The Covid-19 Situation: The Role of Guiding Principles in Regional Comprehensive Economic Partnership (RCEP) in ASEAN Economic Recovery

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Abstract—This paper investigates the impact of the Regional Comprehensive Economic Partnership (RCEP) trade agreement that is expected to boost 45% of the world’s population economy by 2021. With ASEAN and 5 developed nations participating in RCEP, one area of concern is how these different nations could achieve a balance of trade. While most countries struggled to recover economically after Covid-19, the objective of this paper is to determine whether ASEAN could benefit as a region in the RCEP under the application of Guiding Principles. This paper relies on secondary data to identify whether the Guiding Principles of the agreement would assist ASEAN in economic recovery post-pandemic period. More importantly, ASEAN needs to thrive in the small and medium enterprises (SME) and the paper relates the application of the Guiding Principles upon the progression of SMEs in ASEAN. The RCEP ought to be adaptable to countries of different statuses because every country has different needs and capacity to trade. The paper finds that for RCEP to sustain as a successful trade agreement in the long-term, Guiding Principles must be adhered to by customizing the trade needs of not only each member country but also ASEAN as a region.

Keywords: ASEAN; RCEP; SME.

I. INTRODUCTION

Covid-19 is an unprecedented disruption to the global economy. The pandemic affects production and consumption. Hence, there is a need for new trade measures in response to the adverse effects, although new procedures and regulations greatly affect exports and imports. Countries require transparent information to enable governments and traders to keep up to date in the most clarifying manner particularly within the economic recession disruption.

The World Trade Organization (WTO) promotes international transparency in trade as members need to formally notify the WTO Secretariat of all laws and regulations affecting trade. Transparency is crucial for quick and easy access to information on imports and other requirements for goods. For example, the pandemic requires non-delay and non-rejection of supply of essential medical goods to reach required destinations (Covid-19 and the World Trade, 2020).

However, Covid-19 affects more than the trade of medical goods and essential supplies. The pandemic pushes most of the world’s major economies into recession. Japan, Britain, Germany, US are affected at various degrees, while China was able to largely halt the spread of the virus and reopened factories when Covid-19 became under control [9]. On 30 January 2020, WHO declared a public health emergency as an international concern. To date, Covid-19 has affected 25,383,993 lives worldwide and 850,588 deaths across the 204 countries and territories [1] and the trend is rising continuously.

By January 2020, World Bank argued that global trade tension has slowed down markets and developing economies. The World Bank suggested for promotion of trade integration and productivity but at the same time, protecting vulnerable groups [2].

Free trade is one of the best ways to boost development and prosperity using the fairest rules. Through free trade, countries could trade with each other at a minimum cost with the least trade barrier. Smooth flow of products and services from one nation to the other traded at the fairest price would put both exporter and importer in a win-win situation. Countries agreeing to a free trade agreement could reap the benefits of free trade despite diverging in development statuses.

As a region, the ratification of Association of Southeast Asian Nations, or ASEAN, on 8 August 1967 in Bangkok became effective by the signing of the ASEAN Declaration (Bangkok Declaration). The Founding Fathers of ASEAN are Indonesia, Malaysia, Philippines, Singapore, and Thailand. In terms of participation dates, later members included Brunei- joined ASEAN on 7 January 1984, Vietnam on 28 July 1995, Laos and Myanmar on 23 July
1997, and Cambodia on 30 April 1999. As for Timor Leste, it has not become a part of ASEAN although fulfilled Article 6 of ASEAN Charter, with the “ability to carry out the obligations of Membership” through attendance of meetings of ASEAN in World Economic Forum and ASEAN Regional Forum [3]. The ASEAN Charter forms a concrete base to achieve ASEAN Community by providing legal status as well as a platform for institutional framework for ASEAN (MITI, 2018).

There are six free trade agreements involving ASEAN in the past 17 years, which are: ASEAN-China Free Trade Agreement (ACFTA-enforced 1 July 2003), ASEAN-Korea Free Trade Agreement (AKFTA-enforced 1 July 2006), ASEAN-Japan Comprehensive Economic Partnership (AJCEP-enforced 1 February 2009), ASIAN-Australia-New Zealand Free Trade Agreement (AANZFTA-enforced 1 January 2010), ASEAN-India Free Trade Agreement (AIFTA-enforced 1 January 2010) and ASEAN Trade in Goods Agreement (ATIGA-enforced 17 May 2010). All of these six FTAs are effective and still in force (MITI, 2018).

The seventh FTA involving ASEAN is the proposed Regional Comprehensive Economic Partnership (RCEP). RCEP is a trade agreement that constitutes 25 percent of global gross domestic product (GDP), 45 percent of the world’s population, 30 percent of global income, and 30 percent world trade. The launching of RCEP took place during the 21st ASEAN Summit in Phnom Penh, Cambodia in November 2012. RCEP aims to integrate economically ASEAN and five other developed countries.

While some may argue that RCEP benefits big players in major industries, a closer observation demonstrates that the RCEP could also boost small and medium enterprises (SMEs) which constitutes more than 90 percent of business entities across 15 Member States [4].

Since SMEs form 90% of the entities in RCEP, it makes sense to duly consider the interests of SMEs within the framework of the FTA [5]. The SMEs that seek to trade internationally require free trade agreements or FTA as an important tool for this purpose [6]. In fact, in 2015, the Sustainable Development Goal has expressed the need to facilitate access to SMEs to international trade and investment [7].

Whilst the RCEP goes through many rounds of negotiation, it has seven common members to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership- the CPTPP (previously known as the Trans-Pacific Partnership Agreement or the “TPPA”). These seven members are Australia, Brunei, Japan, Malaysia, New Zealand, Singapore, and Vietnam. The then TPPA caused a polemic due to the imbalance of trade in the imposition of its trade rules until Trump Administration withdrew the US participation. Neither RCEP nor CPTPP involved the US as a Member State.

The key areas of RCEP are tariff reduction and elimination, common market schedule, intellectual property, investment, environmental protection, financial services and labor standards, support of domestic structural reforms, support port, road, power, and other infrastructure improvements, and trade facilitation in terms of improving customs administrative services.

**Guiding Principles of RCEP and Members of Different Levels of Development**

Being the world’s largest trade pact, the ratification of RCEP is estimated by the end of 2020 [8]. Participating nations agreed that Covid-19 increases the importance of RCEP [9]. Market access for SMEs is advantageous for ASEAN through the RCEP particularly since half of the world’s population are participants to the RCEP. This opens a golden opportunity for SMEs to spread their wings through the immense market open to them.

According to a November 2018 report by Commerzbank AG, a German banking and financial services company, SMEs have been hit hardest by when more than half of trade finance transaction requests by the SMEs have been rejected worldwide [10]. A 2017 survey by the Asian Development Bank (ADB) demonstrated that SMEs faced the biggest challenge in accessing trade finance. Here, there are 74 percent of total rejections in 2016 (an increase from 57 percent in 2015). This survey indicated missed trade opportunities, thus preventing ASEAN to grow economically. At the same time, SMEs are important job creators. Within ASEAN market, SMEs create 52-97 percent of all workers. So far, these are the obstacles that affected SMEs even before the advent of the pandemic of Covid-19. However, SMEs could be further developed through a harmonious implementation of the RCEP. This is why the next section discusses the Guiding Principles of RCEP, a set of principles that promotes inclusiveness as a priority for ASEAN. This could push the ASEAN SMEs to the next level.

Before the availability of leaked documents on RCEP, there has been an established set of Guiding Principles and Objectives for Negotiating the RCEP. These principles guide the negotiation process that began in May 2013. There are 8 Guiding Principles and Objectives for Negotiating the RCEP. The Guiding Principles also state that the RCEP will add to, rather than replace other trade pacts, and at the same time, RCEP will introduce “significant improvements.” Emphasizing on developmental issues, Guiding Principle 4 states:

“Taking into consideration the different levels of development of the participating countries, the RCEP will include appropriate forms of flexibility...
including provision for special and differential treatment, plus additional flexibility to the least-developed ASEAN Member States.”

Besides, Paragraph IV of the Economic and Technical Cooperation stated that the RCEP aims to be as follows:

“... narrowing the gaps among the parties and maximizing mutual benefits from the implementation of the RCEP agreement. The economic and technical cooperation provisions in the RCEP will build upon existing economic cooperation arrangements between ASEAN and ASEAN’s FTA partners participating in the RCEP.”

II. PROBLEMS

Being an early participant, the advantage for ASEAN is that those agenda and rules set by existing partners of RCEP are negotiable among the members, while future participants accede to this agreement will have no choice but to accept the agenda and rules already set by the existing partners [11].

The question, however, is to what extent could the RCEP narrow the gaps between the participating countries by considering their different levels of development, particularly ASEAN as a region?

In comparison to the CPTPP, the RCEP faced more rounds of negotiations that three deadlines were missed in concluding the RCEP in 2013 [12]. Factors that led to delay include differing interests, but more importantly, the gap has been due to the bridging efforts made between the more mature, developed markets with less developed countries within the RCEP. It was the Guiding Principles that assisted the negotiation process.

Guiding Principles did not exist in TPPA, and hence many countries lost faith in proceeding with TPPA. Certainly, RCEP is not intended to create a similar effect to that of TPPA. Practically, however, it remains to be proven for RCEP countries to adhere to these principles when RCEP is enforced by early 2021.

The problem with not complying with the Guiding Principles is that there will be a lack of balance of trade greatly that greatly affects LDC and to a certain extent, SMEs of ASEAN. While richer countries may easily reduce their tariffs, LDC in ASEAN needs time to develop its SMEs. Tariffs are still a source of income for LDC. For example, Laos will have to face trade losses in the garment sector when it no longer qualifies for special tariff allowances by 2024 [13]. The pandemic of Covid-19 has severely affected Laos and slashed economic growth that Laos could not graduate from its LDC status by this year, and predictably, even by 2024 [14]. As a matter of recommendation, FTAs should leave no one behind. Every Member States deserved to obtain equal trade opportunity [14]. Since a trade pact ought to unify and not disintegrate its participants, RCEP should ensure that its provisions are fair and considerate across all of its participants-developed, developing, and least developed countries.

While the Guiding Principles assured “additional flexibility” depending on the different levels of development, leaked documents on the RCEP highlighted a few points of concern. Experience learned from the North American Free Trade Agreement (NAFTA)- now known as United States-Mexico-Canada Agreement (USMCA,) and other FTAs proved the importance of harmonization of diversified national laws to ensure that the elimination of tariff and non-tariff barriers are fully realized and timely for SMEs in least-developed nations of ASEAN [15]. If harmonization and tolerance between nations failed, like in the case of previous TPPA, opposition to RCEP might occur. This can be seen in the case of the TPPA where Malaysia has experienced a lack of emphasis on SMEs and consequently, many parties opposed the idea of Malaysia becoming a signatory to the TPPA [16].

III. RESEARCH METHOD

Hence one method that this research finds for the RCEP to cater to ASEAN is to give due consideration to SMEs by harmoniously applying the Guiding Principles. Arguably, the fact that RCEP allows a prospect of development assistance for adjustment is an indication of the fact that developing countries will find it easier to participate. Guiding Principles is a feature missed by the TPPA and RCEP has the advantage of becoming the more appealing, harmonious FTA compared to the TPPA.

The second solution is to properly inform ASEAN SMEs on the advantages they could reap from preferential terms set under the RCEP. After all, ASEAN negotiated through RCEP to broaden and deepen ASEAN engagement with its FTA partners- Australia, China, India, Japan, Republic of Korea, and New Zealand. Having properly-implemented terms under the RCEP could reduce the “noodle bowl” effect of overlapping bilateral and regional agreements. However, RCEP should not just be a consolidation of these bilateral agreements. Improved transparency is a must but more importantly, allowing SMEs to grow upon the ratification of any FTA will be of priority issue as SMEs constitute the key contributors to economic nation particularly to the least developed nations of ASEAN. Hence, transparency is required if Laos for example requires information on how to adjust their needs to the RCEP obligations. Even the UK has been exercising a meticulous calculation that each business owner makes in FTA [17]. The question therefore is, has ASEAN strategically plan to take similar steps?
A third solution in affirming the interests of SMEs is using obligatory, which is more impact, rather than best endeavors language to enforce the Guiding Principles. This is important since SMEs are more constrained in both financial and manpower aspects, and smaller in size and accordingly smaller export values, that any barrier against SMEs by introducing or raising fixed costs impedes SMEs much more compared to larger enterprises.

A fourth solution is to increase awareness of ASEAN SMEs about RCEP. Lack of knowledge has been a persistent problem for SMEs to trade under FTAs- for example, lack of information about foreign markets, conditions of market access, or about concrete compliance with local regulations. An evidence-based survey made showed that 80% of 200 SMEs of Indonesia knew about the ASEAN Economic Community, but only 18% are aware of the ASEAN Blueprint for the SMEs and 63% of active exporters did not use the form for FTAs due to lack of knowledge regarding their use. Similarly, in Malaysia, the top reason for not taking full advantage of the FTAs is the lack of knowledge [18]. In fact, within the UK, FSB evidence showed that 19% of SMEs exporting to the rest of the world (outside EU) are currently using FTAs to support their trade of goods and services, 52% have not been using and further 29% don’t know about the FTAs. The lack of awareness may be due to lack of awareness of the existence of the relevantFTA itself between the trading nations or simply chose not to trade on preferential terms due to complexity or “intermediary utilizing the relevant rules”. To ensure all RCEP members mutually benefit from the deal, all members need to achieve a satisfactory level of balance of trade. Otherwise, the decision of India to withdraw from RCEP is undeniably accurate. To ensure all RCEP members mutually benefit from the deal, the balance of trade needs to be achieved. Otherwise, the decision of India to withdraw from RCEP is undeniably accurate. India has withdrawn from RCEP due to the trade deficit experienced in the past. While India could be perceived as taking a protectionist approach similar to the Trump Administration of the US, the years of 2018-2019 witnessed trade deficit faced by India with all the RCEP countries of a total of $105b, and with China alone it was $54b. With RCEP, India is alerted with the fact that its domestic market will be a dumping ground for cheaper goods from China.

IV. DISCUSSION

Although ASEAN has been a participant in six other regional FTAs, RCEP has been a controversial FTA. Many scholarly writings have regarded the RCEP as a highly ambitious free trade agreement, with a combined population of over three billion and total GDP of over $17 trillion. Currently, Member States of RCEP includes ASEAN+5 developed nations: Australia, Brunei, Cambodia, China, Indonesia, Japan, Korea, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, Thailand, and Vietnam.

Among these members, the global economy proved that the least developed countries (LDC) faced the worst challenge due to the difficulty of jump-starting their economy. LDC faces the issue of lack of resources- the three LDC of ASEAN are Laos, Cambodia, and Myanmar. In 2019, the value of LDC exports of goods and services dropped up to 1.6%, a bigger decrement compared to that of world exports (1.2%) [19]. Reports showed that Covid-19 disrupted textiles and clothing [20]. As a result, most LDC ensured liquidity support for the survival of their SMEs. Myanmar for example funded $70 million to provide loans a 1% interest rate to SMEs in the effort of alleviating economic tension caused by the pandemic [21].

To ensure all RCEP members mutually benefit from the deal, a balance of trade needs to be achieved. This can be realized through the assistance of developed nations such as Australia, China, New Zealand, Japan, and South Korea. They ought to enter into RCEP with the mindset of mutual benefits in narrowing developmental gaps among the RCEP membership. Otherwise, members would lose trust and faith in RCEP. This can be seen when India withdrew from RCEP due to a trade deficit experienced in the years of 2018-2019. The total trade deficit faced by India with all the RCEP countries was $105b, and with China alone it was $54b. Imagine 20% of the export from India goes to RCEP countries, whereas the import from RCEP is much higher to India, which is 35%. China is known to be using non-tariff barriers against Indian products which impede export growth from India. This creates one area of concern: farmers and other small businesses and industries such as SMEs are in danger of being washed out due to cheaper flow of products from China and other economies and compliance matters more than the mere existence of the rules or principles. India is alerted by the fact that its domestic market will be a dumping ground for cheaper goods from China. RCEP therefore, cannot leave any country behind once the agreement is in force because LDC countries are not similar to India that is progressively developing despite the Covid-19 pandemic.

Thailand is an example of an optimistic participant where according to the Director-General of the Department of Trade Negotiations of Thailand’s Ministry of Commerce, Thailand will start training its farmers and entrepreneurs regarding how to tap into the benefits of RCEP [22]. This department also released the latest data, indicating that in 2019 Thailand had exported agricultural products worth US$25.2 billion to RCEP member countries. In the first five months of 2020, RCEP
nation received Indian products at an estimate of US$10.8 billion, an increase of 2.4 percent year-on-year. Thailand noticed that there has been a trend of an increase in the demands for fresh and frozen fruits, fresh and frozen chicken, canned, and processed fruit, and fruit juice.

From these two examples of India and Thailand, it seems that LDC could imitate Thailand’s approach towards an economic slump. As SMEs are the main sector in ASEAN, knowledge, and training are helpful but most importantly abiding by the Guiding Principles allows LDC to prosper at a faster speed. Tolerance between developed and LDC nations needs to exist, and harsh tariff elimination or increase cannot occur- these would lead to loss of balance of trade. For Laos to graduate from its LDC status will be a more difficult goal if RCEP members are not practicing Guiding Principles to the fullest, ignoring its need as a Member State that would be left behind.

V. CONCLUSION

When ASEAN embraced an ambitious economic agenda in establishing the ASEAN Economic Community on 31 December 2015, these economic agenda intend to promote predictability in ASEAN, as well as strengthen its credibility. ASEAN Charter prohibits an ASEAN Member State to conspire with another state to sabotage the other ASEAN Member States. Establishing the ‘Prosper Thy Neighbour’ principle is a commendable effort by ASEAN to restore the historical wounds stemmed from proxy wars in Southeast Asia. ASEAN was characterized by flexibility, but to be one community of ASEAN, undeniably trade pacts are one of the ways to unite. This unity should remain even if ASEAN entered into any FTA including that of RCEP.

Guiding Principles have been guiding negotiations of RCEP. However, the question remains: will RCEP Member States acknowledge the centrality of ASEAN in the emerging regional economic architecture and the interests of ASEAN? (RCEP Guiding Principles, 2016). The eight areas are open for RCEP negotiations- trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement, and other issues. It is estimated that the RCEP will be generating a GDP of US$26.2 trillion (32 percent of the world), which is equivalent to 3.5 billion people (48 percent of the world population).

RCEP should unite ASEAN with 5 developed nations instead of breaking ASEAN apart. The ASEAN Charter came into existence forty years after the existence of ASEAN, but indeed it is the turning point for ASEAN to maintain peace, prosperity and be centrally-organized when dealing with other future trading partners.

To be a sustainable region, smaller businesses have to be at the heart of trade policy-making in trade deals. At the very minimum, a dedicated chapter on SMEs is embedded in every free trade agreement ASEAN is a part of. Within the RCEP there ought to be provisioned on means of assisting SMEs to take advantage of this FTA, and “an architecture that allows for proper small business consultation on the application and performance of each respective agreement”. ASEAN should exert efforts to take even more advantages being a mixture of developed-developing-LDC nations with different needs and requirements.

As seen in the Introduction, the World Bank presented a suggestion for the promotion of trade integration and rekindling productivity but at the same time to keep in mind of the vulnerable groups. However, integrated trade does require the implementation of the fairest rules. RCEP faced challenging rounds of negotiation due to the development gap among the Member States that it is not as simple as having “one-size, fits all” type of rules applicable to the Member States. The unique and rarely discussed “Guiding Principles” has theoretically convinced Member States that their economic needs will be met, particularly the LDC. It allows LDC to sell goods and services with standard tariffs, and gradually reduces the tariffs until LDC graduated from its LDC status.

This article recommends that Member States ought to properly finalize RCEP before its final ratification by end of 2020. It is crucial to avoid a larger developmental gap between the Member States and the narrowing of the gap is possible when the developed Member States adhere to Guiding Principle 4. Such adherence helps poorer Member States to rise economically. Compliance with Guiding Principles makes RCEP a much more appealing FTA, where trust and rapport between countries could bring ASEAN to the next level. Compliance is met by allowing the LDC countries to slowly reduce their tariffs in the trade until the achievement of the balance of trade by all Member States. This is the best way towards achieving the intended aim of RCEP, which is maximizing mutual benefits under Paragraph IV of RCEP.

Source: USIM, 2020

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