

THE REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP: ANALYSIS

Emmet John Fritch, American Public University USA

ABSTRACT

ASEAN member countries signed a new trade agreement, The Regional Comprehensive Economic Partnership (RCEP), during November 2020. The RCEP is China's reaction to trade difficulties with the US "post phase one" of the US-China Trade Agreement in January 2020. The Chinese and WTO viewpoints on China's new policy are summarized.

Before the RCEP agreement, the US and China entered into phase one of a trade agreement, January 2020. China agreed to an increase of \$200 billion of imported goods from the US between 2020 and 2021. The World Trade Organization reported the growth is approximately 50% higher than China imports from the US during 2017. The COVID-19 pandemic is expected to impact the committed Chinese import value. A reaction to incremental import tariffs between the countries in the phase one agreement led to the RCEP agreement (Bekkers & Schroeter 2020).

China asserted that part of its central plan is to influence economic conditions in local regions. The ASEAN group nations joined with China to create a trading block led by China. The Chinese finalized a regional trade agreement, in part, as a reaction to the consequences of the COVID-19 issues, as well as in response to issues meeting Phase one conditions reached in the January 2020 US-China agreement. Two Asian region countries not signing the RCEP agreement are India and Japan. The US is not a participant in the RCEP agreement.

Below is a summary of the Chinese and The World Trade Organization's (WTO) description of the RCEP.

Keywords: Economic, Trade Agreements, Regional Comprehensive Economic Partnership (RCEP).

BACKGROUND

Before the RCEP agreement, the US and China entered into phase one of a trade agreement, January 2020. China agreed to an increase of \$200 billion of imported goods from the US between 2020 and 2021. The World Trade Organization reported the growth is approximately 50% higher than China imports from the US during 2017. The COVID-19 pandemic is expected to impact the committed Chinese import value. A reaction to incremental import tariffs between the countries in the phase one agreement led to the RCEP agreement (Bekkers & Schroeter 2020).

China asserted that part of its central plan is to influence economic conditions in local regions. The ASEAN group nations joined with China to create a trading block led by China. The Chinese finalized a regional trade agreement, in part, as a reaction to the consequences of the COVID-19 issues, as well as in response to issues meeting Phase one conditions reached in the January 2020 US-China agreement. Two Asian region countries not signing the RCEP agreement are India and Japan. The US is not a participant in the RCEP agreement.

Below is a summary of the Chinese and The World Trade Organization's (WTO) description of the RCEP.

CHINESE VIEWPOINT

According to the Ministry of Foreign Affairs of the People's Republic of China, the agreement strengthens economies in the Association of Southeast Asian Nations (ASEAN) to address the adverse effects of COVID-19. The Regional Comprehensive Economic Partnership (RCEP) adds regulation on intellectual property and Internet commerce and defines economic and technical cooperation between businesses and government purchasing agencies. Free trade among ASEAN countries and Asian nations outside the ASEAN group is included in the new agreement. US trade policy in the Donald Trump administration influenced trade balances, balancing US-China tariff rates.

The RCEP includes a market of over two billion people, representing approximately thirty percent of the world's population. In US Dollars, the GDP value is estimated to be \$26 billion in 2019. The US is not part of the RCEP. A description of the RCEP is reported in the Council ASEAN (2020) announcement.

The RCEP was born out of differences between the US and China tariff rates and trade rules. China's higher trade tariffs on items imported from the US motivated the US to raise import duties on Chinese goods entering the US.

The objective of the US was to create a "*fair and balanced*" trade relationship with China. The trade balance favored China. The US desired to discourage China's government from allowing Chinese firms to acquire intellectual property from US firms.

The US also wanted to have China cut subsidies to enable Chinese companies to invest in US companies. The US considered the investment practice a method of acquiring sensitive information from US companies.

The Chinese argued the US concerns are ill-founded. (a) The trade imbalance resulted from the comparative advantages of both countries. The Chinese determined that China sold goods to US companies better than could be produced in the US. (b) Technology acquired by the Chinese was fair as the US was using technology to enter the Chinese market. (c) Subsidies to Chinese companies to develop US companies' interests were compliant with other countries in the World Trade Organization. China relied on subsidies to reduce business failures and to reduce an imbalance in economic development (Mahadevan & Nugroho, 2019).

THE WORLD TRADE ORGANIZATION CHIMES

The World Trade Organization (WTO) issued a report (Bekkers & Schroeter, 2020). A summary of the information follows.

The impact of the Asian region was a change in export values from Japan, So. Korea, Taiwan, and Viet Nam away from China to the US. The data for 2019 indicates Chinese goods exported to the US grew, despite a swing toward other Asian nations for US imports. The Chinese "*front-loaded*" their exports to the US, shipping in advance of demand. However, the pressure from the US for China to increase US imports succeeded in raising the dollar value of US goods imported to China. The WTO estimated average tariff rates at 20% on goods from China to the US in December 2019. The average tariff rates on goods from The US to China in the same month were 24%. As of January 2021, the estimated rates dropped to equality. Both the US and Chinese rates were approximately 16%.

During the "trade war" period, the US imported less tariffed products from China. The energy market decreases were up to 75% and in the durable equipment, 49%. The Chinese imports from the US fell during the same period. Energy, agricultural, and metal imports from the US fell. However, imports of electronic, optical, and computer equipment rose in anticipation of the US restricting exports.

SIGNIFICANCE

Bilateral trade agreements frequently result in trade asymmetries between countries. Trade asymmetries occur when exports from one country to another are out of balance (United Nations, 2019). One country's export value is higher than the import value of the trading partner. For example, the trade deficit in US trade with China illustrates higher export value from China than import value when trading with the US. Government policy is a factor affecting international trade asymmetries in regional economic trade blocs and may negatively affect nations engaged in trade policy reacting to trade imbalances. Konstantaras (2018) reported impacts observed in geopolitical events between the European Union member states and trade with Mediterranean countries. The authors concluded that an integrated approach to trade block policy is necessary to reduce member country welfare.

The Regional Comprehensive Economic Partnership affects macroeconomic factors in two broad ways. For the US, the unilateral feature removes the negative effects of the Trans-Pacific Partnership.

The RCEP Eliminated the negative impact of a trade bloc (multiple country standardized regulations). Based on low-cost labor for durable goods export, China's economic future is enhanced with the introduction of the RCEP. Member nations buy from China's manufacturing facilities and, in return, offer value-added in the form of regional economic factors unique to each country. The second factor is marginal manufacturing companies moving from China to RCEP member countries (Paik, 2020).

Comparative advantage, described by Ricardo (1817), provides a framework for trade strategy. Regional trade agreements provide a mechanism for developing comparative advantage between nations. When China entered the WTO, an increase in exports to the US developed due to lower labor costs by Chinese consumer product producers. After forming the new Trade Agreement between the US and China in 2021, the Chinese strategy to develop a new trading block, leveraging ASEAN country trade relations, illustrates a shift in the Chinese economic trade strategy. Global companies will adjust their strategy to accommodate the RCEP implications.

REFERENCES

- Bekkers, E., & Schroeter, S. (2020). *An economic analysis of the US-China trade conflict* (No. ERS-2020-04). WTO Staff Working Paper.
- Secretariat, A.S.E.A.N. (2019). Joint leaders' statement on the Regional Comprehensive Economic Partnership (RCEP).
- Konstantaras, K., Philippas, D., & Siriopoulos, C. (2018). Trade asymmetries in the Mediterranean basin. *The Journal of Economic Asymmetries*, 17, 13-20.
- Mahadevan, R., & Nugroho, A. (2019). Can the Regional Comprehensive Economic Partnership minimise the harm from the United States–China trade war?. *The World Economy*, 42(11), 3148-3167.
- Paik, W. (2020). Struggling foreign small-and medium-sized factories in coastal China: Liquidate, move, or fly by night?. *Modern China*, 46(4), 433-458.
- Ricardo, D. (1817). *On the principles of political economy and taxation* John Murray, Albemarle-Street.

United Nations (2019). IMTS bilateral asymmetries: How to measure, analyze, reduce and way forward [Report]. U. N. D. o. E. a. S. Affairs.