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Evaluation of the Signing of the RCEP Agreement and Prospect for Regional Economic Integration in Asia

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1. Evolution of the roles of mega-FTAs

- Continuing roles
 - 1) Further liberalization
 - 2) International rule making
 - To catch up with globalization and support Factor Asia; To supplement the slow WTO
- New roles
 - 3) To reduce policy uncertainties
 - 4) To form a pro-trade middle-power coalition
 - To respond to the weakening of rule-based trading regime, the US-China confrontation, and COVID-19
- Evolving nature of mega-FTAs
 - Signing, ratifying, and being in effect, not the final goal.
 - Expansion of membership; deepening of commitments; utilizing as a communication channel
- RCEP: comparison and interaction with CPTPP

2. Three challenges

(1) The weakening of rule-based trading regime

- Turmoil under the US Trump Administration
 - Re-negotiations over FTAs (KORUS, NAFTA), Section 232 of the 1962 Trade Expansion Act, and Section 301 of the 1974 Trade Act.
 - A part of retaliatory/counter-veiling/offsetting/safeguard measures by other countries is also likely to be inconsistent with the WTO policy discipline.
- Difficulties in the World Trade Organization (WTO)
 - The Appellate Body issue
 - Weakening as a negotiating forum.
- How to defend the rule-based trading regime?

(2) The US-China confrontation

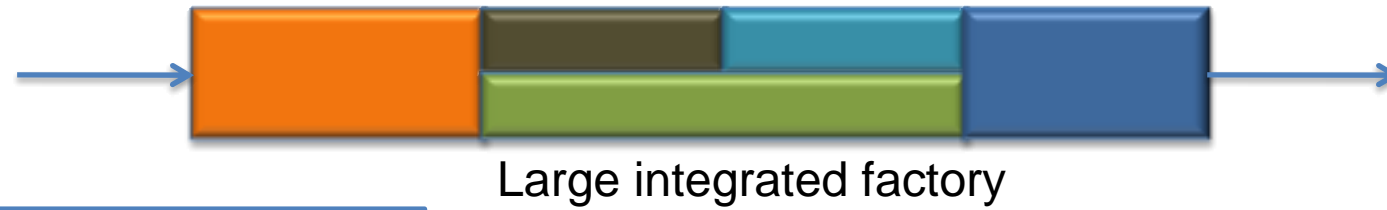
- The US stance against China is likely to continue in the Biden Administration.
 - From a tariff war to a broader confrontation.
 - Expanded interpretation of “national security” and “sensitive technologies.”
 - Huawei, Export control, inward FDI reg., government procurement, “clean network,” TikTok, and others.
- Need to watch carefully how far economic “decoupling” would proceed.
 - In terms of industries/commodities, firm nationalities, and geographical extension.
- The Chinese diplomacy also becomes aggressive, not only for the US but also other countries, such as “wolf warrior” diplomacy and the Export Administration Act (Dec. 2020).
- Middle-power countries in-between would like to keep good economic relationships with both the US and China. How to avoid being forced to choose just one of them?
- “Decoupling” will proceed. How to reduce policy uncertainties?

(3) COVID-19

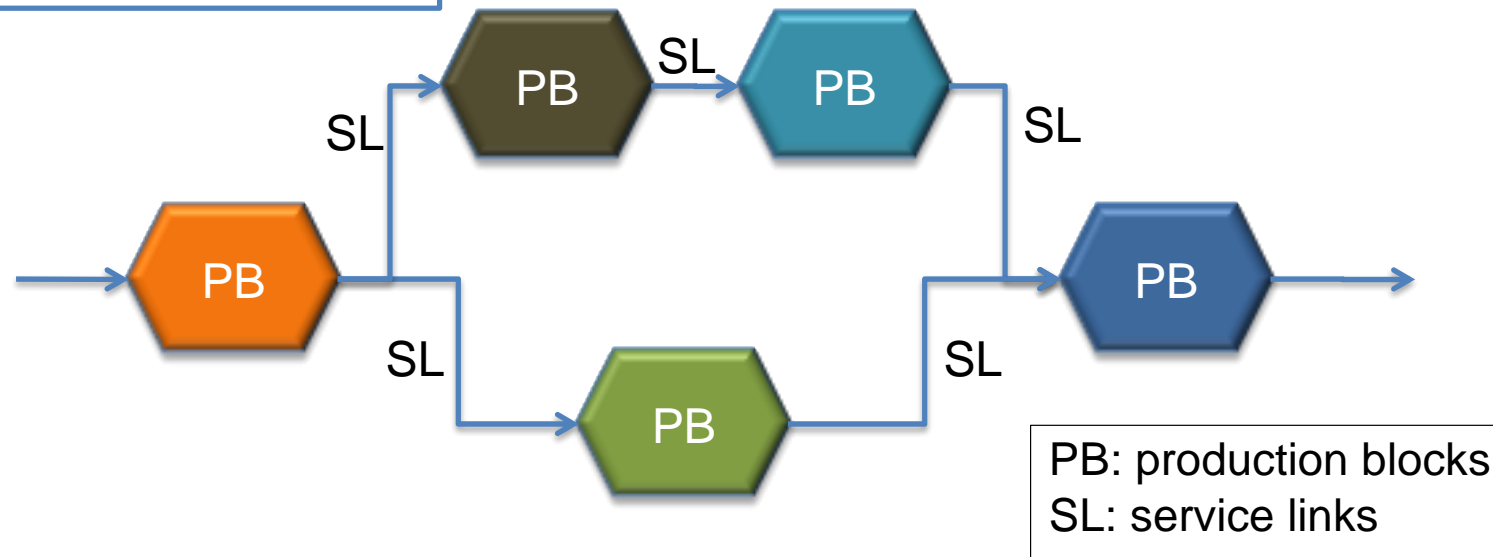
- Shocks on international production networks (IPNs)(Baldwin 2020, Kimura 2021)
 - Negative supply shocks
 - China (Feb.), other countries (due to lock-downs, short period)
 - Positive demand shocks
 - Telework, do-it-yourself, medical-related goods
 - Negative demand shocks (Kimura 2020; JETRO Survey Sept. 2020)
 - Each country (due to lock-downs and prolonged social distancing)
- Macro depression was huge, but the financial sector and asset markets survive so far, probably due to unprecedented mitigation policies.
- Production systems in East Asian IPNs have largely been intact so far (ref. Obashi 2010, Ando and Kimura 2012, Okubo, Kimura, and Teshima 2014).
 - Private companies have optimized IPNs in considering both cost saving and risk management.
 - However, prolonged negative demand shocks would hurt IPNs.
- Concern on a collapse of international commercial policy discipline, particularly for medical and essential products, emerged (Evenett 2020).
- To make IPNs more robust and resilient (Miroudot 2020), location advantages and service links must be improved further in East Asia.

The fragmentation theory: location advantages and service link costs

Before fragmentation



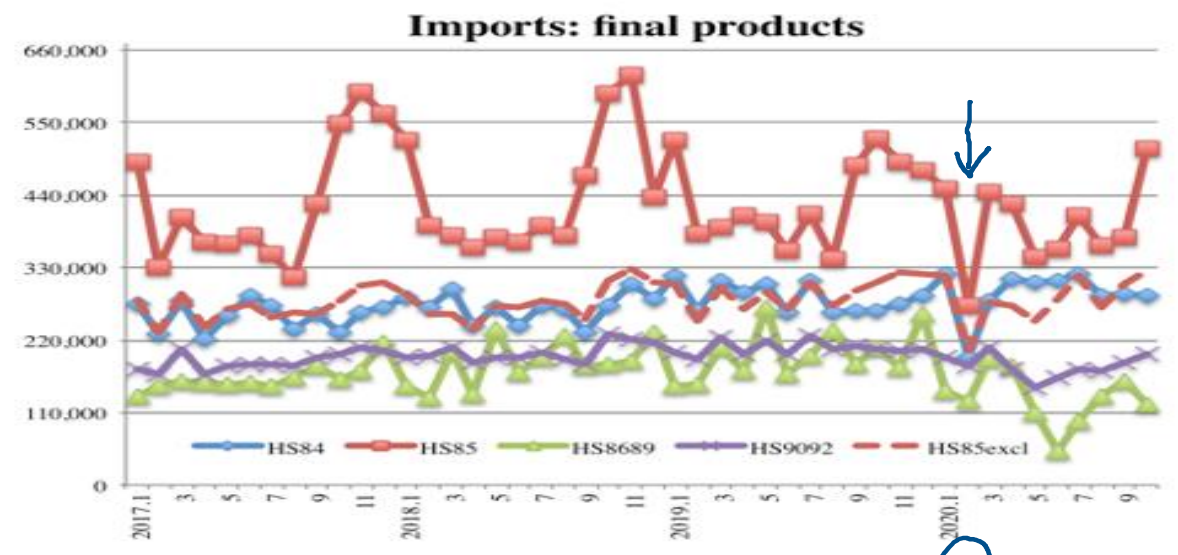
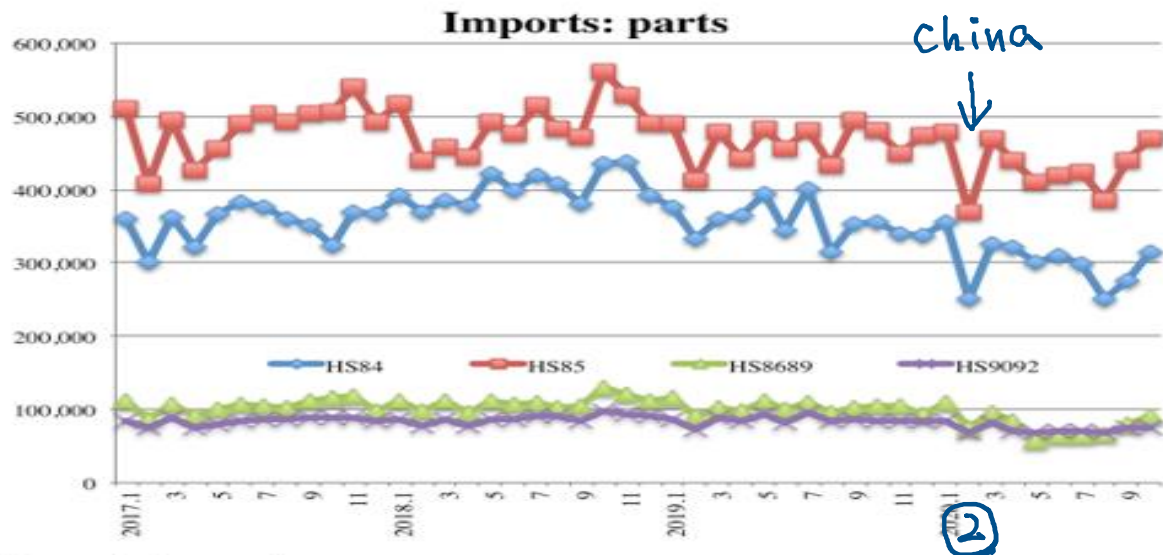
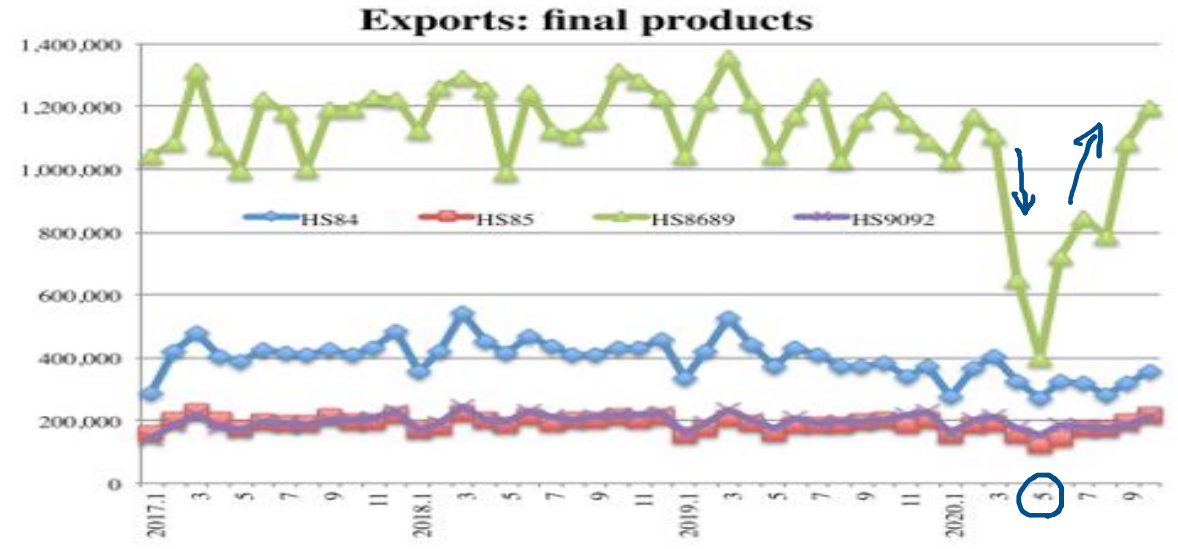
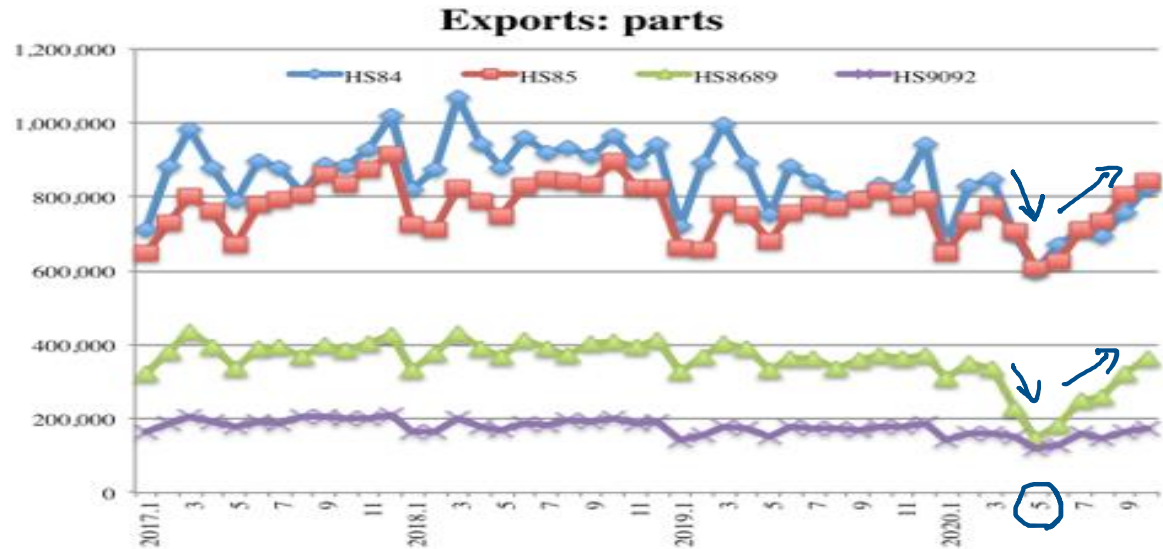
After fragmentation



Machinery exports and imports by Japan: monthly, HS84-92

Figure 2 Japan's machinery trade by sectors: trade values

(Unit: millions JPYen)



Data: author' preparation.

Note: HS85excl is the case excluding HS851712.

cellular phones

Source: Ando and Kimura (2020).

3. Japan's mega-FTA strategy

- TPP (TPP12)
 - July 2013: participated in negotiation, Feb. 2016: signed, Jan. 2017: Japan concluded, the US walked away, not coming in effect.
- CPTPP (TPP11)
 - March 2018: signed, Dec. 2018: in effect (currently 7 countries are in effect).
 - Possibility of initiating accession negotiations with the UK and others.
- Japan-EU EPA
 - April 2013: initiated negotiation, July 2018: signed, Feb. 2019: in effect.
 - Ref. Recent EPA/FTA by EU: Korea (in effect in Dec. 2015), Canada (partially in effect in Sept. 2017), Singapore (in effect in Nov. 2019), Vietnam (in effect in Aug. 2020).
- Japan-US Trade Agreement, Japan-US Digital Trade Agreement
 - April 2019: started negotiation, Oct.: signed, Jan. 2020: in effect.
 - The former is supposed to be followed up by further negotiations.
- Japan-UK EPA
 - March 2020: Brexit, June: started negotiation, Oct.: signed, Jan. 1, 2021: in effect.
- Regional Comprehensive Economic Partnership (RCEP) Agreement
 - Nov. 2012: announced to start negotiation, Nov. 2020: signed (without India).

4. Liberalization

- Covering 30% of the world population and GDP, 28% of the world trade (46% of Japan's trade)
- Market access
 - Tariff removal: overall 91% (in terms of the number of tariff lines, including items with gradual reduction) .
 - Japan: 86% for China, 81% for Korea. For Japan: ASEAN Member States (AMS), Aus., NZ 86-100%, China 86%, Korea 83%.
 - Japan's agricultural, forestry, fishery products
 - Five major items (rice, wheat, beef and pork, dairy products, sugar) all excluded. For AMS and others 61% (82% in CPTPP)., for China 56%, for Korea 49%.
 - Japan's manufactured goods
 - For AMS 98.5% -> 99.1%, for China 47% -> 98%, for Korea 47% -> 93%.
 - Other countries for Japan on manufactured goods
 - 14 countries total 92%. China 8% -> 86%, Korea 19% -> 92%.
 - Services: mixture of countries with positive lists and those with negative lists. The former is subject to negotiation.
 - Investment: NT, MFN. Prohibition of loyalty regulations and forced technology transfer requirements. For ISDS and others, negotiations will be initiated within two years after the agreement in effect.
- Level of trade liberalization
 - Further tariff removals particularly in CLMV from ASEAN+1 FTAs. Unusual to have the asymmetric tariff removal structure. ROOs more trade-friendly.
 - Japan-Korea and Japan-China are connected for the first time by an FTA. Certain levels of economic effects will come.
 - In the five-year review, some catch-up with CPTPP in terms of liberalization must be achieved.
- Cf. CPTPP
 - Covers 500 million people, 13% of the world GDP
 - Market access, showing a new standard for East Asia
 - Tariff removal: 99-100% except Japan (95%; agriculture!)
 - Services, investment: negative list method, ISDS

5. International rule making

- Text: 20 chapters, 17 appendices. Comprehensive coverage.
- The following is of interest, showing a starting point of future negotiations for China and ASEAN Member States.
 - 11. Intellectual property (TRIPS+)
 - 12. Electronic commerce (no imposition of tariffs on cross-border electronic transmissions; free flow of data and no data localization requirement subject to public policy, national security, and other considerations; electronic signature, and others)
 - 16. Government procurement (transparency, cooperation, review)
- Cf. CPTPP
 - Government procurement, IPR, competition
 - Novel elements (looking at China and others)
 - E-commerce
 - Basic principle: free flow of data, no data localization requirements (cf. EU: GDPR), prohibition of forced disclosure of source codes
 - Back-up policies needed
 - SOEs
 - Globalization of corporate activities and the leveling of the playing field
 - Global agenda
 - Labor (ILO Guideline+)
 - Environment (esp. fishery)
 - Regulatory practice, transparency and promptness in administrative procedure

6. Reducing policy risks

- A key is whether RCEP can be utilized as a communication channel with each other.
 - Japan-Korea
 - China
 - Other countries
- ASEAN's initiative is important.

- Cf. CPTPP
 - Insulate middle-powers in-between from the US-China confrontation.

7. Forming pro-trade middle-power coalition

- RCEP covers the whole Factory Asia, benefitted from rule-based trading regime.
- India must come back to RCEP for its own reform and for strengthening our coalition.
- We must avoid the weakening of the coalition by decoupling pressure from both sides.

- Cf. CPTPP
 - Expansion of the membership must be promoted.
 - UK, Thailand, and others ... under the chairmanship of Japan in 2021.
 - US ... Accession to CPTPP? New agreement with labor and environment?
 - China ... Three hurdles: liberalization, SOEs, e-commerce

8. Conclusion

- Mega-FTAs must be evaluated in terms of four criteria.
 - Liberalization, rule-making, reducing policy risks, and forming a pro-trade middle-power coalition
- Evolving nature of mega-FTAs must be emphasized.
- RCEP
 - Upgrading, utilizing as a communication channel, and supporting Factory Asia are important.
- Cf. CPTPP
 - Strengthening the pro-trade coalition is the key.
- East Asia must be more pro-active for the WTO reform.

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