

Trade War and the Search for Safe Havens: Rethinking RCEP?

The Regional Comprehensive Economic Partnership, or RCEP - which would see 10 members of ASEAN and their six FTA partners form a free trade zone, notably including China, Japan and India - has had a low profile until now. Initiated in 2012, RCEP is often dismissed by western commentators. But now that the U.S. is the focal point of turbulence, engaging in a raft of bilateral disputes and “trade wars”, countries across Asia are re-examining the partnership.

Just as investors seek safe havens when financial markets are turbulent, the atmospherics and noise coming from the RCEP negotiations of 2-3 August 2019 in Beijing highlighted an emerging trend in the region. This is a desire for bilateral and plurilateral agreements which provide “safe havens” based on predictable, open trading relationships which can act as anchors for weathering the trading turbulence experienced elsewhere internationally.

"Free trade is definitely what we need here in this region. The US-China trade row has resulted in the entire world catching a cold."

*-Philippine communications secretary
Martin M. Andanar*

Coping with a "new normal"

Ongoing or recent trade disputes between the U.S. and several of its trade partners are numerous and varied – ranging from issue specific trade friction to broader bilateral disputes. Aside from tensions with China and the EU, this list includes India, Japan, as well as Canada and Mexico.

The latest salvo was the recent, widely unexpected, announcement by President Trump that the U.S. will impose tariffs on all remaining un-tariffed imports from China. Predictably the Chinese retaliation swiftly followed. The WTO remains marginalized. The broad assault on international trading patterns has heightened risk, and created uncertainty. For companies, business models, supply and value chains are under stress. Increasingly buffeted by this “new normal,” governments in the region are now adjusting their trade strategies accordingly.

In this context, the RCEP is increasingly viewed as another potential antidote or safe haven from trading disruption. RCEP’s proposed member countries make up almost half of the world’s population, about a third of global GDP, and include some of the world’s fastest-growing economies. Competition between TPP had acted as a brake on RCEP’s progress, but this has now dissipated

“RCEP would demonstrate that all of these countries – with their vibrant economic activity, and the massive potential they have for future growth ... are rejecting the lure of greater protectionism.”

-Australian trade minister Simon Birmingham

"[RCEP] would be beneficial for upholding economic globalization and free trade, and achieving mutually beneficial win-win collaboration for all countries involved."

-Chinese commerce minister Zhong Shan

Challenges to RCEP remain

RCEP is not yet a done deal. Negotiators face a challenging task as they attempt to bring together economies that are wildly different in their scale, sector make-up, and level of development. Getting India on board will be a particular challenge.

The continuing impetus behind free trade

Yet there have been a number of notable positive developments that promote regional economic integration. The successful implementation of the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) at the end of 2018 without the U.S. is case in point. In the course of 2018 China unilaterally lowered tariffs for imports of a range of products including clothes, textiles, consumer goods, household appliances and building materials. These reductions hasten the shift of labor and energy intensive industries to lower cost markets, while promoting regional value chains.

The China-Australia Free Trade Agreement (ChAFTA) also indicates the underlying pro-free trade impetus remains strong. Under ChAFTA, all Chinese exports to Australia are not tariffed, and over 90% of Australian exports to China also receive tariff-free treatment. Two-way goods and services trade has risen some 42 per cent since ChAFTA came into force in 2016. Australia has now overtaken France to become China's largest importer of wine, by value. In addition, exports of beef from Australia to China increased over 50% during 2018 and accelerated to 67% in the first quarter of 2019, year-on-year. Australia now provides 21 per cent of China's beef imports and is set to eliminate beef tariffs in the next five years, measures intended to spur further consumption.

“The RCEP ... is expected to provide market access for India’s goods and services exports and encourage greater investments and technology into India. It would also facilitate India’s MSMEs to effectively integrate into the regional value and supply chains.”

*-Indian commerce and industry minister
C. R. Chaudhary*

MNCs adapt to new trade architecture

What does this mean longer term? Increasingly, companies and governments are asking not ‘when will US-China friction end?’ but instead, ‘how does the rest of the world deal with this new state of uncertainty?’. We can expect to see an acceleration in the ‘regionalization’ of trade and investment. Multinational companies can expect a shift in value chains, where a region (like Asia) is increasingly not just seen as the source of production, but also a cluster of end-user markets. It is time for MNCs to take stock of their regional strategies and determine what they need to do to protect, and improve their bottom lines in this shifting environment. Companies that excel in this market will likely be the ones that can adapt their supply chains, products, and marketing strategies accordingly to the changing trade architecture in the region.

Awaiting the November RCEP summit

The trade war and the proliferation of international trade disputes are challenging the existing international trading system, but there will be unintended consequences. The need to establish trading safe havens could accelerate the process of regional economic integration in Asia. RCEP could be a key beneficiary. It is worth following the progress of RCEP closely as one key indicator, particularly the upcoming November RCEP Summit in Bangkok.

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