



中国（深圳）综合开发研究院  
China Development Institute



Asian Strategy & Leadership Institute  
*Dedicated To Creating A Better Society*

## **CHINA-ASEAN THINK TANKS SEMINAR**

**22 June 2018 | Intercontinental Hotel, Kuala Lumpur**

*“Experience, Challenges and Opportunities – How to Reach Agreement on RCEP”*

## **PROCEEDINGS REPORT**

## EXECUTIVE SUMMARY

The China-ASEAN Think Tanks Seminar explored the experiences, challenges, and opportunities in reaching an agreement on the Regional Comprehensive Economic Partnership, or RCEP. The event gathered experts from think tanks in China and ASEAN countries to exchange updates and views on the RCEP with the hope of providing policy recommendations for the RCEP negotiations, now in their 23rd round in Japan as of June 27, 2018. The summit sought to discuss best practices and positive elements from RCEP's forebear, the now-defunct Trans-Pacific Partnership or the TPP. Also, heavily discussed was RCEP's completed counterpart, the Comprehensive and Progressive Trans-Pacific Partnership, or CPTPP. The seminar highlighted several themes.

First, the United States under President Donald Trump has withdrawn from international commitments, treaties, and norms they either began or advocated for during previous administrations such as the Iran nuclear deal, the United Nations Human Rights Council, the Paris Climate Accord, and most importantly, the TPP. Tied to these withdrawals is the trade war between the United States and China. Second, unlike TPP and CPTPP, where the US and Japan respectively led negotiations, the ASEAN-led RCEP does not have one country acting as a forceful honest broker that will quicken talks. Political will to discuss the RCEP is low – participating countries excluded essential elements such as market access for government procurement, labour, and the environment. Third, the lack of bilateral trade agreements between some stakeholders such as China and India have made RCEP more challenging to negotiate. Fourth, there is uncertainty as to how many nations will be part to the final agreement with panellists predicting that a final deal could include ASEAN+3, which includes China, Korea, and Japan will be the most likely. The viewpoints of nations that could be part of an ASEAN+5 or ASEAN+6 arrangements such as New Zealand, Australia, or India remain uncertain.

Finally, participants agreed that the world is becoming increasingly interconnected. Free trade agreements have strengthened linkages between nations from all areas of the globe. While the rest of the world tries to maintain the international order in the midst of political instability and uncertainty, prospects for increased collaboration will continue. In fact, the costs of non-participation in free trade agreements such as RCEP are growing – nations are increasingly expected to reform and open themselves up to ensure economic development, vigorous growth, and continued stability.

## OPENING REMARKS

### **Tan Sri Michael Yeoh, CEO & Director, Asian Strategy & Leadership Institute**

Tan Sri Michael Yeoh began the summit by welcoming delegates from China and the ASEAN region. He hoped that the summit would be the start of the collaboration with the CDI and could also further enhance ties and relations between China and the ASEAN countries. Tan Sri Michael recently returned from Europe, where a variety of summits in London, Bonn, and Rome included discussions displaying interests in the Chinese Belt-Road Initiative and ASEAN's prospects for furthering bilateral free trade agreement. In the United Kingdom, there was a discussion on how the post Brexit would influence alternative free trade agreements and strategic partnerships amongst the European Union, UK and ASEAN and China. With regards to the United States' America First policy under the Trump Administration, free trade agreements will become more critical. Today, prospects for increased collaboration will continue. The process towards codifying a Regional Comprehensive Economic Partnership or RCEP is part of a broader trend of widening opportunities for worldwide cooperation.

### **Professor Dr Fan Gang, President, China Development Institute**

Professor Dr Fan Gang, the President of the China Development Institute, shared his knowledge about developments in regional and international trade and governance. On the global level, the United State, which he called the only world superpower has been withdrawing from multilateral organisations, treaties, and commitments. Diplomatic relations between the United States have been strained by the American withdrawal from the Paris Climate Accord, the Iranian Nuclear Deal, and the United Nations Human Rights Council. There is also a looming trade war between China and the United States, with other regions such as the European Union has to balance against the United States by imposing a retaliatory tariff on US goods. Despite these developments, President Trump recently talked about G7 free-market integration, which European leaders except undecided Italy responded to positively.

Abundant developments are occurring in Southeast Asia. Although the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) was signed in 2018, the Mahathir-led Pakatan Harapan has expressed its wish to review and potentially renegotiate the treaty. The RCEP is still on the table despite missing several deadlines. Today, it is important for stakeholders and governments to recognise the vital components of the TPP and CPTPP negotiations to ensure that negotiations are closed in a timely and proper manner. For regional stakeholders, RCEP negotiations are a crucial step towards resolving outstanding issues on trade and guaranteeing continued stability, prosperity, and economic development for all nations.

China has also promised to further open its doors by implementing domestic and foreign policies which are friendlier to the global market. President Xi's recent announcement at Boao to integrate China into the worldwide system highlights this vision. This commitment is no small undertaking - China is still in violation of several aspects of the World Trade Organization's rules. While China has had excuses not to follow the WTO, they still need to fit the requirements of the multilateral system. To accomplish this goal, China needs to open itself for further investment, stop the practice of ownership regulations, open its service sector, and respect intellectual property rights. Emphasising intellectual property rights, Professor Fan Gang stressed for China's need to protect its intellectual property rights in the interests of China's future and continued innovation. The trade war naturally will speed up the Chinese push for change in the multilateral system because integration and integrating into multilateral organisations is in its best interest. Pushing back against labelling China as a superpower, Professor Fan Gang said that China did not have the freedom to act as capriciously as the United States of America.

With regards to the Belt-Road Initiative, China's increasing involvement in international issues will introduce Chinese companies and the government into uncharted territories, ushering in a new era with new challenges. Challenges and difficulties withstanding, there needs to be a broader exchange of ideas and learning from the panellists. Concluding his remarks, Professor Fan Gang noted that China used to be inward looking. But, for the first time, China is moving into a new era and is seeking new friends, new knowledge, and new mechanisms to learn more and better understand the world.

## KEYNOTE SPEECHES

### **Tan Sri Datuk Dr Rebecca Fatima Sta Maria, former Secretary-General of Ministry of International Trade and Industry and Senior Policy Fellow, Economic Research Institute for ASEAN and East Asia**

Tan Sri Rebecca's presentation entitled "RCEP – Conclusion in Sight?" highlighted her in-depth knowledge and experience in negotiating free trade agreements. The beginning of RCEP came after the 2011 ASEAN High-Level Task Force for Economic Integration, where conversations on whether to negotiate as ASEAN+3 or ASEAN +6 began happening. Then Minister of Trade for Indonesia Mari Elka Pangestu initiated the RCEP negotiation process by stressing the need to bring all parties together through trade, with the first round of negotiations occurring in Cambodia in 2012. Comparing TPP, CPTPP, and RCEP highlights RCEP's importance. Reaching 3.4 billion people, comprising of 16-member states, 30% of global GDP, and 25% of global trade, there is a strong case for ASEAN and China to work to make RCEP a reality. Despite RCEP's reach, detractors often write off the agreement as China-driven. However, Tan Sri Rebecca stressed that

RCEP is ASEAN-driven and that disputing this fact would only come at the expense of ASEAN's credibility.

RCEP is a crucial instrument for improving Asia's economic performance and for demonstrating collective non-hegemonic Asian leadership on global economic openness. RCEP is essential because it is a symbol of globalisation in an increasingly sceptical world. When attending a meeting at the United Nations Industrial Development Organization, academics looking at the value of global value chains were also thinking about both the perceived and actual benefits of trade with some concluding that they only received rising protectionism and inequalities. Thus, it is vital to bring parties together and see the benefits of economic integration. For example, while RCEP is envisioned to be modern, comprehensive, high quality, and mutually beneficial at the guiding principles level, its value is bringing countries experiencing varying levels together and producing an environment which benefits all countries. Additionally, the agreement must be WTO-consistent and contribute to an open trade and investment environment, economic cooperation to sustain

While negotiating RCEP as Secretary-General for the Malaysian Ministry of International Trade and Industry, stakeholders agreed that the agreement would be open, where from a starting point of ASEAN+6, the partnership could be narrowed. Participating countries agreed that it would cover trade in goods, services, and investments as well intellectual property, competition, and dispute mechanisms. However, the agreement would exclude negotiations on market access for government procurement, labour, and the environment.

Discussing the current state of play and analysing the negotiation process, Tan Sri Rebecca said that it is crucial for countries to recognise that RCEP is more laborious to negotiate because it is more than ASEAN nations' existing free trade agreements with some of its dialogue partners. Instead, the agreement will push parties who do not have free trade agreements amongst themselves to find a middle ground to facilitate trade and investment by producing transparent rules. Furthermore, when negotiating the TPP, there was an active US demand on disciplines included within the agreement, so much so that civil society organisations and detractors thought it was US hegemonic influence that was driving the TPP. When compared to how ASEAN+6 negotiates RCEP, there is no hegemonic force driving the negotiations like the US Obama administration pushing the TPP. Although this could be a boon, allowing ASEAN nations to hasten the process, a lack of political will could kill the negotiations process. So far, there have been 22 rounds of negotiations, with a 23rd round scheduled for July. RCEP missed three deadlines to conclude negotiations in 2015, 2016, and 2017. However, Singapore has said that they want a firm conclusion by the end of the year. Currently, the Economic Research Institute for ASEAN and East Asia has been providing support for Singapore, the ASEAN Chair, in bringing different

thoughts to the table. Moving forward, many more inter-sessional meetings amongst minister will discuss issues needing the political will to complete.

There is good progress being made on the agreement, with the chapters on e-commerce and small and medium-sized enterprises finalised. Additionally, the section on competition has been virtually concluded, with the progress made on other chapters, including one on goods, services, and investment. There continue to be difficulties in finishing the agreement, with disagreements over the level of market access and liberalisation amongst parties who don't have FTAs themselves, particularly China and India. There are also some who fear China's influence on this agreement and the trade diversion which will take place due to China's presence, complicating negotiations on trade and services liberalisation. Additionally, countries in the CPTPP have higher expectations that those who were not, making RCEP negotiations uncomfortable. In fact, Tan Sri Rebecca thought that the investment-state dispute settlement mechanism in the TPP is modern and relevant for the talks and she hoped RCEP negotiations would take these issues up and initiate processes the TPP embodied to bring businesses and countries together before going to court. Another challenge is people questioning the meaning of RCEP, asking several questions - like what precisely significant commercial growth is, how open and transparent the agreement must be, and how to ensure consistent consultation with civil society organisations and other stakeholders.

As global value chains evolve, RCEP must recognise and accommodate newer elements of trade facilitation. The RCEP must grow value chains by further linking them together. RCEP's success will both be economic and optical - it will demonstrate where ASEAN+6 wants to go concerning regional economic integration. Now, there must be more political drive and honest, engaged brokers to move the conversation forward, complete RCEP, and implement adjustment policies at the national level to accompany RCEP's implementation. Currently, Indonesia, as the coordinator for RCEP and Singapore, as the ASEAN chair is working hard to complete RCEP, and Tan Sri Rebecca hoped that their efforts would pay off.

**Professor Dr Li Xiangyang, Director-General, National Institute of International Strategy,  
Chinese Academy of Social Sciences**

Mr Li discussed the challenge of Asia's economic transformation and the prospects of the RCEP. RCEP negotiations started in 2012, but no substantive progress has been made towards completion - deadlines have passed by, and despite renewed calls for talks to conclude by the end of 2018, we cannot be optimistic that they will finish. In negotiations, member states have formed different positions. India cannot accept current commitments required of it and wants special treatment. Australia and New Zealand questioned the level of trade liberalisation while China, Japan, South Korea, and ASEAN stand in various positions in the middle, with differences in views of these

member states in these negotiations. Fuelling the need to have these negotiations are concerns about President Trump's changes to international trade via a "trade war" and to American economic policy. Most important to this change is the America First foreign policy and the pursuit of "fair trade" on the United States' terms as opposed to "free trade." Trump's actions, in Mr Li's opinion, is as controversial and carefully watched as the 2018 World Cup in Russia. These policies have trickle-down effects due to China's unique role in global value chains, affecting countries that were part of the TPP and are party to either, and, or the CPTPP and RCEP.

Global FDI as of 2017 has fallen by 23%, with a slight increase expected in 2018. Despite this, the global supply chain has stagnated in the past decade with recent trends in manufacturing chains significantly impacting Asian countries given their export-driven economic model. These policies have far-reaching impacts on the Asian economic community, with nations interested in joining the CPTPP to bolster their economies. However, because India and China cannot join the CPTPP in the foreseeable future, RCEP is necessary.

To successfully agree upon the RCEP, stakeholders need to look at how both the TPP and CPTPP worked to reconcile differences. That being said, the RCEP negotiation framework has inherent limitations, with a lack of leading states in negotiations stalling the process. Unlike the TPP, the largest economies in RCEP negotiations - China and Japan are not driving the process, with ASEAN leading the process despite a plethora of pending differences between member states. These disagreements are unusual because, in TPP and CPTPP negotiations, the US and Japan respectively had the willingness to push a set of priorities and beliefs with participating nations. ASEAN has no such ability, political will, or coherence, but the process will continue to be ASEAN led whether the great powers like it or not.

RCEP will have a significant impact on the region. Most importantly, a created RCEP will have eliminated the dilemma of cooperation between substantial economies of the world. Currently, the RCEP negotiation program has three options. The first option, which includes ASEAN+3 - member states, China, Korea, and Japan is the most viable. The failure of the TPP and Japan and China's role to fill the American vacuum has pulled ASEAN and the East-Asia region closer together. Japan facilitated the 21st round of negotiations for RCEP while China has stepped in as a regional leader following the TPP's failure. For South Korea, RCEP negotiations and joining CPTPP has become a priority. The second option would include ASEAN+5 - adding Australia and New Zealand but excluding India. Excluding India would speed up the negotiation process. But, India is one of the fastest growing economies in the world, and it is more critical for them to harness the potential of their domestic markets, which would make up for lower consumer demand in Asia. Still, the third option, an ASEAN+6 agreement would lead to increased difficulties in negotiating an agreement, let alone making the 2018 deadline.

## Q&A Session (Moderated by Professor Dr Fan Gang)

### Leadership in RCEP Negotiations

**Dr Professor Fan Gang** asked about honest brokers and dominant questions and wanted an answer on who can take leadership in facilitating the RCEP's negotiation process.

**Tan Sri Dr Rebecca Sta Maria** believed that Indonesia, as well as Singapore, could facilitate the process. A coordinating country has a big part to play, and as the RCEP's facilitator, Indonesia has a significant role to play. Thus, the Indonesian Minister of Trade must be on the ground and engage his counterparts to be the needed honest broker, finding middle ground on the varying positions. They must also get ASEAN as an organisation to reconcile different rule, and as a result, the ASEAN Chair is essential. When former Prime Minister Dato' Seri Najib Tun Razak was Chair of ASEAN, Malaysia was on the ground, forcing ministers to stay and negotiate positions till they found an agreement. She also added that if ASEAN nations haven't learned from TPP negotiations, they haven't learned at all - strong leadership similar to the drive from the US Trade Representative in the TPP is needed.

**Professor Dr Li Xiangyang** affirmed the importance of a leading state in RCEP negotiations while stressing that ASEAN plays a leading role in negotiations. However, ASEAN cannot coordinate position of the major countries such as India.

### Negotiating Free Trade Agreements

**Dr Chap Sotharith** from Cambodia asked the panellists about their toughest point in negotiations on free trade agreements and also requested them to highlight specific products and issues countries are reluctant to concede.

In response, **Tan Sri Dr Rebecca Sta Maria** highlighted trading goods, which depend on the specific country's industries. But, when it comes to parties who don't have FTAs amongst themselves such as India and China, market access issues become a far more significant issue. Indian fears of opening to China stems from domestic pressure - most Indian officials feel they don't gain much from an ASEAN+1 free trade agreement, with the perception that ASEAN wins instead of India. She also mentioned that China has been very flexible in their negotiations with India but cautioned that this flexibility must be reciprocated. India remains insecure about their trade deficit and internal pressure.

Then, **Professor Dr Suthiphand Chirathivat** from Thailand asked whether RCEP negotiations can be concluded this year.

**Tan Sri Dr Rebecca Sta Maria** reviewed the missed three deadlines in 2015, 2016, and 2017. She said that she was optimistic that general negotiations on goods, services, and investment could be concluded but details and depth will still be difficult to obtain and finalise this year. For example, the Malaysian negotiating team prioritises value chains by working to ensure that general rules are in place before negotiating technicalities and product-specific. Singapore remains extremely hard working and is aiming to conclude negotiations to save face.

## **SESSION ONE: BUILDING ON THE EXPERIENCE OF THE TPP**

**Dr Yose Rizal Damuri, Head of Department of Economics, Centre for Strategic and International Studies, Indonesia**

At least 7 out of 11 remaining TPP members are part of the RCEP - they are entirely different but cover similar issues. If you search up the TPP and RCEP, articles usually put the RCEP and TPP in the same boat. Thus, it is a good idea for negotiators and others to focus on lessons learned from the TPP when discussing RCEP.

**Dr Võ Trí Thành, Senior Expert, Central Institute for Economic Management, Vietnam**

Discussing the journey and lessons from the TPP to CPTPP, Dr Võ covered the eight years which saw the TPP negotiated between 2010 and 2015 and CPTPP negotiated till 2018. The CPTPP is different from the TPP because it did not involve the US, comprising of only 13.4% of world GDP compared to 35% of the TPP. However, a lot of commitments are the same - we can view CPTPP as a subset of the TPP but with twenty-two clauses, TPP clauses frozen. While at least six countries have ratified CPTPP, the impact has yet to be felt. For example, in Vietnam, the impact of the CPTPP is smaller than that of the TPP because of the difference of GDP size and volume of trade. Agreements also drive the place and scope of institutional reforms, which is why Vietnam was so interested in joining CPTPP.

Dr Võ reaffirmed the importance of an honest broker in Japan for the CPTPP and in the United States for the TPP. States must also keep core principles while accepting flexibilities by balancing between market access and retaining high standards. Countries such as Vietnam need market access but have less capacity to implement liberalising reforms to state-owned-enterprises or SOEs, competition, and environmental standards. Additionally, Dr Võ praised provisions which provided a timeline for tariff reductions in some sectors. For example, because Vietnam has no

competitiveness in the livestock sector, the TPP allowed the government 13 years to reduce tariffs to zero. He also praised flexibility for areas such as SOEs and government procurements in the CPTPP. While nations like China could comply with the SOE clause in the TPP, CPTPP made countries accept the central premise of TPP but froze 22 controversial provisions requiring political wills such as e-commerce and intellectual property rights. CPTPP also allows more flexibility for members and has become its agreement. Although the US contributed to the framework of the CPTPP, the United States would find their role to be very different if they ever returned and joined the CPTPP.

The CPTPP also provided the pressure to catalyse institutional reforms. Higher standards and “behind the borders” commitments combine with trade and investment liberalisation to reform the domestic policies of signatory states. Additionally, existing legal frameworks in signatory states could be improved to be more compliant with commitments in the CPTPP. All of these improvements only came from consensus - the positive impacts of the CPTPP came from the participation of stakeholders. In the case of Vietnam, the Prime Minister had the political will to appoint negotiating advisors from TPP negotiations to CPTPP negotiations. Thus, Domestic consensus, flexibility, and quite essential things needed such as institutional reforms were required to make the CPTPP a success and stakeholders succeeded.

### **Dr Deborah Elms, Founder and Executive Director, Asian Trade Centre, Singapore**

Dr Elms, who has written several books on TPP expressed her interest on an interesting conference which discussed how lessons from the TPP and CPTPP could be transferred to the current RCEP process. She also pushed back on mirror-like comparisons of the TPP and RCEP. While the TPP overlaps with RCEP, there is often the ignorant assumption that negotiating teams are the same across the board. In fact, there are usually very different teams negotiating RCEP and TPP, primarily because they are assigned regionally. Additionally, the nations driving the RCEP did not drive TPP, meaning that the process and outcomes will be different. Dr Elms compared RCEP to a 16-sided Rubik’s Cube because the first few layers are easy, but the last layer is hard to solve. In RCEP, where nations were essentially forced to come to the table, enthusiasm is not as high compared to TPP, where each participating nation volunteered to enter negotiations. Dr Elms opined that negotiations were slow because political will was low - once controversial issues arise, negotiations have slowed down. Slow negotiations also are representative of explosive changes in the ASEAN region. Since 2012, interests have changed. TPP negotiations were finished, collapsed under Trump, and then was reborn under CPTPP. The US has imploded under Trump and governments have come in and out of each of the 16 countries attached to RCEP negotiations. Resultantly, it is hard to figure out what policies are needed to get RCEP to the finish line, which was supposed to be a single-undertaking. There are minimal transfers between TPP and RCEP. RCEP always looks bad when compared to TPP but looks better when compared to ASEAN when

talking about commitments. TPP was 600 pages and while CPTPP cut that down, they were quite forceful in language and legal implications. Meanwhile, RCEP is not as strongly worded and is more flexible.

Dr Elms expressed concern at the potential exclusion of e-commerce negotiations from RCEP, which was included in RCEP. E-commerce negotiations could have been the shining light of RCEP, especially since ASEAN is so digitally connected and mobilised. Vietnam also passed and implemented a dreadful law on cybersecurity prohibiting and blocking data flows. Indonesian customs made a law banning movements of data. Both policies are a shame because e-commerce and digital policies have the most potential for growth for small and medium-sized enterprises. She also expressed the need for any potential RCEP e-commerce and digital policy framework to include a renegotiation clause because of the rapidly changing technology and data landscape. RCEP also does not adequately reduce risk and uncertainty for firms - RCEP should try and emulate these practices. Additionally, RCEP talks a lot about policy space - companies need to think about commitments they need to make in RCEP. Businesses don't like policy space because flexible rules and regulations leave a lot of room for vagueness and confusion. Getting businesses and SMEs on board is essential because governments need to translate the rules into policies these companies will use. If too much policy space is given, larger, more technically adept enterprises such as the Japanese auto industry will benefit. Dr Elms concluded by pleading for ASEAN and its negotiating partners to race towards the finish line and reduce uncertainty for SMEs.

**Mr Firdaos Rosli, Director of Economics, Trade and Regional Integration, Institute of Strategic and International Studies, Malaysia**

Mr Rosli discussed studies conducted by ISIS Malaysia on TPP and RCEP. One man's meat is another man's poison - while one believes FTAs are beneficial in the long term, another can find utilising FTAs challenging. Malaysia currently has four FTAs, one each with Australia, Japan, New Zealand, and South Korea. With the exception of the Malaysian-Japanese Economic Partnership Agreement, which includes a long-term contract on gas, most Malaysian companies utilize more regional FTAs than respective ones. He then proceeded to highlight five key points from the TPP.

The first point, stakeholder engagement and third-party validation emphasised the lack of outreach and consultation with stakeholders. Stakeholder attention to FTAs was prioritised during TPP negotiation. There a public engagement day in 2013 as well as specialised sessions with expert members in areas covered by the TPP. There was also engagement with organisations such as ISIS and PWC, bringing about direct and indirect public interaction with officials involved with the

negotiations. During this process, ISIS consulted over 100 stakeholders such as the Malaysian AIDS Council, the Malaysian Nature Society, WWF, and the University Islam Antarabangsa Malaysia. These processes allowed stakeholders to think more strategically about Malaysia's interests in achieving national security, social welfare, and economic prosperity.

The second point concerns the role of an incubator organisation. The TPP had the Asia-Pacific Economic Cooperation or APEC forum to brainstorm ideas in the Committee on Trade and Investment. Thus, TPP members and negotiators were new only to the rules and not the topics discussed in negotiations. Not all host countries in APEC were members of the TPP, but Singaporean Prime Minister Lee Hsien Loong proposed a collective set of ideas to create a partnership that would become the TPP, eventually resulting in the US taking a leadership role in hosting 6-7 rounds of TPP negotiations. Third, stakeholders need to maximise negotiation time on market access, rules, and text, something which resulted in the successful completion of TPP and CPTPP negotiations.

The fourth point and fifth points concerned several considerations countries must make in the long term. The fourth point urges states to be aware of the resource constraints some countries experience. Particularly noteworthy is the pool of negotiators. Fortunately, Malaysia is lucky to have the Ministry of International Trade and Industry, which can negotiate chapters as diverse as government procurement and labour. However, in many countries negotiators are spread thin - a larger pool of negotiators with varied areas of expertise would better serve interests of governments. The fifth point urges for leadership. When the previous administration consolidated power under Dato' Seri Najib Tun Razak, bureaucratic decision making was simplified, and policy was clear. Even after the US abandoned the TPP, Najib's administration considered an FTA with the United States.

### **China's FTA strategy in the era of de-globalisation**

**Professor Dr Tu Xinquan, Dean, China Institute for WTO Studies, University of International Business and Economics, China**

Professor Dr Tu Xinquan discussed China's FTA strategy in the era of de-globalisation. While China does not have much experience with the TPP specifically because it was not included in the agreement, the world has seen gradual trade liberalisation and globalisation for decades. However recently, this has recently reversed with the US-China trade war, which has seen the United States impose 25% in additional tariffs on USD 50 billion worth of imports from China and retaliatory tariffs from China. Negotiations followed with the impression that issues had been resolved, but the US and China continue to fight. China has made significant concessions, unilaterally

announcing a series of tariff reductions on automobiles, medicines, and consumer goods, greater financial openness, and more investment liberalisation policies. However, a tit-for-tat trade war between the two countries seems imminent with President Trump threatening to expand tariffs to about USD 400 billion on imports from China. It is difficult to understand President Trump's logic, but the world has to respond to fall out from his actions. Trump hates trade deficits from anyone and dislikes globalisation and existing global institutions even though the United States established them. President Trump also wants to force multinational companies to return to the United States so that the US manufacturing industry can be revived. Above all, he believes that the US is powerful enough to win a fight with China and the rest of the world, a belief stemming that China's transformation, hasn't changed as expected by democratic modernisation theorists.

Bilateral and regional cooperation has accelerated since the trade war with the United States. China revived the trilateral summit with Korea and Japan. High-level dialogue with the European Union is occurring in Beijing, with the Shanghai Cooperation Organization zeroing in on economic cooperation. While these are positive steps in responding to mostly illegitimate accusations and actions from the United States, China has been slow in promoting reform and opening up. Thus, China needs to think about its domestic institutional reform agenda. While China is mostly open in trading goods, automobiles, agriculture, and machinery, China's regulatory environment are not so open and friendly, with organisational facilitation in services much lower than those in manufacturing. More concerning is the fact that China's trade facilitation index rating is 1.41, much smaller than the best practice level of 1.83.

There are several problems with China's FTA strategy. Levels of liberalisation in FTAs are relatively low. In their largest FTA with Korea, the results are relatively ambitious, but the final result is not tariff-free. Liberalization policies are still not as generous either. Because US policy towards China will continue to be confrontational and hostile soon, China should pursue more substantial bilateral and regional agreements such as the RCEP, China-Japan-South Korea FTA, and the EU-China Bilateral Investment Treaty, all of which effectively promote reforms China should also be more open to negotiating binding rules on domestic regulations and policies rather than more relaxed best-endeavour policy spaces. China has the opportunity to negotiate for more since they have implemented many so tariff reductions unilaterally. They have also begun to become more ambitious and open. In the face of US protectionism, ASEAN should work to live their ambitions closer to the CPTPP and drive an Asian economic community without the US, at least for a while. China might not be a member of the CPTPP, but perhaps it would benefit them to try and join the agreement. These steps will be part of a push to pursue more ambitious and progressive FTAs.

## Q&A Session (Moderated by Professor Dr Yose Rizal Damuri)

### FTAs without the USA

**Dr Yose Rizal Damuri** asked the panellists how ASEAN+6 will move forward the US, once the hard-working, honest broker on FTAs.

**Dr Võ Trí Thành** responded by emphasising driving growth by promoting innovation and productivity. In the past Vietnamese economic growth has been driven by cheap labour and natural resources. But, Vietnam has become very open regarding trade, increasing the foreign direct investment or FDI contribution to the total GDP. Singapore and Hong Kong remain prime models of strong economies driven by innovation and productivity, as well as the gradual integration of economic reforms

### China, FTAs, and the CPTPP

**Dr Yose Rizal Damuri** also asked about the likelihood of China joining the CPTPP.

**Professor Dr Tu Xinquan** asked for China to wait for countries to ratify the CPTPP before deciding. Although there have been difficulties in ratifying the CPTPP in countries like Malaysia, the CPTPP is a good case of a progressive FTA that China could try to join. Because the United States is not in the CPTPP, the gap between China and the US is smaller than before.

**Professor Dr Fan Gang** asked whether China will receive an invitation to the CPTPP.

**Dr Deborah Elms** said that China doesn't need an invitation to join. Initially, APEC membership was required to enter the TPP. However, in the CPTPP, this was removed because Colombia was not an APEC country. The good news is that the lack of membership requirements opens up negotiations to join to more countries. However, mechanisms or methods to enter the agreement are somewhat vague. The first six countries in the CPTPP get to decide who is allowed to join the deal. What is also important is what happens to the WTO, which is already weak. Tim Groser, the New Zealand Ambassador to the United States of America, believes the WTO will die in October. Many possibilities and permutations could arise from the CPTPP, such as if the EU decides to join the CPTPP in the event of the WTO's fall.

**Ko Ko Hlaing** then asked about the potential for a bilateral FTA between China and India. Although India is more reluctant, there is a need to facilitate easier negotiations for the sake of RCEP's completion.

**Professor Dr Tu Xinquan** commented that China is reluctant to negotiate FTAs with larger economies such as India because their economies are different and imbalanced. Today, a bilateral agreement is not feasible because India is reluctant to enter negotiations due to their trade deficit with China.

### **The Costs of Non-Participation in CPTPP and RCEP**

**Professor Dr Suthipand Chirathivat** asked what it means for countries to have overlapping membership in both the CPTPP and RCEP. He also asked about the cost of non-participation in CPTPP for countries like Thailand.

**Dr Deborah Elms** discussed the benefits of being a CPTPP country far outweigh not being in the CPTPP. At a minimum, they will at least think that they don't want to invest in a backwards country with challenging policies for companies. The economic effects of being backwards will be more severe in a TPP world. However, Dr Elms did not think that RCEP will do enough to offset the reasons for investors placing their money in Vietnam, which is part of CPTPP rather than Thailand, which isn't part of CPTPP. For businesses, the question is where to put their next dollar in investment money.

**Mr Firdaos Rosli** opined that for Malaysia in a situation like CPTPP, non-participation is not even a factor. Former Prime Minister Najib Tun Razak emphasized the costs of not joining CPTPP.

**Dr Võ Trí Thành** said that the APEC region is undergoing a process of strengthening regional integration. There is a need to consider new issues of trade and investment, including e-commerce. RCEP will not be enough - there need to be more linkages with advanced countries such as the European Union. He also agreed that the CPTPP has some trade diversion effects on Lao PDR and Cambodia. That being said, the EU-ASEAN relationship with regards to FTAs and investment is essential.

## **SESSION TWO: PUSHING FORWARD THE RCEP NEGOTIATIONS**

### **Mr Nicholas Kwan, Director of Research, Hong Kong Trade Development Council**

Mr Kwan remarked that the previous session has put a lot of emphasis on leadership in negotiations for RCEP. He suggested that Hong Kong is a right candidate to be invited to RCEP and lead the negotiations.

### **Professor Dr Josef T. Yap, Professorial Lecturer, School of Economics, University of the Philippines**

The title of Professor Yap's presentations was "Whither the ASEAN Economic Community and RCEP." The presentation aims to highlight that ASEAN Economic Community (AEC) and RCEP can mutually reinforce each other—a concept that is anchored on ASEAN centrality.

The strengths of economic integration in the AEC is vulnerable due to several different factors. Firstly, there are structural and historical factors that are characterized by historical animosities, cultural differences and hierarchical loyalties are centred on the local level—making it difficult to consolidate a national identity, much less a common regional identity. Additionally, there is also a wide development gap between countries in the region. These differences were manifested in the way the economic community has structured their trade agreements that are often described as too flexible and weak. For example, there were many loopholes in the ASEAN Framework Agreement on Services, making some of the terms non-binding for the countries involved.

Professor Yap, then, invited the audience to consider and evaluate the meaning of regional integration in the context of ASEAN. The economic liberalization in the region has been going on for the past three decades. Over the years, ASEAN has accumulated policy leverage and has managed to attract a lot more Foreign Direct Investment (FDI). These comprise ASEAN's signature achievement to become a platform for mutual regional cooperation. However, he also stressed that AEC is still a work in progress. Referring to the Balassa's typology for stages of regional economic integration, he evaluated that—given the region's progress in free trade area, customs union, common market, complete economic union, political union—we are hardly at the second stage of integration.

Professor Yap also made a reference to Tan Sri Rebecca's speech calling for an honest broker for the negotiations of RCEP. The mechanisms of collective action within the AEC allow it or one of its members to be an "honest" broker, and Indonesia should play the mediator role knowing that the ASEAN membership is behind them. In order to push forward the negotiations, member countries should also ensure that AEC should be made more commercially viable through the

agreement. Taking on the lessons from the AEC, there should be an acknowledgement that the consideration for different level of economic development has often been used as an excuse for a loose and less stringent language in RCEP. The clauses for flexibility have been used as an “excuse” that contribute to a loose agreement—one of the pitfalls of AEC that should be watched out for by RCEP.

Finally, Professor Yap made several suggestions to push forward the conclusion of RCEP based on a speech by Anna Robeniol, the SEOM Chair and Chief Negotiator for RCEP. Firstly, the Rules of Origins (ROO) process should be intensified to resolve the market access issues. He remarked that RCEP can simply modify the ROOs from TPP to speed up the process, given that many of the RCEP members were also signatures of TPP. Member countries should also strive for a clearer definition of ideals and reality by listening to various stakeholders in order to recalibrate the terms and secure a definitive mandate for the agreement

**Dr Laohoua Cheuching, Director General, Economic Research Institute for Industry and Trade, Ministry of Industry and Commerce of Lao PDR**

Dr Cheuching began his presentation by explaining the development of RCEP as the brainchild of the ASEAN Summit in 2011 and expanded on the scope of the economic integration provisioned by RCEP.

Dr Cheuching is one of the negotiators involved with RCEP and he intended to convey his thoughts on the process from an insider’s point of view. He noted that he has some doubts on the information published online regarding the negotiations of RCEP. He was positive that ASEAN has spearheaded the negotiations by moving forward positively on issues such as trade and goods, services and investment. The RCEP member countries have recently concluded the chapter on competition and economic cooperation. As to the reason the conclusion of RCEP had been delayed several times, Dr Cheuching acknowledged that the clause for flexibility has been hampering the negotiation process. The negotiations are based on the Guiding Principles that were established since the inception of RCEP which dictate that the terms must include flexibility (or, special and differential treatment) in consideration to the different levels of development between participating members. However, he claimed that at present, even the more developed members demand this flexibility. The special and differential treatment, plus additional flexibility as specified in the guiding principles should only be given to the least developed ASEAN member states to avoid abuse. He urges these countries to strictly comply to the guiding principles because the flexible provisions are only temporary placed to ease up the gap in development.

ASEAN had agreed to eliminate tariffs on 90% of all goods and will raise them to 92%. This signifies a commitment on behalf of ASEAN members towards a greater regional integration—a reality is that such a number is very challenging to achieve. RCEP should introduce more trade facilitating cumulation rule as this would allow processing on non-originating materials in one country of the cumulation region to be taken into account together with subsequent processing in another country of the cumulation region and hence, reducing the administrative burden associated with customs procedures, and unnecessary double customs controls. However, Dr Cheuching also noted that some countries have been ignoring the cumulation rule for their interests—ignoring altogether the ROOs stipulated within existing negotiations. ROOs should then reflect the capacity of the industry and ensure that the industry should be ready to implement the liberalization proposed. He claimed that small businesses may have some issues with the terms, but they do not have a voice within the negotiation process to convey this.

He concluded by acknowledging the need for an “honest” broker but also defended ASEAN’s best effort in this process. He urged member countries to work together and be pragmatic to push forward the negotiation process.

**Dr Yose Rizal Damuri, Head of Department of Economics, Centre for Strategic and International Studies, Indonesia**

According to Dr Yose Rizal Damuri, the situation that has led to the difficulties in concluding the negotiations for RCEP is much more complex. The foundation of RCEP is the ASEAN+1 FTAs, comprising 20 bilateral agreements altogether. At the political level, there is currently a lack of assertive leadership and a need for an honest broker. However, even within participating countries there is also lack of domestic political support for greater and formal economic integration. This reflects the recent global of a lack of trust on globalization and geopolitical situation. For example, a regional survey in Indonesia found that Indonesians were not supportive to the idea of economic openness especially with the issue of labour movement where about 80% were opposed to it. Dr Damuri noted that it is impossible to expect a strongman leadership in ASEAN as it once had with autocratic regimes in the ‘90s.

There are also strategic considerations that should be taken into account. RCEP has, so far, prized flexibility, instead of high quality terms and clauses in the negotiation process. The only concrete provision that is agreed by all participating countries is tariff liberalization—when the agreement should strive to achieve a more complex integration. This has diminished the economic attractiveness of RCEP. In comparison to CP-TPP, RCEP is lagging behind in with its strategic considerations.

Additionally, there are technical issues that have been slowing down the negotiation process. The participating countries and their economic priorities are diverse. Each country has different kinds of products exclusions and there should be an arrangement to harmonize these differences. However, each country is also facing technical push backs domestically. The situation is much more complicated between countries like China and India which do not have any standing bilateral agreement between them. Dr Damuri remarked that perhaps RCEP should had begun as an extension of AEC—referring to the role of APEC as an incubator of TPP—since the mechanisms of AEC have largely been forgotten in RCEP’s negotiations.

He also imagined a few alternative scenarios to conclude RCEP. Firstly, participating countries are to continue with the idea of having high level commitments during negotiations—but would have run the risk of not completing the process in time. Or, majority of the countries may decide to proceed with RCEP Minus X to simplify the negotiation process. This means that a country that is deemed incompatible for strategic and technical considerations of RCEP will be dropped from the agreement. Dr Rizal realized that this is a controversial proposal, but he followed by remarking that this has worked with ASEAN, so, why not RCEP? RCEP Minus X would not be a comprehensive commitment. However, this will allow for a greater chance to have all members committed to the proposed mandate. The drawback of this proposal is that RCEP has to gain certain critical mass of economic scope to build a substantial integration. The final alternative scenario proposed by Dr Rizal is for the negotiating countries to simply agree to conclude the negotiations and committed to the presently flexible clauses. But, the RCEP then runs the risk of becoming a “zombie” agreement and, RCEP would never become a high-quality agreement as it was envisioned.

Dr Rizal was positive in the development of a comprehensive region-wide integration. But, this requires the completion RCEP which will signify the commitment of East Asian countries to a greater economic integration in the region. In order to achieve that, there should be a clearer and detailed timeline for the conclusion of the agreement. He suggested RCEP to be institutionalized the way Free Trade Area of the Asia-Pacific (FTAAP) had been through APEC. Although this would increase the complexity of the agreement, it would have ensured inclusivity and guaranteed mandated commitment from participating countries.

**Ms Yuan Bo, Deputy Director, Institute of Asian Studies, Chinese Academy of International Trade and Economic Cooperation, Ministry of Commerce of the People's Republic of China**

In a presentation titled “RCEP: Challenges and the Way Forward,” Ms Yuan Bo provided China’s perspectives on the development of RCEP. She remarked that China is eager to conclude the agreement as soon as possible as the negotiations mark its sixth year. However, there are immense challenges that need to be confronted for the agreement to be concluded.

Firstly, the gap in economic development between the participating countries is large. Countries like Australia has GDP per capita of USD60,000 when Cambodia’s GDP per capita is at USD1000. She noted that diversity is a unique feature of RCEP, but it also increases the difficulty for the countries to come to a consensus. There are also different levels of market access between participating countries. ASEAN’s FTAs with Australia and New Zealand, for example, has a higher level of liberalization compared to the one with India. Ms Bo expressed concern regarding India’s reluctance to cooperate with some of the liberalization terms agreed by other countries. For example, India has refused China a greater market access for fear of disrupting their local industries. India’s reluctance is a given considering that they have trade deficits with almost all of RCEP’s participating countries.

Additionally, RCEP countries differ in their services and investment fields. Again, India’s example is brought up as the country disagrees with the clauses on Movement of Natural Persons (MNP)—which had been agreed upon by all members. Ms Bo reiterated the four main pillars of RCEP—liberalization, protection, facilitation and promotion—and, the fact that some countries have refused to open up their economy through RCEP will inevitably stall the negotiation process. Ms Bo also mentioned the challenges regarding investment-state dispute settlement (ISDS) mechanism. She maintained that though in its present form the mechanism is controversial, intellectual property (IP) rules must also maintain a balance between the rights of IP holders and the interest of the users and the public. She, then, echoed Tan Sri Rebecca’s earlier statement that there should be a push to emulate TPP’s ISDS mechanism. But this will prove to be difficult considering that some countries have been reluctant to open their domestic markets in order to support local industries. The same challenges also apply to items of government procurement, e-commerce and competition. Ms Bo, then, briefly mentioned that the changes in political leaders among the participating countries, including Malaysia have contributed to the delay in concluding RCEP. There’s also the trend of a growing discontent with globalization and economic liberalization across the world that is influencing public opinions on trade agreements.

From China's perspective FTAs are largely beneficial to the participating economies. RCEP will encourage regional trade, investment and economic growth. China also places their confidence in ASEAN to take the lead and to conclude the negotiations as soon as possible. In addressing some of the concerns regarding trade deficits with China, Ms Bo said that China is not necessarily looking for trade surpluses with their FTA partners. In fact, China's trade surpluses with the rest of the world have been decreasing in recent years. China's import from Vietnam, for example, have been increasing, along with their investment. FTAs may accelerate trade deficit. But it will also expand trade and increase investment. In addressing some of the worries regarding market opening with FTAs, Ms Bo acknowledged that it is a double-edged sword, from China's point of view: while it brings in more investment, there is also an increasing risk for domestic economic instability. However, this can be avoided through domestic institutional reforms to increase stability

Ms Bo suggested participating countries to enhance experience and policy sharing to build more consensus. All participating members, not only China, have signed a lot of FTAs before RCEP. Therefore, there should be a way for countries to facilitate sharing of policy know-hows to increase resilience. Additionally, all countries should cooperate to push forward the negotiation process. China, for example, has been proactive to resolve some of the standing issues with India by having their officials visiting India to conduct bilateral agreement. Lastly, Ms Bo noted that RCEP should follow the experience of TPP while also maintaining its core model of flexibility to accommodate the different levels of development.

## Q&A (Moderated by Mr Nicholas Kwan, Director of Research, Hong Kong Trade Development Council)

### India's Role in RCEP Negotiations

**Dr Nicholas Kwan** commented that there should be a push for a win-win proposition with RCEP to encourage more commitments from participating countries.

**Tan Sri Dr Rebecca Sta Maria** said that it is regrettable that the country which has been looming the conversation with regard to their protectionist stance—India—is not in the room. She asked the delegates if the RCEP Minus X a perspective debated in their respective countries.

In response, **Dr Yose Rizal Damuri** defended that he was not necessarily referring to India in his proposal for RCEP Minus X. There are also other countries which are not as comfortable with MNPs. The question that he was trying to propose how to maintain the critical mass of the economic viability of RCEP if a large economy like India pulls out.

## **RCEP Minus India – Lost Potential?**

**Professor Dr Josef T. Yap** pointed that India is too big of an economy, and RCEP Minus X will not be a substantial agreement without them.

**Dr Laohoua Cheuching** believed that India may not have any issue with ASEAN leadership in RCEP. But ASEAN is demanding more from India especially in the negotiations on labour movement, than what they have been used to—India, as an economy, has not been involved with many FTAs. Additionally, India's position on services is also not compatible with that of ASEAN's.

**Ms Yuan Bo** added that China prefers India to stay in the negotiations. China has definitely tried to facilitate bilateral agreements with India and RCEP is a suitable platform to accelerate further cooperation with India. China is also willing to offering knowledge on domestic institutional reforms to help India overcome their domestic obstacles.

**Dr Yose Rizal Damuri** highlighted most RCEP members have had incubator vis-a-vis APEC and AEC whilst India has not had an extensive experience and platform with regional economic integration. He recommended RCEP Minus X (India) while keeping the option open for India to join the integration later down the road.

**Chap Sotharith** from Cambodia, then, commented that consultation of domestic stakeholders is important in the negotiations for economic integration. The anti-globalization activists in India has prevented India from opening up their local market. He agreed with Dr Damuri's proposal for RCEP Minus X since there are so many contentions still left on the table with regard to India, and other participating countries cannot afford to be stalled any longer.

**Tan Sri Dr Michael Yeoh** suggested for RCEP Minus India to be seriously considered and debated by the participating countries. The negotiation process cannot be delayed any longer, fearing a risk to the credibility of RCEP.

**Professor Dr Suthiphand Chirathivat** from Thailand observed that there has been a notable fatigue in everyone involved in the negotiation process.

In contrast, **Dr Võ Trí Thành** invited delegates to consider the political and economic risk of RCEP Minus X for ASEAN. We have FTAs with India and this will risk the centrality of ASEAN economic viability in the near future—considering the significant potential of Indian economy.

### **SESSION THREE: TAPPING INTO THE POTENTIAL OF THE RCEP**

#### **Professor Dr Tu Xinquan, Dean, China Institute for WTO Studies, University of International Business and Economics, China**

Professor Tu introduced the third session by providing a quick background of the “One Belt One Road” initiative that was launched by China back in 2013. The initiative is a comprehensive and broad plan that includes many objectives, one of them is to enhance trade connectivity and negotiate FTAs between China and their partners. South East Asia is an important part of the Belt and Road Initiative (BRI), and as such the RCEP could potentially serve as a complement.

However, Professor Dr Tu acknowledges that there is much about the BRI that remains to be explained and understood by both the Chinese as well as foreign observers. Thus, Professor Dr Tu believes that this session can help us better understand the relationship between the BRI and RCEP.

#### **Mr Ko Ko Hlaing, Chairman, Centre for Strategic and International Studies, Myanmar**

Mr Ko addresses the role of ASEAN in the RCEP and the BRI in his presentation, “RCEP, BRI and ASEAN; Opportunities and Challenges Ahead.” He touched upon the potential of RCEP in the waning period of the TPP as RCEP is more comprehensive and consolidated than the TPP due to the centrality of ASEAN both in terms of geography as well as politics. Some of the formidable strengths of RCEP include the huge human population that it covers: 3.4 billion, the large GDP: 49.5 trillion USD in terms of GDP, PPP, as well as the expected economic prospect of RCEP. Regardless of which variation of the RCEP, be it “minus” or “plus,” Mr Ko emphasised the need to include India in order to reach 250 trillion USD in terms of GDP, PPP by 2050. RCEP also encompasses a close knitted community in terms of geography as most of the member states are ASEAN.

Mr Ko then went on to discuss the potential of the BRI. The BRI is different in nature from the RCEP as RCEP focuses on trade and economic links while the BRI focuses on infrastructure. The RCEP is more comprehensive and consolidated than TPP because of the centrality of ASEAN in terms of the agreement’s scope and also the region’s leading role. The formidable strengths of RCEP include its reach to 3.4 billion people, covering USD \$49.5 trillion in terms of GDP and PPP. These expected numbers only remain with India in the agreement.

Meanwhile, the BRI’s potential is different. BRI crosses almost all the territories in the “World Island” or the main land mass of the world that includes Asia, Africa and Europe. The BRI also includes maritime routes—the 21st century equivalent of the Silk Road. If completed, it will be the biggest socio-economic network in the history of mankind. Meanwhile, US, the world’s superpower, is now orienting towards a more inward-looking policy “America First.”

Due to this power vacuum, there will be another replacement and China can assume the mantle left by America. China is well equipped with strong financial resources like BRI fund and the Asian Infrastructure Investment Bank. Hundreds of billions of dollars have been saved just for this project and the BRI is ready for implementation in places around the world. In fact, Greece now has larger ports, Egypt the new Suez Canal, Ethiopia, a new complex and deep-sea ports. Central

Asian and Southeast Asia, once landlocked countries are now land-linked, allowing for the simple transport of goods like fruits.

However, there needs to be a synergistic and simultaneous implementation of RCEP and BRI. This requires the development of infrastructure and coordination between ASEAN countries to make projects like the Indochina Peninsula Economic Corridor, China Myanmar Economic Corridor, and the Bangladesh–China–India–Myanmar Forum for Regional Cooperation (BCIM) prosper. If properly coordinated, the combination of ASEAN development schemes with BRI will have better outcomes. Projects of individual states such as the high-speed rail project in Myanmar and other Greater Mekong Sub region or GMS projects connecting the east-west and south-east can be integrated through regional schemes. Domestic plans can also be meshed within the GMS and BRI. Such a strategy would see trilateral highways planned with India and Thailand going through Myanmar

There are challenges ahead, beginning with difficulties in the strategic relationship between China and India. India is trying to transform and has a positive focus on the ASEAN region. But, they have different perspectives compared to the West and the Middle East, of which they have many trade agreements with. India does not have useful ports in the eastern coast, due to cyclones and other natural disasters and only has strong relations with Singapore. As such, it is natural for India to be reluctant to join RCEP— even Myanmar has a trade surplus with India. India must learn from the mistake of the ASEAN Free Trade Area. India should have the privilege to join RCEP. They used to have a very inward-looking policy, but now they acknowledge a need to look outwards. ASEAN also needs India as it is an economic giant.

**Professor Dr Suthiphand Chirathivat, Executive Director, ASEAN Studies Centre, Chulalongkorn University, Thailand**

Discussing contextualising BRI with RCEP: An ASEAN perspective, there is no need to elaborate on the importance of RCEP in the present economic environment. The latest progress of RCEP occurred just before the intersessional Tokyo round on June 30, where only draft texts of conclusion on economic cooperation, trade, and e-commerce were drafted. There are still many pending issues regarding the political economy of RCEP still without a conclusion. This is because ASEAN proposed up to 92% zero tariffs on all goods and services. India offered less concessions and resultantly, negotiations could not conclude. ROOs remain a contentious issue with high standards expected in a common RCEP rendering it difficult to build consensus.

For RCEP to move forward, ASEAN needs to resolve differences and conflicts of interests within the set deadlines to implement and create benefits for RCEP member states. RCEP is still far from being comprehensive but we can classify issues and table them according to their sensitivity to make them more attractive to business sector. The BRI is also important terms of the amount of money that have been amassed for its component projects. BRI holds promise for badly-needed infrastructure such as railways, ports, energy. But, the progress for these projects are at different stages. Some countries have finalised negotiations, some are implementing BRI-related contracts and obligations, while some negotiations are still ongoing. Emerging concerns

The BRI poses some issues for equitable and fair development practices. There is a lack of local participation and a lack of economic viability due to the size of the initiative. It may also be taking too much of a one-size-fits-all approach, which isn't consistent with development level of countries involved. This increases the risk of debt hangovers, as BRI projects depend on loan arrangements with China. Potential economic impacts in host countries are starting to get serious attention but have not been coordinated within the ASEAN region. Thus, regional and local responses to BRI need to be highlighted in order to shed light on views of multi-stakeholders. China must clear doubts about potential issues. BRI cannot remain vague and fluid and needs to have an explicit and clear plan on how to extend infrastructure investment. There is also the issue of trust. Very few details have been revealed and understanding BRI's long-term plan and purpose would go a long way to hastening the process of deep economic integration.

There are potential links between BRI and RCEP. However, there needs to help strengthening intra- and intercontinental ties. BRI infrastructure development and arrangement have played an active role with market integration far reaching. Both agreements have a broad -based structure, going beyond forging individual country's bilateral relationships. A UN ESCAP report done on BRI brings together the assessment of macro, social, environmental implications of BRI economic corridors. Overall benefits seem to increase economic output by an average of 6%. The BRI produces a 30% reduction in trade and investment in the China-Indochina corridor alone and could generate nearly 2% of GDP for China and up to 17% of GDP growth for other participating countries.

However, gains would be higher where trade agreements already exist. But, BRI is important for improving transport infrastructure allowing for transport systems to be integrated. It is also clear that the highest economic benefit would be to the China-Indochina Peninsula with high economic benefits and low risk. ASEAN nations should also build linkages beyond the BRI or RCEP. Without this, ASEAN cannot reach its potential. RCEP is important in moving ahead with the BRI, which is already carrying out China's economic integration and cooperation with countries around the world. In summary, BRI intended to reduce financial costs, while FTAs such as RCEP are negotiated to reduce institutional costs. However, time will tell on how well both programmes are implemented.

**Dr Chap Sotharith, Senior Research Fellow and Board Member, Cambodian Institute for Cooperation and Peace**

If RCEP is successful it could be one of the biggest agreements in the world by involving China and India, both massive markets. The main purpose of RCEP is to promote trade and investment, ultimately to promote economic development of member states but there are many problems in the negotiation process. Negotiations have stalled due to political differences and varying level of development; the negotiation is stalled. He hoped to be able to finalise this agreement and take the alternative of India, or "Minus X."

Commenting on the BRI, he affirmed that it was a broad, new initiative that will spread quickly. The main difference between RCEP and BRI is that RCEP is the product of ASEAN and other countries, while BRI is the product of China and its political interests. The BRI will promote

connectivity across the region. That being said, it is useful to use the two initiatives together as a complementary tool. However, it is unclear what the benefits of the BRI are. In Cambodia, no concrete projects yet from the BRI although there are Chinese FDIs and funding. There are Challenges of combining the two initiatives. There is a need to organize and clear counterproductive overlaps between the projects of RCEP and BRI. At its core, RCEP is good for promoting trade and investment providing access to the movement of labour. Meanwhile, BRI is like putting more sails to a ship to allow it to move it further. Today, Cambodia is committed to opening their doors and contributing to these two initiatives. Cambodia hopes that the two initiatives will help close the development gaps between the ASEAN member states.

### **Mr Nicholas Kwan, Director of Research, Hong Kong Trade Development Council**

Mr Kwan discussed his presentation entitled “RCEP, the BRI, and the New World (Dis)Order.” He compared Boris Johnson and Donald Trump then proceeded to his main point: both men represent a trend of de-globalisation that has been set for the past ten years and is likely to last for the next ten. Cross-border bank lending has been stagnating and even declining driving forces of protectionism and isolationism. Also, world exports have not recovered over the past 10 years. Most saliently, for the past 30-40 years, there has been a shift of the world economic balance from East to West back to the East. However, those who hold RCEP back do not seem to understand the crucial need to negotiate such a large agreement. Instead, they ignore the costs of not entering into such an agreement and allowing the world to end up in disorder, where the world breaks into two.

In a world with a regionally integrated financial system and trade regimes, joining RCEP and CPTPP are just two choices countries need to make. With the threat of de-globalisation and the disintegration of the WTO, we need to act fast. Unfortunately, Hong Kong is not part of these treaties. While RCEP minus may not be the automatic option with India’s role in the negotiations up in the air, RCEP + is a possibility with Hong Kong ready to join. Hong Kong has already gone through all the pages of the agreement. Although some requirements may not be applicable to HK there is no additional cost for Hong Kong to join.

Despite this willingness to join in, Hong Kong feels different about the BRI. BRI remains a myth for HK despite the constant promotion by the Chinese State. They are still not sure what are the regions covered under BRI and what the BRI’s ultimate agenda seeks to achieve with no clear defining regions involved and no timeline. The only conclusion that can be drawn by Hong Kong is that BRI is a globalisation initiative with some Chinese characteristics — the Chinese reaction to de-globalisation. It is only clear that China wants not only to export but import more developed technology. However, they still have a lot of intellectual property to protect. The problem remains that BRI is Chinese driven and they are new to these kinds of initiatives, leading to the higher possibility of mistakes. They may build infrastructure that leads to nowhere while destroying mountains in the process. But, with rules and standards, they can also provide benefits. China must work on their soft power – they need an institution with the appeal and the ability of Kung Fu Panda’s main character, Po.

**Q&A (Moderated by Professor Dr Tu Xinquan, Dean, China Institute for WTO Studies, University of International Business and Economics, China)**

**Connecting RCEP and the BRI**

**Dr Yose Rizal Damuri** asked how RCEP and BRI complements each other in terms of rules in the RCEP versus connectivity in the BRI. He also asked how can we also see BRI as a way to provide improvements in economic connectivity within the region. He doubted that the projects under the BRI improves connectivity as many projects are within the manufacturing or energy realm. Because BRI is a bilateral initiative while RCEP and TPP are regional initiatives, Dr Yose Rizal Damuri wondered whether BRI can be developed into a more trilateral initiative.

**Mr Nicholas Kwan** said that the BRI is indeed a bilateral agreement. The receiving country can raise projects that are beneficial to use localise. On the other hand, there are rules and standards that are more international that can uphold both the Chinese and local side to the appropriate code of conduct. At the end of the day, the BRI is a bilateral project and China can initiate the connection. It is up to the corresponding nation to further develop their relationships with China.

**Dr Chap Sotharith** added that the BRI does not aim to increase connectivity only through infrastructure but also by institution. They could ask for assistance with projects that promote connectivity within the region such as ports from Batam to Singapore. Thus, the BRI can be adapted to fit the requirements and environment of corresponding countries. This could help countries like Lao PDR, which lacks the funds to develop a railway. The BRI provides the opportunity for railways to be built by opening up funding streams Other options for connectivity between China and BRI nations include improving optic fibre networks to improve telecommunication and enhancing air transportation by building more airports.

**Dr Ko Ko Hlaing** added that the Bangladesh–China–India–Myanmar Forum for Regional Cooperation and the Indochina Peninsula Economic Corridor has been productive. Chiang Mai is now preparing for an influx of Chinese tourists, even using WeChat in their daily transactions. There is social development in China, young people hired from other regions to teach in Yunnan province. Moving forward, development plans can be combined with the BRI to make use of deep sea ports within existing corridors in the Greater Mekong Sub region and in Indonesia.

## Hong Kong's Absence from RCEP, CPTPP, and FTAs

**Professor Dr Fan Gang** asked **Mr Nicholas Kwan**, why Hong Kong is not in any of the trade arrangements such as RCEP or CPTPP and whether it has anything to do with Taiwan.

**Mr Nicholas Kwan** responded, saying that HK is pretty lazy in pursuing FTAs and that the only FTA deals struck were with the mainland Chinese government. Hong Kong is conservative when it comes to FTAs, thinking only in terms of merchandise and goods, which HK does not produce much of. Now HK has only committed to WTO's agreement but only complies with half of the tariff requirements.

## The BRI's and RCEP's Progress and Outcomes

**Dr Li Xiangyang** asked about the Thailand-China railway and how to evaluate the prospect of the project with only 10km being completed thus far.

**Professor Dr Suthiphand Chirathivat** responded saying that the high-speed rail has stalled because the project, which is supposed to stretch over 200 kilometres from Bangkok to northeast Thailand and then further link more than 600 kilometres to Lao PDR is too costly. There have been concerns over China building the Laotian portion, and Thailand prefers to only draw upon local enterprises and ensure it is 100% Thai. Thus, only a 10km stretch of rail has been subcontracted out.

**Dr Laohoua Cheuching** added in saying that his personal view is that the purpose of the BRI is to provide land linkages. At a meeting with the ADB many years ago, Lao PDR was presented with the concept of transport connectivity, a vision that enamoured Lao PDR because of its central role in the project, which started from China with the final destination ending in Southeast Asia. The Laotian interest is different from the other nations. Laos is just at the passing point to join in the BRI. There is no commercial viability for this project. The main road is not connected to its periphery. Resultantly, the design of this form of transportation requires a system overhaul and thorough planning that connects the road and other places in order to provide any economic benefits to the people of Laos who reside by the area.

**Dr Chap Sotharith** added that when the railway is built, people will move to be closer to transportation and development. For trains that transport minerals and other commercial goods, it will bring spill over benefits to the Lao economy in the future.

**Dr Võ Trí Thành** commented on how BRI can be a complement to the RCEP. Liberalisation is about institutional changes, cooperation, connectivity. To ensure BRI is complementary to the RCEP stakeholders need to take into account negotiations within the RCEP, cooperation between the AIIB and other source of funding in the region such as Japan, who can participate with green and smart infrastructures, and finally, cooperation among stakeholders. Although an ASEAN infrastructure fund exists, China needs to

cooperate with ASEAN as a group and resolve any conflicts of interest or moral hazards commonly involved in development.

### **Closing Remarks**

#### **Professor Dr Fan Gang, President, China Development Institute**

Noting a fruitful day with production sessions and discussions with active participation from members, Professor Dr Fan Gang summarized the main issues and concerns which were discussed. Moving forward, elements of the RECP, TPP, CPTPP, and BRI can be used to improve and promote more inclusive and equitable development in the ASEAN region and beyond.

To allow the discussion to permeate into negotiations and decision making on the RCEP, other FTAs, and the BRI's implementation in the region, Professor Dr Fan Gang and ASLI provided a draft joint statement for the group to sign. The statement, which mentions a seminar held with 16 leaders from top think tanks from China and ASEAN region noted the progress made since the inception of RCEP included the outcomes of the 21st round of negotiations held in Indonesia and reaffirmed RCEP's importance to continued economic growth, interconnectivity, and prosperity. The statement also underscored the importance of the RCEP while recognising the barriers towards completing the agreement.

Professor Dr Fang Gang also suggested for a less formal way to float off the new ideas to gauge reactions to RCEP and report controversial or salient aspects of the agreement back to their respective governments. He invited everyone to contribute their ideas and suggestions, emphasising that there is a present need to take this opportunity to move the RCEP negotiations forward. if were to release the statement to the press and add a provision such as potentially minus and/or adding another party. He hoped that all involved in the seminar would continue sharing their ideas and interest in ASEAN, China, RCEP, the BRI, and future FTAs.

**Prepared by**

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