



Challenges for China in the Establishment of Regional Comprehensive Economic Partnership (RCEP)

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Abstract

This research aims to provide a descriptive explanation of how the formation of economic integration through the RCEP case study is able to form a new order of regionalism in the region. This research also tries to explore the challenges for China as the main economic power in the economic integration. This research utilizes the concepts of third wave regionalism and free trade zones through a descriptive qualitative study approach. The research finds that although China and ASEAN are positively on the same track regarding the establishment of RCEP, it is challenged by broader regionalism such as the Sino-Indian rivalry and other similar regionalism mechanism challenges. The article concludes that it is necessary for China to face the challenges by establishing a fair and acceptable cooperation arrangement for the global south so that RCEP can be beneficial for both parties.

Key Words: ASEAN; Asia Pacific; China; RCEP; Third Wave Regionalism

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INTRODUCTION

RCEP or Regional Comprehensive Economic Partnership is an agreement initiated by ASEAN as a regional cooperation in which this cooperation involves ASEAN economic partner countries: Japan, South Korea, India, Australia, China, and New Zealand. The RCEP agreement was made in 2011 when the 19th ASEAN Summit took place in Bali, and the negotiations were launched in 2012 which coincided with the ASEAN Summit. In understanding RCEP, there are contents of the agreement, objectives, targets, and key features that attract the establishment of cooperation. The contents of the RCEP agreement include trade remedies, rules of origin, customs and trade facilitation, competition, and e-commerce with the aim of reducing tariffs, opening trade in services, and encouraging massive investment, especially in developing countries, to compete with the global economy (Ministry of Trade, 2023).

RCEP's target to achieve these goals is to use fair economic cooperation, optimizing the high quality of cooperation that benefits the facilitator, which in this case is the country, when expanding trade and investment (Tao et al, 2022). The four components in the RCEP target include modernity, comprehensiveness, high quality, and mutual benefit. RCEP is a cooperation that is quite observant in seeing the ongoing reality, with the existence of e-commerce, MSMEs, and market competition today. It is said to be comprehensive, high quality, and beneficial because RCEP contains articles that are more in-depth than ASEAN FTAs, addressing issues that have the urgency to encourage parties to engage in global and regional supply chains.

China's joining the WTO in 2001 has had an impact on how the Chinese economy is developing today. As we know, China became one of the most economically influential countries in the world, concretely the “Big Three” countries in the global economy (Wang, 2003). In 2005, import quotas were abolished and China agreed to eliminate export subsidies as part of its WTO commitments. China's statement after joining the World Trade Organization is that the Chinese government supports liberalization and does not support protectionism in any form. China in this case became a supporter of the multilateral trading system by building FTA connections to various countries in the Asia Pacific. For example, China-ASEAN cooperation shows how China's commitment to good neighbor where the China-ASEAN Free Trade Agreement (AFTA) cooperation came into force in 2010 with six ASEAN

countries, namely Indonesia, Brunei, Malaysia, the Philippines, Thailand, and Singapore (Ke, 2015). Not stopping there, in 2015 China expanded the FTA cooperation with 4 other ASEAN countries, namely Cambodia, Laos, Myanmar, and Vietnam (Bhowmik et al, 2021). These FTAs functionally remove investment barriers and trade tariffs. China's openness in cooperating with Asia Pacific countries is also illustrated in the bilateral relations built, namely investment agreements (FDI), security standards, and bilateral FTAs with Asia Pacific countries. Thus, China's presence in the WTO makes China more developed and progressing economically and with these policies China gets benefits and advantages so that it becomes a country that counts economically. The author through this article then formulates the question “how the formation of economic integration through the RCEP is able to form a new order of regionalism in the region, then what are the remaining challenges?”

Literature Review and statement of art

This article uses two concepts: third-wave regionalism and free trade zones. Third-wave regionalism, more precisely from 1985 to the present, symbolizes the end of the cold war and the notion of the viability of dynamic institutions and projects, as well as the belief in maintaining world peace. The changes experienced by this 'new regionalism' are more varied and complex political, economic and security systems (Mansfield & Milner, 1999), for example the emergence of FTAs or Free Trade Areas as a form of economic integration. Allowing for more power to convince the agenda for institutional interests, it can be said to be a process of further development as developing countries become more independent in their efforts to cope with the situation and conditions on the world stage. This means that the third wave provides a number of opportunities for countries to position the diversity of national identities in local institutions, hence the different perspectives from the European, African, Asian and American regions.

The reform was marked by the creation of different acronyms, forms of previous organizations, for example APEC, MERCOSUR, CIS, and SCO. According to Syahdani, 2021 in a journal written by Choiruzzad, regionalism in this third wave is said to be the concept of 'regionalism' and 'regionalization', in contrast to the old concept which defines it as a form of 'regional integration' and 'regional cooperation'. This new regionalism is not a norm, but a process or a model or a structure for the development of a region. There is more involvement of developed and developing countries in partnering. The new regionalism also emphasizes the

diversity of institutions. The dynamism of the organization also creates a multidimensional nature that can differentiate between the economic and political spheres. This wave of regionalism also creates an identity that reflects the region (Miková, 2017).

To face the era of globalization and the onslaught of each country's economic power, a country must also be able to compete in the international system. In addition to developing each company or economic branch it owns, each country in a region usually forms a free trade zone, or what is called an FTA (Free Trade Area) (Ornelas, 2005). Globalization and the birth of free trade have influenced further understanding of applicable international law so that agreements on free trade are not arbitrarily made. This is important because the free trade zone agreement consists of several countries. The formation of the FTA zone is the result of economic liberalization which has become a major flow for every country in the world so that it is often said to be unavoidable by the international community (Bowles & Maclean, 1998).

The concept of trade blocs actually started in Europe. It started when Europe formed the European Community. Furthermore, initially this cooperation only focused on coal and iron trade. This was later deemed successful for member countries that were members of this free trade zone. This then ended with currency integration and one central bank in Europe. This free trade zone or trading bloc was then followed by the United States forming a trading bloc with Mexico and Canada. The agreement between these three countries is called NAFTA or North American Free Trade Agreement. This cooperation provided the possibility of free trade by reducing tariffs, energy services, patents, and eliminating import quotas for agricultural products. After the cooperation was successful, countries in ASEAN joined in this type of cooperation (Sukmana, 2019).

METHOD

This article generally adopts a qualitative approach. According to Hammersley, a qualitative approach focuses on observing data in the form of words and sentences (Hammersley, 2012). This is in contrast to quantitative research, which usually examines data predominantly in the form of numbers. In particular, this article serves as a description and explanation of the topic. This research relies on the literature study technique to gather enough information to describe and explain the

main issues by studying and exploring previous research related to RCEP development.

RESULT AND DISCUSSION

China and ASEAN's Perception of RCEP

China sees RCEP as the right mechanism to cooperate in strengthening the regional economy, which in this case can release ASEAN countries from Western interdependence. The idea of RCEP is a positive one, but China anticipates all kinds of challenges that might occur. Seeing how China is so firm in stating that RCEP is not a forum for discussing regional conflicts but focuses on economic cooperation. This is to separate the South China Sea dispute into an international issue. Asia's renewal in economic terms can be argued are supported by China's growth, and that this form of RCEP cooperation is a good example of strengthening regionalism (Hsieh, 2017).

According to the Chinese Foreign Minister, both China and ASEAN should 'let go of the China-ASEAN Free Trade Area (CAFTA) and actively promote the RCEP negotiations'. From this it can be seen that the ASEAN region is becoming a region that fuels China's political and economic ambitions especially after the return of the United States to the Asia Pacific region. Policymakers and experts in China are keeping a close eye on matters relating to the TPP, and hence shaping China's broader dialog on RCEP. The TPP here as America's broader strategy in Asia, having direct links to many factors: America's rebalancing strategy towards East Asia and the Asia-Pacific; the US presence in Asia; and efforts to contain China's rise and limit its economic supremacy. Thus, China seeks to ensure that RCEP presents itself as a different idea to the TPP in the region (Jiang & Yu, 2021).

With the progress of an increasingly open era, it also has an impact on the existence of economic openness which is increasingly unavoidable. The rapid exchange of goods and information makes information quickly known or obtained, ASEAN as one of the regional organizations that is mostly filled with developing countries wants to make this economic openness as one of the steps to increase their economic growth to become more advanced, ASEAN implements an open market policy with one of them is to carry out economic liberalization which continues to be intensified to improve the economy of countries and regions. ASEAN with a large geographic and demographic area, of course ASEAN wants to attract other countries to be able to cooperate and invest in the future.

ASEAN also explores cooperation with surrounding countries, especially with countries in East Asia that have promising cooperation potential and large trade levels. Some of these countries are China, South Korea, India, Japan, Australia and New Zealand by forming RCEP economic cooperation. With RCEP, it is expected to form a modern, comprehensive and high quality agreement and of course mutually beneficial for the countries that are members. The emergence of ASEAN centrality where ASEAN wants to be one of the biggest driving forces in the region. ASEAN wants to be a neutral party for superpowers to dominate in the region in the Asia Pacific. There are several important issues that ASEAN wants to fix, one of which is the problem of trade and economy in Southeast Asia. RCEP can eliminate tariff and non-tariff barriers to export and import goods between countries outside ASEAN. It is hoped that this agreement can break the economy for countries that are members amidst the uncertainty of the world economy (Wu, 2020).

External and Internal Challenges: India's Exit from RCEP

Before its official exit, the debate over India's RCEP was split between the strategic preferences that China and the US have in world politics and its relationship with India's foreign policy. The large trade deficit with China created broader concerns for India. On the other hand, the existence of TPP for India is also strengthened by the return of the United States to Asia which limits China's influence in the Asia-Pacific (Panda, 2014). Another problem for India in its membership in RCEP is that the Indian government is under pressure to maintain a GDP growth rate of 8% to achieve the US\$5 trillion economic target promised by the Modi government. In this context, India's entry into RCEP is considered to bring economic uncertainty rather than stability (Seshadri, 2019).

a) Domestic-driver

In understanding the dimensions of domestic dynamics that drive India's withdrawal from RCEP, Naufal & Choiruzzad (2021) analyzed that there are two (2) influencing factors, namely:

1. Business sector

Although the government seems to take a strong role, the business sector is influencing political economy policy in India. The involvement of the Federation of Indian Chambers of Commerce and Industry (FICCI) and the Confederation of Indian Industry (CII) in the RCEP negotiations shows the strong stance of business groups in

India. However, there was friction between FICCI and CII in response to RCEP. FICCI expressed concerns on strategic sectors such as iron and steel. Meanwhile, the CII's stance tends to support India joining RCEP. India's withdrawal from RCEP negotiations is considered to hamper India's integration in the global supply chain.

2. Political sector

The strength of Hindu nationalists as a stronghold of Narendra Modi's supporters can be seen in the protests organized in various states against India's participation in RCEP. This pressure is not only exerted by Hindu nationalists, but also the farmers and ranchers sector who are concerned about India's joining RCEP.

b) External-driver

Due to the dynamic nature of the relationship, RCEP faces geopolitical risks that are more difficult to predict than other regional economic cooperation agreements. In particular, China's fierce geopolitical conflict with India has made the geopolitical nature of RCEP more prominent. China has always been a major concern for India's foreign policy decisions. India is worried that China will become dominant in RCEP so that India will be forced to retreat in competition with China. On the other hand, India also engages with developing countries such as ASEAN, not only to enhance economic and security capabilities, but also to bridge the power gap with China (Wang & Sharma, 2021). Compared to RCEP, which does not prioritize India's interests, CPTPP will be more in line with India's foreign policy and is a relatively more favorable option for India given its strong rivalry with China. If so, then RCEP's position as a milestone for further regionalism in the Asia Pacific will be undermined by the competition between RCEP and CPTPP.

Challenges for RCEP: FTAs Competition in the Region

The CPTPP agreement has shaped the Asia-Pacific trade landscape. Becoming a member of the CPTPP is expected to provide significant benefits that help expand the influence of this agreement (Petri & Plummer, 2019). Furthermore, most CPTPP member countries will gain from the trade agreement, and most non-member countries will experience losses when dealing with the exclusionary effects of the regional trade agreement (Li & Whalley, 2021).

However, rising tensions over territorial disputes such as in the South China Sea (SCS) and the Senkaku islands territorial dispute with Japan reinforce the

perception of the “China threat” (Cheng, 2013) which complicates the further establishment of regionalism in the Asia-Pacific, especially one that adopts China's interests. Thus, this is a challenge for the formation of RCEP to rival CPTPP.

RCEP Outlook in the Region

With the emergence of the Covid-19 pandemic, there have been many major changes to the world economic environment. Various efforts or restrictive measures are taken to control the pandemic which also impacts the economic sector by limiting trade and personal travel as well as protectionist policies in the name of economic and social security. The existence of RCEP has given a strong indication to the world, especially for East Asian countries where they remain determined to keep the trade market open through various post-pandemic cooperation to restore the world economy and market growth. As one of the influential countries, China has been active and continues to contribute specifically to regional networks in various forums such as APEC, ASEAN+1 and RCEP. As it is known, China is one of the centers of the production network and provides a supply chain which will be very beneficial for China in particular in participating and committing to continue to develop their promotion in the regional network (Zhang et al, 2020). RCEP is thus become the most promising means to connecting East Asian economies to create a modern, comprehensive and high quality free trade area. For China, with its special advantages such as low labor costs and pro-market policies, China can be seen as one of the most promising places for investment by foreign investors for both domestic and foreign markets.

The RCEP agreement has binding regulations which cover a comprehensive range of areas including; Trade in Goods, Terms of Goods, Customs Procedures and Trade Facilitation, Trade Remedies, Trade in Services, Investment and many others. RCEP also covers new topics such as; Property, E-Commerce, and government procurement. For developing countries, it has a win-win impact because of equal treatment and through an inclusive approach that can create a good market environment. Amidst the uncertainty of the world economy caused by the Covid-19 pandemic, it has caused a slowdown in economic growth for countries. Therefore, RCEP will be able to increase economic confidence especially between East Asia and ASEAN and also the world business community to maintain an open and cooperative market. RCEP can also help its members to accommodate development

gaps, coordinate, and foster development patterns for an open regional economy by increasing economic assistance.

From China's perspective, RCEP is a major advancement for them to be able to implement a free trade strategy. RCEP will be an important platform for China's market opening up to the world. Further market integration provides great potential in optimizing its foreign trade and investment flows with high standards of international trade. Chinese companies especially the private sector will be able to engage significantly in the trade market which will certainly have a positive impact on China to further enhance their ability to allocate their resources better especially amidst the current global economic uncertainty (Jiang & Yu, 2021; Tan & Soong, 2022).

CONCLUSION

RCEP is a regional agreement initiated by ASEAN. ASEAN as a regional organization with the majority of developing country members is trying to increase its economic growth in various ways, one way is by implementing an open market policy to improve the economy of its member countries. For this reason, ASEAN conducts agreements such as RCEP. This RCEP agreement involves several partner countries of ASEAN, one of which is China. In this case, China, which is one of ASEAN's partner countries in this agreement, sees that this cooperation can strengthen the regional economy and make ASEAN countries independent from western dependence. China, which has previously cooperated with ASEAN with the China-ASEAN Free Trade Area (CAFTA) agreement, sees that the previous agreement must be ended and immediately begin the implementation process of RCEP. In addition to the goal of strengthening regionalism and boosting the economy, China also sees RCEP as a comparison to the TPP strategy pursued by the United States towards the Asia-Pacific region. In the process, RCEP has several challenges starting from India's withdrawal from the agreement due to internal problems that are felt to provide economic uncertainty rather than stability when joining RCEP. In addition, the geopolitical conflict between China and India will affect the process of RCEP activities. RCEP is a promising for member countries with a modern and high-quality free trade area. For China, RCEP can be an advancement for them in implementing their free trade strategy. The author in this

article suggests that it is necessary for China to establish a fair and acceptable cooperation arrangement for the global south.

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