## Q&A-RCEP, BRI, digital tech to give China advantage over shifting supply chains; Sino-U.S. trade tensions won't abate soon: Rashmi Banga, UNCTAD

The Regional Cooperation Economic Partnership (RCEP), the Belt and Road Initiative (BRI) China's leadership position in rapidly evolving digital technologies will help the world's second largest economy to take advantage of the shifting supply chains within the ASEAN region, **Rashmi Banga, senior economist at the United Nations Conference on Trade and Development (UNCTAD),** told the Reuters Global Markets Forum on Tuesday, February 2.

Banga said she didn't expect Sino-U.S. trade tensions to abate in the near future as China had captured a large footprint in digital technology and services, while the U.S. may not be able to change its trade policies on the ongoing tech war between the two countries.

The path ahead for the U.S. to end protectionism and the tariff war will depend on how quickly it is able to control the fallout from the pandemic, Banga said. "If it takes time, the U.S. will have to continue with its 'Buy America' policy, and that may continue its protectionist policies."

Following are edited excerpts from the conversation:

**Q: How do you see the dynamics of global trade changing with the RCEP, and other bilateral agreements that came into effect during Donald Trump's presidency?**

A: Bilateral free trade agreements and mega trade agreements which span across continents like the RCEP, CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership), KORUS (United States-Korea Free Trade Agreement) etc., can significantly shift the global trade dynamics. However, it will be wrong to think that these trade agreements are being forged mainly for market access and tariff liberalisation.

The rise in product digitalisation has led to an exponential increase in cross-border digital trade and trade in electronic transmissions. Digital technologies have changed the way products are produced and distributed. With the growth of digital technologies like 3D printing, the negotiated tariffs in the goods chapter can become totally meaningless. What will be important is the rules around cross-border information flows, i.e., data flows and the regulations for digital players. These so-called new age trade agreements are more focussed on digital rules and rules around IPRs (intellectual property rights) and competition and these rules will shape the future global trade landscape.

It is therefore extremely important for developing countries to be aware of the dynamics behind the new age FTAs (free trade agreements) and retain their policy and regulatory space as these will be needed by developing countries to build their own digital economies. Developed countries had these flexibilities when they were advancing their digital economies as no digital rules prevailed. To conclude I would say that these FTAs go much beyond trade rules, and therefore, can drastically change the global trading and investment landscape in future.

**Q: With China's involvement in RCEP, is it well-placed to take advantage of the shifting supply chains in the ASEAN region?**

A: RCEP will well-place China to form supply chains within the ASEAN region, but China also has the BRI with 140 countries in the world, so RCEP may not be the only factor determining its supply chain.

**Q: What are the dominant factors in shifting supply chains within the RCEP bloc beyond cost-competitiveness and fallout of U.S.-China trade tensions? Based on these factors, which countries could benefit the most?**

A: Supply chains shifts will now be driven by the rapidly evolving digital technologies. Low-cost labour and availability of raw materials are no longer drivers of the value chains. Robots and artificial intelligence are now being extensively used in production and distribution processes in the developed countries. Many developing countries are experiencing large-scale reshoring of manufacturing to the developed world.

Also, digital technologies are being extensively used in manufacturing and these need consumer data in order to develop data intelligence and software. Storing and processing of this data has become the new requirement for manufacturing in the digital era. The availability of digital services is another new factor which has emerged as one of the decisive factors in locating manufacturing in the countries. Trade agreements like RCEP are therefore focused more on digital rules.

**Q: Do you see trade tensions between the U.S. and China abating from here?**

A: Whether U.S.-China trade tensions will begin to subside will depend a lot on to what extent the U.S. will change its trade policies. We are already seeing that in the World Economic Forum there has been a threat of a new cold war between China and the U.S. if the U.S. continues with its protectionist policies. The support to the 'Buy American' policy by the current government whereby the rules obliging America's federal government to prefer domestic suppliers to foreign ones will not help in resolving such issues. So, it cannot be said for sure that the trade tensions between China and the U.S. will begin subsiding from here onwards.

In fact, much of these trade tensions were arising not due to the 'tariff war,' but the truth behind the trade war is the 'technology war.' China and the U.S. are now two fastest growing digital economies. In fact, China has surpassed the U.S. in many respects when it comes to digital strengths. For example, China accounts for 40% of global e-commerce transactions, larger than the value of France, Germany, Japan, the UK and the U.S. combined! China has also become a major global force in mobile payments with 11 times the transaction value of the United States.

It has also surpassed the U.S. in terms of its industrial robot density. Higher digital content in terms of use of digital services and digital technology in production process increases the trade competitiveness of the products and given the rapid growth of China's digital competitiveness it does not seem that the trade tensions are going to go down anytime in near future.

**Q: Would it be a good idea for China to continue allowing low-margin supply-chains to migrate out, of which Vietnam has been one big beneficiary? If so, what's next for China, in terms of maintaining control as a global manufacturing hub?**

A: Shifting out low-cost supply chains to neighbouring countries is what will allow China to upgrade in its value chains. Maintaining control over the supply chains will come from digital technologies it uses to control the supply chains.

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

A: It will really depend on how quickly the U.S. is able to control the fallout from the pandemic and bring back its employment and growth levels. If it takes time, the U.S. will have to continue with its 'Buy America' policy, and that may continue its protectionist policies.

**Q: Does the signing of trade agreements such as the RCEP in Asia, China's Comprehensive Agreement on Investment (CAI) with Europe, etc. put more pressure on President Joe Biden's administration to join the CPTPP?**

A: The Biden administration may decide to sign CPTPP not just because of the pressure from RCEP and CAI but also because it was U.S.-initiated trade agreement from which the Trump administration pulled out. CPTPP can strengthen U.S. engagement in the Asian region. EU also has its Indo-Pacific strategy now to strengthen its engagement with Asia.

**Q: How quickly do you foresee the flow of goods, services and capital to begin between member countries under RCEP? Are any countries better placed to take advantage of this more than others?**

A: RCEP has to be ratified by all countries and this may take time. While RCEP focuses on trade and digital rules, BRI aims at improving transport infrastructure and thereby physical connectivity among these countries, which can facilitate trade and investments. This strengthens China's position considerably in RCEP and this could also be a reason why RCEP could benefit China the most. The focus of BRI includes facilitating investments into and from China, which can further shift the existing value chains in China's advantage.

**Q: Any terms of the CPTPP that the Biden administration may want to renegotiate, considering how the global trade order has shifted since former President Barack Obama's time?**

A: The e-commerce chapter is non-enforceable in RCEP and this may not be what the U.S. is looking for. But it may be extremely difficult at this stage to renegotiate RCEP. In CPTPP similarly, many of the provisions in the chapters have become more flexible and U.S. may want to tighten them, but may not be possible.

**Q: Would you call India a gainer or loser by refusing to accede to the RCEP deal?**

A: India is definitely a gainer by refusing to accede to the RCEP deal. All current member countries in the RCEP already have an existing trade agreement amongst themselves, except for China and India. By acceding to RCEP, India would have to considerably liberalise its tariff regime vis-à-vis China, and would have to grant zero customs duties market access to it in almost all of its products in due time. Given the higher competitive advantage of China in many products as compared to India as well as other RCEP members, Indian firms would have considerably lost their domestic market share without gaining reciprocal market access into China.

Our analysis shows that imports into India from RCEP member countries post-RCEP would have increased by $33.5 billion, of which $24 billion would have been from China. India's exports to RCEP members would have increased by only $5.5 billion, of which $1.8 billion would have been an increase in exports to China. Ratifying RCEP would therefore have led to a rise in India's imports by $28 billion per annum from RCEP members, with an increase in net imports of $22 billion per annum from China.

**Q: Does that mean India will continue running its bilateral trade agreements, or is there a possibility that it joins one of the alliances? If so, what would the convincing factor(s) for India be to join in?**

Apart from market access, RCEP also includes many other chapters including the chapter on e-commerce, wherein there are restrictions imposed on the members regarding their regulations around cross border data flows as well as data localisation. According to the e-commerce chapter no party can ask a covered person to use or locate computing facilities in that Party's territory as a condition for conducting business in that Party's territory and it shall not prevent cross-border transfer of information by electronic means where such activity is for the conduct of the business of a covered person.

Free flow of data and no data localization policies would have restricted policy and regulatory space of the Indian Government in terms of developing its own digital economy. Re-negotiating these rules may not be feasible in future, so India joining RCEP seems highly unlikely in future. India is already in the process of forming Supply Chain Resilience Initiative with Japan and Australia focusing on sectors like the petroleum, automobiles, textiles and steel. This will help India in building its domestic supply chains to cater to these markets as well as forging new supply chains in the identified sectors. India will also be able to retail its policy and regulatory space for building its digital economy.

India already has many bilateral agreements and it may continue to do so given that it is already negotiating with EU. I see very little possibility of India joining these alliances.

**Q: On a broader basis, what are the chances that the expectations of success from RCEP may be overblown and depends largely on China? Would bilateral agreements actually hold in such cases?**

A: Expectations from RCEP are overblown as its success will depend on many other political and strategic factors.

On bilateral agreements, it depends. The advantage in bilateral agreements is that they are relatively easy to negotiate as it is easy to manage expectations of the partner while in regional agreements especially with more than one developed countries it becomes very difficult to resist the pressure.

**Q: Any parting thoughts for us?**

A: I would like to conclude by reiterating that FTAs are no longer about market access now. They are more on digital rules and developing countries need to retain their policy and regulatory space in order to develop their digital infrastructure and digital capacities.