Multilateral Summits in Asia: Their Evolution and Implications

Zhang Xiaoming
The Shanghai Co-operation Organization, initiated by China, has evolved into a major locus of regional summit diplomacy, especially for Beijing.

Jiang Jiying & Shi Weiyi
The Belt and Road Forum in Beijing in May 2017 attracted many world leaders. But it remains to be seen if it can be a new venue for Chinese influence.

Zhang Muhui
If the leaders of China, Japan and South Korea could together address regional and even global problems, their summits could help peace and prosperity in Asia.

Gregory T. Chin
Pressure is on for China and other countries to complete the Regional Comprehensive Economic Partnership trade agreement. It will be hard work.
Tangled Ties: RCEP, TPP and the US-China Trade War
By Gregory T. Chin

Prior to the advent of Donald Trump’s trade war with China, Asia was being pulled in somewhat different directions by negotiations over two competing regional trade accords, one largely dominated by the US, the other seen as led by Beijing. But after Trump pulled the US out of its preferred regional deal, pressure is now on for China and other countries to complete the Regional Comprehensive Economic Partnership trade agreement. To do that, leaders in the region will have to engage in intensive summity, as only leadership from the top can pull it off. Gregory T. Chin looks at the underlying challenges.

DOES THE DECISION by US President Donald Trump to withdraw from the Trans-Pacific Partnership (TPP) and escalate the trade war with China create conditions under which the United States might be marginalized or even excluded from the region’s emerging trade architecture?

Answering this question depends first on whether one believes there is any “there” there; that is to say, whether there is any substantive significance in the emerging regional trade and investment agreements — the re-cast and renamed Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which was forged by the remaining 11 members of the TPP after the US withdrew, and the ongoing Regional Comprehensive Economic Partnership (RCEP) negotiations. Second, it will depend on assessments of the prospects for successful outcomes: for achieving an agreement, considering the political obstacles that stand in the way.

If the members of RCEP especially can reach a deal — due to including China, India, Indonesia and South Korea (unlike the CPTPP) — and if the RCEP grouping can achieve a substantial part of its self-stated goals, this agreement would add further momentum to intra-Asian agreements and further marginalize the US. Summitry is playing a role in pushing this process along. It could become a yet more important factor if the judgment is made that working with the US will yield little.

IS THERE ANY ‘THERE’ THERE?
From the perspective of the World Trade Organization (WTO), a free-trade agreement is one that covers “substantially all” trade between two or more countries. An FTA allows them not only to provide preferential tariffs, but to back these and other provisions with legalized dispute-settlement mechanisms.

From the vantage point of the “progressive” upgrading of FTAs that informs the CPTPP, the RCEP is a “low-quality agreement.” At the start of the RCEP negotiations in November 2012, it sounded less ambitious than the TPP on the degree of trade liberalization, and it lacked the lofty goals on intellectual property protection, labor standards, environmental protection, curtailment of preferential treatment of state companies, corporate information sharing (transparency) and corruption targeting — all of which are covered in the TPP provisions. CPTPP supporters argue that laying down rules in these issue-areas is important for curbing “state capitalism” and neo-mercantilism, preventing social distortions and environmental degradation and ultimately for strengthening and preserving the liberal economic order.

But what the criticism of RCEP misses is that the members have intensified the degree of trade and investment liberalization under negotiation, an evolution that is actually highlighted by India’s resistance and foot-dragging. In the RCEP negotiations, the parties are now seeking binding, comprehensive targets for trade and investment liberalization while also negotiating mutual support on trade facilitation and other related technical co-operation measures.

Asian strategists in the RCEP group are also pursuing a number of innovations that are aimed at recasting what is meant by a regional trade and economic agreement. The CPTPP is said to be a single undertaking on which agreement was sought on a strict and enforceable agenda, whereas the approach to RCEP is more iterative and open-ended.

Although the intention is for the RCEP to be consistent with WTO rules, it is also designed to be more “fit for purpose.” The approach is to develop a framework for discussing trade and investment opening and integration that allows for incremental evolutionary consensus-building, with key breakthroughs made through summits of leaders, and differentiated implementation schedules for developed and developing countries. The evolutionary approach to regional economic integration reflects the desire of ASEAN, Indian and Chinese governments, especially, to recognize and accommodate different levels of development among the member countries.

The goal of the RCEP members, as such, is not simply to preserve the liberal economic order of the past three to four decades. Considering the ascendency of Trump as US president, the UK’s upcoming exit from the European Union (Brexit), the US-China trade war, and the “Fortress North America” US-Mexico-Canada Agreement (USMCA), it seems the party is over for the traditional approach to trade liberalization and integration. Ultimately, the goals of the RCEP partners are transformational — a recasting of the process, outcomes and contours of regional economic co-operation in Asia.

THE LINK TO GROWTH — AND POLITICS
Simply pursuing the old free-trade formula of more trade liberalization, tariff reductions, more market access, and adding protection of intellectual property, and some “progressive”-sounding environmental, labor and gender targets will not be enough to build broader support for continued economic opening and integration.

One of the key lessons from East Asia’s four decades of strong growth and sustained development is that Asian economic success was about the connection between trade and industrialization — as the cases of Japan, South Korea, China, Indonesia, Thailand, Malaysia, Singapore and...
Vietnam show. Trade-oriented industrialization drove the creation of international production networks and regional economic integration. Therefore, pursuing a combination of gradual structural reforms and regional economic cooperation seems a sensible option for countries in Asia to continue to pursue strong and sustainable economic growth, more jobs, higher quality jobs, and poverty reduction.

The current pushback against globalization tells us that the concerns of the “losers” of economic liberalization were not taken seriously enough when past economic opening and integration were pursued and that a broader base of “winners” wasn’t built by proactively addressing the downside impacts of past trade agreements. Future international trade and investment agreements need to take seriously distributional outcomes.

Rather than starting the RCEP negotiations with only how to lower trade barriers and by how much, the negotiations were expanded to include issues such as regional connectivity and capacity building for small and medium enterprises, economic and technical cooperation support related to RCEP implementation, alongside liberalization measures. These are developmental and modernization objectives that officials in the RCEP countries accept and support. Adding funds and resources for infrastructure development and e-connectivity (for example, the ASEAN Infrastructure Fund, various Asian infrastructure funds and ultimately the China-led Belt and Road Initiative) is exemplary of such “low hanging fruit” and more immediate wins that can be facilitated via RCEP.

Asian strategists who support the RCEP, such as Chatib Basri, the former Indonesian finance minister, argue that the proscribed RcEP approach is akin to US Secretary of State John Foster Dulles’ economic logic. Typically, the cost of structural reforms are felt more immediately and in a more concentrated way, while the benefits are more diffuse and longer term. It is necessary, therefore, to ensure “quick wins.” The Chinese call such a focus the “early harvest” approach in their trade agreement with ASEAN countries, signed a decade ago, and the RCEP appears to follow a similar logic. One hears echoes of the ASEAN and APEC gradualist approach to consensus building, and of the differentiated and delayed implementation schedules for less-developed countries in the China-ASEAN FTA, which came into effect on Jan. 1, 2010.

Despite their willingness to support a more iterative and ongoing process of negotiation, because the RCEP negotiations have dragged on since late 2012, there are limits even for Asians leaders, regarding how long they want to wait for the conclusion of a deal. India may prove crucial to that process.

IS INDIA READY OR WILLING?
The promise of RCEP lies in the fact that three of Asia’s largest economies, China, India and Indonesia are part of the proposed economic bloc, alongside most of the Asian economies in the CPTPP. Indian industry representatives are clear that India “cannot afford to be excluded from the new regional trade chains, hence, its participation in RCEP is imperative.”

But skeptics point out that India remains one of the biggest stumbling blocks to reaching a deal. As the talks have dragged on, Indian officials have had to allay concerns among the other RCEP members that it would back out, and have had to stem the preparatory thinking of the other RCEP members to recast the negotiations without India.

It is common knowledge that New Delhi is apprehensive about dismantling import tariffs to the extent that the other RCEP members are calling for, and about the related opening of its domestic market further to goods imports from East Asian countries, and especially duty-free access to goods from China.

Other RCEP nations are calling for India to allow tariff liberalization on 92 percent of traded goods. At the Singapore meeting of the RCEP on Aug. 30-31, 2018, Indian officials did offer some verbal assurances that India would remain engaged in the RCEP negotiations, but they also informed the other governments that New Delhi remains unwilling to offer tariff liberalization above 86 percent of traded goods.

India is offering tariff liberalization on up to 86 percent of goods to ASEAN countries, Japan and South Korea — countries with which it already has free-trade agreements. For those countries, however, with which India does not have FTAs — most importantly China, but also Australia and New Zealand — Delhi has only offered tariff liberalization on 74 percent of traded goods. Indian officials insist on having bilateral talks with China, Australia and New Zealand to address RCEP tariff liberalization in order to move forward.

Moreover, the issues are not one-sided. Some of the same countries pushing India on goods trade are averse to allowing Indian services professionals to have access to their own markets. India, which has large numbers of trained services professionals, including chartered accountants, information technology professionals, nurses, and trained service workers in other segments, wants liberalization of rules, and greater foreign market access. Can a deal across issues be struck?

For Asian nations, the need for government leaders to achieve breakthroughs in the RCEP negotiations — via summity among leaders — is coming to a head. They need to marshal both bilateral and multilateral summity, with bilateral summit meetings nested within broader multilateral negotiations, to make breakthroughs on the more sensitive items.

US-CHINA TRADE WAR AS CATALYST
The ongoing US-China trade war, and bilateral tensions that are straying into geopolitics, are motivating Beijing to take measures to shore up China’s international position. The summit between Chinese President Xi Jinping and Japanese Prime Minister Shinzo Abe in late October 2018, and the raft of business agreements signed, is one line of response from the world’s second and third largest economies. At the same time, Beijing is looking to strengthen its options for regional economic co-operation throughout the world including with its own neighbors. Beijing, supported by ASEAN and to some degree Tokyo and Seoul, can be expected to make a push toward reaching a deal on the RCEP.

For the Chinese leadership, the big strategic question is whether they are willing to make the necessary concessions to appease India. At the same time, Japanese and South Korean officials are mindful of their national industry interests and are pushing China not to relent to India and others in watering down environmental and labor standards, issues that are politically important in their own societies. Meanwhile, Tokyo is co-ordinating with New Delhi to push Beijing on restrictions on support for state enterprises.

On the other side of the Pacific, Trump’s decision to skip the three successive summits in Asia in November 2018 — the ASEAN Summit, The East Asia Summit and the APEC Summit — provides an opening for Asian countries to advance their regional trade agendas. The fact that Vice President Mike Pence called, in an October 2018 speech at the Hudson Institute, for a strategy akin to US Secretary of State John Foster Dulles’
1950s strategy of “rollback” of China (rather than mere “containment”), and then criticized Beijing’s Belt & Road Initiative at the recent APEC summit in Papua New Guinea in November, will further motivate Beijing to make a push on regional economic cooperation inside Asia.

SUMMITRY MATTERS
For Asian nations, the need for government leaders to achieve breakthroughs in the RCEP negotiations — via summitry among leaders — is coming to a head. They need to marshal both bilateral and multilateral summitry, with bilateral summit meetings nested within broader multilateral negotiations, to make breakthroughs on the more sensitive items.

The Chinese still largely view the RCEP as having the potential to be a “more successful trade agreement than the CPTPP,” because the former includes China and India, as well as Indonesia and South Korea. Chinese strategists know there are still plenty of difficulties to tackle, but are well aware of the geopolitical implications. To quote the vice chair of the China Society for WTO Studies (under China’s commerce Ministry), Huo Jinguo, “The trade deal is more than just a matter of economic opening up. There are lots of geopolitical considerations involved.” Chinese and ASEAN strategists are pressing for government leaders to be more proactive in pushing forward the RCEP, and for some of the “other major economies,” such as Japan, which are less enthusiastic about the RCEP (and appear to favor the CPTPP) to also throw their support behind reaching an RCEP deal.6

Abe’s October 2018 visit to Beijing was thus potentially pivotal for rebuilding ties between the leaders of Asia’s largest economies. But Tokyo is also anticipating that the CPTPP will be brought into force in mid-January 2019. Beijing will need to stem Tokyo’s inclination to divert its attention, once again, away from the RCEP. Japanese strategists see the CPTPP serving as the foundation for negotiating a broader Asia-Pacific FTA, and also for its planned Japan-US agreement on trade in goods. Tokyo also went ahead, at the instigation of the Trump administration, to sign the three-way agreement with the US and the EU, to counter China at the WTO. Beijing will need to keep Tokyo tied, at least, to reaching an RCEP deal. The RCEP negotiations are an opportunity for China to show its willingness to make trade more “fair,” and to secure more buy-in for RCEP, through compromise.

The fact that Indian authorities have created a new “informal ministers group” to help finalize India’s strategy for the RCEP, headed by trade minister Suresh Prabhu, is a sign that New Delhi is getting serious about concluding a deal. Interestingly, this ministers group includes power minister Piyush Goyal, defence minister Nirmala Sitharaman, and housing and urban affairs minister Hardeep Puri. The Indian leadership needs to throw its weight behind sealing a deal, before the domestic chorus to pull out of the RCEP turns the tide of public opinion against joining.

The window to reach an initial RCEP deal is closing. Patience with the delays has waned, and momentum has slowed. Asian strategists believe it is pertinent for the RCEP nations to reach a breakthrough soon. They are looking at early next year or mid-year. The next RCEP meetings in 2019, and the bilateral negotiations between India and China and others, will be key. If Asian nations can reach a deal on RCEP, it will have a major impact on Asian economies and repercussions for the US.

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