

Creating an Economic Recovery After COVID-19: Does Regional Comprehensive Economic Partnership (RCEP) is a Booster on Asian Pacific Region?

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Abstract

The Regional Comprehensive Economic Partnership (RCEP) aims to harmonise rules and regulations across many overlapping free trade agreements in the region in order to attract new members. It's aims to strengthen Asean's relations with Australia, China, Japan, and New Zealand and made trade agreement's goal to create a contemporary, comprehensive, high-quality, and mutually advantageous economic cooperation that will help expand regional trade and investment while also contributing to the region's global economic growth and development. It does, however, confront a number of obstacles. Many people believe that the RCEP will be another low-quality regional trade agreement due to the inclusion of a flexibility concept and the 'ASEAN Way' of decision-making. The RCEP, on the other hand, gives all ASEAN members the opportunity to help establish the agenda for a regional agreement. As a result, despite its difficulties, ASEAN must make an effort to achieve an attractive RCEP in comparison to other regional agreements.

Keywords: covid-19, pandemic, economy, recovery

1. Introduction

The Regional Comprehensive Economic Partnership (RCEP) has been started in November 2011 which the establishment made during the 19th ASEAN Summit conducted in Bali, Indonesia. The purpose of the RCEP solely to gain a comprehensive and mutually beneficial economic partnership agreement that is World Trade Organization (WTO) consistent and transparent. RCEP is expected to involve deeper engagement between ASEAN and its preferential trade agreements (PTA) partners and with other external economic partners in the future (ASEAN Secretariat, 2011). RCEP offer the great opportunity among its members to increase trade relations and able to create the world's largest free trade zone.

In RCEP, 15 countries involved in effort to pursuing free trade and expanding open and include trade and investment. RCEP members comprises of all ten members of ASEAN (excludes candidate member Timor-Leste), the three East Asian members which is China, Japan and South Korea and the two Oceanian members of ASEAN which is Australia and New Zealand. Besides promoting the intergovernmental cooperation and facilities economic, political, security, military, educational and sociocultural in the establishment of ASEAN associations, RCEP can refine further these partnership through their mega regional free trade agreement (FTA). This partnership has been hailed as a viable alternative to the Unites States' exit from recent trade accords (Petri et al., 2017) and the escalating trade war between the Unites States and China (Geducos, 2018). Indeed, Petri et al. (2017) argue that by fostering stronger Asian economies and marketplaces as part of the regional integration process, the US may be enticed to reconsider its engagement with the Asia-Pacific. The RCEP is substantial economic bloc with a population of 3.4 billion people and a Gross Domestic Product (GDP) of US\$49.5 trillion in purchasing power parity, accounting for nearly 39% of global GDP¹. The 15 members of the RCEP account for around 29% (\$25.8 trillion) of global GDP, 30% (2.3 billion) of global population, and 25% (\$12.7 trillion) of

¹ Accessed from <http://saudigazette.com.sa/article/542494>. Saudi Gazette 2 September 2018

worldwide goods and services trade. The Regional Comprehensive Economic Partnership (RCEP) will be the world's largest free trade agreement (FTA) in terms of GDP, surpassing the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the European Union, the South American MERCOSUR trade bloc, and the recently signed United States–Mexico–Canada Free Trade Agreement. The RCEP is the first multilateral agreement to include the People's Republic of China, and it forms the first free trade agreement between the PRC and Japan, as well as Japan and the Republic of Korea².

The signing of the RCEP provides crucial momentum to its members' strong commitment to pursuing free trade, upholding the multilateral trade system, and deepening their open, transparent, and inclusive trade and investment regimes for post-pandemic economic recovery as regional economies deal with the impact of the coronavirus disease (COVID-19) and its economic fallout. The signing of the Regional Comprehensive Economic Partnership (RCEP) is a watershed milestone in the development of a massive regional trading union.

1.2 RCEP Member's Background and Trading Patterns

The RCEP is the world's largest free trade agreement which works as an overarching mechanism for free trade among the participating countries, with a single set of rules and procedures for accessing preferential tariffs throughout the region (e.g. harmonising the disparate rules of origin required to satisfy access to preferential duties across multiple countries). Based on World Bank estimates, the agreement would encompass 2.3 billion people, or 30% of the global population, contribute US\$ 25.8 trillion, or 30% of global GDP, and account for US\$ 12.7 trillion, or more than a quarter of global commerce in goods and services, as well as 31% of global FDI inflows. The agreement is vital because of the countries that deal the RCEP account for a third of the world Gross Domestic Product (GDP) and almost half the world's population, with the combined GDPs of China and India alone making up more than half of that. In 2050, it is projected that the RCEP's share of the world economy could account for half of \$0.5 quadrillion global (GDP, PPP).

The agreement of RCEP includes, namely, i) import duty elimination or reduction; ii) promotion, facilitation, protection, and investment liberalisation; iii) intellectual property rights protection and e-commerce facilitation; and iv) economic and technical collaboration. The RCEP offers new business and employment opportunities, strengthen supply chains in the region, and promote the participation of micro, small, and medium enterprises in regional value chains and production hubs through new market access commitments and streamlined, modern rules and disciplines that facilitate trade and investment. Besides, the ASEAN Secretariat persists dedicated to assist the RCEP process in achieving its goals of effectiveness and efficiency.

1.3 How RCEP Works in the Environment of Investment and Trade

North America, Europe, and East Asia are the world's three commercial centres. Each hub is responsible for a significant amount of trade both inside the area and with the rest of the globe. The intense commerce sparked the formation of the North American Free Trade Area

² Accessed from <https://link.springer.com/article/10.1007/s10272-021-0960-2>

and the European Union. However, there is no such regional integration agreement in East Asia. East Asia is one of the world's least economically linked regions for a variety of reasons. Fortunately, ASEAN, China, Japan, Korea, India, Australia, and New Zealand are currently negotiating a mega-free trade agreement (FTA). The Regional Comprehensive Economic Partnership (RCEP) is the acronym for the Regional Comprehensive Economic Partnership (Li & Moon, 2018).

The Regional Comprehensive Economic Partnership (RCEP) signed in November 2020 by 15 countries in the East Asia Pacific region: Australia, Brunei, Cambodia, China, Indonesia, Japan, the Lao People's Democratic Republic, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, the Republic of Korea, Thailand, and Vietnam. The RCEP went into effect in January 2022. Ten of the nations are already members of the Association of Southeast Asian Nations (ASEAN), and seven are also members of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). China and Korea, on the other hand, have signed FTAs with ASEAN and a few other nations in the area, but not with Japan (Estrades & Osorio-rodarte, 2022).

As a result, the Regional Comprehensive Economic Partnership (RCEP) - a preferential trade deal that brings all of these nations together – is likely to have a considerable influence on regional trade and GDP, as well as a differentiated impact among its members. Malaysia, Indonesia, the Philippines, Myanmar, and Korea, which is not part of ASEAN, are among the 15 nations that have yet to ratify the RCEP. The RCEP's guiding principles and objectives state that it will address both tariff and non-tariff barriers (NTBs), liberalizing goods and services trade as well as investment. Because ASEAN has signed bilateral FTAs with all other RCEP members, RCEP is expected to be more liberalized than or on par with the most liberalized ASEAN+1 FTAs, namely the ASEAN-Australia-New Zealand FTA (Li & Moon, 2018).

1.4 Which Country Tend to Benefit More in Terms FDI?

While FTAs (Foreign Commerce Agreements) are intended to boost trade between members, their impact on foreign direct investment (FDI) is less well recognized. Most FTAs, including the RCEP, regulate foreign investment facilitation measures in either an investment chapter or services trade provisions. The removal of FDI limitations on market access and operations is intended to make foreign investment more accessible. Furthermore, FTAs may have an indirect impact on foreign investment through trade consequences. FDI from export platforms, like local exporters, benefits from trade liberalization agreements (Motta and Norman, 1996).

Furthermore, corporations that invest vertically in a few countries to carry out distinct manufacturing activities, known as vertical FDI, may profit from FTAs owing to lower trade costs for components and parts that are often exchanged inside enterprises. Increased trade, on the other hand, may serve as an alternative for horizontal FDI, which is intended to explore new markets. This is because lower trade costs might encourage businesses to move to exporting to serve international markets. Furthermore, higher imports boost competitiveness, which may drive out less productive foreign enterprises, resulting in a trade for FDI substitution (Li, Scollay, & Gilbert, 2017).

According to UNCTAD, the RCEP members account for 16% of world FDI stock and 24% of global FDI flows, making the trade bloc a key FDI destination. According to the Financial Times, China receives the most FDI in the RCEP, followed by Vietnam and Thailand. Within the RCEP group of nations, Japan is the greatest provider of FDI, followed by South Korea and Singapore. The deal includes countries like Vietnam and Thailand, which have experienced a recent rise in FDI inflows as businesses explore for alternatives to China. In comparison to other major economic integrated regions such as the EU, the USMCA, and the CPTPP, intra-regional FDI flows are relatively modest (Zainuddin, Sarmidi, & Khalid, 2020). Nonetheless, ASEAN's integration efforts have resulted in a significant increase in intra-ASEAN investment and have attracted FDI to the area. Further investment increases are envisaged as a result of the new mega transaction, bucking the worldwide trend (Gultom, 2020).

Multinational corporations in high-income member states are anticipated to relocate manufacturing from high-cost surroundings to lower-cost locales. Multinational firms' involvement in Southeast Asia's less developed nations, such as Vietnam, Thailand, and Malaysia, had already risen before to the RCEP. These investment flows may help these member states develop and reduce the enormous income gap that exists between them and the other RCEP members. Within the RCEP, China, Japan, and South Korea are key sources of investment. The RCEP improves the region's overall appeal for investors by providing complementing geographical benefits. The agreement, as UNCTAD (2020) emphasizes, creates new prospects for market-seeking investors from outside the area (Raza & Shah, 2018).

1.5 Is There any Causal Evidence Regarding the Role of RCEP in Promoting Trade and Investment in the Asian-Pacific Region?

Exports to the United States and other regions first supported strong expansion inside East and Southeast Asian countries. Internal trade remained a secondary concern within the region. With the growth of global value chains and the fragmentation of Asia's industry, the government began focused on promoting the free flow of commodities, services, finance, and investments (Ahn 2018).

The RCEP's signing signified the member nations' commitment to trade reforms and closer integration in the Asia-Pacific region. The Regional Comprehensive Economic Partnership (RCEP) aims to harmonize regional trade obstacles and processes. Further collaboration on the eradication of non-tariff barriers (NTBs) and non-tariff measures (NTMs) for vital and non-essential commodities is envisioned under the RCEP (Mohamad and Cheng, 2020).

When opposed to bilateral trading systems, multilateral trading systems can better liberalize and facilitate trade since they use a broad rules-based approach rather than preferential trading privileges. The Regional Comprehensive Economic Partnership (RCEP) can serve as a foundation for regional integration through trade liberalization. RCEP may level the playing field and serve as a cornerstone for the establishment of a multilateral trade framework through which emerging nations can gain a competitive edge in the global economy if additional countries join (Wu, 2020).

Because the RCEP harmonizes trade and investment regulations and standards, it can help to strengthen regional economic integration and therefore be considered part of a policy framework for extending regional production networks and supply chains. According to simulations based on computerized general equilibrium modeling, regional FTAs like the RCEP might provide larger economic advantages than bilateral FTAs (Zada, 2017).

According to Propper & Catarivas (2020), the new agreement also links current FTAs among its members, consolidates separate agreements into a "one basket" to help exporters, unifies source regulations among member nations, and expands previous WTO agreements. Members of the RCEP can benefit from a more open and dynamic external environment as they shift economically. Countries may gain from the presence of dominant members who are dedicated to reforming and liberalizing their economies since domestic changes will be simpler to accomplish.

Because the RCEP is comprised of less-developed countries, Pangetsu and Armstrong (2018) argue that supporting them in achieving trade openness and development might provide major benefits. The RCEP has more economic advantages than the CPTPP since member countries had substantial tariff barriers prior to trade liberalization.

The RCEP has political, diplomatic, and security ramifications for member nations and regional affairs, in addition to its economic influence (Jaehyon 2021). With the danger of strategic rivalry between the United States and China, the Regional Comprehensive Economic Partnership (RCEP) provides a framework for nations in the area to mitigate the crisis' harmful effects. Through the RCEP, Chinese trade and investment will spread to adjacent nations, since it facilitates collaborations, particularly the transfer of industrial output from China to nearby countries. Despite considerable challenges in other relations with China, governments have felt a great need to strengthen economic relationships in order to assist local firms during a moment of economic crisis (Quimba, Barral, Andrada, Barral, & Andrada, 2021).

1.6 What Are the Possible Bottlenecks in the Success of RCEP Considering Differences in the Political Economy of Asian Pacific Countries?

As a result, an agreement between ASEAN and China is unremarkable. The issue was bringing Asia's two economic and political titans, China and Japan, together. RCEP completion amid regional political concerns is a significant achievement. The relationship between Tokyo and Beijing is tense. Japan is a part of the Quadrilateral Security Dialogue (Quad), an informal military alliance in the Indo-Pacific area that includes the US, Australia, and India. Despite its poor performance to date, the Quad's primary goal is clear: to create a military counterbalance against China. While Japan is solidly in the side that opposes China's more aggressive foreign policy, it equally wants to grow commerce. In truth, Japan's involvement in RCEP is explained by its competition with Beijing: quitting the deal would have allowed China to further increase its influence over Asia's developing economies (Masuo, 2019).

While the Sino-Japanese rivalry has been simmering for decades – occasionally boiling over

— China's relationship with South Korea has remained relatively unchanged. One exception occurred in 2017, when Chinese state media urged for a boycott of South Korean consumer products and films in response to Seoul's deployment of a US missile defense system. After giving land for the missile system, the South Korean-owned Lotte retail chain was directly targeted, and it retaliated by announcing its withdrawal from China.

The primary advantage of the RCEP is that it makes current trade agreements in the Asia-Pacific area easier to implement. For years, economists have complained that the region's plethora of trade agreements have increased rather than decreased regulatory barriers, limiting the region's economic gains. Tariff reductions in bilateral trade actually raised the administrative costs for enterprises that had to deal with origin documentation. Valid certification of origin is required for products to be exchanged tariff-free under a free trade agreement. In many situations, the expenditures involved have offset the savings resulting from the removal of tariffs (Dieter, 2021).

2. The Role of Asean Countries

2.1 The Role of ASEAN Countries

ASEAN, not China, was the driving force behind the Regional Comprehensive Economic Partnership (RCEP). Many saw the conclusion of the RCEP as a win for China, which would boost its economic and even strategic power in the area. China is the RCEP's single largest economy and its scale is staggering. China, for example, accounts for 56 percent of the RCEP's total GDP. Despite this, it was ASEAN that proposed and led the RCEP talks. At the ASEAN meeting in Bali in 2011, ASEAN suggested RCEP as an alternative to the EAFTA and CEPEA, which were stuck in an impasse. On the occasion of summits organized by ASEAN countries, the basic framework agreement was reached in 2019 and the formal signature in 2020. In 2012, the RCEP discussions were guided by the Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership. "Negotiations for the RCEP will recognize ASEAN Centrality in the emerging regional economic architecture,". 2012. "Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership" (Ajibo, *et al.*, 2019).

Because of the regional power dynamics, it was unavoidable for ASEAN to lead and begin the talks. The result might not have been achievable if the RCEP had been driven by either China or Japan. The standoff between EAFTA and CEPEA, as well as their failure, demonstrate this fact. In regional multilateral cooperation, the competition for hegemonic power and influence frequently jeopardizes the institutions' success. When ASEAN proposes and pursues institution-building, other regional powers find it difficult to resist without jeopardizing their relations with ASEAN nations. Any regional country aspiring for increasing power and influence in the area needs good ties with and support from ASEAN members. As a result, the conclusion and signing of the RCEP are not "China-led," but rather "a triumph of ASEAN's middle-power diplomacy" (Salsone, 2021)

Apart from economic considerations, ASEAN has a strategic interest in establishing and advancing the RCEP. It represents ASEAN's approach to interacting with larger partners in

the region. ASEAN has maintained a policy of utilizing multilateral organizations to engage larger partners. ASEAN was able to regulate the behavior of the larger partners because to the institution's rules and standards. When there are numerous regional multilateral institutions where rival powers are locked together, the strength of a single superpower is weakened. This is comparable to the 'dynamic equilibrium' method outlined by former Indonesian Foreign Minister Marty Natalegawa for ASEAN 4 The ASEAN Regional Forum (ARF), ASEAN 3, EAS, and the ASEAN Defence Ministers Meeting Plus (ADMM+) are all examples of regional multilateral organizations that place ASEAN centrality and the ASEAN Way as essential concepts (Jaehyon, 2021).

3. Debating Issues in Asia-Pacific Region

Based on the geopolitics, there is a perception that the Regional Comprehensive Economic Partnership (RCEP) is the geopolitical success of China because China is the country that will be getting the most advantage of this partnership and will become the international market leader (Muratbekova & Kazakh, 2021). Some other presumes RCEP as an attitude of the success of the ASEAN. In reality, both perceptions are appropriate because China is the biggest recipient of the partnership and the negotiation process started by ASEAN helped them in acquiring the central position of cooperation. Though RCEP is considered as the agreement made for benefiting China the role of the Association of Southeast Asian Nations (ASEAN) is quite significant in initiating the negotiation process among the partner countries and aims to play its role in creating negotiations even after the confirmation of RCEP (Meyer, 2021). According to the ASEAN members, the role of the ASEAN is quite important in creating an association between the regional powers by utilizing its central power skills. If the ASEAN successfully maintains its central powers with the help of the execution of the RCEP, this could result in making its position more powerful in the Asia Pacific (Meyer, 2021).

The contract of the RCEP is developed on the present mutual FTAs of the member countries. It is also termed as the extension and development of the present mutual FTAs. RCEP is not considered as the much open FTA because of its little focus on the imports as 90% of the tariffs are considered to be eradicated (Wilson, 2017). Also, it has not developed strict principles and limitations for its members in certain significant areas like labor market, rational property rights safety, competition policy, and internet policies. There are quite high regional-based FTAs operating in different parts of the world including the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) agreement and in comparison, of CPTPP, the RCEP contract fails in defining the reliable complexity and extensiveness of free trade. Also, the market approaches for the services trade and industrial investments are quite limited under RCEP (Wilson, 2015). Last, the main focus of the RCEP is to cover the existing problems and very little focus on developing the new rules and regulations. The above discussion highlights the few important points that RCEP is not focusing on the Asian countries that have not ratified RCEP are expecting it to cover these factors to make this agreement more vulnerable for the Asian countries.

3.1 Relevancy of RCEP in the Post-Pandemic World

The role of the RCEP in the post-pandemic world is expected to be stable by developing the effectual economic and trade strategies significant for the international economic retrieval in the post-pandemic world. Although the challenges for international retrieval are quite high in the post-pandemic world because of the direct impact of the pandemic on the economic development of the world. The forecasts made by the International Monetary Fund for the year 2022 states that the GDP of both the developed and developing countries will decrease by 0.7 percentage and 1.3 percent correspondingly (MI, 2022). The trade volume growth that is considered as the global indicator of the international economic and trade activities will also be lowered by 3 percent (Hong, 2020). The key component for a stable economy after the pandemic is the introduction of a steady and effective economic and trade mechanism. The role played by the Regional Comprehensive Economic Partnership (RCEP) is expected to be quite significant in providing the development opportunity to its members with the help of the effective mechanism (Hong, 2020).

The total members of RCEP are 15 out of the which 10 are the members of the Association of Southeast Asian Nations (ASEAN). The combined GDP of ASEAN in 2020 was equal to \$3 trillion and the total GDP of the RCEP members combinedly was equal to \$25.9 trillion, a total of 30.2 percent of the total world GDP. It is expected that the free trade deal will have a quite high positive impact on the economic growth of the world (Park, Basu-Das & Crivelli, 2021).

The regional and domestic demand in 2020 was quite lower because of the impact of the global pandemic Covid-19. All the members of the ASEAN excluding Vietnam and Brunei have experienced a drastic decline in the GDP. With the objective of the jointly constructive collaboration and a goal of minimizing the tariffs, RCEP played a significant role in developing the international market with an enormous coverage that could result in the increasing demand and limited the huge impact because of the weak condition of the local markets and their impact on the productivity level of the business during a pandemic (Thangavelu, Urata & Narjoko, 2021). Also, the large economic size would result in generating opportunities for the corporations in different member states to advance their products and services on the basis of the distinguished demand and acquire the increasing value.

The official data shows that the total worth of the trade made by China with 14 members of RCEP was worth 10.96 trillion RMB depicts the 31 percent part of its overall international trade. The RCEP will be relevant in the post-pandemic world because of the increasing growth of the RCEP members after the reduction in tariffs on different products including mechanical, electrical, and plastic products being exported by China and the increased demand of the imports by China including textiles, electrical products, and plastic products.

3.2 The Three Countries Expected to Dominate RCEP

China, Japan, and South Korea are the three East Asian countries that are involved in the free trade agreement for the first time in history and are perceived to lead the RCEP. The exports

of China after the agreement have augmented by \$248 billion because of RCEP followed by Japan with a rise in exports by \$128 billion and South Korea experienced a rise of \$68 billion. The free trade agreement among the three big economies of East Asia is benefitting the country's economies and the trade among these countries is also experiencing an increase at a higher level (Park, Basu-Das & Crivelli, 2021).

The increasing trade association among the East Asian countries will result in comparative advantage in production and strengthen the organization of the multi-nation supply chain system. According to the report presented by the Japan Institute of International Affairs, the largest economic contribution will be experienced by South Korea as 6.5% of real GDP is contributed by the RCEP, however, Japan attaining 5.0% and 4.6% by China (Thangavelu, Urata & Narjoko, 2021). It is presumed that China, Japan, and South Korea are making the technological powerhouse mutually after becoming a member of RCEP that is playing a huge role in structuring and advancing the technological vitality of all the three economies.

3.3 Implications for TPP

The Trans-Pacific Partnership (TPP) was an agreement started by Barack Obama the former president of the United States to increase the trade relationships with the Asian countries. In 2017 Donald Trump removed the United States from the TTP agreement and before that TPP was about to attain the position of the largest free trade contract including around 40% of the international economy (Hamanaka, 2014). Before the elimination deal was resulting in created international trade and investment, increased economic development, dropped consumer expenses, created employment opportunities, and resulted in creating an advanced trade relationship of United States with the Asia-Pacific region. The Trump government analyzed the lower growth of the manufacturing sector, increasing inequality and drop wages and as a result, they took the decision to eradicate the United States membership.

On the other hand, RCEP provided the trade advantage to China, Japan, and South Korea and as a result, China is becoming the world leader in terms of trade. After the eradication of the United States from TPP, the status of the TPP becomes weaker and RCEP gained a stronger position in the global market (Wade, 2021). RCEP is considered as the alternative to the TPP but instead of the United States, China is getting the geopolitical benefits of this agreement. The objectives of the RCEP and TPP are the same but the players are different and this time the three big East Asia countries China, Japan, and South Korea are holding the game and gaining an effective strategic position in the world market.

4. Conclusion

RCEP is a huge issue for ASEAN, which is pioneering trade-centered recovery measures in the middle of the worldwide COVID-19 epidemic and concomitant recession. The world's newest and largest trade agreement has the potential of using specialization in technology, communication, and natural resources to build a more connected area that can facilitate and expand commerce. Despite being spearheaded by ASEAN, the deal's strong focus on China lends it sturdiness and strengthens regional cooperation between Japan and South Korea. In addition, when looking at China's involvement in ASEAN's global value chains, the growing

integration offers optimism to developing nations, since more foreign investment and intra-regional trade are predicted in the future decade. The digitization of the economy and the conditions of e-commerce in the RCEP are particularly important to monitor since they have enormous development potential. Rising integration with non-ASEAN economies, as well as a greater concentration on the digital economy, both have dangers, and it is up to trade authorities to maintain a cautious transition, avoiding features of increased regional disparity.

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