



China sets the tone: Political and Economic Implications of the Regional Comprehensive Economic Partnership Agreement (RCEP)

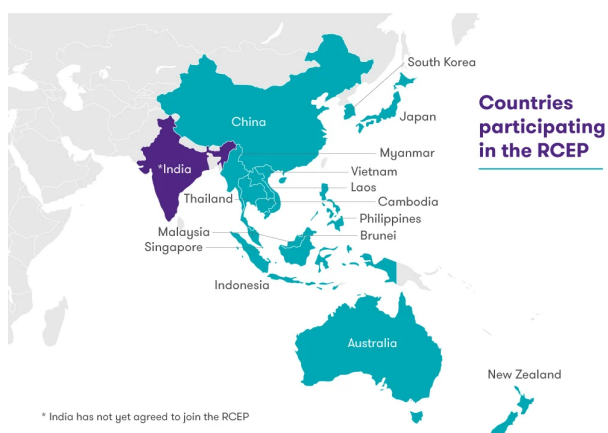
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A new trade bloc was created on 15th November 2020: The Regional Comprehensive Economic Partnership Agreement (RCEP). The idea of a trade agreement between the countries of the Association of Southeast Asian Nations (ASEAN) and five more countries, Australia, China, Japan, New Zealand, and Korea, was first discussed nine years ago in Bali. During that meeting the leaders of the ASEAN agreed on the general principles for the deepening of the ASEAN's engagement with its Free Trade Area (FTA) partners. After nine years of "blood, tears, and sweat" negotiations as described by the minister of trade of New Zealand, the fifteen countries' representatives signed the trade agreement, giving birth to the world's biggest trade bloc. Even though a significant player, India, pulled out at the last minute, the RCEP was signed in an online event simultaneously in all fifteen countries. The members of the RCEP have left the door open for India in case the country changes its position towards the regional cooperation framework. This position is positively associated with the fear of Chinese products. A potential shift in India's reluctance towards the RCEP will result in 1.4 billion people to this economic area.

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vast deal sets the terms of trade in goods and services and cross-border investment between the countries. Also, RCEP establishes a new set of rules in two areas of increasing importance in the digital era, electronic commerce and intellectual property. Prominent economic analysts have already noted the main difference between this trade block to the European Union (EU) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) based on the lack of unified standards for labour and the environment. Also, the bloc's loose ties are essential, taking into consideration the diversity of the economies which are part of it. Unlike the EU, the members through *these-loose-ties* policy do not need to open sensitive sectors of their economy.



Source: Grant Thornton

The RCEP

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Economic Implications for the European Union

The possibility of direct effects of the RCEP on the European economy is relatively slight considering the existence already of a significant number of trade agreements amongst the signatories. The more noticeable effects will be noted in the trade relations with China, Japan, and Korea. It is expected to have a minor effect on the agriculture sector and manufacturing (note: the RCEP has provisions of exemptions in sensitive sectors). Also, the extended implementation period (20 years) is unusual for this kind of agreements and ease the effects on the EU's economy. As for the free trade in services, the general effect will be less critical. Also, the net gains of the EU will be slightly positive (0.1% added to the GDP). According to the EU's first reaction to the agreement, European firms will be positively affected by the supply chain gains and the harmonization of rules.

The primary threat to the EU's economy lies in the preferences of the members of the RCEP in regard to trade after the Agreement is put in place. The possibility of a trade diversion is high for countries that do not have a trade agreement with the EU. Especially in China's case, which is the EU's second most important export destination, and there is a tariff of 9.2% on its products. A tariff regime exists in the trade between the EU and other countries like Malaysia, Indonesia, and Australia.

In addition to that, the Bruegel Think Tank noted that other effects might include:

- Consumers and the many firms dependent on imports of intermediate inputs from RCEP are likely to benefit from lower prices, reflecting the boost to efficiency in value chains based in the region;
- Exporters to RCEP will benefit at the margin from the region's higher income and – most likely – faster-sustained growth;
- Firms competing with RCEP, whether in Europe or on third markets, will be put at some disadvantage, especially if they are not drawing benefits from the region's integrated value chains.

Geopolitical Implications for the European Union

The initial analysis of the RCEP implies more important geopolitical than economic repercussions for the European Union and the world as a whole. It is China's turn to set the agenda in the region and set the tone of the regional cooperation in an economic area that will include 30% of world's GDP, but by 2030 it will represent more than 50% of the world's GDP. Given that the Trump administration had abandoned the Trans – Pacific Partnership (TPP) and put all of its efforts into the trade war with China, the RCEP can be considered substantial proof of its failure to isolate China and sabotage its participation in the global value chains. The RCEP is proof that China is too big to be ignored or pushed off of the table no matter what the occupant of the White House wishes.

President-elect Biden proclaims that his stance towards China will be stringent. It is expected that he will try to put America back on the map and maybe even join the CPTPP. China has already expressed its willingness to join the CPTPP, but the chances are low that such membership will happen in the near future. For the US, the last four years strategy resulted in the shrink of their influence in the international arena. The most plausible scenario is that the new President will aim to make America "lead again". The RCEP is a major issue of concern for the new administration because it is increasing an already alarming influence of China in the region.

Time to act for the EU and the US

The RCEP paves the way for the initiation of discussions regarding a potential approach of US and EU and a similar trade bloc in Latin America. Considering the RCEP and the current foreign policy strategy of China in Africa, many analysts suggest that this is a "wake up call" for the US and the EU. China's position in the world has been upgraded thanks to the RCEP and believe that Beijing sets the tone of action for the other

"In all this, we should remember that we are not closed camps: we trade both withing and between us and we share many challenges"
EU High Representative, Josep Borrell

two major trade players, the US and the EU. Manfred Weber's, President of the EPP, congratulations tweet to President-elect Biden was accompanied by a suggestion to the European institutions to create the appropriate environment for the initiation of discussions for a new trade agreement between the EU and the US. As the EU High Representative Josep Borrell claimed in his blog, "globalization is not dead, and the EU must seek to work with its partners in Asia and the US and write the rulebook of the 21st century".

Table: the implications of the RCEP

