The Regional Comprehensive Economic Partnership and Its Impact on the US-China Trade War

Mohamad Zreik[1]

Abstract: *Economists argued that the influence of globalization presented by Regional Comprehensive Economic Partnership and other multinational partnerships created an integrated global economy which made major markets dependent on; so arguably, it is impossible to impose a strategy to retaliate the linear progression of the world economy by retrieving the international trade agreements that bring together China and the United States. The Trump administration has highlighted economic protectionism against "unfairness", but is inevitable, this strategy is no longer viable in contemporary foreign policy, given that the world is no longer unipolar and that the United States is defying a fierce competition by China, a major economic powerhouse. Despite its benefits and trade diversion to RCEP member countries, is insufficient to counteract the negative impacts of the US-China trade war, according to this study. For the period of 2018–30, a macroeconomic data projection was utilized to create the baseline scenario for this period. This is the anticipated development path of the global economy if no changes are made to trade policy, sometimes known as the "business Gross domestic product (GDP) and gross investment (GIP) macroeconomic data". The research is based on data from the World Bank, which is comprised of 140 nations, 57 sectors/commodities, and 17 regions and 30 sectors were included in this study from year 2012 till year 2017.*

Key Words: *Regional Comprehensive Economic Partnership, China, United States, Trade War, Political Economy*

1. Introduction

There are approximately 470 regional trade agreements in the multilateral trading system. Even with global trade uncertainties, it's probable that regional trade agreements will continue to grow. Due to the "America First" attitude of Donald Trump's policy, trade openness has been negatively impacted (Sorgho, 2016).

These trends may be observed in recent trade agreements, such as the newly concluded November 2018 US-Canada-Mexico trade deal, as well as the US's departure from the Trans-Pacific. The United States has imposed tariffs on Chinese goods worth US$250 billion and has threatened to impose further duties totaling US$267 billion.

[1] Mohamad Zreik is a Doctor of International Relations, a researcher specializing in China's foreign policy towards the Arab region, with a special focus on the Belt and Road Initiative, and has many writings and publications.

ORCID id: 0000-0002-6812-6529

E-mail: mohamadzreik1@gmail.com

Phone Number: +8615623305575 +96176596907

As a result of these developments, regional trade agreements have once again come to the fore. The RCEP was signed on 15 November 2020 at a virtual ASEAN Summit hosted by Vietnam; it is a 15-country pact that covers the whole ASEAN area of 10 nations, in addition to China, Japan, South Korea, Australia and New Zeeland. As an alternative to the United States pulling out of previous trade deals and the escalating US-China trade war, this collaboration has been promoted as a win-win solution (Geducos, 2018).

A recent study suggests that the United States may reconsider its involvement in Asia if Asian economies and markets become stronger and more independent as a result of regional integration, according to Petri et al.

To date, RCEP has a population of over 3 billion people, and its purchasing power parity gross domestic product (GDP) totals US$ 49.5 trillion. This represents approximately 39% of its GDP.

When considering RCEP's influence on the US-China trade war, this study analyzes (a) the consequences of the agreement; and (b) RCEP's impact on the United States, because the United States and China are the world's two biggest economies, with approximately 40% of the world's combined GDP, this trade war has had a significant influence on other economies; and (c) the impact of RCEP on India, one of Asia's greatest economies.

Due to India's worries over the RCEP's tariff reductions on products, the country is not comfortable with the RCEP, as it may derail India's yet to take off "Make in India" initiative, a protectionist policy employed as a campaign tactic.

A dynamic computable general equilibrium (CGE) modeling framework is used in this study, more particularly the GTAP model. This study contributes to the current literature in three ways by using this commonly used tool in trade policy analysis (Nilsson, 2018). A number of studies on the RCEP's effects, such as Cheong and Tongzon (2013), Lee and Itakura (2019), Li et al. (2017) and Rahman et al. (2015) have relied on speculative assumptions and conjectures regarding tariff reductions in order to arrive at their conclusions.

In this case, the simulations are based on the substance of the real conversations as of 12 November 2018. Real-time tariff reductions are simulated, for example, for a list of goods at the 6-digit HTS level of the participating countries in RCEP.

This study examines all four rounds of tariffs that have been implemented in the US-China trade war, and the possible implications of a US–China trade retaliation scenario have been examined by Dong and Whalley (2012), Li, He and Lin (2018), Noland (2018), and Rosyadi and Widodo (2018) based on ad hoc tariff assumptions. Both the RCEP and the US-China trade war were examined concurrently. Using ex post import tariff adjustments, this study bridges the gap between RCEP and the US–China trade war analysis.

Analysis provided on how well RCEP can compensate for the increasing trade gap between the two biggest economies that are tightly linked with RCEP members. It's also possible that India

will not be a member of the RCEP owing to increasing internal political pressure inside its economy, which is discussed in the study.

2. The Regional Comprehensive Economic Partnership, Trade War and Trade Scenarios

This section provides a brief overview of the RCEP and the US–China trade war and explains the trade scenarios considered for simulation.

2.1. The Regional Comprehensive Economic Partnership

A mega-regional free trade agreement (FTA) sponsored by ASEAN, the RCEP was introduced during the 19th ASEAN Summit held 14–19 November 2011 in Bali, Indonesia. In order for it to well accomplished, the member states must establish a contemporary, comprehensive, high-quality, and mutual partnership (ASEAN, 2012). Owing to the particular difficulties the area confronts, the RCEP was supposed to be completed in 2015; however, the talks have taken longer. China, Japan and South Korea are working on an FTA for the first time despite their political and security differences, and this would be the first time these economies have worked jointly on an FTA (Shiao, 2018). Although it began as a free trade agreement (FTA) involving ASEAN countries as well as China, Japan and Korea, the RCEP has expanded to include Australia and New Zeeland. In terms of scope and structure of the agreement, there have been some positive developments, such as

- Economic and technical cooperation
- Small and medium enterprises
- Customs procedures and trade facilitation
- Government procurement
- Institutional provisions
- Standards, technical regulations and conformity assessment procedures
- Sanitary and phytosanitary (sps) have been completed.

Though many have worked to resolve the "low hanging fruit" of the tariff talks, others say that new, more important topics like investment and competition policy have still to be tackled along with problems such as labor and environmental standards. However, these larger problems have been addressed in the (Comprehensive and Progressive Agreement for Trans-Pacific Partnership) CPTPP, which entered into effect on 30 December 2018 (after the United States withdrew), making it a high-quality FTA.

A more conventional trade agreement, RCEP focuses on tariff reductions on marketable products rather than larger problems (Sharma, 2018). Because of these distinctions, RCEP is not a rival to CPTPP (Sharma, 2018), despite the fact that CPTPP excludes China and RCEP does not. China's One Belt One Road initiative will benefit from the RCEP, according to Vines (2018).

A significant platform for Chinese global integration efforts in the near future is expected to be China's Belt and Road initiative, which is designed to enhance connectivity between China and more than 60 nations via land and marine routes of the ancient Silk Road. On November 12, 2018, certain deadlines were set for tariff reductions. Under exchange for India's participation, ASEAN has offered India a concessionary offer of opening up approximately 83 percent of its tariff lines, compared to the initial 92 percent specified in RCEP.

In contrast, India would have reduced its tariffs by 89 percent for ASEAN nations and by 81 percent for non-ASEAN members. Due to the current ASEAN trade agreement and the ASEAN + 6 FTA, the original and final tariffs are low in 2017 for the ASEAN RCEP member nations even before the RCEP enters into effect in 2019. India and South Korea have the highest tariff rates among the non-ASEAN RCEP members.

India's reluctance to join the RCEP prevented the anticipated agreement from being reached in November 2018. An issue for India is China, with which it has an enormous US$ 60 billion trade imbalance. India is concerned that increased market access to China would damage its major industrial industries such as steel and textiles.

Australia and New Zealand are similarly concerned about India's market access to other non-FTA partners (Mishra, 2018). China and a few ASEAN nations are among those with whom India would engage in order to iron out the snags in the trade agreement. A second round of RCEP talks will take place after the bilateral sessions with India. Anyhow, some parties in the RCEP may be tempted to exclude India and go forward with a limited version of the deal, just as the other 11 signatories to the CPTPP went through without the United States as well (Sharma, 2018).

2.2. The United States–China trade war

US-China bilateral trade has grown since China joined the WTO in 2001, leading to substantial benefits for both nations (Guo et al., 2018). As a result of the trade deficit with China, the announcement of the "Belt and Road initiative" and "Made in China 2025", and breaking of some trade laws by China according to the United States, there have been growing trade conflicts between the two giant economies since Donald Trump was elected president (Qiu et al., 2019).
From the US point of view (Qiu et al., 2019), concerns include the following:

- Unfair competition of Chinese firms supported by its government has resulted in a huge trade deficit with the United States;
- China requiring US firm to allow technology transfer in exchange for market access to China;
- China's government help provided to local firms to steal intellectual property, trade secrets and other confidential information from US firms;
- Giving subsidy to local firms for investment and acquisition of US companies to obtain their technology while restricting US firms' investment in China

For example, in China there are a number of distinct companies (Qiu et al., 2019).

This is due to the fact that the US economic structure is based on comparative advantage.

For the second time in a row, US companies have taken the lead by transferring technology in order to maximize their profits. To add, the US government has mostly disregarded China's huge technological and industrial development.

Subsidies are also extensively utilized in other nations (including the United States) to cope with market failures and to alleviate economic imbalances.

Trump issued a letter in March 2018 threatening to launch a WTO lawsuit against China for their unfair licensing procedures and threatening to levy tariffs on Chinese goods as the tensions surrounding these issues increased. According to reports, the United States and China have an enormous trade imbalance, prompting Trump to put tariffs on China on July 6, 2018.

A 25 percent tax was placed on 818 imported Chinese goods, 10 worth US$ 34 billion in the first wave of levies. Iron or steel, electrical equipment, railway products, and instruments and apparatus are among the commodities targeted. Agricultural items, cars, and aquatic products were among the US$ 34 billion worth of US exports that China responded with a 25 percent tariff.

US tariffs of 25 percent were imposed on 279 Chinese products worth US$ 16 billion on August 23, 2018. It's a good idea to keep in mind that the goods that are being targeted include things like coal, copper scrap, gasoline, buses and medical equipment. The total amount of these taxes was US$ 16 billion.

United States imposed tariffs on US$ 200 billion of Chinese products at 10 percent initially and rose to 25 percent in the future in the third round of the trade war on September 24, 2018. Tariffs of five or ten percent were imposed on US$ 60 billion worth of US products. A 90-day ceasefire was reached between the United States and China on 2 December 2018, which means no further tariffs may be imposed until at least early March 2019. In the meanwhile, a round of trade discussions took place between the two nations on the 24th of February 2019.

China subsequently started purchasing US soybeans (after ceasing to do so in July 2018) and temporarily reduced tariffs on US cars and auto components as a sign of its commitment. China has imposed a total ban on the drug, raising tensions between the two nations. United States and China failed to achieve a trade agreement following a series of trade negotiations, and President Trump slapped additional tariffs on 10 May 2019, marking the fourth round of trade war.

Ten percent initial duties on Chinese products in were raised to 25 percent by the US government. In response to this, China announced tariffs on US goods worth US$ 60 billion as of 1 June 2019. On the list of taxed products are beef, lamb, and pork; vegetables; juice; cooking oil; tea; coffee; refrigerators; and furniture. According to Lai (2018), China filed a complaint with the WTO in December 2018 regarding the US actions on tariffs. As a result of the trade tensions, China is more likely to push forward with the One Belt, One Road Initiative, which opens up new export markets in Central Asia and the Middle East, and offers new channels for outbound direct investment.

2.3. Trade scenarios

Based on the discussion above, the following simulations were carried out:

- Simulation 1 is when the RCEP concludes in 2019. The schedule of tariff elimination is followed for the specific 6 digit HTS level of the product list and aggregated to the sectorial classification in the GTAP model.
- Simulation 2 is the United States–China trade war in 2018. Tariffs of all four rounds are imposed on goods in the various lists accordingly.
- Simulation 3 combines Simulation 1 + Simulation 2. Jointly considers the effects of the RCEP in the wake of the ongoing trade dispute.
- Simulation 4 is the conclusion of the RCEP without India. Considers how the effects change if India does not participate in the RCEP.

A weighted average of import value is employed to calculate tariffs, since simple averages utilized in earlier research may be deceptive (Suranovic, 2010).
In light of the fact that the RCEP has become a reality and that it's uncertain how long the US-China trade tension may continue, the applied simulations serve to be a method for a deeper understanding of the topic. As the extent and structure of tariffs in the trade dispute are susceptible to alter over time, a shorter time period of study was considered suitable.

3. Previous studies

Rosyadi and Widodo (2018), Robinson and Thierfelder (2019), Guo et al. (2018), Dong and Whalley (2012), and Noland (2018) utilize extremely high import tariffs and analyze an excessively protectionist environment in the context of the United States-China trade war, respectively a 30 percent tax on all goods is examined by Robinson and Thierfelder (2019), while Rosyadi and Widodo (2018, 2018), Noland (2019), and Guo et al (2019) assume a 45 percent tariff. Progressive trade retaliation is also included in other research such as Dong and Whalley (2012) and Li and colleagues (2018). It's important to note that the model used by Rosyadi & Widodo (2018) is a static GTAP model, which implies that tariff removal.

According to their findings, China's export trade diversion towards other trading partners is greater than that of the United States, and contrary to Donald Trump's goal of increasing employment in the United States; their data indicate that the trade war may not lead to a significant economic progress; as an alternative, Dong and Whalley (2012) advocate for a gradual trade retaliation, but only up to the point of a 100 percent bilateral.

If the replacement elasticities of imports are strong, then the EU and Japan will benefit from it. As a result, they argue that although the trade war is not a good strategy for the United States, it may not be a terrible one for China, provided it can decrease its reliance on exports in Studies (Amiti, Redding & Weinstein, 2019; Dong & Whalley, 2012; Guo et al., 2018; Qiu et al., 2019; Rosyadi & Widodo, 2018) do not support President Trump's claims that higher tariffs would enhance the US economy's well-being. A study by Noland (2018) predicts that a trade war may

lose the United States 179,000 jobs, and if China bans its state-owned companies from trading with the United States, another 85,000 will be lost.

In addition, there was concern that the trade war would lead to the United States withdrawing from the global trading system, with other nations redirecting their commerce around (Robinson & Thierfelder, 2019). Even though it is expected to have negative effects on welfare, GDP, manufacturing employment, and trade, Li et al. (2018) remark that China's economy is unlikely to be badly affected.

Textiles, computers, and electrical goods, for example, may have a greater impact on trade decrease than other industries (Guo et al., 2018). China would lose more GDP than the United States from the trade war, according to Rosyadi and Widodo (2018) and Li et al. (2018). There are a variety of ways in which the trade war has affected the economies of other (see Guo et al., 2018; Li et al., 2018; Robinson & Thierfelder, 2019; Rosyadi & Widodo, 2018).

There is a risk, according to Salvatore and Campano (2018) that a trade war may lead to a total collapse of the post-war international liberal trade. The RCEP has been studied by Cheong and Tongzon (2013), Lee and Itakura (2018), Li et al. (2016), Kawasaki (2015), Rahman and Ara (2015), among others. Kikuchi et al. (2018) examined a 50% tariff drop, while Petri and coworkers (2017) examined an 85% reduction.

As a result of the assumptions made by Lee and Itakura (2018), Kikuchi et.al (2018), and Petri et al. (2017), the decrease of non-tariff barriers (NTBs) has also been included. Nearly all RCEP member nations will benefit from the deal, whereas nearly all non-participants would lose out, according to the majority of prior RCEP research (Cheong & Tongzon, 2013; Kawasaki, 2015; Li et al., 2016; Rahman & Ara, 2015).

Others concluded that the RCEP would likely shift the focus of nearly all of its members away from agriculture towards manufacturing and services (Kawai & Wignaraja, 2014; Lee & Itakura, 2018). For the RCEP, Kawasaki (2015) shows that developing and emerging countries experience comparatively significant GDP benefits compared to established economies, whereas Li et al. (2016) estimate that welfare effects as a percentage of GDP are large for South Korea and India, at 2.77 percent and 1.79 percent respectively. It's worth noting that according to Petri et al. (2017), the RCEP yields global GDP benefits of US$286. These research outputs cannot be directly compared due to the variations in the simulations that were used in this study.

3. The Analytical Framework

Ianchovichina and Walmsley's global dynamic GTAP model is used in this study (2012). In addition to product diversification by place of origin and continuous return to scale production technology, this multi-regional and multi-sector CGE global economy model also has recursive dynamic characteristics for the handling of the long term. International capital mobility and capital accumulation are enabled by the dynamic framework which is based on the adaptive expectation theory of investment. In addition, the adaptive expectation theory of investments gradually reduces inequalities in the anticipated rate of return over time as a result of specific economic/trade shocks.

A last feature of the system is the accumulation process, which enables capital to build up over time, adapting to it.

It is based on data from the World Bank, which is comprised of 140 nations, 57 sectors/commodities, and 17 regions and 30 sectors were included in this study. Considering that 2011 is the database's reference year, the database was first updated by using historical macroeconomic data over the period of 2012–17.

Then, for the period of 2018–30, macroeconomic data projections were utilized to create the baseline scenario for that time. This is the anticipated development path of the global economy if no changes are made to trade policy, sometimes known as the "business Gross domestic product (GDP) and gross investment (GIP) macroeconomic data".

There are import quotas, subsidies, delays in customs and other technical barriers as well as import licensing, rules for valuation of goods at customs, pre-shipment inspections, as well as rules of origin and trade prepared investment measures from the International Monetary Fund (2018), while population and labour supply (working-age population of 15-64 years old) are obtained from the United Nations (2017).

Trade policy changes models are based on a baseline scenario. On the other hand, the trade scenarios' effects are assessed by comparing them to baseline models. The last step was to do sensitivity analyses by changing the substitution elasticity between local and imported goods and between main inputs of production. They were qualitatively comparable and thus stable.

5. Conclusion

However, in contrast to prior analyses, this research utilizes exposed tariff schedules to demonstrate that the effects on GDP, welfare benefits, and trade are far lower than previous studies had anticipated. But with the increasing tensions surrounding the United States-China trade war, the argument for trade as an engine of growth and stimulus for economic change is under attack more than ever before. As this research reveals, RCEP is not adequate to offset the negative effects of the US-China trade war, despite its advantages and trade diversion to RCEP member nations. ASEAN may be placed in a tough position if countries are forced to choose a side in the US-China trade conflict (Geducos, 2018). There may be ramifications for the RCEP talks in the event that this occurs. In spite of this, India is still standing in the way of the RCEP's completion.

However, India cannot afford to withdraw from the RCEP since economic integration with East Asia is India's natural route, because Asia is not only the world's biggest and fastest-growing economic hub, but it also plays a significant part in global value chains throughout the area, India has to protect its strategic development interests in the region. Whether or whether not, India will continue to fight for service trade liberalization and develop its industrial base in order to join the RCEP and take advantage of the increased access to markets in East Asia.

There is little evidence to suggest that India's exclusion from the RCEP will have an impact on other nations in the region, but the RCEP's strategic importance will increase since it includes

three of the world's biggest economies: China, Japan, and India. ASEAN's key role as a driving force of regional integration in the Asia–Pacific region will be bolstered by the completion of the RCEP, which will help pave a road towards achieving a free trade area of the Asia–Pacific region as well as acquire regional power. It would be useful to extend analysis beyond 2030, when RCEP is finally concluded and more detailed information on NTBs is available, as well as other market-oriented rules to achieve a high-quality agreement, to examine the full range of possible effects. CPTPP and RCEP are not mutually exclusive accords, thus future study may examine the effects of both. For future joint memberships in this or other trade agreements, this will throw light on what it means for joint members of the two trade agreements.

Whether the CPTPP and RCEP, will influence the emergence of more mega-regional trade agreements and further erode WTO's role, or whether existing regional trade agreements will expand to include new members, as Schott (2017) notes that "bigger is better" with re-negotiations, will be interesting to see. RCEP is expected to be successful in making economic integration and achieving more complementary trade agreements. When it comes to China's hub-and-spoke strategy, would One Belt, One Road nations be eager to join the Regional Comprehensive Economic Partnership (RCEP) if it offers prospective advantages. Uncertainty surrounds the potential effect of digital technologies such as block chain and the Industrial Internet of Things on regional trade agreements and protectionist obstacles.

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