

## Two Similar Asian Economic Initiatives How Do They Measure Up?



By Anita Tang

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*The **U.S.-led Indo-Pacific Economic Framework (IPEF)** is widely regarded as an initiative to counter China's growing influence in the Indo-Pacific region.*

*The **China-led Regional Comprehensive Economic Partnership (RCEP)** includes 11 of the 12 Indo-Pacific partners of IPEF, excepting India. India pulled out of RCEP in November 2019 before the pact was signed, citing the proposed agreement did not accommodate New Delhi's concerns and 'core interests'.*

*The **U.S.-China trade conflict** that started in 2018 has accelerated into a full-blown trade war, and it appears to be no end in sight. Since then, Asian countries have voiced their concerns about being forced to choose sides between the two world powers.*

*Now with IPEF and RCEP, they are concerned about possible conflict.*

## Indo-Pacific Economic Framework

In October 2021, U.S. President Joe Biden proposed an “Indo-Pacific Economic Framework” as the centerpiece of his economic strategy toward the region. No detail was announced, not even the countries to be included in the Framework. What was known then was that the “fair and resilient trade” pillar of IPEF would encompass seven subtopics and would be led by the U.S. Trade Representative while the U.S. Commerce Department would lead the other pillars, namely supply chain resilience; infrastructure, clean energy, and decarbonization; and tax and anti-corruption.



On May 23, 2022, during Biden’s first trip as U.S. President to Asia, the White House announced the official launch of IPEF, a multilateral economic cooperation initiative led by the United States. IPEF involves the United States and 12 countries in the Indo-Pacific region: Australia, Brunei, India, Indonesia, Japan, the Republic of Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and Vietnam. Taiwan has expressed its intention to join but is not included at this stage. White House National Security Adviser Jake Sullivan told reporters that “there are other countries that could conceivably join us.”<sup>1</sup>

The IPEF partners account for 40 percent of the world's combined GDP.

U.S. Secretary of Commerce Gina Raimondo said the IPEF marked “an important turning point in restoring U.S. economic leadership in the region, and [presented] Indo-Pacific countries an alternative to China's approach to these critical issues.”<sup>2</sup>

“Through this initiative, we aim to contribute to cooperation, stability, prosperity, development, and peace within the region,” the countries said in a joint statement

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<sup>1</sup> “U.S. Unveils Asia-Pacific Trade Framework, but Questions Remain,” Sebastian Smith, APF, May 23, 2022. Retrieved on May 24, 2022, <https://news.yahoo.com/biden-says-13-countries-join-053440961.html>

<sup>2</sup> “Joe Biden Launches IPEF Initiative, Making Explicit the Goal of Blunting China's Clout,” South China Morning Post, May 23, 2022. Retrieved on May 24, 2022, <https://finance.yahoo.com/news/joe-biden-launches-ipef-initiative-093000453.html>

announcing the IPEF. The U.S. administration has stressed, particularly, that IPEF will not include lower tariffs or provide better access to U.S. markets<sup>3</sup>.

## Regional Comprehensive Economic Partnership

Conceived at the 2011 ASEAN Summit in Bali, Indonesia, RCEP was signed in November 2020 and became effective on January 1, 2022. This free trade agreement aims to lower tariffs and other barriers to the trade of goods among the member nations. It is expected to eliminate about 90 percent of the tariffs on imports between its signatories



within 20 years of coming into force, and establish common rules for e-commerce, trade, and intellectual property<sup>4</sup>.

The 15 RCEP members include: Australia, Brunei, Cambodia, China, Indonesia, Japan, the Republic of Korea, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, Thailand, and Vietnam. The trade agreement is open for new members 18 months after the partnership came into force. Bangladesh and Hong Kong have applied for accession into the partnership<sup>4</sup>.

RCEP members account for nearly one-third of the world's combined GDP.

RCEP is an important agreement that will boost trade collaboration and integration within the region, Gan Kim Yong, Singapore's Minister for Trade and Industry, told CNBC. "For the businesses, I think they can look forward to quite a lot of benefits. For a start, in terms of tariffs, businesses can enjoy up to 92% in terms of tariff reduction," Gan said. He further noted that RCEP will save costs for businesses and will facilitate market access. It will allow for greater transparency and facilitate services exports in areas such as professional services, computer and business services, logistics and distribution, and investors can benefit from greater certainties around their investments.<sup>5</sup>

<sup>3</sup> "Understanding IPEF and How It Counters China's Clout: QuickTake," Kevin Johnson, 9PM.co, May 23, 2022. Retrieved on May 24, 2022, <https://9pm.co/business/2022/05/23/understanding-ipef-and-how-it-counters-chinas-clout-quicktake>

<sup>4</sup> "Regional Comprehensive Economic Partnership," Wikipedia. Retrieved on May 24, 2022, [https://en.wikipedia.org/wiki/Regional\\_Comprehensive\\_Economic\\_Partnership](https://en.wikipedia.org/wiki/Regional_Comprehensive_Economic_Partnership)

<sup>5</sup> "World's Largest Trade Deal is in Force, but There's still 'Work to be Done,' says Singapore Minister," Saheli Roy Choudhury, CNBC, January 4, 2022. Retrieved on May 25, 2022, <https://www.cnbc.com/2022/01/04/rcep-singapore-minister-on-trade-benefits-for-businesses-investors.html>

## What Is In It for Me?

This should be a question that countries involved in these two economic initiatives need to answer – for themselves and their citizens.

The Russian-Ukraine war led to the EU closing its borders with Western Russia and the West sanctioning the country. Russia’s neighbors in the East are now more closely linked to it in trade and hence influence.

Reintroducing itself to the Indo-Pacific region is a rebalancing strategy for the United States to reinsert its leadership in the region after being absent for five years. Tan See Seng, research adviser at the S. Rajaratnam School of International Studies commented that “Participation in the IPEF is a signal to China that some Asian states much prefer a balance of power and influence in the Indo-Pacific region.”<sup>6</sup>

IPEF is about setting regional trade rules and addressing regulatory issues. “Participating countries will seek better coordination to prevent supply chain interruptions, more ambitious targets to reduce carbon emissions and transition to clean energy sources, and more transparency on financial transactions to curb tax evasion and money laundering. They will also work to establish ‘high-standard rules-of-the-road in the digital economy’ on matters such as censorship, privacy, and ‘discriminatory and unethical use of Artificial Intelligence’.”<sup>7</sup>

IPEF will not include lower tariffs or provide better access for partners to U.S. markets.

“Asians live by trade” – Adriel Kasonta asserted in the May 24, 2022 *South China Morning Post* Opinion page<sup>8</sup>, an outlook I fully agree.

Let’s look at some numbers. According to Australia’s Minister for Foreign Affairs’ March 2022 update, nine out of the 15 RCEP member-states are



<sup>6</sup> “From Singapore to Malaysia and Philippines, ASEAN’s Interest in Biden’s IPEF a Signal to China It Wants Better ‘Balance of Power’ in Region, Maria Siow, South China Morning Post, May 27, 2022. Retrieved on May 27, 2022,

<https://www.scmp.com/week-asia/politics/article/3179436/singapore-malaysia-and-philippines-aseans-interest-bidens-ipef>

<sup>7</sup> “We Need an Asia Trade Agreement, and Biden Just Took a Small Step Toward Getting One,” Timothy Noah, TNR, May 24, 2022. Retrieved on May 25, 2022, <https://newrepublic.com/article/166582/asia-trade-agreement-biden-china>

<sup>8</sup> “On ASEAN and the Indo-Pacific, the U.S. must Remember that ‘Asians live by trade’,” Adriel Kasonta, South China Morning Post, May 24, 2022. Retrieved on May 25, 2022, <https://www.scmp.com/comment/opinion/article/3178893/asean-and-indo-pacific-us-must-remember-asians-live-trade>



on its list of developing countries<sup>9</sup>. And, the World Bank Designated Country List defined six (Cambodia, Indonesia, Laos, Myanmar, the Philippines, and Vietnam) out of the 15 RCEP member-states as low-income and lower-middle income economies<sup>10</sup>. The government of these respective countries would most likely, at present, focus on developing trade to improve their citizens' standard of living.

A most recent survey commissioned by Japan's Foreign Ministry indicated that nearly half (48 percent) of the people surveyed from the 10-member ASEAN picked China as the region's most important partner in the future, surpassing Japan (43 percent) for the first time, with the United States (41 percent) in third place.<sup>11</sup>

"RCEP doesn't require its members to take steps to liberalize their economies and protect labor rights, environmental standards and intellectual property."<sup>3</sup> It offers big tariff reduction, which as Singapore's Trade Minister Gan remarked, "will save costs for businesses and will facilitate market access."

Former Malaysian Prime Minister Mahathir Mohamad, at the "Future of Asia" Conference held in Tokyo, May 26-27, asserted: "China is a big trading partner for Malaysia, we don't want to see any tension, any conflict with China, and we hope that the U.S. will realize that China is there, it's not going to disappear, and we have to live with China, which is now richer than most countries in the world."<sup>12</sup>

Individual countries in these two economic initiatives will maneuver the situation and navigate the best possible path to maximum their countries' respective interest. I surely echo Adriel Kasonta's opinion that "ASEAN wants tangible trade benefits, not more pressure to choose a side."<sup>8</sup>



<sup>9</sup> "List of Developing Countries as Declared by the Minister of Foreign Affairs," Ministry of Foreign Affairs, Australia, March 2022. Retrieved on May 25, 2022, <https://www.dfat.gov.au/sites/default/files/list-developing-countries.pdf>

<sup>10</sup> "World Bank Designated Country List," American Association of Neurological Surgeons. Retrieved on May 25, 2022, <https://www.aans.org/en/Membership/International-Activities/International-Visiting-Surgeon-Fellowship/World-Bank-Country-List>

<sup>11</sup> "ASEAN Citizens View China as Paramount Future Partner: Japan Poll," Kyodo News, May 26, 2022. Retrieved on May 26, 2022, <https://english.kyodonews.net/news/2022/05/558c247bfc1-asean-citizens-view-china-as-paramount-future-partner-japan-poll.html>

<sup>12</sup> "Ex-Malaysia PM Mahathir says new US-led trade group intended to isolate China," Associated Press, May 27, 2022. Retrieved on May 27, 2022, <https://www.scmp.com/news/asia/southeast-asia/article/3179511/ex-malaysia-pm-mahathir-says-new-us-led-trade-group>