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Regional Comprehensive Economic Partnership

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Introduction

- ▶ The Regional Economic Partnership (RCEP) trade agreement event took place on November 15th where a total of 15 countries in the Pacific and East Asia signed the trade agreement (The Economist, 2020)
- ▶ This created the largest trading bloc globally
- ▶ RCEP talks begun in 2012 involving 16 countries as well as the 10 Associations of Southeast Asian Nations (ASEAN) countries, India, Australia, China, New Zealand, South Korea and Japan
- ▶ RCEP is also responsible for Foreign Direct Investment's 19 percent and services trade's 18 percent outflows

The Event

- ▶ The RCEP trade bloc, propelled by China, has attained fame in international investments and trade, and also outrun large high-income trade blocs growth over the past years
- ▶ The development of Southeast Asian and China's economies can be related to the rising shares of the RCEP bloc in the world's trade, GDP and FDI for the past few decades
- ▶ This is also responsible for propelling RCEP's overtaking of trading blocs that were huge at the century's beginning, including the European Union (EU) and North America Free Trade Agreement (Kuo, 2020)

The Event Cont...

- ▶ RCEP intensifies investment and trade relations between member nations by reducing its non-tariff barriers (NTBs) on services and goods trade
- ▶ RCEP concentrates on non-tariff barriers since import tariffs had been minimal between RCEP members even before the signing of the agreement (Kuo, 2020)
- ▶ Low import tariff's coordinates the facilitation imposed by nations on the marketing of products, giving more assurance to investor and traders
- ▶ As maybe the most significant feature, the RCEP trade agreement lines up regulations of origin for these 15 countries, smoothening the integration of the agreement's participants into the identical chain of production

The Event Cont...

- ▶ This could assist members in attracting an enormous share of global value chains (GVCs) and increase their specialization, which may be significant at a time when China-US trade altercation has intensified GVCs' reconfiguration in and out of China
- ▶ Relevant provisions in services are also covered by the RCEP (The Economist, 2020)

Effects on World Economy

- ▶ Despite having a significant effect on the global economy, RCEP majorly benefits its country members whereas, gains from different non-members are limited (Kuo, 2020)
- ▶ Reduction in investment and trade barriers would propel the integration of the economy among the RCEP country members giving way to advantageous gains from trading
- ▶ The latest model work proposes that by the year 2030, the agreement would propel the trading bloc's GDP by 0.4 percent, with 0.2 percent for members of ASEAN and 0.3 percent growth for China (International Business, 2012)

Effects on World Economy Cont...

- ▶ Therefore, driving the anticipated mild constructive effect of RCEP on the global economy, which is projected to be 0.1 percent of the world's GDP.
- ▶ However, non-members' benefits are likely trivial
- ▶ In this entire trade bloc, ASEAN countries may benefit the least from this agreement than the other countries in deeper trade agreements
- ▶ ASEAN countries possess the least scope to decrease the barriers between them and other members given the current trade agreements' web, thus, resulting in them gaining fewer benefits between the RCEP members (Dadush & Darandary, 2020)

Effects on World Economy Cont...

- ▶ This makes economies such as Malaysia and Vietnam contemplated to gain more from other agreements like Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) than from RCEP
- ▶ These other agreements too are ambitious the same way RCEP is or even more

Effects on World Economy Cont...

- ▶ Therefore, countries such as Indonesia may result in agreeing with other nations in the CPTPP than the RCEP signatories
- ▶ The biggest driver for the RCEP appeared to be the fact that United State leader by then, believed that there was no benefit for their country being associated with the large multilateral unchained trade deal (McDonald, 2020)
- ▶ However, China was very enthusiastic when they thought of a huge multilateral trade deal came up because, unlike the US, China save some benefits from this type of trade deals
- ▶ In China, there is job flow due to cheap labor, therefore, China may be open to free trade according to the US

Effects on World Economy Cont...

- ▶ According to International Business (2012), China having the second-largest economy with \$15.26 trillion as its GDP as of 2016 would result in crushing the number one when the RCEP trade agreement picks
- ▶ Taking into consideration that Japan and India are the third and fourth-largest world economies respectively yet they are all involved in the RCEP (Nytimes. Com, 2020)

Effects on World Economy Cont...

- ▶ Currently, the Pacific regions are slowly dominating when it comes to the world economy.
- ▶ In this new era, countries that may like to be involved with the US in trade may face new barriers in duties, tariffs and taxes
- ▶ This agreement is slowly shifting the tectonic plates of the international economy
- ▶ The agreement redefines the trade landscape by the creation of a new framework for firms to consider when they are doing business internationally

Effects on World Economy Cont...

- ▶ The European Union is affected slightly by the RCEP agreement. However, these effects are not negligible and will be felt with time
- ▶ From the standpoint of companies in Europe, the RCEP is a free trade agreement among three powerhouses; the Republic of Korea, Japan and China
- ▶ Under the RCEP, China is committed to reducing tariffs on its exports by 86 percent, auto parts included (Nytimes.Com, 2020)

Effects on World Economy Cont...

- ▶ These powerhouses produce \$5.3 trillion of worth-added in production in 2019, which is over a trillion higher than the EU and US combined (Dadush & Darandary, 2020)
- ▶ Additionally, RCEP allows for the outreach of over 675 million individuals far from Australia, ASEAN and New Zealand other than the population of Japan, China and the Republic of Korea (The Economist, 2020)
- ▶ The biggest concern for the EU is its exports being displaced to RCEP signatories because of the preferred margins granted to the other members
- ▶ This is commonly described as a trade diversion

Conclusion

- ▶ The RCEP will be responsible for numerous shifts of companies due to the tariffs provided
- ▶ This in turn will hurt major economic powerhouses especially those who are dissociated totally with the Pacific region
- ▶ Those that are rigid to change such as the US may be significantly affected when the Pacific region takes over as the number one powerhouse economically
- ▶ If the current trend continues, most companies will be forced to reduce prices or even shut down completely

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