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Q&A-RCEP unlikely to benefit developing members in trade balance, infra investments; Developed industrial policies to gain: Kate Lappin, Public Services International

The Regional Cooperation Economic Partnership (RCEP) is unlikely to bring immediate significant benefits for developing member countries in terms of balance of trade or concrete infrastructure investments, **Kate Lappin, Asia Pacific regional secretary at Public Services International,** told the Reuters Global Markets Forum on Thursday, February 4.

Lappin said countries with already developed industrial policies that support growth of higher value industries are likely to benefit from the RCEP, signed between 15 Asia-Pacific countries, including China, in November 2020.

"So that is China, Japan, Korea and Australia, and New Zealand in terms of agricultural products."

Following are edited excerpts from the conversation:

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

A: Yes, clearly the political dynamic has changed with the U.S. seemingly less likely to initiate large plurilateral agreements even with the Biden administration. From a worker's perspective, we do expect Biden to listen to the concerns unions have about existing trade rules. Early signs are good, that he won't rush into new agreements. Though right now it doesn't look like the U.S. will take any pro-development positions at the WTO (World Trade Organization). The current negotiations at the WTO for a waiver on COVID-19 related medicines and vaccines is seemingly still opposed by the U.S.

Q: What are some concerns RCEP raises for labour-intensive nations? What are some significant benefits of the deal for employment in member countries?

A: At this stage it's not likely that there will be significant benefits for any country. Most analysis suggests that it will have minimal-to-negative impact on developing countries. Prior to the release of the final text the UN Commission on Trade and Development researchers found that the developing countries would suffer a negative balance of trade impact from the RCEP. While the final agreement had different levels of tariff reductions for each country and product, it remains likely that labour intensive countries will see more imports than exports in total (dollar value). Particularly in light of the pandemic.

Q: So why is RCEP being touted as an economic powerhouse?

A: Most countries in the RCEP already have agreements with others, but this is the first agreement for China, Japan and Korea - so that's often regarded as the biggest result. And of course, investors are always happy to have reduced tariffs and regulations, so the agreement might not be good for governments and workers but still deliver profits for foreign investors.

Q: How does RCEP portray Asian countries, in terms of manufacturing and export, especially since a vast majority still perceive it in favour of China?

A: One positive element compared to the CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership) is that the RCEP does recognise the differences between the economic status of the countries involved. So, there are provisions that apply to wealthier nations and not to the least developed -- Laos, Cambodia and Myanmar. But yes, the benefits are with the countries that have already developed their industrial policies and been able to support the growth of higher value industries. So that is China, Japan, Korea and Australia, and New Zealand in terms of agricultural products.

Q: Is it designed in a way to help China keep control over regional supply chains, and benefit Japan and Korea? And would that force Biden's hand to move quickly on the CPTPP?

A: I think that it would be too politically damaging for Biden to re-join the TPP. In many ways the U.S. got almost everything they wanted for U.S. multinational corporations in the TPP, but don't have to have it apply to them. Because these agreements, both the TPP and the RCEP, are mainly not about trade, they are about establishing a regulatory or policy regime in line with U.S. approaches.

Q: What would the Biden administration's policy to counter China's ever-growing influence in trade in ASEAN be?

A: Well that's a tough question. But it seems that first their approach is to return to multilateralism -- joining the Paris agreement and generally being more cooperative, which gives them more diplomatic credibility. There are of course lots of other things they could do to relieve pressure on countries in the region so that they are not as dependent on China's investments -- like champion debt relief through the IMF (International Monetary Fund).

Q: Would you agree that RCEP provides some regulatory underpinning for parts of BRI (Belt and Road Initiative)?

A: Well, there are certainly regulatory provisions that support rights of foreign investors in all the areas that the BRI will operate. By areas I mean sectors - not countries. Though many countries have taken steps during the pandemic that are likely to contravene those rules.

Q: Would RCEP terms be better for employment in members nations, considering the pandemic toll on jobs the world over?

A: There are no provisions in the RCEP to improve labour rights and the pandemic has been used to justify reductions in formal wages and conditions in some cases -- for example, in Indonesia. Whilst in others higher unemployment and desperation may force wages down. In a more just and equitable environment, we might see governments recognising the dangers of insecure work that has enabled the virus to spread more easily through communities of precarious workers. But at the moment I don't see action on that front in the region.

Q: With RCEP intricately linked to ease of trade and investment, what impact do you see on infrastructure development across member countries?

A: Whilst the arguments for new trade agreements are often about the need to attract investors for new infrastructure, analysis of prior agreements has revealed that there is no increase in infrastructure investment following new trade agreements -- compared to countries who don't sign them. So, I don't think RCEP will have a large influence.

What it does instead is change the rules for investors. So, it adds pressure to have more private infrastructure and more foreign owned, but not more infrastructure overall. Often, investors will just up existing infrastructure if there are potential rents available. Particularly if they are underwritten by governments. RCEP also makes it more difficult for governments to regulate what should be public services for public good. Or to return privatised infrastructure to public hands. For example, Indonesian courts have determined that Jakarta water must be returned to the public as it has failed to deliver on the obligations to provide potable, affordable water. But trade agreements, including the RCEP, make that very difficult for the government.

Q: You mentioned the RCEP benefits countries that have already developed their industrial policies (e.g. agriculture) -- do you think that explains India's reluctance in joining the bloc?

A: Yes, I think the government of India recognised that the conditions that farmers on very small plots with much lower access to technological inputs face, are not the same as the enormous corporate farms in New Zealand or Australia, for example, and that floods of imports would devastate farmers. We see large scale protests of farmers now with the government trying to move toward the kind of rules the RCEP and others require - reductions in price controls, etc. These are the largest protests the (PM Narendra) Modi government has faced. It would be even more so if they had to meet all the requirements of the RCEP. I think India did make some positive changes to the RCEP, but it wasn't sufficiently beneficial to them and would have increased imports with minimal export increases.

Q: Do you see India joining the RCEP at any point?

A: I think the pressure on India to join will grow, but that they might instead look at bilateral agreements where they will have better bargaining. But again, I don't know that there's a lot of value for them. India could actually lead ideas for alternative trade agreements, agreements that support more equitable and sustainable development, given they often lead those debates on international rules in multilateral fora. But I don't see the Modi government doing that. India still plays one of the most important roles at the WTO to defend the policy space of developing countries and was able to do that to some extent in the RCEP.

Q: Any final thoughts for us?

A: On final notes I would say that governments should not ratify the RCEP while we have an unprecedented economic and social disaster to deal with. Every country in the RCEP has had to contravene parts of the agreement to protect public health and control the supply chain.

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