
The RCEP and the European Union's commercial strategy in Asia

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Abstract: *The aim of the RCEP, signed by 15 countries in Asia in November 2020, is to improve regional integration and help eliminate (or reduce) trade barriers. For the European Union, this commercial agreement is an important initiative as trade with Asia is increasing. The RCEP is quite different from many trade agreements between the EU and Asian countries as the latest ones not only look at commercial relations but also labour rights and sustainability. The RCEP must be seen as the first step towards greater integration. This means that regional norms and standards may also be adopted in the future, and the EU may have some influence over this process. But one of the conditions of this initiative is that Europe revise its Indo-Pacific strategy.*

1. Introduction

In November 2020, after 31 rounds of negotiations, following the 2012 Association of South-East Asian Nations (ASEAN) summit in Phnom Penh, the Regional Comprehensive Economic Partnership (herein referred to as the RCEP) was signed by 15 Asia-Pacific nations: the 10 ASEAN members (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam) and Australia, China, Japan, New Zealand and South Korea. The RCEP is presented as the world's biggest trade deal, covering almost 30 percent of the world population and world GDP.

The RCEP, along with the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), signed in 2018, confirms a shift in the global economy towards Asia. Despite the COVID-19 pandemic, the Asian continent has shown, so far, great resilience. In 2020, several Asian countries continued to enjoy some positive economic growth (2.3% in the case of China and 2.9% in the case of Vietnam) or limited negative growth (e.g., -0.4% in the case of Laos), whereas European countries were more severely hit, with a GDP decline of 8.2% for France and 11% for Spain. The World Bank predicts that the Asia-Pacific region will represent up to 60% of world GDP by 2030 (World Bank, 2021). According to experts such as the Governor of the Bank of Japan, Kuroda Haruhiko, economic growth in Asia is partly due to the development of regional supply chains and ongoing trade liberalization (AHK, 2020), two trends that the RCEP is to accelerate.

The rise of Asia has pushed other powers to develop new partnerships in this region. Following US President Obama's "Pivot to Asia" policy (adopted in 2012), the European Union (EU) has also paid more attention to the Asia-Pacific region, with new free trade agreements (FTAs). After Brexit, the United Kingdom also decided to pivot to Asia by applying for CPTPP membership, another Asia-Pacific trade agreement. The RCEP has been examined with great interest in the EU as it can create both threats and opportunities for the EU. However, development of the RCEP may oblige the EU and its members to correct their strategy in the Indo-Pacific region and focus on RCEP signatories.

Promoting trade and regional integration

The European Union has given its full support to the RCEP and welcomes this initiative, as stated by Joseph Borrell, the High Representative of the European Union for Foreign Affairs and Security Policy (Borrell, 2020). The RCEP's multilateralism and free trade are values shared by the European Union. The main element of the EU's trade policy is provision for negotiation of an end to tariffs and non-tariff barriers for European companies in foreign markets. For Borrell, the RCEP must be seen as an opportunity to develop business and new ties in Asia, especially with ASEAN regions, where the EU has long been the largest source of foreign direct investment.

The RCEP aims to reduce or eliminate tariffs by more than 90% within 20 years of the agreement becoming effective. It also prohibits the imposition of non-tariff measures that countries may implement to protect their own industries. Another important feature of the RCEP is creation of a Common Rule of Origin (CRoO) (Crivelli & Inama, 2021), which will work as an incentive for RCEP-based companies to develop regional supply chains; it will also strengthen regional economic integration (Jia & Jing, 2021).

However, there are some limits to the newly signed RCEP, which are not comparable with FTAs signed by the European Union. Firstly, the RCEP focuses mostly on trade in goods, not services (Maruyama et al., 2021). No consensus was reached by the signatories as to the services covered by the agreement (negative versus positive list). Regarding investment, the environment and labour rights, the RCEP is also less ambitious than the CPTPP (Wolf et al., 2020). Some barriers will even remain regarding trade in goods, in specific sectors (such as the car industry and agriculture), as Japan will keep tariffs on rice and wheat in order to protect its own farming sector.

Furthermore, despite these free trade agreements, tensions remain among some signatories. During the COVID-19 pandemic, relations between China and Australia severely deteriorated due to Canberra's call for independent investigations in Wuhan. As a measure of retaliation, China banned imports or applied tariffs to certain products from Australia. The Chinese decision has had a great impact on the Australian economy as China is Australia's largest trade partner. For Australia's Trade Minister, Simon Birmingham, the RCEP can play a role in de-escalation efforts between the two countries (Kelly, 2020). However, the FTA signed by Australia and China in 2015 has not prevented the current trade war. Although the RCEP contains a chapter dedicated to dispute settlement, these mechanisms are unlikely to resolve the political differences between these two countries (Tan & Wang, 2020).

The RCEP can also be analysed as the first step towards regional integration in Asia. This is the first FTA to reunite China, Japan and South Korea. Several existing FTAs have sought to link most member states together, such as the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA) (effective since 2010) and the China-South Korea FTA (effective since 2015), but none of the previous agreements were signed by the three largest economies in Northeast Asia.

It is also important to mention that the RCEP may evolve in the future and address more specific questions. Parties agreed to create an RCEP secretariat (although the location has still not

been decided) that will institutionalize this initiative. The RCEP shows that Asian countries are committed to strengthening their regional integration.

2. The EU's growing interest in the region

For the European Union, Asia has become increasingly important over the last 10 years, as trade with this region has developed. According to Eurostat, in 2020, Asia was the second destination for EU exports after non-EU European countries (the United Kingdom, Switzerland, Norway, etc.) and the first source of imports (with 44 percent of total EU imports). Among Asian countries, China has become the EU's second most important trade partner (after the US), and Japan ranks seventh for trade in goods. However, the EU suffers from an increasing trade deficit with China (€181 billion in 2020) and the ASEAN (€51 billion in 2020). To address this issue and develop more balanced trade with partners in Asia, the EU has negotiated and signed several free trade agreements with some RCEP member countries.

In 2011, the EU and South Korea signed an FTA, which was then ratified in 2015. This was the first FTA that the EU had made with an Asian country. Furthermore, it not only considers trade in goods but also services, intellectual property and non-tariff barriers. This FTA has served as a model for subsequent trade agreements negotiated by the EU. Ratified in 2019, the EU-Singapore FTA was the first FTA to be concluded between the EU and an ASEAN member state. Negotiations started in 2010, and the agreement covers a wide range of topics, including geographical indications. In February 2019, the Economic Partnership (EPA) between the EU and Japan came into effect, creating (at that time) the largest open trade area in the world, accounting for more than a quarter of global GDP. This may be the most ambitious agreement made so far by the European Union in Asia as it is much more consistent than regular FTAs. The EPA was accompanied by a Strategic Partnership Agreement (SPA). This agreement is intended to acknowledge that the EU and Japan are more than trade partners, sharing the same values regarding governance and thus "like-minded global partners" (Nakanishi, 2020). In August 2020, the EU-Vietnam FTA came into force, negotiations for which started in 2012. This agreement eliminated 99 percent of tariffs between the two parties and opened several sectors to European companies. A last major agreement is the EU-China Comprehensive Investment Agreement, which has yet to be ratified by the Europeans but should help them increase their activities in several sectors hitherto closed to foreign companies.

In addition to this current agreement, the EU has been negotiating some FTAs with other RCEP signatories, including Indonesia, the Philippines, Australia and New Zealand. Negotiations with the latter two countries have been particularly difficult as some European countries are reluctant to open their market to foreign agricultural products. Some other negotiations have been paused, including the one with Malaysia (on hold since 2012), Thailand (paused since 2014) and the investment protection agreement with Myanmar (suspended in 2017). For the latter two countries, negotiations were paused at the request of the EU due to European concerns about governance and human rights.

Contrary to other countries such as India, China and South Korea, the European Union has not signed any FTAs with the ASEAN and would rather negotiate bilateral agreements with each ASEAN member (although the European Commission considers a future EU-ASEAN agreement to be the ultimate objective).

As previously mentioned, the RCEP has shown that its members are committed to regional integration. However, the scope of this partnership is rather limited, compared with agreements reached by the EU. These agreements are also more ambitious than the RCEP as they cover much more than just trade in goods. Most recent trade agreements concluded with the European Union include chapters dedicated to sustainable development and labour rights. For example, the EU-Vietnam FTA, which came into force in August 2020, mentions the elimination of compulsory or forced labour (Thu & Schweißhelm, 2020).

However, there are some concerns that the EU's requests for high governance and sustainability standards to be included in future FTAs with Asian nations may be disregarded, as these countries, along with the RCEP, have more leverage to negotiate with Europe. It is worth mentioning that within the RCEP, we can find both the most advanced democracies (such as New Zealand) and some of the least "open" countries (like Myanmar), and no condition regarding governance and sustainability exists regarding trade within the RCEP.

3. Challenging the EU's Indo-Pacific strategy

The RCEP is also a great opportunity for the European Union and its members to readjust their strategy in Asia. Following China's unprecedented rise in Asia and the world since early 2010, Western powers have progressively formulated Indo-Pacific strategy in replacement of former Asia-Pacific policy. The objective of countering China's growing influence in Asia was furthered by incorporating India (regarded as a possible Western ally) into their strategy. First mentioned by the US Secretary of State, Hillary Clinton, in 2010, the Indo-Pacific concept was then used by Japan and Australia. The Indo-Pacific term was also adopted by New Delhi in the early 2010s to support its "Act East" policy, an upgrade of the "Look East" policy, which aimed to boost relations with ASEAN countries.

In Europe, France was the first country to adopt the Indo-Pacific concept, in a working paper published by the Senate in 2016. In 2019, the French ministry of defence unveiled France's defence strategy in the Indo-Pacific. Germany and the Netherlands adopted the same concept in 2020 (Wacher, 2021). They were followed by Spain and Italy in 2021, two countries that expressed their willingness to develop multilateral cooperation in the Indo-Pacific region. To implement their Indo-Pacific strategy, European countries are deepening their ties with their traditional regional allies, which are Japan, Australia and India, three members of the Quad, a US initiative re-established in 2017.

The Indo-Pacific concept has also been adopted by the European Union. In April 2021, the Council released its conclusions regarding an EU strategy for cooperation in the Indo-Pacific and

defined the region as the “geographic area from the east coast of Africa to the Pacific Island States”.

India took part in the first RCEP negotiation rounds, as New Delhi was keen on developing new ties with its eastern neighbours to further implement its “Act East” policy. But in November 2019, Indian Premier Modi decided to opt out of the RCEP and argued that this free trade agreement did not serve Indian interests (Gupta & Ganguly, 2020). According to Indian authorities, with implementation of the RCEP, India would have to struggle with increasing imports of cheap industrial goods from China and agricultural products from Australia and New Zealand. According to Erken and Every (2020), the RCEP would have slowed down India's transition towards industrialization; it would also have fuelled anti-government feeling among Indian farmers. New Delhi's decision has been widely commented upon and criticized by several business experts from media outlets, including Asia Nikkei (Crabtree, 2019) and Bloomberg (Srivatsava, 2020). One consequence of India's refusal to join the RCEP might be the rise in trade and exchanges between ASEAN states and China, to the detriment of India. Despite an FTA with the ASEAN, which came into force in 2010, trade between the two regions is limited, with \$86 billion in 2020, compared to China-ASEAN trade worth \$684 billion for the same year. With India being out of the RCEP, these trends might be confirmed in the future, with a further gap seen between India and China.

India's refusal to join the RCEP may challenge the whole Indo-Pacific concept as it is likely that the RCEP will deepen the gap between India and the ASEAN-Australasia-Northeast Asia region (or the former Asia-Pacific region). It is likely to see more integration in the Asia-Pacific region. Although the Indo-Pacific region was mostly a defence concept, it was assumed that countries in the region shared economic interests. With India outside both the RCEP and the CPTTP, the Indo-Pacific region may hardly exist from an economic point of view; this may cause European countries to revise their strategy in the region.

4. Opportunities for European companies: the “norms” card

According to Dadush (2020), the direct effects of the RCEP on the EU economy are to be minor, as the EU has already signed several commercial agreements with most RCEP signatories. The EU may only register a 0.1% gain from the RCEP by 2030 (Petri & Plummer, 2020). European companies that have part of their supply chain in RCEP countries may benefit from reduced tariffs and be able to obtain imports at a better price. However, the same RCEP might also reduce EU companies' competitiveness in Asia as, for example, products from China or Japan will become sensibly cheaper in ASEAN countries due to the reduced tariffs. The absence of a barrier will also make it easier for Asian companies (especially Chinese ones) to invest and trade in the region. For Fabry (2020), the EU might then be relegated to a second-tier economic power. But for Igor Driesmans, the EU Ambassador to ASEAN, every trade restriction lifted is beneficial for European companies as it makes it easier to see the RCEP as a unified market (Alberti, 2020). However, it is hard to predict the consequences of the RCEP for European companies as full implementation of this agreement will take 20 years. This means that (even for RCEP signatories) it will be difficult to identify the real impacts of liberalization caused by the RCEP. But even if the RCEP's economic

impacts still need to be examined, it is possible to consider this new agreement as a possible opportunity for the European Union to export its norms and standards in the region.

India's absence from the RCEP has been regarded as a possible free hand given to China to further deploy its influence in the region. China is already the largest trading partner of every RCEP signatory, except Laos (where China ranks second, after Thailand). This new agreement may increase this trend as, for example, the agreement says nothing about China's state-owned enterprises. For Beijing, the RCEP might also complement the Belt and Road Initiative (BRI) China's connectivity project. Most ASEAN countries have already joined the BRI, and although Seoul and Tokyo are still not official members, some of their companies are involved in the Chinese programme.

Thus, the RCEP can be regarded as a win for China in terms of increasing its influence over the region, although Japan's balancing role should not be underestimated (Ward, 2020). But RCEP signatories are aware of China's possible predominancy in the initiative and are eager to reduce some dependency threats. This is where the EU may act. The current RCEP does not promote regional norms and standards that are still necessary to boost integration in Asia. Although China is pushing its own set of norms to become a regional or even international rule-maker by 2040 (as outlined in the "Made in China 2025" national strategy), RCEP signatories may show some reluctance to univocally adopt Chinese norms that would affirm their dependence on China (Fabry, 2020). The EU may have a role to play in promoting its own rules and norms, which are already mentioned in the various FTAs signed by the EU and Asian countries. This means that many Asian countries that have signed an agreement with the EU are already using some EU norms. These may also be used for trade between RCEP members in the future. But Mears (2020) is of the opinion that Asian countries are also willing to develop their own sets of norms and standards, and this could be an obstacle to Europe's ambitions to become a world rule-maker. In this race for standards in Asia, the EU is well positioned, thanks to its comprehensive FTAs, but it is necessary for Europeans to increase their interests in countries in the Asia-Pacific region and revise their Indo-Pacific concept, which the RCEP has rendered irrelevant from an economic point of view.

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