Q&A-RCEP significant step for integration in Asia; Northeast Asia to benefit; India will lose by staying out: Deborah Elms, Asian Trade Centre

The Regional Comprehensive Economic Partnership (RCEP) is a significant step for integration in the Asia-Pacific region as the 15 member countries have managed to set aside their differences to sign the pact, **Deborah Elms, Founder and executive director at the Asian Trade Centre,** told the Reuters Global Markets Forum on Monday, February 8.

"This ability to 'compartmentalize' trade and economics and keep the ball moving forward… suggests continued growth and development across Asia in the near term."

Elms said she expected "significant benefits" for Northeast Asian countries from RCEP, and that India will be a loser as it was hard to see how the South Asian nation will maintain its competitiveness by staying out of the pact. "If you aren't in RCEP, it's a competitive disadvantage."

Following are edited excerpts from the conversation:

Q: How do you see the dynamics of global trade changing with RCEP, Belt and Road Initiative (BRI), and other bilateral agreements that have come into effect during Donald Trump's presidency, and now with President Joe Biden at the helm?

A: Let me start with what the RCEP does for trade. While we can discuss further, the biggest point is that it should unleash more trade in Asia, for Asia. This is quite a different environment than the one that Biden knew as Vice President. At that time, the U.S. was a critical player in global trade. Since then, the U.S. has turned inward, global trade has become incredibly disrupted, and Asia has pushed ahead with more integration. Asia is not the only region with more trade ties. Africa has also launched a regional trade agreement. But the Asian markets are enthusiastically signing off on more trade deals, including the latest last week between South Korea and Cambodia.

Q: What countries do you see as the beneficiaries of the RCEP deal, and what sort of benefits do you see emerging?

A: RCEP brings together all 10 members of ASEAN with China, Japan, Korea, Australia and New Zealand. While ASEAN had existing agreements with all five larger economies, these "dialogue partners" did not have agreements with the others. In particular, Japan had no free trade agreement with either Korea or China. China and Korea had a weak agreement in place. So RCEP allows these members to receive new preferential benefits from trade between them. The difference is easiest to see in trade in goods, where Japanese firms will have lower tariffs to pay when they enter Korea and China after RCEP comes into force -- and the reverse for Korean and Chinese firms entering into Japan. Because these trade lanes are newly created, expect significant benefits to be found in Northeast Asia as a result of RCEP.

Q: Would you have any projections on how RCEP would increase trade balances in favour of ASEAN countries?

A: Some ASEAN countries will benefit from the text of the agreement. A large regional deal can trigger governments to upgrade domestic-level rules and laws to come into compliance with regional trade agreements. As some of the ASEAN members have gaps between existing practices and RCEP rules, this upgrade can be extremely helpful for them as well. Should help drive inbound investment and make it easier to do business in many ASEAN markets. The RCEP often has better access than ASEAN's own agreements as well, so once RCEP comes into force -- probably at the start of next year -- it should improve conditions for intra-ASEAN trade as well. As an example, ASEAN's own commitments on services and investments are not as good as RCEP.

Q: Would you call India a gainer or loser by refusing to accede to the RCEP deal? What factors could shift the balance for it to join the fold at some point?

A: The loss of India from the agreement is a major problem for India and also a disappointment for the other RCEP economies. Doing business in and out of India is harder than it ought to be. RCEP would have helped. It's hard to see how India will become more competitive out of RCEP than inside. Firms will have significant incentives to make goods and deliver services and promote investment in RCEP for RCEP markets. If you aren't in RCEP, it's a competitive disadvantage. Being out of regional supply chains could drive firms inside of India to switch to supporting integration in RCEP.

Q: India would have to give up a lot of protectionist policies to become part of the RCEP. Do you think India is ready for that? And would bilateral/individual deals better serve India's interest?

A: Bilateral trade deals are, frankly, a nightmare for firms. The complexity is high, and the compliance costs are also a problem. Most firms cannot create goods, especially based on only two market inputs. So, they simply skip using bilateral agreements in favour of regional ones. I think it depends on what you think India's interests might be. If firms want to be part of regional and global supply chains, being inside RCEP is important. If India wants to become more competitive, I would say that removing obstacles to doing business is helpful. I think that trade deals can make it politically easier for governments to tackle challenging topics at the domestic level. India was part of RCEP talks for seven years. During that time, it said it was ready for reform and liberalization.

Q: Does the signing of trade agreements such as the RCEP in Asia Pacific, China's CAI (Comprehensive Agreement on Investment) with Europe, etc. put more pressure on the Biden administration to join the CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership)? If so, what in the existing agreement would President Biden want to renegotiate?

A: There is pressure growing inside the U.S. for greater economic engagement with Asia. Right now, the U.S. only has agreements in place with Japan, Korea, Singapore and Australia. This is a problem. But figuring out what to do about this, how to re-engage, and when to do so is a tough challenge. The Biden team wants to deal with domestic issues first- COVID-19, economic recovery, climate, infrastructure, education. Then tackle foreign policy issues. But unfortunately, the world is unlikely to sit still while Washington gets itself better organized.

I'm not sure what the Biden team would like to see in future trade deals, other than more focus on labour -- worker rights -- and climate/environment. Probably more on enforcement? But the larger strategy for handling trade is not yet in place. Both political parties have to figure out what they actually want to see in trade and economic policies. The Republicans, especially, have to figure out if they remain pro-trade or stick with Trump's basic hostility to trade.

Q: Do you see trade tensions between the U.S. and China abating from here? If so, how would that impact moves that have already happened in terms of supply chain shifts and the RCEP deal?

A: Tensions between the U.S. and China will remain high. It is the one thing that both U.S. political parties can agree on and where the business community and public opinion is also strongly behind tough actions on China. Expect that China tariffs will remain in place or will be lifted extremely gradually. Between the challenges that many firms felt trying to adjust to the sudden imposition of 25% tariffs in the U.S.-China trade war and the problems with disruption under COVID-19, companies are looking for solutions. Clearly, being too exposed to one location only is a challenge. But figuring out how to effectively manage adjustments in supply chains is also hard and often expensive.

Making any supply chain changes under COVID-19 is also hard as staff cannot get in and out of potential new markets, impossible to create new facilities or staff up on the ground, etc.

Q: What is the path ahead for the U.S. to end protectionism and tariffs, and get back to global economic integration?

A: It's not an easy road. Oddly, public opinion in the U.S. has shifted more strongly in favour of trade, which provides a potential opening. But Biden's own "worker-centred" trade policies and his determination to build back better is going to be hard to navigate against potential moves to open up the economy. What is welcome is the U.S. re-engaging at the global level, starting with unblocking their hold on a new Director-general at the World Trade Organization (WTO) and a likely new approach to managing the future for the WTO. Everyone acknowledges problems in the institution. But what has been lacking has been a clear identification of the problems, a plan for tackling these, and leadership to make it happen.

Q: Do you see (major) WTO reforms coming, led by Team Biden?

A: I think we will see movement at the WTO. We need to figure out how to fix the broken dispute settlement system. And then manage all the new issues, like digital trade, that have been pending. Finally, if that wasn't enough, we have a large and growing problem of subsidies that can be very trade-distorting coming in the wake of COVID-19. While these are to be encouraged now, if state subsidies are not removed, they will create a whole new set of problems globally.

And then, of course, we still have issues with what many call the "trade and.." agenda like trade and climate or trade and gender or trade and inclusion. These are some tough issues. Managing them across 165 members is tricky.

Q: What impact do you see of the RCEP on infrastructure development in member countries? And which nations are best placed for getting maximum interest/investments?

A: RCEP was designed, in part, to encourage inward foreign direct investment from RCEP member firms. So, the rules and commitments in the agreement are also quite ambitious to foster investment. Some of this could go to infrastructure. The demand for infrastructure is clearly high. RCEP, as an example, doesn't just let firms invest in the sector. It also includes commitments to allow things like construction services to be delivered between members and lowers tariffs and facilitates trade at customs for key raw materials and equipment needed to drive infrastructure projects on the ground.

One slightly tricky area for some members, however, is that RCEP does not currently provide investment protection against government expropriation. Given the size of many infrastructure projects, this may be a problem for many firms. The risk of potential seizure by governments is not zero. This "missing" element of RCEP is meant to be tackled within two years of RCEP entry into force and get solved within five years. That should give greater certainty to firms in some RCEP markets.

Q: What are going to be the geopolitical consequences of RCEP for ASEAN, China and the U.S.?

A: RCEP was not originally intended to be a platform for the creation of trade and economic policies for Asia. But by the time of entry into force in early 2022, this is likely to be an important consequence of having RCEP. Members will gather together, driven by a Secretariat, in regular meetings of officials, ministers and even an annual Leader's Summit. That sort of agenda means that RCEP will become quite important in driving outcomes into the future for the region.

I think people should pay fairly close attention to the integration in the region. Even when members have had significant differences between them, even being unable to sit in the same room outside RCEP, countries managed to set aside these differences in the context of RCEP talks. This ability to "compartmentalize" trade and economics and keep the ball moving forward is quite important. It suggests continued growth and development across Asia in the near term, no matter what may or may not happen elsewhere.