A Comparative Analysis of RCEP and IPEF from the China-U.S. Competition

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Abstract: On January 1, 2022, the ASEAN-led Regional Comprehensive Economic Partnership (RCEP) came into effect. On May 23rd, 2022, the United States officially launched the "Indo-Pacific Economic Framework" (IPEF). The two agreements cover the major economies in Asia-Pacific region and have become the two most important paths for the economic cooperation in this region. However, there are conflicts of interest among these economies involved in RCEP and IPEF, and there are differences in cooperation objectives, binding forces, integration standard, as well as driving forces, which may lead to fierce competition among them in the process of Asia-Pacific economic integration. Based on the basic viewpoints of hegemony stability theory and power transition theory, this study compares the competitiveness of RCEP and IPEF from the background and contents. And analyzes the prospects of the two agreements from the global supply chain crisis, American foreign policy, the substantial progress of the two agreements and the geopolitical security in the Asia-Pacific region. Finally, some suggestions are put forward for China to meet the challenge of IPEF.

Keywords: Indo-Pacific Economic Framework (IPEF), RCEP, Indo-Pacific strategy, De-Chinaization, substitutability

1. Introduction

In recent years, China's move towards high-end innovative industries has broken the existing pattern of international division of labor. The global spread of the COVID-19 epidemic has led to an increase in the risk of chain breakage in the global supply chain and industrial chain. Rethinking the layout of supply chain has become an important issue in many countries. The Indo-Pacific economic framework (IPEF) is an alternative supply chain scheme built by the United States in the Asia-Pacific region, aiming at enhancing the economic influence in this region. This study makes a systematic comparison and analysis of Regional Comprehensive Economic Partnership Agreement (RCEP) and IPEF from the aspects of the objectives, interests and driving forces of the agreements, mainly resolves the following questions: First, with mature economic and trade cooperation mechanisms including RCEP, CPTPP in the Asia-Pacific region, why Biden's government chose to "start a new stove" and launch IPEF? Second, what are the main differences between RCEP and IPEF? Third, What factors will affect the competition between RCEP and IPEF in Asia-Pacific region? Fourth, How should China respond to the challenge from IPEF?

2. Theoretical framework

Hegemony theory is the core theory of new realism in international political economy. Charles P. Kindleberger put forward this theory in his book The World in Depression, 1929-1939.[1] He pointed out that the world order is not the product of power balance, but the result of power monopoly. Robert Gilpin developed the Hegemony stability theory. He believes that hegemony can not only bring the stability of the international system, but also provide public goods for the international community.[2] After World War II, the United States established the Bretton Woods system in the economic field and a series of military alliances such as NATO in the security field, becoming the largest country in the world. The hegemony stability theory is the guidance of American foreign policy.

A.F. Kenneth Organski, a professor of the University of Michigan, put forward the power transition theory. He pointed out that the international system is not static, but changes with the strength of the country. In the 21st century, America's ability to control the world continues to decline. The rapid improvement of China's strength has challenged the long-term advantage of the United States. Out of anxiety about the decline of its hegemony, the United States proposed the Asia-Pacific re-balancing strategy from the Obama era, to the Trump administration's implementation of the free and open Indo-Pacific strategy (FOIPS), and then to Biden's continuous construction of the "Indo-Pacific strategy." By forming a strong order to contain China's sovereignty, security and development interests, the United States hopes to rebuild its leadership in the Asia-Pacific region.
3. Literature review

Scholars have conducted research from the perspectives of the negotiation process, regulations, contents, the reasons why Asia-Pacific countries participate in RCEP and the economic benefits of RCEP. Park Sang-Chul explores the possibility of establishing a regional free trade area between South Korea, China and Japan, and points out that RCEP may become the starting point of formal regional economic integration, creating a reliable platform for strengthening trade among the three countries and further economic growth. [3] Elms Deborah K. combed the basic framework and negotiation style of RCEP, and analyzed the reasons for India's withdrawal from RCEP.[4]

As IPEF is a part of the American Indo-Pacific Strategy, combing the research on the "Indo-Pacific Strategy" and Biden's China policy can help us understand IPEF. Zhang Weiwei evaluated Biden’s new construction of the "Indo-Pacific Strategy" from three dimensions: geopolitics, military affairs and economy, and revealed the essential attribute of the global hegemony of the "Indo-Pacific Strategy". [5] Angelina Gurunan and Ravichandra Morsi pointed that with the rapid rise of China, the strategic pattern of Indo-Pacific region has undergone unprecedented changes. Faced with the uncertainty of China-U.S. competition, India chose hedging strategy.[6]

The above research provides the foundation for this study. At present, there is relatively little research on IPEF, and the IPEF and RCEP show more competitive relations. By comparing and analyzing the competitive relationship between RCEP and IPEF, this study can contribute to enriching China-U.S. relations and multilateral cooperation research in the Asia-Pacific region.

4. Differences between RECP and IPEF

4.1 Different backgrounds

In recent years, with the development of Asian economy, the endogenous demand for the establishment of Asian regional integrated economic organizations has emerged. RECP became the largest free trade zone in the world after it came into effect in January 2022. On the one hand, China's accession to RCEP can further improve China's opening-up level and economic influence. On the other hand, RCEP is also of great significance for maintaining the multilateral trading system, deepening regional economic integration and stabilizing the global economy.

The initial Member States of the IPEF are highly coincident with RCEP. Biden's government did not join RCEP, but wooed regional countries to build a new Indo-Pacific economic framework.[7] On the one hand, The American working class believes that globalization and free trade will cause them to lose their jobs, so it is impossible for Biden's government to join any traditional free trade agreement. In order to maintain its leading position in the Asia-Pacific region, the United States decided to build a new economic system.[8] On the other hand, the United States regards China as its main strategic competitor. With China's accession to RCEP and its application to join CPTPP and DEPA, its influence in the Asia-Pacific region continues to expand. In order to curb China's development, the United States coerced regional countries to choose sides between China and the United States on the grounds of economic and trade cooperation.

<table>
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<tr>
<td>Participating Countries</td>
<td>10 ASEAN countries including Malaysia, Indonesia, Thailand, Philippines, Singapore, Brunei, Vietnam, Laos, Myanmar, Cambodia, and China, Japan, South Korea, Australia and New Zealand.</td>
<td>14 countries including the U.S. Japan, South Korea, India, Australia, New Zealand, Indonesia, Thailand, Malaysia, Philippines, Singapore, Vietnam, Brunei and Fiji.</td>
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<tr>
<td>Population</td>
<td>200 million</td>
<td>Half of the world's population</td>
</tr>
<tr>
<td>Total GDP</td>
<td>The economic aggregate exceeds 30% of global GDP.</td>
<td>The economic aggregate exceeds 40% of global GDP.</td>
</tr>
<tr>
<td>Effective Date</td>
<td>January 1st, 2022</td>
<td>be uncertain</td>
</tr>
<tr>
<td>Contents of the Agreement</td>
<td>Cancel more than 90% of import tariffs between countries within 10 years; Accumulation principle; Establish common rules for e-commerce, trade and intellectual property, etc.</td>
<td>Digital economy and cross-border data flow; energy and climate change; Promote an elastic and secure supply chain, etc.</td>
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4.2 Different contents

The differences between the two agreements are reflected in the following aspects.
In terms of tariff reduction and exemption, RCEP adopts two ways: immediate tax reduction and tax reduction within ten years, and finally achieves the goal of zero tariff for more than 90% of goods trade.[11] IPEF has no plans to negotiate
In terms of economic structure, RCEP Member States are mostly export-oriented economic development models, the production and consumption are unbalanced. In IPEF, production and consumption can complement each other, which is an important reason for ASEAN countries to consider joining IPEF.

In the formulation of rules, RCEP doesn't implement high standards in the part of intellectual property, which makes the participating members accept the agreement more. IPEF focuses on the establishment of unified standards, and requires Member States to achieve unity in digital economy, clean energy, decarbonization, labor rights protection and environmental protection.

In terms of interest tendency, RCEP specifically mentioned in Chapter 15 "Economic and Technical Cooperation" that "priority will be given to the needs of the least developed countries", allowing some countries to have reservations on tariff concessions for some commodities.[13] IPEF emphasized the priority of the United States. The White House statement pointed out that "the United States is an economic power in the Indo-Pacific region. Expanding the economic leadership of the United States in the region will ensure that American workers, small businesses and farmers have the ability to compete in the Indo-Pacific region."[14]

Table 2. Comparison of main contents between RCEP and IPEF

<table>
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<tr>
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<th>RCEP[15]</th>
<th>IPEF[16]</th>
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<tr>
<td>Tariffs</td>
<td>More than 90% of the goods trade will eventually achieve zero tariff.</td>
<td>Does not involve opening up the U.S. market and lowering tariffs.</td>
</tr>
<tr>
<td>Economic Structure</td>
<td>Unbalanced production and consumption</td>
<td>Production and consumption can complement each other</td>
</tr>
<tr>
<td>Rule</td>
<td>The intellectual property part has not implemented high standards.</td>
<td>Stronger knowledge protection and free labor rights.</td>
</tr>
<tr>
<td>Priority of Interests</td>
<td>Consider the needs of the least developed countries.</td>
<td>The U.S. priority</td>
</tr>
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5. Main factors and prospect of RCEP and IPEF

The future development of RCEP and IPEF is mainly influenced by the following factors.

5.1 Global supply chain crisis

The COVID-19 outbreak since 2020 has had a great negative impact on the global supply chain of consumer electronics, auto parts and other commodities. The Russia-Ukraine War in 2022 greatly aggravated the global shortage of raw materials and food supplies. These factors are the main reasons why countries in the Asia-Pacific region choose to join IPEF to ensure supply chain security.

5.2 Continuity of American foreign policy

The mid-term elections and the change of political parties in the United States will have a great impact on the stability of the existing policies. The new government may not implement the previous policies, and TPP is a lesson from the past. The mid-term election of the Democratic Party and Biden's re-election in 2024 will affect the effectiveness of IPEF.

5.3 Substantive progress of the two agreements

Countries in the Asia-Pacific region have a strong willingness to cooperate in trade and other fields. Which agreement between RCEP and IPEF can make substantial progress will be attractive to Asia-Pacific countries. On the contrary, if there is no substantive content and progress, it can only be symbolic.

5.4 Geopolitical security in Southeast Asia

The Russia-Ukraine War in 2022 accelerated the alliance of western countries. If the United States took the opportunity to provoke disputes between China and neighboring countries and regions, which made countries in the Asia-Pacific region fear China and then turned to the United States for their own security, IPEF might become a reality. On the contrary, if Southeast Asia can maintain stability, RCEP's influence will be more obvious.

5.5 Prospect of RCEP and IPEF

IPEF is highly coincident with most member countries of RCEP, and the two agreements will inevitably form a
competitive relationship in the future. Both agreements have their own limitations. The production and consumption structure of the RCEP member countries is out of balance, regional competition is greater than complementarity, and the independence of economic operation will be restricted. IPEF does not include preferential policies such as tariff reduction and market access, and it is not approved by the U.S. Congress, which greatly weakens its appeal to member countries. RCEP was finally signed after eight years of negotiations, and the IPEF still has a long way to go to become a formal inter-country agreement.

6. Conclusion

The official entry into force of RCEP means the formation of a free trade agreement in the Asia-Pacific region, which will play a significant role in promoting the economic integration in the Asia-Pacific region. However, after Biden took office, the U.S. government officially launched the IPEF to curb China's influence in the Asia-Pacific region. Although the IPEF is an economic cooperation initiative, it may become a geopolitical tool to create division and confrontation in the context of China-U.S. competition.

As the largest and fastest growing economy in the Asia-Pacific region, China's leading role in RCEP has become increasingly prominent. While attaching importance to the IPEF on international trade rules and global supply chains, China should take the following measures to effectively meet the challenges of IPEF.

First of all, China should strengthen independent innovation in semiconductor, biological science, quantum computing, artificial intelligence and other fields related to national security and social stability, and reduce the external dependence of key technologies.

Secondly, ASEAN has now become China's largest trading partner. China should seize the opportunity to further deepen the development of RCEP, consolidate the interest ties with member countries in this region, and make use of existing international economic and trade agreements such as RCEP to enhance its economic competitiveness and attractiveness.

Thirdly, the United States and China have their own allies and partners in the Asia-Pacific region. China and the United States should adhere to the basic principles of openness, tolerance and mutual benefit, strengthen communication and cooperation, and contribute to the prosperity and development of the region.

References

