cost," explained Broadstock.

"Any efforts to reduce trade tariffs through trade liberalization will work in the direction of lowering the prices paid by consumers and forcing inefficient firms to either become efficient or close."

This could be the shake-up that global trade needs.

"While closure might sound like a loss of jobs, these workers would naturally find jobs elsewhere. What

is more important is that an inefficient firm is not given the freedom to continue to remain inefficient and that the resources are reallocated across the economy to more productive tasks," said Broadstock.

"As an additional point, trade liberalization can also permit relatively smaller countries such as Indonesia or Vietnam to tap into larger markets such as India or China, allowing them to expand their production," he added.

Wilson Chan, a lecturer for the global studies program at the Chinese University of Hong Kong (CUHK), believes it will open doors for certain ASEAN nations.

"Through the RCEP, Singapore will use the opportunity to establish itself in a leading role as a finance and trade center with affordable labor in the neighboring countries," said Chan.

This would be a win-win situation for the non-ASEAN partners too.

"The RCEP could see China be the leader in championing free trade. Chinese goods and commodities could benefit from it, especially in light of the trade war initiated by the US," said Chan.

The ongoing tensions in global trade, initiated by the United States, are also in the backdrop, along with

the regional tightening of trade between the US and Canada through the renegotiation of the North American Free Trade Agreement.

Another factor is the uncertainty surrounding Brexit and the United Kingdom's relationship to the European Union. Along with the forward momentum in RCEP negotiations, China and ASEAN have been upgrading their own FTA to create the largest free trade zone in the world.

"The consequences of these events are yet to fully unfold, but they do seem to point toward a strategic importance in strengthening regional trade ties," said Broadstock. "The state of trade within the region is on many accounts good — and conducive to strengthening regional trade ties."

Many of the countries involved in the RCEP have developed, or tried to develop, trade partnerships in the past.

"ASEAN was formed in 1967 but has arguably had mixed success, at least in terms of stimulating trade. APEC (Asia-Pacific Economic Cooperation) was formed in 1990, with a larger set of members, but again had questionable success in stimulating trade," said Broadstock, who pointed to the fact that most of the member economies of these agreements were largely export-driven at the time.

"Economics tells us that the key to successful international trade begins with specialization and is reinforced by free and open trade borders. However, history paints a more complex picture, revealing the additional requirement that trade partners must have a balance of importers and exporters."

The RCEP, with large markets like China and India in the mix, may help ASEAN strike a balance.

"China can bring many opportunities to the success of the RCEP. As an economy, China is continuing in its transition to being a consumption-led economy, and more importantly, it is a huge economy. And Chinese consumers have a huge spending power already," said Broadstock.

Observers have also wondered if the renewed drive to forge the RCEP is to act as a replacement for the Trans-Pacific Partnership (TPP), which became defunct after the US withdrew from it.

"It seems obvious to question whether the RCEP is a good replacement to the TPP. However, from their initial design, the RCEP and TPP had very different geographic coverage and objectives, and any direct comparison is far from straightforward," said Broadstock.

After the withdrawal of the US, the TPP was revived as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The new agreement is set to come into effect on Dec 30. RCEP is not intended as a replacement for the TPP but has its own role to play.

Still, with all the changes underway in global trade, RCEP might play an important role in shoring up regional trade.

"The RCEP is increasingly attractive, providing a sensible alternative route to fulfill the objective of strengthening regional and strategic trade ties," said Broadstock.

CUHK's Chan said the RCEP "could help strike a balance in trade flows within the region".

Others feel the RCEP could use the China-led Belt and Road Initiative (BRI) to differentiate itself from other FTAs.

"Since RCEP takes investment within its scope, and since the scale of potential investment emerging from the BRI is vast, then it would seem desirable for RCEP to commit to the global principles of responsible investment now," said Broadstock.

"This could make it one of the first trade partnerships with environmental concerns built into its core."