RCEP and China: A deal that can make a difference*

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A month after the signing of the Regional Comprehensive Economic Partnership (RCEP) agreement among 15 countries in the Asia-Pacific, speculation on what could be its economic and strategic fallout has waned. Attention seems to have been diverted by the more immediate concerns that the pandemic and the recession that accompanies it have raised. At first, commentators and observers woke up in the middle of a pandemic to express surprise and exude a sense of uncertainty at the deal being signed. Surprise, perhaps because China was a part of the agreement, despite the unrelenting discussion about its expansionist ambitions in the region. The allegedly aggressive regional power now sits with historical and more recent rivals varying from Japan and Australia to South Korea and Vietnam at a table that would be the site for discussions on wider and increased institutionalized economic cooperation and integration in the Asia-Pacific.

The uncertainty stems from a lack of clarity about how much China would benefit from the new arrangement, which India refused to join, and the US was not invited to participate in as an outsider that can manage the power balance within the club. As a trade promoting arrangement the RCEP is no game changer. It largely integrates a whole host of trade agreements that were already in place between different subsets of the 15 that have come together here. The Economist reports that of the $2.3 trillion in merchandise trade between the RCEP-15 in 2019, more than 80 per cent was already covered by preexisting agreements. Moreover, other than reducing tariffs from already low levels and harmonising clauses relating to different aspects of trade in the different agreements that rule in the region, the new deal does not make much advance in areas considered crucial to a neoliberal partnership such as foreign investment regulations, labour codes, environmental norms, intellectual property rights, state subsidies, and public procurement.

But other aspects of the RCEP agreement and this lighter version of a trade partnership possibly serves China’s interests. For the first time, the agreement brings together with equal trading rights three regional heavy weights—Japan, China and South Korea—relations among which have been fraught. Along with the 11 other signatories these countries account for close to a third of global population, output and trade. With rules of origin for commodities to be eligible for reduced tariffs harmonized and kept relatively loose, this is a ‘common market’ of considerable size and significance that China now has freer access to.

Being a key hub in regional value chains and of the “Asian export platform”, China can benefit not only from easier flows of intermediates and components, but enhanced access to a market that is set to grow faster than those elsewhere in the world. That China will play a greater role in that market was flagged by India’s decision to withdraw from the discussions, on the grounds that it was not allowed what it argued were crucial safeguards for its domestic players from likely competition from cheap Chinese products. Moreover, it only suits China that a range of issues other than trade per se that matter to an economic partnership have been left open. As of now, China is reluctant to accept relatively strict multilateral norms in areas like intellectual property rights, implicit subsidies and environmental protection. So, it may not have been able to join the arrangement if the latter included clauses of the kind that are present in the other partnership arrangements centred around Asia, such as the Comprehensive and Progressive Trans-Pacific Partnership or CPTPP—the evolved form of the TPP that President Trump walked away from saying it would hurt America and its workers. On the other hand, as and when China would like clearer guidelines in an area like foreign investment regulation, it now has the right to raise the issue at an appropriate time. This could prove crucial since the evidence is that China is approaching that stage in its development where, as happened in the case of Japan and South Korea much earlier, it would lose competitiveness in low-end, labour intensive manufacturing. Labour costs are rising and countries are taking retaliatory action against what they see as "unfair competition" from China. This may warrant shifting some manufacturing facilities run by Chinese firms from the home country to foreign locations, which would call for friendly investment policies. China gains today and has partially insured itself against loss of those benefits in the future.

This change for the better in China's trading position in Asia, at a time when it is being acted against in markets elsewhere, has to be seen in conjunction with the other initiatives that enhanced its position as a regional power. One is the Belt and Road Initiative (BRI), involving a range of infrastructural and other projects in developing countries in the region which, even if controversial and blamed for the supposedly unsustainable external indebtedness of some of these countries, has enhanced China's regional standing. More importantly, besides the strategic gains China is perceived as making through the BRI, such as control over the strategic Hambantota port, projects such as the China-Pakistan Economic Corridor provide it easier access to global markets. A second is China's decision to promote and substantially back a set of financial institutions, including the New Development Bank and the Asian Infrastructure Investment Bank, that fund major projects in the region and beyond. Willingness to organize hard currency financing without damaging conditionality in a period when governments are stretched to pull out of the Covid-induced recession does strengthen influence. The third is China's decision to exploit its huge cache of foreign exchange reserves and its position as a major source of imports from most developing countries, to put in place central bank to central bank swap lines denominated in both the dollar and the RMB. Providing access to dollar liquidity to countries the US Fed is likely to ignore is more than a friendly gesture. Establishing swap lines denominated in RMB furthers China's goal of internationalizing the RMB, increasing the volume of trade denominated in that currency, and moving it closer to being an alternative international reserve currency.

The RCEP is significant not only because it supports this multi-pronged Chinese push to regional and global big power status, but also because it does so without the presence of the United States and India, which share the objective of wanting to counter China's rise. While the United States did not have the option of being part of the RCEP, its decision under Trump to walk out of the TPP has diminished its influence over economic policy making in the region. India, on the other hand, did have the option of being a part of RCEP, but chose to withdraw on the grounds that it would adversely affect national economic interests.

It is indeed true that India has been a net loser in free trade and partnership agreements with countries in the region, and joining the RCEP would have resulted in significantly adverse economic effects on industry and agriculture. The question that the government had to address was whether it was important to join the RCEP as a means of countering China's influence, even if the economic costs are important. External Affairs Minister summed up the government's view on the matter when he declared in mid-September 2019 that: "RCEP is a trade agreement. A trade agreement must be defended and decided upon by trade merits. There are diplomatic aspects, consequences, handling etc involved. But the primary justification of a trade agreement can't be diplomacy. It has to be trade." After RCEP was signed, he chose to give a particularly protectionist interpretation of India's stand, when he said that by adopting the slogan of an "Aatmanirbhar (self-dependent) Bharat", India had signalled a turn away from liberalism in trade. "In the name of openness", he said, "we have allowed subsidised products and unfair production advantages from abroad to prevail. And all the while, this was justified by the mantra of an open and globalised economy."

Given its unrelenting embrace of neoliberal economic reform, few would be convinced that this is a true reflection of the government's position on economic policy. Rather, it appears to be a peculiar justification for a one-dimensional focus on the "Chinese threat", which is sought to be countered by depriving China of a share in India's market. That would hurt. But the opportunity to extend China's regional influence without having India as an ally of the US interfering in that project may be more than adequate recompense.

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