




Opinions

# RCEP Value Chains and Their Implications



LA Mee Ryung

Ph.D., Research Fellow, Southeast Asia and Oceania Team  
Korea Institute for International Economic Policy 

On November 14, 2017, in Manila, Philippines, the heads of 16 countries including China, Japan, South Korea, India, Australia, New Zealand and ASEAN announced 2018 as the new target year to conclude the Regional Comprehensive Economic Partnership (RCEP) negotiations. The RCEP Participating Countries (RPCs) had originally tried to achieve a substantial conclusion for the RCEP by the end of 2017, in time for ASEAN's milestone 50th anniversary, but as of yet such a substantial conclusion still remains a goal.

To date, 20 rounds of negotiations, five ministerial meetings and three intersessional meetings have been held since the negotiations were launched in November 2012. Despite the RPCs sharing a consensus to end the negotiations swiftly in response to the recent economic slowdown and the growing sentiment of protectionism, they have had a hard time resolving the conflicts of interests that exist among the countries. It has proven a challenging task to reach an agreement among the RPCs due to their different levels of development and industrial structures. In addition, the trade deficit that some countries have with China make it hard to compromise on market access negotiations. These coun-

[www.kiep.go.kr](http://www.kiep.go.kr)



tries have been concerned about the dumping of cheap Chinese goods into their domestic markets, which could lead to the destruction of their manufacturing industries. Considering the complexity of the negotiations, at first glance, it seems almost impossible to finalize a high-quality and mutually beneficial agreement. However, from the perspective of global value chains, it should not be an impossible problem to balance the interests of participants.

According to the GVC analyses, stage of production has become internationally fragmented, and this is true for East Asian countries as well. The vertical specialization between China, Japan and Korea (CJK) has deepened in the manufacturing sector, and some ASEAN countries – e.g., Thailand, Indonesia, Malaysia and Viet Nam – have been incorporated into the production networks of CJK.<sup>1</sup> In the case of Korean manufacturing, the data shows that the cross-country production sharing has deepened, with a large part of production stages taking place in the RCEP countries. In the industries that Korea has comparative advantage in, RCEP countries account for 40 – 50% of the foreign value-added embedded in the gross exports of Korea.

Another piece of evidence originating from the ADB (2017)<sup>2</sup> indicates the value-added in trade which crosses borders more than twice is relatively high in the "electrical and optical equipment," "mining and quarrying," "chemicals and chemical products," "basic metals and fabricated metal," and "transport equipment" sectors, in that order.<sup>3</sup> Among RPCs, the term holds particularly high value in the "electrical and optical equipment" sector, and trade that Korea is a party to shows a relatively high ratio of multiple crossed value-added terms to its gross trade.

With the development of regional value chains in the RCEP bloc, the countries have become more interconnected and specialized in stages of production rather than in industries. Under these circumstances, protection for a specific industry is no longer meaningful and can be

<sup>1</sup> Meeryung La (2017), "An Analysis of RCEP Value Chains and Policy Implications", 17-08, KIEP.

<sup>2</sup> ADB (2017), "Key Indicators for Asia and the Pacific 2017"

<sup>3</sup> This term is calculated by the summation of pure double counted value-added, the domestic value-added in intermediated exports used by the direct importer to produce intermediate exports to the third country, and the domestic value-added in intermediated exports that return home. It has a large value, in the following order, in the manufacturing sector in 2016: export of USA to Mexico in "electrical and optical equipment," export of Taipei to China in "electrical and optical equipment," export of Canada to USA in "mining and quarrying," export of USA to Canada in "transport equipment," export of Korea to China in the "electrical and optical equipment" sector.

harmful instead. The high tariffs and non-tariff barriers have negative impacts on the efficient functioning of GVCs, as the effects of tariff and administrative costs are amplified by crossing the border several times. In fact, protectionism prevents access to the networks, and prevents integration into the GVC.

Within the complex GVCs involving multiple countries, third-party upstream or downstream countries also matter. This means the third-party countries participating in a production network, in addition to the direct trading partners, should be included in the trade negotiations as well. In that sense, multilateral agreements work better than bilateral agreements in a situation of expanding GVCs.

The Joint Leader's Statement released in November 2017 noted that the RCEP will need to consolidate the ASEAN+1 FTAs<sup>4</sup> and build new economic linkages between countries that do not have bilateral FTAs with each other. Since ASEAN + 1 FTAs have different coverage in terms of tariff elimination and reduction, tariff schedules, and trade rules such as rules of origin (ROO), it is important to reduce trade barriers and harmonize trade rules through the RCEP. If the RCEP lowers the trade barriers significantly, productivity gains can be expected by improving the efficiency of the value chain in the region. Developing countries also gain from participating in RCEP value chains by opening their markets to trade and investment, and improving capabilities to engage in production networks.<sup>5</sup>

As a country is incorporated into the GVC, the interconnection with other countries that do not import or export directly is also increasing. Therefore, in order to strengthen economic cooperation with countries of interest, it is necessary to look at the linkages between countries in terms of value chain. Also, if the increase in imports is result from the integration into the production networks, then the trade deficit needs to be re-evaluated from the perspective of GVC. Given that mutual benefits of RPCs can be achieved on the same basis from the

<sup>4</sup> ASEAN+1 FTAs refer to the five agreements that ASEAN has signed with China, Japan, Korea, India, Australia and New Zealand, such as the China Free Trade Agreement (ACFTA), ASEAN and Korea Free Trade Agreement (AKFTA), ASEAN-Japan Comprehensive Economic Partnership Agreement (AJCEP), ASEAN-India Free Trade Agreement (AIFTA), and the ASEAN-Australia and New Zealand Free Trade Agreement (AANZFTA).

<sup>5</sup> Entering value chains may be difficult for ASEAN's Least Developed Countries – Cambodia, Lao PDR, Myanmar – and as such, the capacity building of these countries would be an important part of the RCEP negotiation.

point of GVCs, RPCs could be brought closer to substantial conclusion by approaching from a GVC perspective. **KIEP**