

# Effectuation of RCEP and Beyond: Challenges and Opportunities for CJK

**November 25, 2020**

## CJK Dialogue

---

**Choong Yong Ahn, Ph.D.**

Distinguished Professor of Economics,  
Graduate School of International Studies

former Chairman, Korea Commission for Corporate  
Partnership , [cyahn@cau.ac.kr](mailto:cyahn@cau.ac.kr)





# RCEP effectuation : Good News for Liberal Order

- Proposed by ASEAN leaders in November 2012 and finally signed by 15 signatory members in November 15, 2020 while opening the door for India
- Effective in January 2022
- Covers 48.7% of world population, 29 % of world GDP, and 29 percent of world trade => the largest mega trade block.
- **Although shallow and lower quality than CPTTP, the conclusion of RCEP signifies to reverse inward looking protectionism and to invoke multilateralism and liberal order post Covid-19 era.**

# RCEP: New Momentum for East Asian Integration

- 👉 28 rounds of negotiations have provided valuable lessons for members to learn domestic market opening in fragmented East Asia.
- 👉 RCEP contains 20 chapters including goods, services, investment, Ecommerce, procurement.
- 👉 Significant to have **common ROO over 15 economies to avoid spaghetti bowls due to mishmash of existing ROOs of bilateral FTAs.**
- 👉 Significant for Korea to be formally connected with Japan
- 👉 **Also significant for** Japan to be formally connected with China.
- 👉 New momentum for an accelerated CJK FTA negotiation and to upgrade Korea-China FTA

# Significant Momentum to increase RVCs

- 👉 GVCs (RVCs) occupy now 70 percent of all trades to enable unprecedented economic convergence: poor countries grew rapidly and began to catch up with richer countries. (WDR 2019, OECD 2021)
- 👉 In GVCs (RVCs), firms specialize in a specific tasks between firms involve durable relationship for inclusive growth.
- 👉 **“Damaging Natural Supply Chains” between CJK is self-defeating game for all stakeholders.**
- 👉 Against potential disruptions due to 1) pandemic, 2) natural disaster, 3) trade war, GVCs should be resilient through diversification between CJK.
- 👉 CJK needs to adopt an early warning system for sudden break-up intra-regional supply chains for non-economic reasons. Eg. Urea water, photo-resist, hydro fluoride



# Upgrading the RCEP on a par with CPTPP

- CPTPP: Most comprehensive and liberalized mega deal, addressing 21<sup>st</sup> century trade rules ( environment, labor standard, transparency, **IPR**, service, SOE, anti-corruption. SMEs, **ISD**)
- RCEP should adopt the missing 21<sup>st</sup> trade rules to converge with CPTPP down the road of APEC meeting in 2005
- China and Korea need to become members of the CPTPP by meeting the entry conditions.



# RCEP and CPTTP, if converged, could reinforce to safeguard a liberal trade order in East Asia

- ☞ If the two mega deals are converged down the road, East Asia based Asian century might come
- ☞ But the US-China trade war is likely to continue under President Biden but in a more compromising stance.
- ☞ East Asian economies less China might face the risk to choose either the US or China.
- ☞ East Asia should navigate the US-China trade tension towards an open and liberal East Asian order. East Asian economies should not be forced to choose either the US or China. (Lee Hsien Loong 2020)
- ☞ East Asia's "Constructive Powers" should be united to safeguard a transparent and rule based trade and investment order

# CJK FTA: key to Open East Asian Regionalism

- ✎ CJK FTA: negotiation started in 2002 and have gone through 16 rounds but stalled.
- ✎ In 2014, CJK has effectuated the trilateral Investment Guarantee Agreement, a step toward JCK FTA.
- ✎ China and Japan are also formally linked in RCEP
- ✎ The indirect trilateral linkage through RCEP gives a new momentum for CJK FTA to move forward.
  
- ✎ It is significant for Korea to join together with Japan in a formal plurilateral regional mega deals
- ✎ **A linchpin to trigger an eventual amalgamation of RCEP and expanded TPP**
- ✎ New momentum to upgrade Korea-China FTA



# Immediate action for Recovery from the Disrupted Supply Chains

**👉 Immediate action: Supply Chain resilience between CJK is critical for robust recovery in the post-pandemic years**

**1) CJK should pursue a supply chain resilience pact for key raw materials and parts**

**2) To encourage SME participation in RVCs, CJK need to pursue some digital agreement**

**3) Bottom-Up Sub-sectoral and Private Approach:**

**eg. local to local co-operations, B2B, P2P, e-commerce, civic movement for environmental protection, SME digitalization, intensifying RVCs by sheer market forces.**

**4) Both approaches should reinforce each other and serve as a building block toward multilateral global TILF system as WTO envisions.**



# Concluding Remarks

- Despite historical legacies, CJK should continue to safeguard liberal trade order based on multilateralism and already embedded regional supply chains and green new deals.
- The CPTPP needs to expand its membership. The UK, China, and Chinese Taipei submitted formal applications. Korea will follow suit soon. The potential entrants must carry on domestic reform to meet the high standards on labor, environment, IPR, ISDS.
- **In the meantime, bottom-up functional integration based on sheer market forces together with top-down formal integration.**
- For East Asian regionalism to move forward, major regional economies should be **non-aggressive, non-assertive and non-coercive** to deepen mutual trust among counties, big or small, adhering to principle of rule-based trade order and human dignity.



# References

Ahn, Choong Yong (2020) "Chengdu Trilateral Summit still to deliver," *East Asia Forum*, 11<sup>TH</sup> Feb 2020

\_\_\_\_\_ (2018), "Toward an East Asian Economic Community: Opportunities and Prospects," in \_\_\_\_\_ edited by Peter Hayes and Moon Chung-in, *The Future of East Asia*, Palgrave, Macmillan

\_\_\_\_\_ (2011a) "Trans-border regional development and community building," Won Bae Kim, Yue-man Yeung, and Sang Cheul Choe eds. *Collaborating Regional Development in North East Asia*, pp 23-49, The Chinese University, Hong Kong Press

\_\_\_\_\_ (2011b), "Can Asia save the Sinking world Economy?" *Global Asia*, vol. 52, No. 4, Winter pp 34-45

\_\_\_\_\_ (2001) "A search for robust East Asian development models after the financial crisis: mutual learning from East Asian experiences," *Journal of Asian Economics* 12 (2001) pp. 419-443

Ahn, Choong Yong & Inkyo Chung (2007), "A Search for Closer Economic Relations in East Asia," *Japanese Economic Review*, vol. 58, No.2, pp 173-190

Asia Development Bank (2011), *Asia 2050: Realizing Asian Century*

Asia Development Bank (2013), *Asia Regional Integration Center, ADB Integration Indicator*

Bergsten, C. Fred, Charles Freeman, Nicholas R. Lardy, and Derek J. Mitchell (2008), *China's Rise: Challenges and Opportunities*, Peterson Institute for International Economic Policy and center for Strategic and International Studies, pp 1-269

Balassa, B. (1967), Trade Creation and Trade Diversion in the European Common Market. *The Economic Journal*, vol. 77, pp

Kissenger, H. (2020), "The Coronavirus Pandemic will forever alter the World order," *Wall street Journal*, op-ed, April 3

Lee Hsien Loong (2020), "The Endangered Asian Century: America, China, and the Perils of Confrontation" *Foreign Affairs*, 2020 July/August

# Q & A

**TPP**

**+**

**RCEP**

