

# 1

*Preamble*

*Chapter*

# **Chapter 1 Preamble**

## **Section 1 Development and Status of Global Free Trade Agreements**

Since 2017, anti-globalization, trade protectionism, and populism have become rampant and put global governance reform into a difficult situation. In addition, the COVID epidemic has intensified global contraction and new technological revolutions, highlighting the shortcomings of global governance, presenting a superimposed situation of reshaping competitive advantages, rebuilding economic and trade rules, and restructuring the power structure.

In this context, the role of regional trade agreements (RTA) has been further demonstrated, effectively promoting the development of regional economic integration, and buffering the adverse impact of the epidemic on the world economic structure.

According to the RTA database, which is part of the World Trade Organization (WTO), 124 RTAs were reported to the WTO globally between 1948 and 1994. Since the end of the Uruguay Round in 1995, more than 400 RTAs were reported to WTO. Among them, there are a total of 60 trade agreements in the Asia-Pacific region. In the term of time, The majority of these came into effect after 2000, with only 12 coming into effect before 2000. In terms of type, there were 8 partial scope agreements (PSAs) and 1 customs union, while the remaining 51 were all free trade agreements (FTA). The only customs union in Asia is the Gulf Cooperation Council, while the PSAs mostly involve South Asian countries. Asia-Pacific Trade Agreement (APTA) and South Asian Preferential Trade Arrangement (SAPTA) are two PSAs

that include a larger number of countries, with 8 and 7 members respectively. The above reflects the development process of regional economic integration marked by the establishment of the ASEAN FTA in the Asia-Pacific region from the beginning of the 21st century to the present.

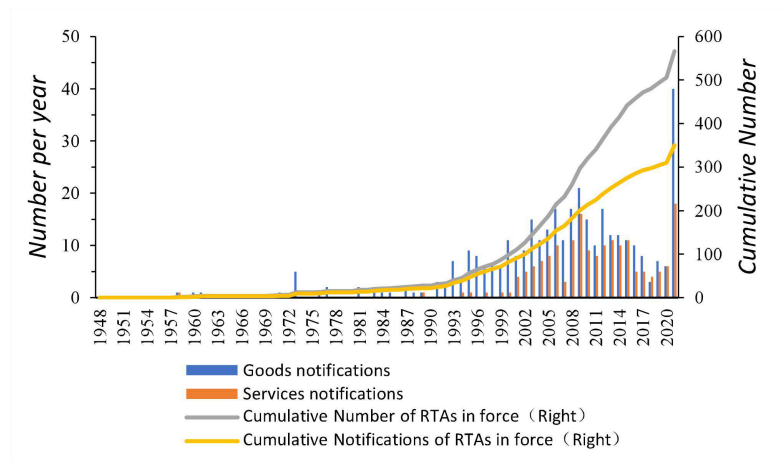


Figure 1.1.1 The WTO's cumulative number of RTAs reported and established globally, 1948-2021  
Source: WTO RTA database

At this stage, a network of Asian-Pacific FTAs has been formed, and these are playing an important role in promoting trade liberalization in Asia-Pacific region, driving regional economic growth, strengthening regional peace and stability, and promoting greater freedom and better governance in economics.

Table 1.1.1 lists the basic situation of major trade agreements in the Asia-Pacific region. It can be found that the scope of the agreement and the degree of market openness show diversified characteristics, and the level of openness of trade agreements has gradually improved, and the rules and standards have become stricter. In addition, the agreement follows the basic principles of the WTO, but retains a certain degree of flexibility. From the perspective of the fields covered by emerging agreements, some high-standard FTAs cover frontier fields and put forward higher requirements.

Table 1.1.1 Major reciprocal trade agreements in the Asia-Pacific region

RTA	Countries or Regions Involved	Latest Progress
ASEAN+1	ASEAN, China, Japan, South Korea, India, New Zealand, Australia	2007.06.01: ASEAN-Korea FTA: entered into force; 2008.12.01: ASEAN-Japan FTA: entered into force; 2005.07.20: ASEAN-China FTA: entered into force 2010.01.01: ASEAN-India FTA: entered into force; 2010.01.01: ASEAN-Australia-New Zealand FTA: came into effective.
China-ROK FTA	China, South Korea	The first round of negotiations was launched in May 2012; The substantive negotiations were completed on November 10, 2014; Initialing was completed on February 25, 2015
China-Japan-ROK FTA	China, Japan, South Korea	Start negotiations in November 2012; The 7th round of negotiations was held in South Korea in April 2015
CPTPP	New Zealand, Singapore, Chile, Brunei, Australia, Peru, Malaysia, Vietnam, Japan, Canada and South Korea	In October 2015, 12 countries including the United States, Japan and Canada reached the TPP. On January 23, 2017, Trump officially announced that the United States withdrew from the TPP. On March 8, 2018, representatives of 11 countries participating in the negotiation of the CPTPP held in Santiago, Chile. On December 30, 2018, CPTPP officially entered into force.
RCEP	ASEAN, China, South Korea, Japan, Australia and New Zealand	The negotiations were launched in May 2013, the 16th round of negotiations was completed in Indonesia in December 2016, and held in Japan from February to March 2017. The fourth regional comprehensive economic partnership agreement (RCEP) leaders' meeting in 2020 was held by video on the morning of November 15. After eight years of negotiations, 15 parties except India officially signed RCEP.
FTAAP	Indonesia, Malaysia, Singapore, Vietnam, Brunei, Philippines, Thailand, China, the United States, Russia, Japan, Korea, Australia, Canada, Chile, China Hongkong, China Taiwan, Mexico, New Zealand, Papua New Guinea, Peru	The 2014 informal meeting of leaders of APEC decided to launch the process of the Asia Pacific Free Trade Area. At present, there is no substantive scope for discussion

## Section 2 History and Prospects of RCEP Negotiations

On 15 November 2020, the RCEP—an agreement which includes the ASEAN, Australia, China, Japan, New Zealand and South Korea—was formally signed. It marks a major success for multilateralism. RCEP will play an important role in promoting prosperity and shared development in the Asia-Pacific region. This section will present the history of RCEP negotiations and their prospects.

## **I. History of RCEP Negotiations**

RCEP was initiated by ASEAN in 2012 and has taken 8 years, 4 leaders' meetings, 23 ministerial meetings, and 31 rounds of formal negotiations to eventually be signed during the 4th Leaders' Meetings as scheduled, making it the most important achievement in nearly 20 years of economic integration in East Asia.

### **(A) preparatory stage (before 2012): ASEAN established the "ASEAN Plus Three" mechanism and proposed the concept of RCEP**

In 1992, ASEAN proposed the idea of establishing a free trade area with the hopes of improving the level of regional cooperation, strengthening economic integration, and enhancing the overall economic strength of ASEAN by promoting trade liberalization.

The idea of holding a summit between ASEAN and China, Japan, and South Korea was raised at the 1995 Bangkok Summit.

The first informal meeting between the leaders of ASEAN and China, Japan and South Korea (then "9+3", which later became "10+3" when Cambodia joined ASEAN in 1999) was held in Kuala Lumpur, Malaysia in late 1997.

### **(B) negotiation stage (2012-2019): after 8 years of negotiations, the final 15 parties concluded negotiations on all 20 chapters of the text and practically all market access.**

Since 2012, 16 countries, including ASEAN countries and its diplomatic partners (China, Japan, South Korea, Australia, New

Zealand, and India) have been negotiating the RCEP. In August 2012, the ministers of economic affairs of 16 countries endorsed the Guiding Principles and Objectives for the RCEP Negotiations. RCEP negotiations were launched in November 2012 at the 21st ASEAN Summit and related summits in Phnom Penh in November 2012. The negotiations covered three areas: trade in goods, trade in services and investment, and investment. It also included negotiations on various rules in addition to market access.

In May 2013, government officials from the 16 countries participating in the RCEP began detailed negotiations in Darussalam, Brunei, with the objective of concluding negotiations by the end of 2015. In September, representatives of the 16 countries met in Australia for the second round of RCEP negotiations, which went well.

In January 2014, during the third round of RCEP negotiations, the 16 participating countries exchanged views and reaffirmed their communal objective of concluding negotiations by the end of 2015. In April, the fourth round of RCEP negotiations was held in Nanning, Guangxi, continuing toward the objective of concluding negotiations by the end of 2015.

Between June 2014 and the end of 2015, representatives from the 16 countries held another six rounds of negotiations and four ministerial meetings in Singapore, India, Thailand, and Myanmar, but were unable to successfully conclude their negotiations as originally scheduled.

In 2016, the signing of the TPP restrained the negotiation of RCEP, with Japan deliberately delaying the matter, Australia and New Zealand raising their asking prices. ASEAN's internal positions were divided, and its ability to take the lead was weakened. In February 2016, the 11th round of RCEP negotiations returned to Brunei. This round consisted of an inaugural meeting and four penal meetings: trade in goods, trade in services, investment and rules of origin. The focus was

on advancing market-access negotiations and text negotiations in trade in goods, trade in services, and investment. A tentative plan to conclude negotiations in 2016 was also made. In the same year, representatives of 16 countries held five rounds of negotiations on chapters such as SMEs, but were still unable to reach satisfactory conclusions. Negotiations were then postponed into 2017.

In 2017, the 16 participating countries of RCEP held four rounds of negotiations but failed to complete the discussions as expected due to the complexity and challenges of the terms involved.

In 2018, with the exception of the US, 11 parties reached an agreement on a new version of TPP. With this foundation laid, RCEP negotiations significantly accelerated, making positive progress in negotiations on issues related to goods, services, investment, and various rules. Despite the increased rate of progress, the participants were still not able to achieve the objectives in the 24th round of negotiations held in New Zealand. India was the primary cause of delays. The negotiations were postponed into 2019.

In September 2019, the RCEP negotiations eventually came to an end with a major breakthrough made in negotiations with India. India agreed to cut or eliminate 80% of Chinese import tariffs under the 16-nation FTA.

**(C) agreement signing (2019-November 2020): final signing of RCEP by all parties but India**

On the 4th of November 2019, the 3rd RCEP Summit in Bangkok announced that the 15 RCEP participants had concluded negotiations on all 20 chapters of the text and practically all market access, and that the next step would be to start the legal text review with an expectation of signing the agreement in 2020. Regrettably, India decided to postpone signing the RCEP until "significant outstanding issues" were resolved.

In April 2020, the 29th round of RCEP negotiations was held in the

form of a video conference. The participating parties exchanged views on accelerating the expansion of market access and India's return to RCEP negotiations, revealing the aim of signing the agreement within the year as originally scheduled.

On the 15th of November 2020, at 11:30 am local time in Hanoi, Vietnam, the RCEP was officially signed by 15 countries: China, Japan, South Korea, Australia, the ASEAN countries, and New Zealand.

After the RCEP was signed, China took the lead in approving the RCEP, demonstrating their attention and full support for early enforcement of the RCEP. Meanwhile, the RCEP parties had also decided to convene meetings of the RCEP Interim Joint Committee every two months or so to inform each other of the progress made by the parties in the RCEP approval process. At present, all parties have made it clear that they will strive to complete the approval of RCEP by the end of 2021, with the goal of having RCEP enter into force on 1 January 2022.

## **II. The Current Development and Future Prospects of RCEP**

**The RCEP parties have large markets, with economic growth rates sitting higher than the global average and strong development potential.** The 15 RCEP parties have a total population of 2.3 billion, a GDP of about 26 trillion USD, and exports valued at 5.5 trillion USD, altogether accounting for about 30% of the global total. In addition, the RCEP parties attracted 360 billion USD in foreign direct investment and 440 billion USD in outward direct investment in 2019, accounting for around a quarter and a third of the global total respectively. Therefore, the RCEP has been recognized as the world's "largest" FTA in terms of population and GDP. The signing of RCEP means that about a third of the world's economy will form a large integrated market. Meanwhile, the RCEP is the fastest growing and most promising FTA in the world, with the average economic growth rate of its parties reaching 5.2% from 2015-2019, far exceeding the



average growth rate of 2.2% for the CPTPP, 2.3% for the EU, 2.4% for the United States–Mexico–Canada Agreement (USMCA), and the global average of 3.4%. Impacted by the pandemic, the global economy took a general downturn in 2020. The average growth rate of the RCEP economies slowed down to slightly lower than those of the EU and USMCA, which are predominantly developed countries, falling to 2.1%, but was still significantly higher than the average CPTPP growth rate. At the same time, the total population of the other RCEP parties has been rising, with the combined population of the 15 RCEP parties reaching 2.278 billion in 2020, accounting for more than 29% of the world's total population. RCEP covers two of the largest markets with the greatest growth potential, one being the Chinese market of 1.4 billion people and the other being the ASEAN market of over 600 million people, which gives the RCEP an enormous market capacity and potential for growth. The RCEP was birthed due to the rapid development of FTAs in the context of economic globalization, and it is also the result of economic cooperation in the Asia-Pacific region, which was itself pushed forward by several economic crises. It marks a new stage of achievement in the process of Asia-Pacific economic integration. The signing of the RCEP will further promote the economic integration of the region and the development potential of the parties involved, likely making them future world leaders in this area.

Table 1.2.1 Macroeconomic indicators for major global free trade areas<sup>1</sup>

	<b>RCEP</b>	<b>CPTPP</b>	<b>EU</b>	<b>USMCA</b>
Countries	15	11	27	3
Average Economic Growth Rate (%)	2.1%	-6.8%	3.1%	2.7%
Population (million)	2278(29.4%)	512(6.6%)	469(6.1%)	496(6.4%)
GDP (billion)	20898.8(24.7%)	5677.7(6.7%)	16925.2(20.0%)	23656.2(27.9%)
Export (billion)	5419(30.8%)	2696(15.3%)	5652(32.2%)	2240(12.7%)
Import (billion)	4672(26.2%)	2534(14.2%)	5573(31.3%)	3214(18.1%)

<sup>1</sup>Note: 1. RCEP regions as a proportion of the world are in brackets; 2. The average economic growth rates are GDP growth rates for 2015-2020, weighted by the PPP GDP data of each party; 3. All indicators have been updated to 2020, except for foreign direct investment (i.e. OFDI), which is updated to 2019.

FDI (billion)	364(24%)	276(18%)	388(25%)	329(21%)
OFDI (billion)	441(34%)	368(28%)	424(32%)	212(16%)

Source: World Bank, UNCTAD.

**As an inclusive agreement, the RCEP will create development opportunities for its parties.** RCEP parties differ greatly in terms of their institutional environments, levels of economic development, and cultural backgrounds. Considering the characteristics of each country, and acting in line with the concept of seeking common ground while respecting individual differences, the RCEP agreement provides for a transitional period for countries with a relatively low level of economic development. For instance, 30% of taxable items in Laos, Cambodia and Myanmar will enjoy zero tariffs after the agreement comes into effect, while other RCEP parties will have zero tariffs on 65% of its taxable items. The inclusive approach provides developing countries with more feasible conditions and new growth opportunities whilst helping them better integrate into the regional economy.

As a product of global trade liberalization and regional integration, the future development of the RCEP is of concern to the international community. Parties will work together to promote the implementation and operation of this FTA in order to promote the transformation of RCEP, upgrading it to a higher level, and establishing a more advanced regional free trade area of a higher quality. **The Free Trade Area of the Asia-Pacific (FTAAP) is likely to be the most immediate goal. The long-term goal is to promote and establish the Asia-Pacific Community (APC),** which will provide impetus and possible conditions for the practice of building a community with a common destiny in the Asia-Pacific region. Specifically, the future development of the RCEP is twofold: **first, the number of its parties will continue to increase, and the geographical coverage will continue to expand** as new parties join. In addition to India, which withdrew from the negotiations in 2019, currently uninvolved parties from the CPTPP could also join the RCEP, including Canada, Mexico,

Chile and Peru. Countries outside the Asia-Pacific region will also join the RCEP in an appropriate capacity when the time allows. **Secondly, the level of freedom in trade will continue to improve and transform** from a free trade in goods-led FTA to a service-led FTA. The range and quantity of trade goods and services will expand. Moving forward, the RCEP could lean towards a regional common market, a regional customs union, or even regional economic integration. As the largest party and the major beneficiary of the RCEP, China plays an indispensable role in this and has a responsibility to promote the implementation and smooth operation of the RCEP.

### **III. The Impact of Signing the RCEP on Asia-Pacific Regional Economic Integration**

The completion of the RCEP is a new milestone for regional economic integration in East Asia and will significantly advance the process of regional integration. It bears great significance in the optimization of the overall business environment, reducing the institutional costs of FTAs for enterprises and further enhancing the trade creation effect, thereby laying a unique foundation for regional economic integration and conditions for opening up regional markets for the APC.

**From the perspective of optimizing and integrating economic and trade rules, the signing of the RCEP agreement will promote the integration of industrial chains, supply chains, and value chains throughout the region.** The economic structures of the RCEP parties are highly complementary, representing a complete range of financial, technological, and labor-related factors in the region. RCEP will further liberate market access among parties in the areas of goods, services, and investment, with gradual unification of the rules of origin, customs procedures, inspection and quarantining, technical standards, etc., promote the free flow of economic factors within the region, strengthen the division of labor and cooperation among parties, boost

the expansion and upgrading of the regional consumer market, and promote the further development of industrial supply and value chains in the region. The RCEP has integrated a number of "10+1" FTAs between ASEAN and China, Japan, South Korea, Australia, and New Zealand, as well as a number of existing FTAs between China, Japan, South Korea, Australia, and New Zealand, and also establishes new FTAs between China and Japan, and between Japan and South Korea. The RCEP, by creating a giant FTA, will complement the above-mentioned shortcomings of the East Asian economies while integrating the five "10+1" FTAs and addressing the "spaghetti bowl effect", thereby bringing about significant trade creation and investment effects. The RCEP will deepen intra-regional industrial and value chains through regional cumulative rules of origin. It will also promote new cross-border logistics by using new technologies for customs facilitation. The RCEP will improve the transparency of investment policies by adopting negative lists and liberating investment. All of these will promote the optimization and integration of economic and trade rules in the region.

**From the perspective of achieving balanced regional development, RCEP achieves an inclusive and high-quality unity, which will help parties share the fruits of open development, advocate the policy of "new openness", and drive the world economic integration towards a new historical stage.** The RCEP is a paradigm of trade cooperation between large and small countries, between developed countries and developing countries, between Eastern societies and Western societies, between Southern countries and Northern countries, between socialist countries and non-socialist countries, and between Chinese market economy and the Asia-Pacific market economy. The RCEP will, through increased economic and technical assistance to economies with weaker development level, strongly promote coordinated and balanced regional development,

close the development gap between parties, and become a key facilitating force for the construction of the Asia-Pacific free trade area and even for the reform and innovation of the WTO. In addition to the fact that the overall percentage of zero-tariff products in trade in goods will exceed 90%, the level of liberalization of trade in services and investment under the RCEP will be significantly higher than that of the original "10+1" FTAs. RCEP also incorporates modern topics such as IP rights, e-commerce, competition policies, and government procurement. Meanwhile, the RCEP takes into account different countries' circumstances by granting special and differential treatment to the least developed countries. By strengthening economic and technical cooperation, the RCEP will meet the practical needs of developing and least-developed countries. The RCEP balances the aspirations of all parties to the maximum extent and will promote inclusive and balanced development in the region, allowing all parties to share the fruits of the RCEP. Therefore, economically and politically speaking, the RCEP will become an intellectual resource, forming a theoretical basis and a reference for policy for the continued promotion of world trade liberalization and investment variables. This will be of great significance in building a multilateral trading system, preventing unilateralism and extreme protectionism on both regional and global levels, and bringing the development of world economic integration into a new era.

**From the perspective of the beneficial linkages with other Asia-Pacific regional economic systems, the RCEP will give a strong impetus to the formation of a new pattern of Asia-Pacific economic cooperation.** With the existing China-ASEAN FTA as the basis of cooperation, the China-Japan-South Korea FTA (under negotiation) as a higher platform, the CPTPP agreement led by developed countries as a possible path, and the FTAPP covering all parties as the ultimate goal, the Asia-Pacific region sees a complex

landscape of regional economic cooperation. For the increasingly integrated China-ASEAN FTA, the RCEP will provide more cooperation opportunities for both sides on a broader unified market and promote further in-depth development of bilateral economic and trade relations. For CPTPP, which is dominated by developed countries, the RCEP is a complement to its high standards and stringent requirements and helps developing countries to benefit from Asia-Pacific regional economic integration. For the China-Japan-South Korea FTA that aims at building a higher quality Northeast Asian economic region, the RCEP will fill in the gap caused by the lack of bilateral FTAs between Japan and South Korea and between China and Japan, and it will lay the foundation for negotiations for FTAs of a higher standard being established between the three countries. For APEC, which promotes the Asia-Pacific FTA, the RCEP takes the lead in building the largest and most complex FTA to date within 15 countries in the region. It provides practical experience and prerequisites for the continued expansion of the FTA to 21 countries in the region.