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How RCEP Facilitates ASEAN Trade in the Digital Era

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Accelerating Growth: How RCEP Facilitates ASEAN Trade in the Digital Era

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December 2020

After almost a decade of negotiations, the Regional Comprehensive Economic Partnership (RCEP) was signed on November 15, 2020. The agreement brings together all 10 members of the Association of South East Asian Nations (ASEAN) along with Australia, Japan, South Korea, and New Zealand, making it a free trade zone larger than both the United States-Canada-Mexico agreement, and the European Union. Despite India's action to pull out of the emerging partnership in 2019, the deal connects approximately 30% of global output and 30% of the world's population. Economic forecasts by the Peterson Institute for International Economics project that RCEP could add US$209 billion annually to global income levels, and US$500 billion to world trade by 2030. The same forecasts estimate ASEAN to benefit US$19 billion annually by 2030.

Simply put, the agreement aims to lower tariffs, expand trade to include services, and promote investment opportunities especially with the goal in mind of supporting emerging ASEAN economies to catch up with the rest of the world. However, as with all trade agreements, serving the diverse needs and interests of the member nations and concurrently staying up to date with the demands of the ever-changing landscape of the digital world and regional tensions, is a delicate task for policymakers. This paper explores the key benefits and challenges of a China-led regional recovery in the post-COVID-19 era, and a futuristic outlook on the digitalisation of trade in the context of RCEP.

Significance of RCEP

The RCEP conditions are directed towards increasing trade efficiency in the region by reducing cost and time involved in exporting products between the member nations. This will be done through reducing requirements for specific countries. As of 2019, RCEP member nations make up approximately 25% of global trade of goods and services, with China itself providing 10.8%, and the

ASEAN bloc comprising almost 5.6%, according to World Bank's World Integrated Trade Solution (WITS).

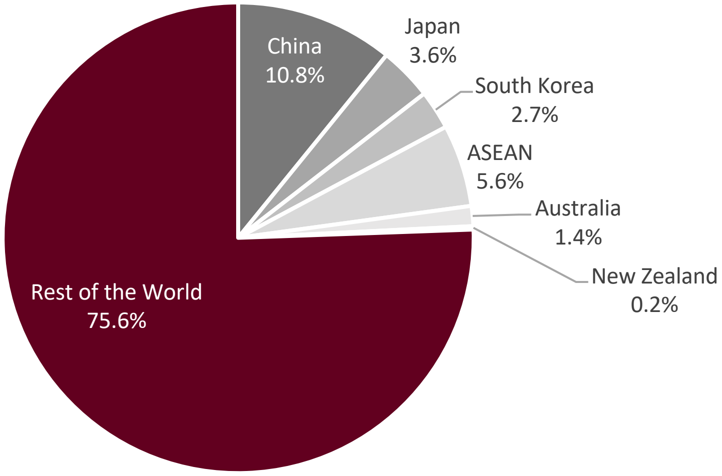

Figure 1: Percentage Share of RCEP Nations in Global Trade of Goods and Services (2019)

Source: World Bank database

The ASEAN secretariat deems the signing of RCEP as an incredibly historic moment, as it places ASEAN at the forefront of the world's largest trade deal. It comes as a ray of hope in boosting a sustainable recovery for businesses in the region during the ongoing COVID-19 pandemic. The terms of RCEP eliminate tariffs and quotas in more than 65% of traded goods within 20 years. Firms will be more attracted to investment opportunities in the region, building supply chains, and subsequently generating more employment opportunities.

The nations involved are expected to see the most instrumental benefits from the 'rules of origin', which defines where a good comes from. While many nations under the RCEP already have Free Trade Agreements (FTAs) amongst themselves, they are limited in comparison to RCEP in the context of global supply chains. This is because businesses often still face tariffs under FTAs due to their goods containing components that were produced in a third location. Most products will only require 40% of their value-add to have taken place within the region in order to be eligible for lower tariffs. All components under RCEP are to be treated equally, incentivizing businesses to seek suppliers within the RCEP members. For ASEAN, the rules of origin will aid the region in attracting foreign investment.

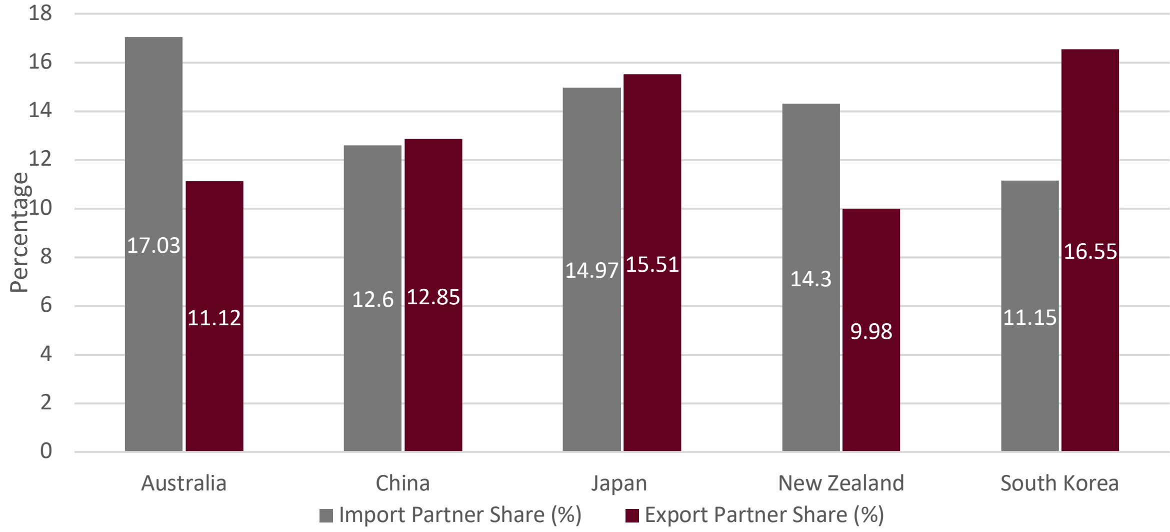

Figure 2: ASEAN Trade with RCEP Partners (2018)

Source: WITS World Bank database

While the RCEP expects to eliminate a range of tariffs on imports within 20 years, there are provisions for safeguard measures within the transitional period to prevent serious injury to a member state's domestic industry as a result of imports from another member in increased quantities. Least developed countries may also request for the extension of such safeguard measures beyond the initial eight years after the scheduled elimination of tariffs is scheduled to occur. This exemplifies the collaboration and mutual assistance present in ASEAN policies to unify the bloc against asymmetrical levels of development between member states.

Trade Facilitation

RCEP's primary goal of increased cross-border trade between ASEAN and its dialogue partners hinges on the reform of customs procedures within member states. RCEP requires member states to ensure its customs laws and regulations are consistently implemented and applied across all sectors of trade. They are expected to publish online the procedures for all movements of trade items, in addition to tariff rates, rules and regulations, and all required documentations. While member states are allowed to practice discretion to some degree, each country is expected to conform to the standards and recommendations of the World Customs Organisation, with the goal of eventually simplifying and harmonising the procedures. Additionally, the RCEP seeks to enhance the implementation of the World Trade

Organisation Technical Barriers to Trade (TBT) Agreement. This will ensure standards, technical regulations, and conformity assessment procedures do not create unnecessary hindrances to trade.

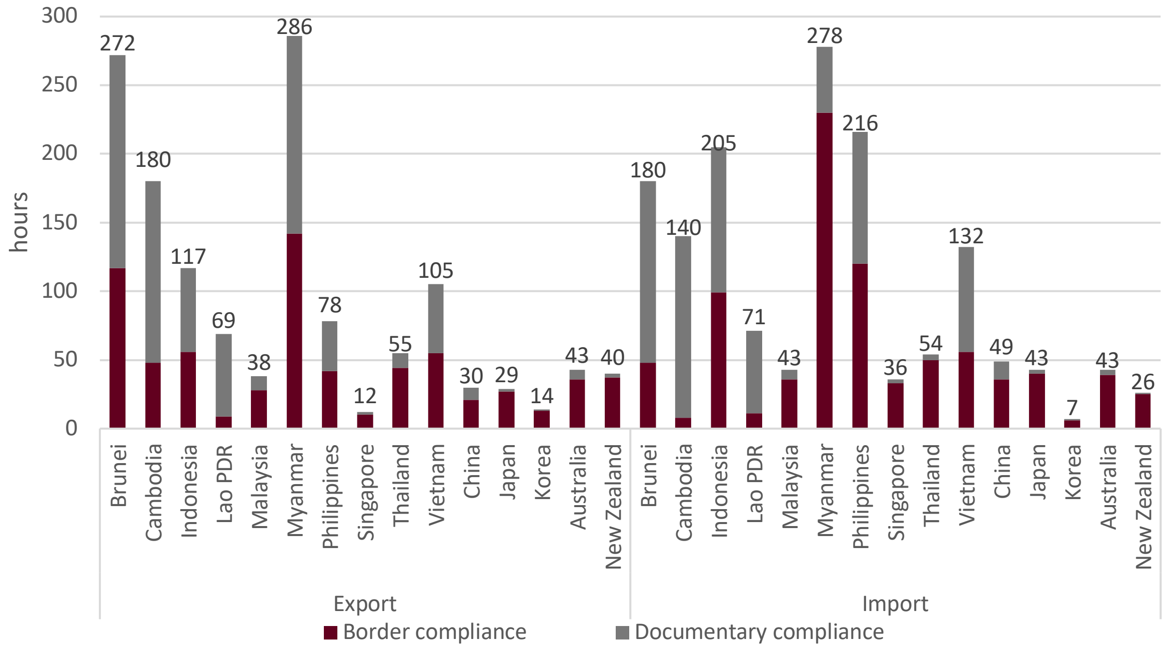

Figure 3: Average Export and Import Clearance Times (2019)

Source: World Bank database

Only two ASEAN countries (Malaysia and Singapore) are within the RCEP's 48-hour target of customs clearance of goods and lodgement of necessary information. While some member states are able to implement the entire Chapter 4 on trade facilitation at the outset, other nations with suboptimal trade facilitation systems and regulations have made commitments to enforce the provisions at later dates. Cambodia has received an extension of five years to implement provisions such as the application of digital technology at customs and new rules to manage express shipments. Additionally, Indonesia has delayed the provisions for advance rulings and risk management to February 2022.

China-Led Recovery

At a time where the United States is unconcerned with partaking in global trade deals, and the European Union and United Kingdom are at a forked road with Brexit trade deals, China's role in the signing of RCEP is crucial. Especially so, considering this is the first of China's nonbilateral free trade agreements of this scale. In the context of COVID-19, China, South Korea, and Vietnam, have shown significantly quicker recoveries after the second quarter of 2020, while the remaining Asian economies continued to demonstrate contractions through the third quarter of the year. As such, the signing of RCEP sheds a renewed and more sustainable potential for growth upon the horizon of recovery for those nations who are struggling with the reliance on domestic recovery initiatives.

The terms of RCEP are aligned with Chinese president Xi Jinping's economic policy outlook of dual circulation, which focuses on domestic demand and simultaneously capitalises on the advantage of trade and foreign investment. With the nation's proposed goal of becoming a high-income country by 2025 and a moderately developed economy by 2035, Beijing's recent high-profile meetings on multilateral trade deals exhibit signs for the nation to further open up trade and investment opportunities. This is expected to serve the interests of emerging ASEAN markets in facilitating their access to Chinese Belt and Road Initiative funds via stronger transport, energy and communication links.

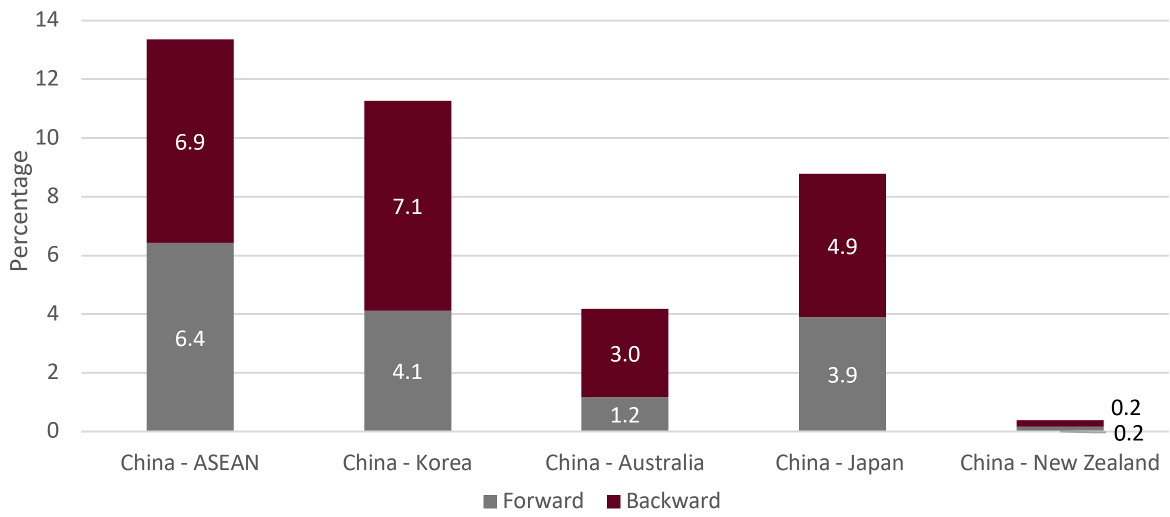

Figure 4: China's Value Chain Participation (2015)

Source: OECD Tiva database

Furthermore, RCEP's strong China focus aids emerging economies with regards to global value chains. The high integration of global value chains between ASEAN and China has shown increasing signs of synchronised economic activity. The economic interconnectivity via evolving production linkages and trade patterns brings out spill over effects that could potentially bolster the recovery of ASEAN economies. However, while a China-centric recovery plan proves many benefits, Asian policymakers must consider what industrial and technological policies can be incorporated in order to maintain more robust international production networks.

Additionally, RCEP sows potential seeds of unity where nations have previously seen dry spells of tense diplomatic relationships, notably between China and Japan, and Australia and China. However, it has also brought forth some hesitation from leaders on the China-heavy dependency. India for example, withdrew from the agreement in 2019 with stated concerns of cheap Chinese goods distorting its markets. They were especially concerned about the vulnerability of their textiles, dairy and agriculture industries.

Moreover, it is important to note the implications of the RCEP for the United States, which largely revolves around the fact that amongst trade tensions, the new agreement has China's backing as its fundamental force rather than that of the United States. China has faced little competition from the US since the Trump administration pulled out of the Trans-Pacific Partnership (TPP) voluntarily, which was meant to be the world's largest trade pact. The signing of the RCEP further fortifies China's geopolitical ambitions in the region. While the CPTPP includes more countries than RCEP, cuts tariffs further, and incorporates additional labour and environment provisions, RCEP's effects are likely to be immensely impressive, and bring ASEAN up the ranks on the global trading outlook. With both RCEP and CPTPP in place, they have the potential to offset losses faced by third party nations from the U.S.-China trade war. North and Southeast Asian economies suffered with increased volatility and uncertainty in the wider Asia Pacific trade sphere. The new deal serves to combine North and Southeast Asian nations' strengths in technology, manufacturing, agriculture and natural resources, making them more efficient. It is plausible that the upcoming Biden administration will place more emphasis on the Southeast Asian region once it comes into office, although the idea of re-joining the CPTPP remains uncertain.

Scaling Trade with Digitalisation

The highest potential for growth and recovery stemming from RCEP is linked to e-commerce and digital trade. Particularly for small and medium-sized enterprises (SMEs), the digital economy is a symbol for rapid and accessible opportunities to connect with suppliers, consumers, and partner firms. In the negotiation years, member nations have faced difficulty in reaching full agreement regarding clauses pertaining to digital trade. As demonstrated with China's role in Asian GVCs, Asia is a region with high integration levels in comparison with other areas, which brings along with it a 'too close for comfort' conundrum as well. The existing pathways require the right economic policymaking to lead new growth opportunities for its members. As such, ASEAN has recognised e-commerce to be a key priority area for further RCEP negotiations.

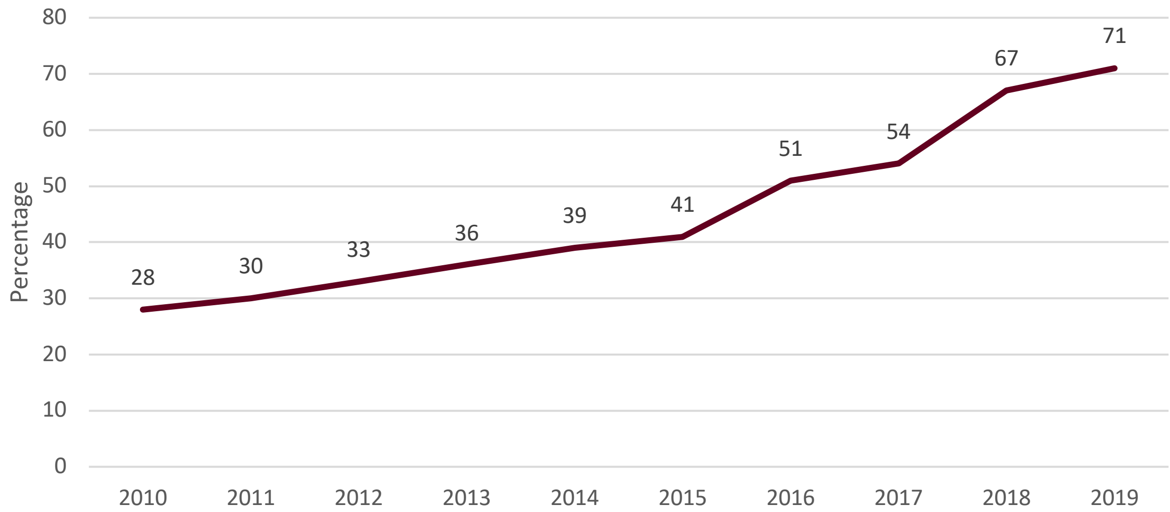

Figure 5: Proportion of ASEAN Population Classified as Internet Users

Source: World Bank database

The average percentage of ASEAN nations' population who are termed as "internet users" has increased by almost 50% in the past decade. This exhibits the heightening importance of the digital economy and even economies such as Indonesia and Philippines with less than half of their populations using the internet, are expected to see a rapid increase in these figures, only further strengthened by RCEP. Data for Cambodia, Laos, and Myanmar is not available for 2019. The latest data available for these nations from 2017 dictates internet usage rates of 33%, 26%, and 24% respectively.

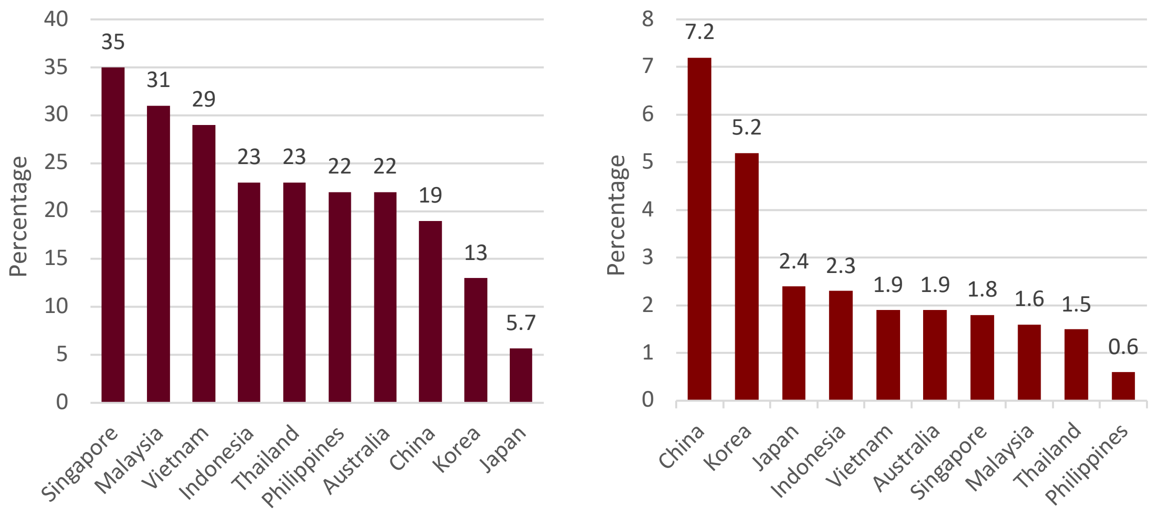

Figure 6: Online Consumer Goods Spending: Annual Growth (2018 vs 2017) (left), As a proportion of GDP per capita (2018) (right)

Sources: DataReportal

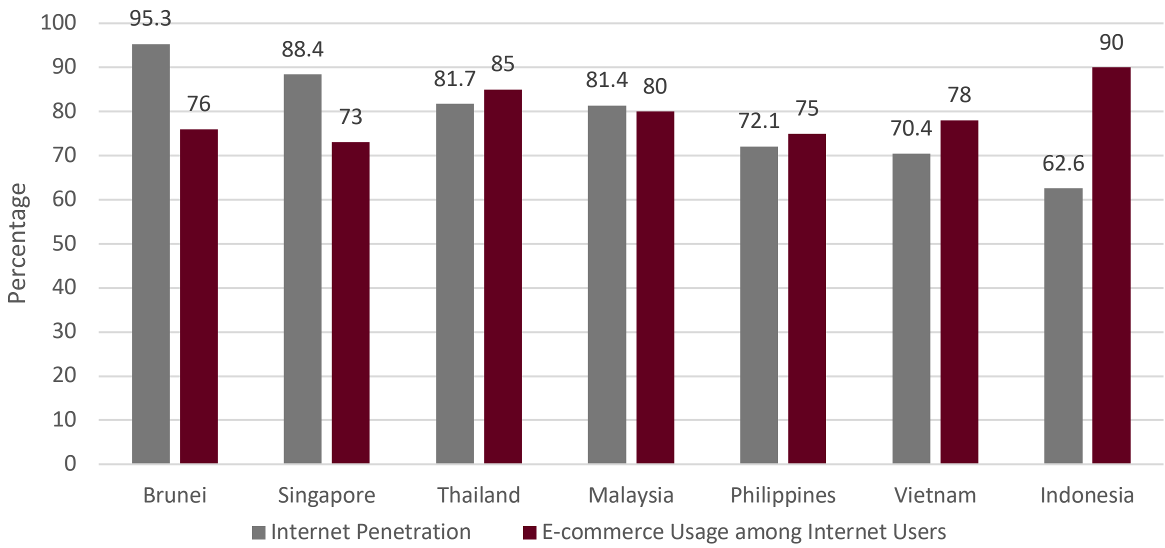

Figure 7: Internet Penetration (2019) and E-commerce Usage (2019)

Sources: Internet World Stats, DataReportal

Chapter 12 of the RCEP is focused on electronic commerce (e-commerce), in light of the increasing digitalisation of trade. The terms outlined aim to promote wider use of e-commerce between the nations and increased cooperation on e-commerce development and monitoring. Although online spending as a proportion of GDP for ASEAN countries still remains miniscule (Indonesia leads the pack with online spending contributing 2.3% of total per capita GDP), there is very promising year-on-year growth in online expenditure. Archipelagic countries such as Indonesia and the Philippines face a logistic constraint in expanding internet penetration despite boasting high e-commerce usage among its online population. Thus, the growth of e-commerce in these regions hinges on the countries' abilities to extend internet coverage.

The chapter states the encouragement of nations to improve trade administration and processes via the incorporation of electronic means and adopt legal frameworks for the regulation of electronic trade. The key legal issues to focus on in coming years are the protection of personal information of e-commerce users, data-related matters revolving around the provision of computing facilities, and cross-border transfer of information via electronic means. The statement additionally outlines the agreement between members to maintain their current practice of not imposing customs duties for electronic transmissions, which lies in line with the World Trade Organisation (WTO) Ministerial Decision.

Chapter 11 of RCEP encapsulates intellectual property, linking closely to the evolving digital economy. The chapter emphasizes the protection of intellectual property rights beyond the WTO agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), by including statements on technological protection measures and enforcement within a digital world. The statements subsequently determine criminal procedures and penalties against copyright and commercial sale infringements. Looking forward, to support intellectual property right holders in a more sustainable manner and avoiding issues of asymmetric information, the chapter discusses the streamlining of procedures to establish electronic filing of applications and making relevant information available online.

Additionally, the relationship between the digital economy and RCEP is mutual. As the digital economy is forecasted to be beneficial to RCEP member nations, the signing of RCEP itself will support the development of digitalisation as well. Technological advances related to e-commerce are being created at such a rapid pace that governments often find themselves struggling to regulate online spaces resulting in either poorly regulated spaces, or general trade rules being adapted to online trade actions. The lack of structure severely harms domestic businesses and consumers both. These issues largely stem from the fact that the digital economy does not adhere to geographic boundaries in the same manner that offline trade does. As such, regional frameworks are a much more effective way to capitalise on the benefits of digitalisation instead.

Conclusion

Apart from being a big deal in terms of size, RCEP is a big deal for ASEAN, which finds itself pioneering trade-centred recovery solutions amidst the context of the global COVID-19 pandemic and associated recession. The world's new largest trade deal provides promise of using specialisation in technology, communication and natural resources to create a more integrated region that can facilitate and increase trade.

Although led by ASEAN, the strong focus on China provides a sense of robustness to the deal and further enhances regional cooperation amongst Japan and South Korea as well. Furthermore, analysing the role of China in ASEAN's global value chains, the increasing integration presents hope for emerging markets, as more foreign investment and intra-regional trade is expected within the coming decade. The digitalisation of the economy and the terms of e-commerce in RCEP are particularly crucial to look out for, as they exhibit huge potential for growth. However, both increased integration with non-ASEAN economies, and more focus on the digital economy come with potential risks and it is up to the trade policymakers to ensure a careful play of the limbo, making sure to avoid aspects of increased regional inequality.

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