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RCEP, CPTPP, and Indo-Pacific Economic Framework - Is It Possible to Prevent Fragmentation and Blocization of the Regional Order? -

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I. Geoeconomic Opportunities and Geopolitical Risks of the RCEP

On January 1, 2022, the Regional Comprehensive Economic Partnership Agreement (RCEP) took effect in six ASEAN countries—Brunei, Cambodia, Laos, Singapore, Thailand, and Vietnam—and four non-ASEAN countries—Australia, China, Japan, and New Zealand.

RCEP is the world's largest mega Free Trade Agreement (FTA), covering a region that accounts for roughly 30% of global GDP, population, and trade, respectively, as of 2020. However, the most notable feature of the RCEP is the geoeconomic opportunities stemming from the substantial growth potential of the region (Kim Yanghee, 2021). RCEP is the institutional integration of regional value chains (RVCs) composed of neighboring countries in a region that is driving the global economy. Moreover, the core members of RCEP-RVC are China, Japan, and Korea, advanced manufacturing powers and the world's 2nd, 3rd, and 10th largest economies, in that order.

The RCEP's unified Rules of Origin (RoO) is considered the greatest accomplishment. Considering the fact that, compared to the EU or the US, RCEP-GVC has a higher proportion of complex GVC (crossing the border at least twice for production) than simple GVC (crossing the border once), the unified RoO will promote the expansion of trade and investment, the reconfiguration of existing interregional production networks, and subsequently help improve efficiency and productivity in the region. However, RCEP-RVC also has a geoeconomic risk, namely excessive dependence on China. As of 2018, China was the largest importer of twelve RCEP members and the top exporter of eight. However, RCEP-RVC is closely linked with GVC. In fact, China's largest export market is the US.

RCEP ended up with a mid-level liberalization due to geopolitical risks such as development disparities and strategic competition among major members (Kim Yanghee, 2021).The implementation timeline also varies considering less developed members. The signatories will concess tariffs by an average of 91.5% over 20 years (based on tariff line), but 83% of these are already covered by existing FTAs. For China, Japan, and South Korea, this is close to current concession levels. Korea’s average concession level stands at 88%, which is slightly higher than the Korea-ASEAN FTA, but not much different from the Korea-China FTA, and is lower than that of the Korea-Australia and Korea-New Zealand FTAs. Those between Korea and Japan, the first FTA under RCEP, are 83.0%.

However, in the case of agricultural goods, Korea's concessions to Japan and Japan's to Korea account for only 46.2% and 54.1%, respectively. The level of liberalization for services, investment, e-commerce, and other trade rules in RCEP is higher than in ASEAN+1 FTAs but lower than in the CPTPP. Furthermore, RCEP does not include provisions on labor, the environment, and state-owned-enterprises as included in CPTPP.

RCEP’s uniqueness, unprecedented in the history of economic integration, lies in the geopolitical risks of economic integration between strategic competitors; deep-rooted mutual mistrust harbored by neighboring countries resulting from multifarious conflicts, disputes, and power transitions. In addition to Sino-Japanese relations, escalating tensions between China and Australia, triggered by Australian Prime Minister Morrison’s call for an investigation into the origins of the coronavirus, seem ominous. The Sino-Indian conflict, which escalated into a border dispute, is one of the reasons why India withdrew from RCEP. Korea-Japan relations are equally strained, although the two are not strategic competitors. In addition, RCEP, which took effect in the largest arena of strategic competition between the U.S. and China, is fraught with inherent instability that causes a collision between the centripetal force of China and the centrifugal force of the U.S. As a result, China desperately needed this first mega FTA to reinforce its centripetal force while the US’s centripetal force is somewhat weakened after former president Trump’s withdrawal from the TPP. According to Park, Petri, and Plummer (2021), the RCEP’s positive impact (0.46%) is in part likely to offset the negative impact (-1.85%) that Sino-US strategic competition will have on China's GDP in 2030.

Japan was tepid about signing the RCEP due to concerns over China's expansion of regional presence. Japan instead led to introducing the exception clause for India’s prompt return after its exit from RCEP to leverage against China’s rise. Then, what is the background of Japan's becoming the third signatory among the 15 countries? Recent studies on the effects of RCEP generally draw similar conclusion that RCEP’s benefits are concentrated on South Korea, China, and Japan. What’s worth noting here is that South Korea and China levy high tariffs, and this is the first time Japan has signed an FTA with these high-tariff countries. Satoru Kumagai and Kazunobu Hayakawa (2021) estimate that the additional GDP growth of each member attributed to the RCEP in 2030 will be in the order of Japan, Korea, and China. Park, Petri, and Plummer (2021) also projected that the overall GDP gain from RCEP would be 0.6% in 2030, but Korea and Japan would enjoy the highest increase. Banga, Gallagher, and Sharma (2021) also drew similar conclusions. Despite the conflict with China, Australia decided to join the growth engine of the globe and depart from isolation. Japan and Australia seem to regard RCEP as a critical vehicle to check China’s increasing economic assertiveness based on binding international rules.

II. 'Indo-Pacific Economic Framework,' a New Economic Cooperation Model

Despite the RCEP's historical achievements, the future of regional integration is uncertain. Encouraged by the signing of RCEP in 2020, China pursued a head-on breakthrough strategy of applying for CPTPP membership in September 2021, drawing up a blueprint for regional integration to converge the two into the Free Trade Area for Asia and the Pacific, first proposed by the US. A new variable in the picture, the Indo-Pacific Economic Framework (IPEF), has clouded the outlook for regional integration even more. The United States, which may lose its advantage in the Asia-Pacific economic order due to its absence from RCEP and CPTPP, unveiled the IPEF plan, "Pivot to Asia" 2.0, or the economic version of the Indo-Pacific strategy, at the East Asian Summit (EAS) in November 2021. The United States demonstrated a willingness to become a centripetal force in the region, rather than a centrifugal force. The White House stated in a press release on October 27, 2021 that it would finalize IPEF goals with its partners in the future and that it would unveil specific plans by the end of March. So far, the following are the main IPEF features:

A look through the contents reveals the following: First, IPEF seeks to strengthen economic ties with the Indo-Pacific region in response to global economic issues; second, key agendas appear to include facilitating fair, resilient, and worker-centric trade (including digital components), supply chain resiliency, infrastructure, decarbonization and clean energy, export control and investment screening, tax and anti-corruption. Several passages alluded to economic coercion.

In terms of its structural characteristics, firstly, the IPEF consists of two parts: an overarching frame agreement outlining goals and principles, as well as topic-specific modules with discrete regulatory levels, a mix of binding rules, uneven speed of implementation, and different participating countries for each module. Secondly, the IPEF is an executive agreement, not a treaty that must be approved by Congress. Thirdly, under the White House's oversight, USTR will be in charge of the trade-related modules, while the Department of Commerce will be in charge of the rest. Fourthly, participating countries can participate in both the framework agreement and the modules, or opt between them. The key participating countries are mentioned, such as Japan, Korea, Singapore, Australia, New Zealand, Malaysia, Indonesia, Vietnam, and other RCEP members, but China is not.

For the time being, the US administration has stated that it will focus on IPEF rather than CPTPP. The reasoning is that the former will be more effective in countering China than the latter. It claims that the CPTPP, which went into effect in 2018, lacks labor and environmental standards, and that the digital-related rules, which are the main source of concern, are more outdated than the US-Japan Digital Trade Agreement (USJDTA) or USMCA, which went into effect later. For example, Gina Raimondo, the US Secretary of Commerce, has urged that IPEF be more robust than the CPTPP, which is limited to narrow digital trade rules. To be more specific, IPEF's "digital economy" is designed to develop and implement a "worker-centric trade policy" that promotes job creation for the socially marginalized through digital transformation and improved access to export markets. The second reason the US prefers IPEF is that the US government's temporary delegation of "Trade Promotion Authority (TPA)" by Congress expired in June of last year. As a result, obtaining quick congressional ratification of the CPTPP, which is a single undertaking of many commitments by numerous countries, will be difficult.

There is also a critical view that the US's IPEF initiative is only a temporary measure taken to circumvent two practical constraints. The Democratic Party, which pursues a "worker-centric trade policy," cannot help but be aware of a backlash from the labor sector against the CPTPP, which includes market access to the US, ahead of the November mid-term elections. Furthermore, the module model appears to be designed to address concerns about varying interests between civil society and the business community while embracing the different levels of implementation among participating countries abroad. Hence, some critics point out that this is likely to result in ambiguity.

When the US proposed the vague IPEF, it sparked heated debates both inside and outside of the country over its contents. The following should be considered for the IPEF to properly function as an effective vehicle for US economic engagement in this region:

There is a need for further clarification on the objectives in terms of the content. The civil society of the US is primarily concerned with employment, the environment, and human rights. However, the business community and some Congress members are urging the government to join the CPTPP as soon as possible, arguing that the IPEF, without market access, cannot be a viable alternative to the CPTPP. The crucial point is to present specific rulemaking and implementation measures in areas where it is difficult to make rules, such as supply chain and infrastructure.

In terms of structure, the most pressing task is to address the flaws in the module model. If the closely linked modules differ in terms of regulatory level, scope, and participating countries, rule fragmentation could be an issue. Climate change adaptation, for example, would include trade facilitation, infrastructure, decarbonization, and clean energy. The same is true of digital transformation. Harmonization with corresponding rules outside the IPEF, such as DEPA, US-EU TTC, and other agreements, is required to keep the IPEF modules aligned and interoperable. Second, the conundrum of ensuring prompt implementation while adhering to international law must be resolved.

As long as the IPEF is an executive agreement, it does not require changes to domestic laws to proceed with additional concessions and introduce new rules and norms. However, without congressional action, there is no guarantee that the rules and principles negotiated will be legally binding and will not be overturned by future administrations. To better ensure that the rules and principles negotiated are binding and durable, the Biden administration stresses the reliability of key participants in IPEF and says it will consult closely with Congress throughout the process if necessary. But the administration has to make it clear whether consulting with Congress means seeking congressional approval, and if so, it has to be clear about ways to ensure speedy implementation.

Foreign relations must be considered by the Biden administration if the IPEF is to become a reliable forum for economic cooperation. To begin, the IPEF should be built on the principle of reciprocity. The administration should pay close attention to Matt Goodman and William Reinsch's insights, which point out that IPEF should provide tangible benefits to both Americans and Indo-Pacific partners. As U.S. allies in close proximity to China are already losing access to the vast Chinese market as a result of America's protectionist policies aimed at Beijing, the US must provide a market large enough to compensate for its allies' loss in order to increase the incentives for U.S. allies to participate in the framework and reduce their reliance on China. Second, the United States must provide a blueprint and roadmap for future regional integration, taking into account not only IPEF but also CPTPP and RCEP. If the US's single-minded pursuit of IPEF undermines RCEP, which ASEAN initiated and successfully completed, it will contradict the Biden administration's priority for "ASEAN centrality." The region already has fragmented digital rules, and if the IPEF further fragments and divides it, the integration effect of RCEP will be diminished. Third, instead of forming a coalition against China, IPEF should serve as a breeding ground for new rules that keep up with the rapidly changing landscape. Nobody wants to be forced to choose between the United States and China. Even members of the business community in the United States are concerned about this.

Ⅲ. The Way forward for Regional Integration: Tasks Ahead

The RCEP’s coexistence of geoeconomic opportunities and geopolitical risks resulted in a mid-level FTA. The U.S. and China will remain profoundly at odds in the years ahead, and this is why some observers, ever since the pact entered into force, have voiced concerns about a possible fragmentation of the regional order and the RCEP losing its significance and substance. Some even argue that the pact may become obsolete in the future.

However, there is no doubt that the RCEP represents a historic milestone for regional economic integration. The most valuable outcome is the introduction of the unified RoO. Furthermore, the RCEP’s geopolitical implications should not be overlooked. RCEP has carved out a regional order in which the parties to the agreement, locked in geopolitical conflicts, hold equal rights and obligations under international law. Parties also agreed to establish a permanent Secretariat, which is not found in other FTAs. Going forward, it will be critical to develop the Secretariat as a central pillar of regional governance.

RCEP will no doubt need to upgrade in the future. This is critical if RCEP is to “establish a modern, comprehensive, high-quality, and mutually beneficial economic partnership framework,” as stated in RCEP text Article 1.3. In the post-COVID world, every country will prioritize digital transformation, green transformation, resilient supply chains, wealth gap reduction, and economic security. If the RCEP does not fully address these issues, it will be rendered obsolete. In theory, the future development of the RCEP relies on maximizing geoeconomic opportunities while minimizing geopolitical risks. In practice, this will be challenging because the two will frequently contradict each other. However, among the IPEF's core agendas, labor, human rights, and the supply chain of advanced dual-use technologies are subject to change in light of the various values and norms upheld by each member state. Trade facilitation, decarbonization and green transition, and supply chains for civil-use products such as urea water, on the other hand, are agendas that almost all members accept over time.

Traditional mega FTA models, like RCEP and CPTPP, were negotiated under the "single undertaking" model, in which every item of the negotiation, including market access, is part of a whole package and cannot be agreed upon separately. When negotiators choose this model, conflicts of interest often arise and make rule-making difficult.

On the other hand, a module type such as IPEF, in which a few countries reach an agreement on rules in specific areas, is easier to conclude and revise in response to changing circumstances. Moreover, as the IPEF does not address market access, it becomes easier to coordinate divergent domestic interests, which is a practical benefit. United States Trade Representative Katherine Tai said IPEF’s modular approach is akin to the 10 working groups of the U.S.-EU Trade and Technology Council and explains that the U.S. will choose this model to negotiate trade agreements with the U.K. and Kenya, respectively. Going forward, the U.S. might use its modular approach as a new model to replace the existing FTA model. This is noteworthy since it suggests that mega free trade agreements are gradually losing relevance due to the rapidly changing environment.

We must keep RCEP, CPTPP, and IPEF in mind as we seek a blueprint for regional integration that will reduce fragmentation and blocification of the regional economic order. The RCEP upgrade should also proceed in this manner. According to Article 20.4 (Amendment) of RCEP, the agreement can be amended if all member countries agree. In accordance with Article 20.8 (General Review), a general review of the Agreement is possible in the fifth year after entry into force and every five years thereafter in response to emerging issues. But it should be noted that RCEP, as mentioned above, provides its members with different implementation levels and schedules when it comes to market access and related rules. Therefore, member states should think outside the box and consider amending RCEP to make sure that CPTPP and IPEF are used as a means to upgrade, not undermine, it.

For instance, the seven countries that are not only CPTPP but also RCEP members, as well as countries that want to join the former, such as Korea and China, can minimize fragmentation between the two mega FTAs by amending the RCEP as soon as possible to reflect the most recent rules of the CPTPP or even the IPEF. For example, the nine countries listed above could implement CPTPP-level digital, labor, environmental, and SOE rules ahead of time. Furthermore, the IPEF's digital economy-related rules could be implemented concurrently or gradually. By doing so, RCEP members can promote capacity building for participation in the CPTPP for higher standards. Countries that had suffered the effects of economic coercion would agree on the importance of establishing a rule to limit coercive economic actions. Members of the CPTPP, as well as those seeking to join the pact, are now being put to the test of demonstrating that they can and will uphold the rules-based international order. Rather than excluding a specific country, the key to successful economic cooperation is to design a system that allows all nations to uphold the rules-based international order.

During the years that TPP was being negotiated, Korea missed the chance to participate in the negotiating process. This is not an experience we want to repeat. For now, Korea needs to consider joining IPEF instead of CPTPP. The CPTPP will almost certainly be amended in the future, and the US appears unlikely to join the agreement for the time being. Even if the Korean government decides to join the CPTPP, Seoul will have little chance of taking the lead in moving the agreement forward. Korea, on the other hand, has more incentives to join IPEF; the United States already sees Korea as a key partner in advancing the framework and is willing to actively communicate with Korea to spell out detailed policy actions. IPEF should be Korea's top priority, and Seoul should strive to provide knowledge and expertise to assist the US in shaping IPEF's contours. As agreed by both parties, Korea and the US could use the Korea-US Free Trade Agreement as the foundation for the IPEF. Furthermore, the Korean government must closely consult and communicate with regional partners in order to support ASEAN centrality, as ASEAN is a critical region not only for the US but also for Korea's New Southern Policy.