

Regional Comprehensive Economic Partnership (RCEP) in the Neoliberal Perspective of Neoliberal Institutionalism

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Abstract: On November 15, 2020, 15 countries: ASEAN, China, Japan, Australia, New Zealand, etc. formally signed the Regional Comprehensive Economic Partnership Agreement (RCEP), marking the official launch of the world's largest free trade area. As a system of economic cooperation among East Asian countries, RCEP is in line with the "common interests" of East Asian countries' economic development, and is a mutually beneficial development model under a non-zero-sum game, and therefore conforms to the relevant norms of neoliberal institutionalism. The analysis of the development path and advantages of RCEP cooperation through the perspective of neoliberalism system will provide guidance for the continued implementation of RCEP.

1. Introduction

Neoliberal institutionalism believes that under the condition of anarchy, countries will cooperate because of "common interests", and the international mechanism agreed between countries is an important guarantee for cooperation. In the current situation, where the wave of economic globalization is declining and trade protectionism is on the rise, the normal functioning of the international economic order and the development of world economic integration are seriously hampered. In addition, the negative impact of the "Matthew effect" of the global value chain system on the development of ASEAN industries, the frequent trade frictions between China and the U.S., and the unfair competition between countries in the market, etc., have really challenged the economic cooperation between countries and regions. Therefore, the signing of the Regional Comprehensive Economic Partnership Agreement (RCEP) is indeed in line with the common goals of the RCEP member countries to strengthen economic cooperation, expand trade, lower tariff standards, and enhance their own and the region's position in the international economic and trade system.

2. The development path of RCEP cooperation under Neoliberal Institutionalism

From the perspective of the regional economy, the Regional Comprehensive Economic Partnership Agreement will have a positive effect in accelerating trade and investment liberalization in the countries of the region, promoting economic efficiency and trade and investment

development, providing a predictable, transparent and stable business environment for the stable development of national economies, and bringing tangible economic benefits to the countries, which is in line with the "common interests" of the East Asian countries and will be the basis for the countries to actively promote the signing and implementation of the Regional Comprehensive Economic Partnership.

2.1. From the perspective of common interests

Unlike neorealism, which emphasizes and distinguishes between "absolute benefits" and "relative benefits," neoliberal institutionalism does not consider cooperation and benefits between countries as a "zero-sum game". Because both "absolute benefits" and "relative benefits" are based on the opposition between countries' interests and the pursuit of their own benefits and the maximization of their own interests at the expense of other countries' interests. Neoliberal institutionalism, on the other hand, believes that the interests of states are not merely conflicting, but can be reconciled; under certain conditions, states can cooperate to promote their "common interests" and achieve a win-win situation for each other.

In the process of building the Regional Comprehensive Economic Partnership (RCEP), the signatories take into full consideration the common interests of all countries, reducing tariff barriers to trade in goods and services, lowering the cost of imports and promoting the expansion of exports, reducing the operating costs of enterprises by reducing restrictions on financial investment and the movement of people, and allowing consumers in all countries to buy cheaper goods, benefiting the relevant enterprises and nationals and increasing social welfare, while boosting the economic growth of member countries and promoting the economic development of all countries.

The signing of RCEP demonstrates that the economic interests of East Asian countries are not a "zero-sum" relationship, but rather that each member country coordinates its policies so that the results are in line with the common interests of each country, and facilitates the consultation among countries to find the right match of interests. Between 2013 and November 2019, each RCEP member country has held 3 leaders' meetings, 19 ministerial meetings and 28 rounds of formal negotiations in the areas of trade in goods, trade in services, investment, rules of origin, trade remedies, intellectual property rights, e-commerce, laws and mechanisms, etc. These negotiations and consultations are the process of adjusting policies and seeking common interests among countries, thus striving to achieve "Pareto optimality". In the negotiation process of RCEP, member countries have sought to expand their own interests while taking into account the interests of other members. The level of development among different member countries was taken into account, especially the special and differential treatment provided to Cambodia, Laos, and Myanmar, which also reflects those countries actively adjust their policies to meet the interests of other countries, especially underdeveloped countries.

2.2. From the perspective of interdependence

Neoliberal institutionalism assumes that anarchic international society is characterized by "interdependence", which Robert.O.Keohane explains as a situation characterized by mutual influence between states or between actors of different states. The outbreak of the Asian financial crisis in 1997 already demonstrated the economic interdependence of East Asian countries. And as the countries' economic ties deepened, their dependence on other countries in terms of trade, investment, and industrial chain division of labor further deepened. In 2021, the total value of China's imports and exports with ASEAN will be US\$483.70 billion, up 21.4% from 2020, making ASEAN China's top trading partner for the second consecutive year; China's total imports and exports of goods with Japan will be US\$1,658,487,700,000, up 16.3% year-on-year. China's non-

financial direct investment in ASEAN was US\$13.67 billion, up 0.6% year-on-year, and ASEAN's actual investment in China was US\$10.58 billion, up 33% year-on-year. In the post-epidemic era, the common interest of countries to recover their economies has deepened their interdependence.

From the viewpoint of industrial structure, the natural resource endowment of China and ASEAN countries, and the advantages of high-tech industries in Japan and South Korea have strong complementarity, through a wide range of tariff reductions can reduce the import costs of complementary products, bringing substantial benefits to the enterprises and people of each country. According to the analysis of import and export indices of each country, China and Japan have the strongest complementarity in garment trade, and China has the strongest complementarity with South Korea and ASEAN in electronics and communication equipment manufacturing. In addition, the trade complementarity between ASEAN exports and Japanese imports is mainly concentrated in resource-intensive and labor-intensive industries.

From the industrial chain structure, most ASEAN countries currently have incomplete industrial systems and manufacturing capacity to be improved, while China, after years of development, has entered the middle and late stages of industrialization and has a more complete industrial system, which can provide low-priced equipment products. Japan, South Korea and other countries also have a strong advantage in technological innovation, key equipment, etc. In the framework of RCEP to reduce the cost of import and export of equipment industry, will play an important role in ASEAN countries to improve the competitiveness of enterprises and promote the transformation and upgrading of foreign trade.

3. Advantages of RCEP cooperation under neoliberal institutionalism

3.1. Reduce the transaction costs of FTA signing in other member countries

Neoliberal regulators argue that once a mechanism is in place, the marginal cost of dealing with each additional issue will be lower than without it, and that the process of negotiating the Regional Comprehensive Economic Partnership Agreement (RCEP) is a difficult integration of the five "10+1" bilateral FTAs. Due to the great disparity in the level of economic development among member countries, the established bilateral FTAs have significant differences in terms of trade thresholds and rules of origin. However, in the past few years of RCEP negotiations, member countries have agreed on tariffs and rules of origin, and made specific commitments to reduce trade thresholds among member countries. The integration of the five "10+1" FTAs and the commitment to lower tariffs and other trade thresholds among RCEP member countries will bring certain advantages of "economies of scale" for the subsequent signing of bilateral FTAs among member countries, reducing the transaction costs in the negotiation process of bilateral FTAs among member countries.

Under the framework of RCEP, China has reduced tariffs to 0 for 24.9% of Japan's products in 2021, and Japan has reduced tariffs to China by 55%. The commitment of China and Japan to reduce tariffs will reduce prior transaction costs for China and Japan to sign bilateral FTAs and establish the China-Japan-South Korea FTA, and accelerate the process of building the China-Japan-South Korea Free Trade Area. Neoliberal institutionalism believes that the model of interlocking international mechanisms will make international cooperation easier. By promoting the signing of bilateral FTAs among member countries in the RCEP negotiation process and the completion of the China-Japan-South Korea FTA, it will become the main driving force for the implementation and development of RCEP and play a positive role in the construction of the East Asian FTA and the development of East Asian economic integration.

3.2. Reducing the sensitivity of countries to revenue issues

Neoliberal institutionalism theory holds that interdependence can reconcile conflicting interests between countries and form mutually beneficial and interrelated stakes through the interaction and mutual influence of national interests. The "common interest" implies not only a common benefit but also a common cost; the pursuit of the "common interest" by states leads to interrelated interests and the emergence of interpenetrating and mutually constraining national interests. While the member countries of RCEP have more common interests, they also have the structural problem of trade imbalance.

First of all, the problem of industrial chain division of labor, ASEAN countries and China are in the stage of industrialization, the reduction of tariffs on high-tech products of Japan and Korea will mean that the technology industries of ASEAN countries and China will be impacted by the high-tech products of these two countries. At the same time, reducing the tariff price of agricultural products also means that Japan and South Korea will be affected by the impact of agricultural products from China, Australia, ASEAN countries. Finally, because of China's long-term surplus in the import and export trade of RCEP member countries, as well as the obvious competition among countries in some trade areas will also affect the gains of each country.

And in signing the Regional Comprehensive Economic Partnership, countries reconcile conflicting interests, reduce sensitivity to the issue of gains, and achieve mutual benefits for all countries by paying a price. In terms of market access, countries have reduced trade barriers through the gradual elimination of agricultural export subsidies and the full elimination of quantitative restrictions, import licenses, and fees related to imports and exports; and made arrangements for the liberalization of trade in goods through the "double-bid" approach.

3.3. Provide a mechanism for the resolution of trade disputes between countries

Neoliberal institutionalists argue that the international system establishes procedures for the settlement of disputes, even as a third-party arbitral body, thereby allowing individual contracting parties to seek a reasonable resolution of disputes without terminating their cooperation. In Chapter XIX of the Regional Comprehensive Economic Partnership Agreement, countries are provided with effective rules and procedures for disputes arising from interstate trade. The dispute settlement mechanism under RCEP consists of three main stages: the first stage, consultation, each country shall conduct consultation within 15 days after a party submits a request for consultation. The second part, application for the establishment of a panel of experts, in the event that consultations fail to resolve the dispute, the prosecuting party may apply for the establishment of a panel of experts. The third stage, the establishment of a panel of experts, the panel is established in accordance with the procedures set out in the RCEP and issues a final report to the parties to the dispute, the decision of the panel is final, not subject to appeal, and binding on the parties. In the dispute settlement mechanism, the agreement also provides for procedures for compensation and retaliation, strengthening the legitimacy and authority of the trade dispute settlement mechanism.

4. Difficulties of RCEP Practice in the Perspective of Neoliberal Institutionalism

4.1. Sensitivity of establishing a binding system

Neoliberal institutionalism holds that the more power is concentrated in one country, the more the problem of order involves issues of subordination and domination among unequal countries, and the more acute the problem of overcoming strategic fears of subordinate states. With a large number of countries in East Asia and complex historical conflicts; and being at the intersection of the

strategic interests of major powers such as Japan and China, and even more so with the special strategic position maintained by extraterritorial powers for a long time, East Asian countries face certain difficulties in cooperation. All countries have been historically hurt by wars and colonialism, and have been extremely cautious about institutional regional cooperation that requires giving up and mutually conceding part of their national sovereignty. And although RCEP, as a cooperative initiative led by ASEAN countries, has eased the sensitivity of establishing a cooperative system to a certain extent, the weaker ASEAN economies are very worried that China and Japan will rely on their strong position and dominate the development of RCEP, thus putting ASEAN in a passive position in the cooperative mechanism, even at the expense of ASEAN's interests, due to the strong position of China and Japan in the East Asian economies.

Therefore, the complexity and sensitivity of the East Asian regional cooperation mechanism will pose certain difficulties to the implementation of the RCEP agreement. The deepening of regional cooperation in East Asia needs to be led by ASEAN to bridge the differences in interests among countries. With ASEAN as the leader, the interests of economically weak countries can be effectively taken into account through the cooperation model of "small horse-drawn car". It can avoid sacrificing the interests of small countries in the process of regional cooperation, and can effectively reduce the concerns of countries about the RCEP being led by China or Japan. At the same time, having ASEAN lead the RCEP process can also obtain the general response and recognition of the stronger countries, and avoid the RCEP being led by a large economic power and resisted by other large economic powers.

4.2. The issue of India's return to RCEP may increase transaction costs for countries

Although India's return to the RCEP is unlikely in the short term, the economic benefits of RCEP membership are in India's national interest and strategic objectives, RCEP will remain attractive to India in the long term. From a long-term perspective, India's return to the RCEP is still more likely, and the countries in the RCEP agreement have made commitments to facilitate India's return to the RCEP. But because India withdrew from the RCEP negotiations, in large part because of India's differences with other countries in the tariff base year, rules of origin, special safeguard mechanisms, etc., India's return to the RCEP will mean that member countries will make concessions to India in these areas, which will shrink the economic interests of member countries to a certain extent. At the same time, India's return to the RCEP means that countries will conduct multiple rounds of negotiations with India in many areas, which will increase the cost of negotiations for countries and may even affect the implementation of the RCEP agreement already signed.

5. Conclusion

From the perspective of Neoliberal Institutionalism, "common interests" is the starting and ending point of the RCEP, and "interdependence" is the basis for East Asian countries to strengthen economic ties to cope with external shocks and maintain regional economic stability. In the process of economic cooperation, East Asian countries should not only see the "absolute benefits" of their own countries, but also the "common benefits" brought by RCEP to each country, and, of course, the "common costs" that countries need to pay to maintain the "common benefits". The RCEP agreement, through an institutional approach, will provide institutional guarantees and advantages of "economies of scale" for bilateral and multivariate economic cooperation among countries, and reduce the transaction costs of developing economic cooperation among countries. However, countries should also note that cooperation under the RCEP framework is an equal relationship led by ASEAN, there is no distinction between hegemonic and subordinate countries. In the process of

implementing and developing RCEP, more attention should be paid to safeguarding the interests of economically weak countries and maintaining the ASEAN-led cooperation mechanism.

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