

ASEAN Global Value Chain and Its Relationship with RCEP: Impacts of RCEP on ASEAN Integration

by
ASEAN-Japan Centre

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Notes

The terms “country” and “economy” as used in this study also refer to territories or areas, as appropriate. The designations employed and the presentation of the material do not express any opinion whatsoever on the part of the ASEAN-Japan Centre concerning the legal status of any country, territory, city or area; or of the authorities; or of delimitations of frontiers or boundaries.

The tables use the following symbols:

- Two dots (..) indicate that data are not available or are not separately reported.
- A dash (-) indicates that the item equals zero or its value is negligible.
- Use of an en-dash (–) between dates representing years, *e.g.*, 2015–2016, signifies the full period involved, including the beginning and end years.
- Reference to “dollars” (\$) means United States dollars, unless otherwise indicated.

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1. The setting

The Regional Comprehensive Economic Partnership (RCEP) agreement epitomizes the regional and interregional economic integration efforts that are considered an important feature of today's global economic landscape, affecting flows of trade and foreign direct investment (FDI) for sustainable development. This paper examines and compares global value chain (GVC) patterns of ASEAN with those of RCEP in light of ASEAN's regional and interregional integration efforts to identify RCEP-related opportunities and costs for ASEAN.

The fundamental question is whether ASEAN benefits from this integration achievement more than or at least as much as its partners in this agreement (Australia, China, Japan, New Zealand, and Republic of Korea). This can be measured by possible gains in trade and investment that the RCEP agreement is likely to achieve and the increased centrality of ASEAN that the region hopes to gain. The first measure comprises possible increases in trade and investment. The second measure establishes that the central position of ASEAN will be enhanced or at least maintained in the wider RCEP region after the agreement, which will be measured by comparing the global and regional value chains between ASEAN and RCEP.

If benefits gained from the agreement are unevenly or inequitably distributed among the member states of RCEP or do not reflect the economic size of member states and if ASEAN loses its centrality in economic international transactions (in this context trade and FDI) along the value chains, policy suggestions will be needed to correct these situations towards more equitable distribution of gains and restoring the centrality of ASEAN in the wider RCEP region.

RCEP strongly boosts intraregional trade and investment linkages (table 1). While it has not emerged well in ASEAN, given a lower share of intraregional trade and investment, at one-quarter to one-third of the total at most, the regional development of the European Union (EU) demonstrates that it supports industrial growth through relocation of production to lower-cost countries and specialization of production on a regional basis. Such patterns have so far proved largely, though not entirely, elusive to the ASEAN region (except, for example, the case of Thailand and Lao PDR), but RCEP may provide ASEAN with opportunities to integrate more into intraregional development because of involvement of large developed (*e.g.*, Japan) and developing countries (*e.g.*, China) in RCEP.

Table 1. Mechanisms of RCEP impacts on GVCs through trade and FDI flows

Mechanisms	Relevant agreement chapter	Effects on <i>intra</i> regional trade and FDI flows	Effects on trade and FDI flows from <i>outside</i> the region
Trade and investment liberalization, facilitation and/or protection provisions	Chapter 2 Trade in Goods Chapter 4 Customs Procedures and Trade Facilitation Chapter 5 Sanitary and Phytosanitary Measures Chapter 7 Trade Remedies Chapter 8 Trade in Services Chapter 9 Temporary Movement of Natural Persons Chapter 10 Investment Chapter 19 Dispute Settlement	Enables/encourages GVCs through increased flows from regional investors, including existing third-country investors from outside the region	Enables/encourages GVCs through increased flows from third-country traders and investors not currently established in the region
Trade, investment and market integration provisions	Chapter 3 Rules of Origin Chapter 6 Standards, Technical Regulations, and Conformity Assessment Procedures Chapter 7 Trade Remedies	Reorganization of GVCs at the regional level, including trade, investments (or divestments) and offshoring (or reshoring) activities	Attracts new third-country trade and investment through enlarged markets
Policy harmonization implicit in the implementation of the agreement	Chapter 11 Intellectual Property Chapter 12 Electronic Commerce Chapter 13 Competition Chapter 16 Government Procurement	Encourages GVCs through trade and investment through reductions in transaction costs and perceived risk	Enables/encourages GVCs through increased inflows if harmonization encompasses regulations applicable to third-country traders and investors
Broader pan-regional investment projects made possible by or integral to the agreement	Chapter 14 Small and Medium Enterprises Chapter 15 Economic and Technical Cooperation	Provides GVC platforms through increased trade and investment opportunities	

Source: ASEAN-Japan Centre, based on UNCTAD, "Regional Integration and FDI in Developing and Transition Economies", Multi-Year Expert Meeting on Investment, Innovation and Entrepreneurship for Productive Capacity-Building and Sustainable Development, Geneva, 28–30 January 2013.

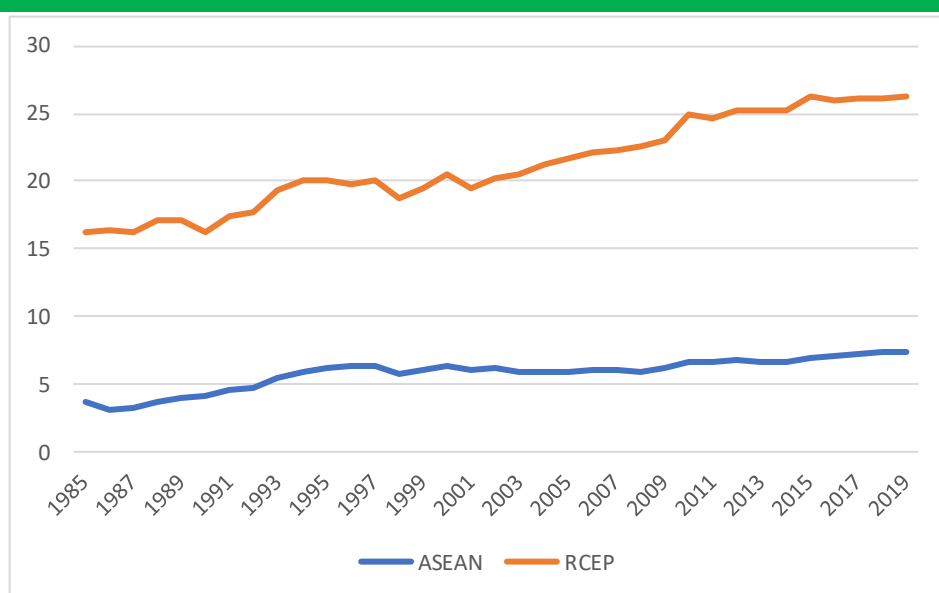
Note: The mechanisms, relevant chapters of RCEP and effects are not mutually exclusive.

ASEAN has been at the centre of the process in East and South-East Asian economic integration, alongside major regional economies, including China, the Republic of Korea and Japan. Collectively, they are known as the “ASEAN+3”, though the three economies also have separate economic arrangements and relationships with ASEAN (“ASEAN plus one”). Economic integration has evolved beyond the geographical scope of East and South-East Asia and affected the broader regional integration process through various mechanisms, such as the Asia-Pacific Economic Cooperation and more recently the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). RCEP differs from these two mechanisms in that ASEAN plays a central role in the initiative and has been sitting in the driver’s seat starting with ASEAN’s proposal (Shimizu, 2021). In other words, RCEP “contributes to enhancing ASEAN centrality in regional frameworks” (Joint Leaders’ Statement on the RCEP, 15 November 2020).

Since its establishment in 1967, ASEAN has made great efforts to improve regional connectivity and integration. In 2015, the ASEAN Economic Community (AEC) was created. ASEAN’s economic links with the rest of the world have not weakened as interregional linkages have strengthened. Fast-growing developing countries within developing Asia (China, India and the Republic of Korea) and developed countries in the Asia-Pacific region (Australia, Japan and New Zealand) now form an East Asian community or RCEP (now without India, which decided to leave the pact).

ASEAN integration has improved the competitiveness of the regional group, generating trade and attracting FDI. ASEAN's share in global FDI inflows dropped to less than 2 percent in 2000, but it rose to 6 percent by 2010. It is still too early to assess the effect of the AEC on trade and FDI inflows, but ASEAN's share in global exports of goods and services and FDI flows reached more than 7 and 9 percent, respectively, in 2019, gradually manifesting the impact of regional integration (figures 1 and 2).

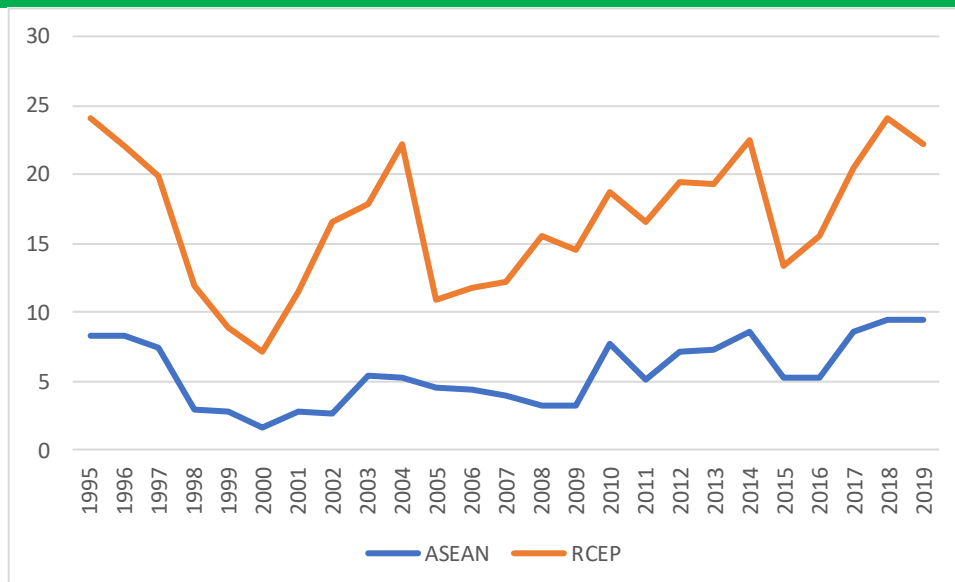
Figure 1. Evolution of exports of goods and services from ASEAN and RCEP as a percentage of global exports, 1985–2019
(Percent)



Source: UNCTAD.

Note: Based on the fifth edition of the IMF's balance of payments manual up to 2013 and the sixth edition of the IMF's balance of payments manual from 2014.

Figure 2. Evolution of FDI inflows to ASEAN and RCEP as a percentage of global FDI inflows, 1995–2019
(Percent)



Source: UNCTAD statistics (<https://unctadstat.unctad.org/>).

Some evidence indicates that trade- and investment-specific efforts in the regional integration process have encouraged intra-ASEAN trade and FDI flows, *e.g.*, by granting ASEAN traders and investors national treatment and greater access to industries including the services sector. In addition, further trade liberalization (which had already been liberalized enough) and investment facilitation, liberalization and protection measures (through those including intellectual property (chapter 11 of RCEP) and competition (chapter 13)) will expand the regional market and enhance both awareness and attractiveness of ASEAN as a sub-region of the larger market as a trading place and location for international investment. These have promoted the ASEAN sub-region as a single investment destination, making investors from countries not only outside the RCEP region but also non-ASEAN members of RCEP adopt a regional investment strategy and establish regional operations networks. As a result, the share of intra-ASEAN trade and FDI in total trade and FDI to ASEAN countries and the share of ASEAN trade and FDI in total trade and FDI to RCEP are expected to increase.

This expectation, however, contradicts the declining trend or turns over the mute trend during the past years. The intraregional share in ASEAN FDI inflows declined from 23 percent in 2017 to 17 percent in 2020 with a low 12 percent in 2019 (ASEAN and UNCTAD 2021, p. 25). These shares are not much different from those in the 2000s. Thus, expectation is high for RCEP to change the tide and set the course of intraregional activities upward.

Differences in the shares of ASEAN and RCEP in the world have also been widening, rather than shrinking over the past years (figures 1 and 2). In 2019, ASEAN and RCEP differed by some 20 percentage points for exports of goods and services and by 10 percentage points for FDI inflows. ASEAN's share in RCEP has been declining, while the share of non-ASEAN member states in RCEP has been increasing. This implies that ASEAN's regional efforts have not been realized in terms of intraregional and global shares. Participation in RCEP may enable ASEAN to improve its regional efforts and reverse this situation. The next section (Section 2) compares the GVCs of ASEAN and RCEP to identify the differences and provide foundations for why ASEAN in the RCEP region has not captured enough benefits from RCEP. Section 3 details these benefits.

Low-income countries in ASEAN, including Cambodia, Lao PDR, Myanmar and Viet Nam (CLMV), have benefitted from growing investment from more economically advanced ASEAN member states such as Malaysia, Singapore and Thailand, and from non-ASEAN RCEP member states like China, Japan and the Republic of Korea. This indicates expanding and upgrading a “flying geese” pattern of regional industrial structuring—the catching-up process of industrialization in developing and least developed economies. Intraregional trade and FDI in RCEP will increase and accelerate the development of international production networks within ASEAN and beyond. Several low-income countries in industries such as electronics and textiles and clothing will gain the associated benefits. This trend was already observed by various initiatives in ASEAN to narrow the development divide (between CLMV and other six advanced ASEAN countries) and enhance the overall competitiveness of ASEAN and will be enhanced further in the wider RCEP region.

Clearly RCEP presents many opportunities for GVCs, but at the same time many issues may block the progress of GVC-related development, unlikely benefitting all equitably. For example, China and Japan may overwhelmingly gain the benefits compared with ASEAN at least in terms of GVC development. ASEAN cannot retain the same level of centrality when the region expands to include five large non-ASEAN members. Australia and New Zealand do not emerge significantly as beneficiary countries. The Republic of Korea gains, but to a lesser extent than China and Japan. Section 4 will deal with all these costs.

Bearing these costs in mind, questions arise regarding the policy recommendations that could further intensify the mutual relationship between RCEP regional integration and trade and FDI for sustainable development for all.

The first question relates to the role of regional integration as a determinant of trade and FDI and the difficulty of establishing causality between the two, in particular as the counterfactual is difficult to ascertain. A second question concerns the primary importance of the economic and policy fundamentals. Forming a larger (and potentially more prosperous) economic grouping may not necessarily bring benefits, especially in terms of attracting trade and FDI, although market size is a key determinant, if the appropriate economic conditions and an enabling policy framework are not in place.

In terms of the economic fundamentals, a major question is to what extent the trade and investment liberalization among RCEP member states directly increases FDI flows or whether they would increase (indirectly) due to the enlarged market opportunities for transnational corporations (TNCs) to service (and source within) an entire region. At the limit, the question could also extend to whether, to what extent, and why trade and FDI might have occurred without any regionalization efforts. In addition, asking to what extent regional integration efforts could create additional (unintended) hurdles to trade and FDI is appropriate (*e.g.*, unnecessary administrative burdens, bureaucratization and overregulation that regional integration efforts might entail). The RCEP agreement includes trade facilitation measures (chapter 4) to lessen such hurdles for adopting the conformity among its member states: for example, adoption of single windows and promotion of digitalization for custom clearance.

In terms of the enabling policy framework, a crucial question is whether the regional integration effort of RCEP is appropriate and viable and, as a corollary, fully encompasses essential trade and investment liberalization and policy harmonization for sustainable development. This requires consistency in, and coordination of, trade and investment policies. Regional integration efforts multiply the challenges in this regard. This is not limited to the fact that domestic policies need to be coherent throughout the regional group in question and other policy domains, such as competition and the environment. It also relates to the policy dimension of the balance a country wishes to strike between regional policy harmonization and its own right to regulate in the public interest. This policy dilemma has not yet emerged as an important policy question for RCEP members.

Given these difficulties, the last section (Section 5) attempts to provide some policy recommendations.

2. How ASEAN changes its GVC in a wider regional perspective of RCEP

Given the fact that all ASEAN member states are members of RCEP, comparison of GVCs created and operating within ASEAN with those of RCEP provides important differences in corporate strategies among TNCs that are engaged in international production in both regions. What these TNCs aim at in these regions is, no matter where they produce, to maximize benefits emanating from the regional integration.

a. General picture: ASEAN GVCs vs. RCEP GVCs

The larger the regional group is, the larger the market is. The gross domestic product (GDP) of RCEP is eight times that of ASEAN (table 2). Thus, associated international economic transactions such as trade and investment are also larger. However, the multiplier of such transactions is lower than that of GDP: RCEP exports are four times larger than ASEAN exports and FDI inflows for RCEP are two times larger than those for ASEAN. As long as trade and investment determine the size, direction and interaction of GVCs, GVCs in RCEP seem to be somewhat less established than in ASEAN (because trade and FDI in terms of GDP are lower in RCEP than in ASEAN). Considering only Japan, ASEAN's importance stands clear in terms of GVC: Japanese trade with ASEAN accounts for one-third of that with RCEP, and Japanese FDI with ASEAN accounts for one-half to two-thirds of that with RCEP (table 2). ASEAN has established a wider GVC in terms of its economic size than RCEP, which this section will prove. If this is the case, RCEP has opportunities to create more value chains, at least to the same extent as in ASEAN, because ASEAN wishes to play a central role in the RCEP GVC.

Table 2. Basic economic indicators for ASEAN and RCEP, 2019

(Billions of dollars and percent)

Variable	ASEAN	RCEP	ASEAN share in RCEP
Exports	1,425	5,472	26.0
Global share	7.5	28.8	
FDI inflows	156	364	42.9
Global share	12	22	
GDP	3,161	25,813	12.2
Global share	3.6	29.4	
<i>Indicators for Japan</i>			
Japanese exports (to)	106	304	34.9
Share in total Japanese exports	15.1	43	
Japanese imports (from)	109	361	30.2
Share in total Japanese imports	15.1	50	
Japanese FDI outflows (to)	253	495	51.1
Share in total Japanese FDI outflows	14.3	28	
Japanese FDI inflows (from)	25	38	65.8
Share in total Japanese FDI inflows	11.2	17	

Source: UNCTAD, World Bank, Japan's Ministry of Finance and Bank of Japan.

Note: Exchange rate of 109 Japanese yen per U.S. dollar.

Like the 16-paper GVC series by the ASEAN-Japan Centre (AJC),¹ the discussion on GVCs in this paper is based on the value-added trade data. These data help to clarify the complicated networks of production chains through trade links. Forming GVCs means that companies establish supply chains through which they obtain required inputs, materials and parts and components. These products are exported and become an integral part of the product in the next stage of adding value created in the imported local market. The value of exports attributable to foreign countries, or foreign value added (FVA) in the GVC terminology (box 1), measures the upstream part of GVCs, while the export value used as an input to the export from the countries in the next stage measures the downstream part of GVCs (DVX in box 1).

¹ See https://www.asean.or.jp/en/centre-wide/centrewide_en/

Box 1. GVC terminology used in the AJC paper series on GVCs

A country's exports comprise domestically produced value added and imported (foreign) value added that is incorporated into the country's exported goods and services. Furthermore, exports can either go to a foreign market for final consumption or become intermediate inputs to be exported again to third countries (or back to the original country). GVC analysis accounts for both foreign value added in exports (the upstream perspective) and exported value added incorporated in third-country exports (the downstream perspective). The indicators used in this paper are the same as in AJC's 16 papers on GVCs and are defined as follows:

1. **Foreign value added:** FVA indicates the part of a country's gross exports that consists of inputs produced in other countries. The foreign value-added share is the share of the country's exports that does not add to its GDP.
2. **Domestic value added:** Domestic value added (DVA) is the part of exports created in country, *i.e.*, the part of exports that contributes to GDP. The sum of FVA and DVA equals gross exports. Domestic value added can be related to other variables:
 - As a share of GDP, it measures the extent to which trade contributes to the GDP of a country.
 - As a share of global value-added trade (the "slice of the value-added trade pie"), it can be compared with a country's share in global gross exports (relative value capture from trade).
3. **Value added incorporated into other countries' exports:** DVX indicates the extent to which a country's exports are used as inputs to exports from other countries. At the global level, the sum of this value and the sum of foreign value added are the same.
4. **GVC participation** indicates the share of a country's exports that is part of a multistage trade process and comprises the foreign value added used in a country's own exports and the value added supplied to other countries' exports. Although the degree to which other countries use exports for further export generation may appear less relevant for domestic policymakers, as it does not change the domestic value-added contribution of trade, the GVC participation rate is a useful indicator for the extent to which a country's exports are integrated into international production networks.

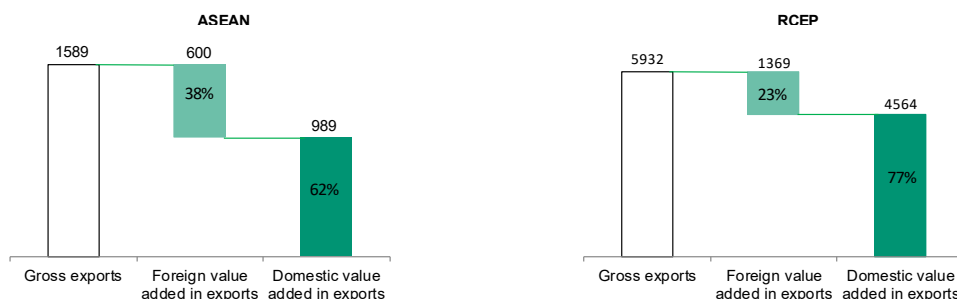
The GVC participation rate corrects the limitation of the foreign and domestic value-added indicators in which countries at the beginning of the value chain (*e.g.*, exporters of raw materials) by definition have a low foreign value-added content of exports. It gives a more complete picture of the involvement of countries in GVCs, both upstream and downstream.

GVC indicators can also be used to assess the extent to which industries rely on internationally integrated production networks. Although the literature has devised several complex methods to measure GVC length, the degree of double-counting in industries, conceptually, can serve as a rough proxy for the length of GVCs. Data on value-added trade by industry can provide useful indications of the comparative advantages and competitiveness of countries and hence form a basis for development strategies and policies.

Source: Adapted from United Nations Conference on Trade and Development(UNCTAD) 2013.

FVA in the RCEP GVC is 23 percent of (value-added) exports, 15 percentage points less than in the ASEAN GVC (38 percent) (figure 3). This shows that the upstream part of GVCs is less important in RCEP than in ASEAN, meaning that foreign products are less integrated as inputs into the RCEP exports than in ASEAN. This also means that RCEP uses more DVA in their exports (77 percent) than ASEAN (62 percent). This is because China, Japan and Republic of Korea, all large exporters and producers in RCEP, add more value domestically in their economies per dollar of export than ASEAN economies do.

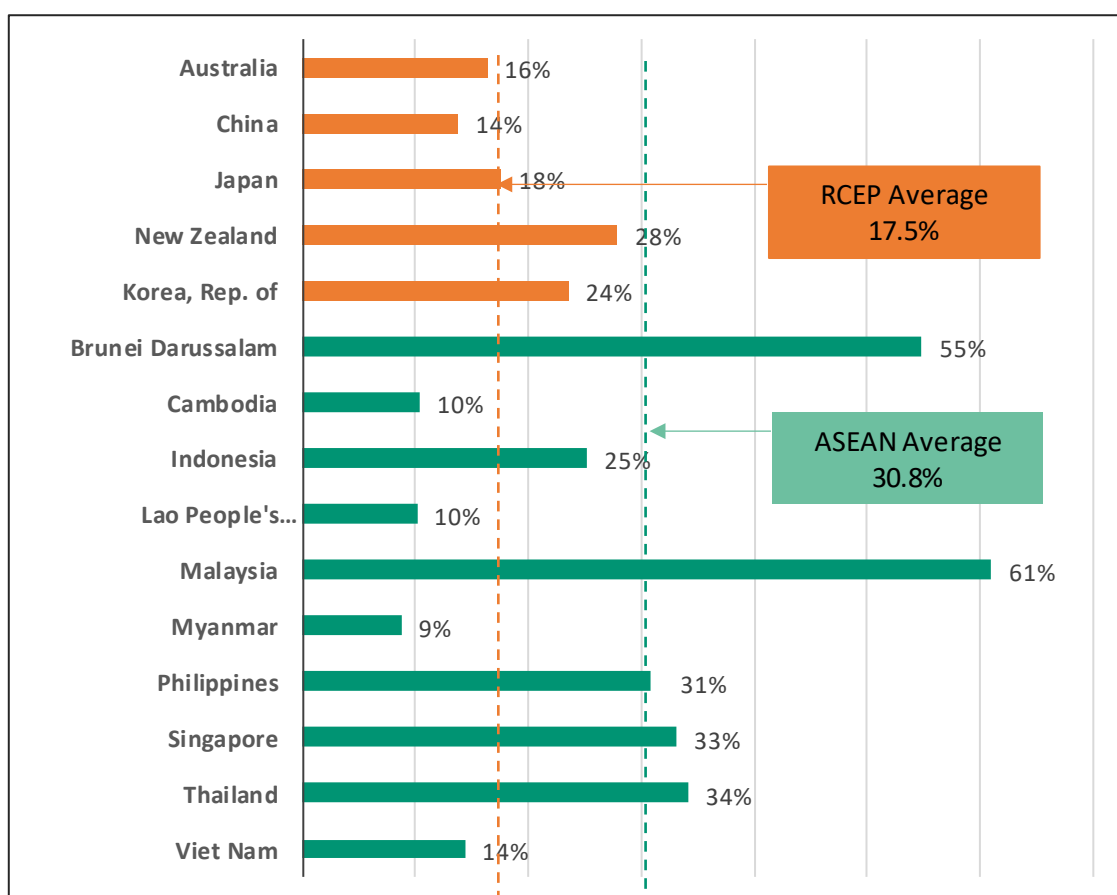
Figure 3. Value-added exports from ASEAN and RCEP, 2019
(Billions of dollars)



Source: AJC-UNCTAD-Eora database on ASEAN GVCs.

Both ASEAN and RCEP are export oriented, and ASEAN creates more value in its member economies than RCEP does in terms of GDP, or the export propensity (exports divided by GDP) is higher for ASEAN (45 percent) than for RCEP (21 percent) (table 1). At the same time, ASEAN economies derive more value added from exports as a share of GDP than does RCEP (figure 4) (18 percent for RCEP vs. 31 percent for ASEAN).

**Figure 4. Domestic value added in exports as a share of GDP, 2018
(Percent)**



Source: AJC-UNCTAD-Eora database on ASEAN GVCs.

The share of FVA in the total exports by industry identifies which industries tend to be involved in GVCs, in particular the upstream part of GVCs (table 3). Comparing ASEAN GVCs with RCEP GVCs in the upstream stages of production by industry, all industries show that ASEAN is more involved in GVCs than RCEP.

**Table 3. Share of foreign value added in ASEAN and RCEP exports, by industry, 2017
(Percent)**

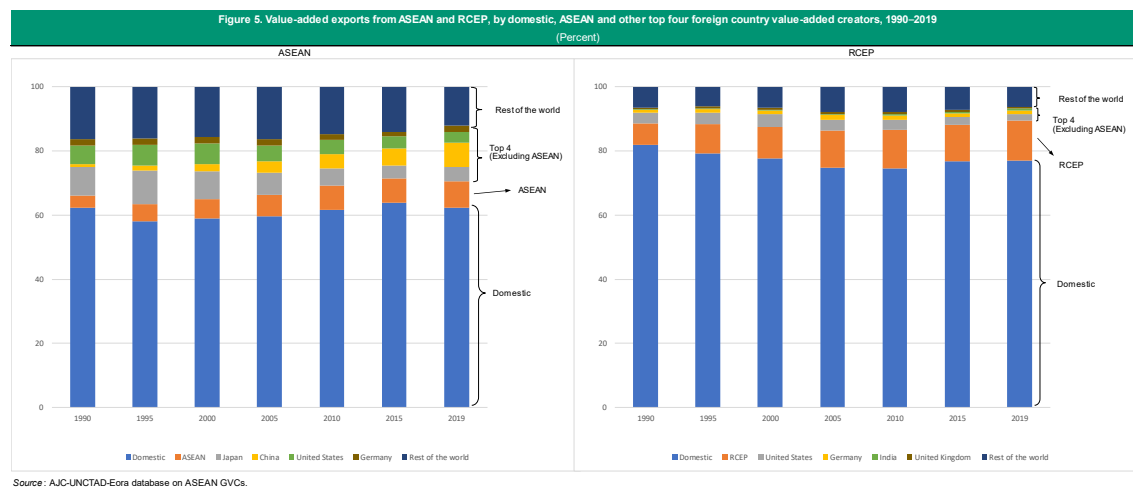
Sector/industry	ASEAN	RCEP
ALL INDUSTRIES	38.6	23.3
PRIMARY	8.6	9.3
Agriculture, hunting, forestry and fishing	14.3	10.3
Mining, quarrying and petroleum	5.6	8.8
SECONDARY	46.7	25.3
Food, beverages and tobacco	26.9	18.0
Textiles, clothing and leather	32.2	16.0
Wood and wood products	23.3	18.3
Petroleum, chemical and nonmetallic mineral products	48.3	28.3
Publishing, printing and reproduction of recorded media	47.5	31.3
Metal and metal products	50.9	22.4
Electrical, electronic equipment and machinery	53.1	30.6
Precision instruments	50.9	24.3
Motor vehicles and other transport equipment	62.7	22.6
Other manufacturing	42.7	21.1
Recycling	39.5	17.0
TERTIARY	26.3	21.2
Electricity, gas and water	20.1	15.9
Construction	40.7	22.2
Trade	15.2	8.4
Hotels and restaurants	19.4	12.6
Transport, storage and communications	33.9	21.3
Financial intermediation and business activities	27.7	26.5
Public administration and defence	37.5	28.1
Education, health and other services	13.1	9.9
Community, social and personal service activities	37.4	21.8
Unspecified	52.4	88.8

Source : AJC-UNCTAD-Eora database on ASEAN GVCs.

Note : Industry classification based on ISIC (International Standard Industrial Classification of All Economic Activities) . Sectoral data are available for 2017.

With regard to evolution of participating countries in the upstream part of ASEAN and RCEP GVCs, intraregional trade (ASEAN to ASEAN and RCEP to RCEP) is more clearly observed in ASEAN than in RCEP. This is perhaps because AEC was announced and established much earlier than RCEP. Once RCEP is in place and starts to function in 2022, intraregional trade

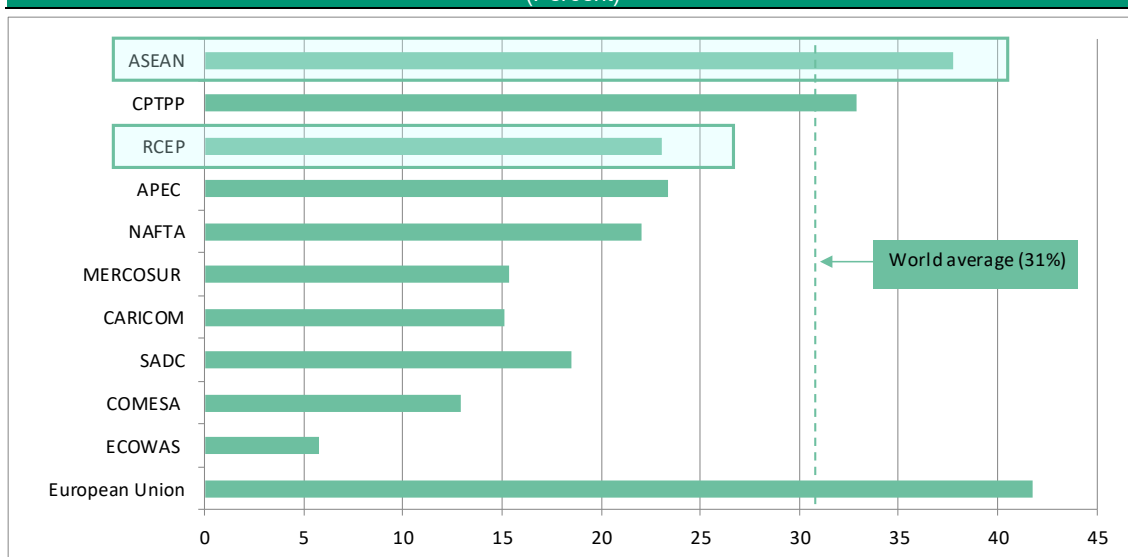
is expected to increase. Figure 5 shows that, with AEC announced in 2007 and established in 2015, the share of ASEAN in the FVA of ASEAN has been rising since the mid-2000s.



In the case of the RCEP GVC, in its upstream part (FVA), the intraregional share (RCEP to RCEP) has increased over 30 years, but since the mid-2000s (2005) it has remained almost the same, with no significant rise in the share of intraregional exports. While eight years passed before the conclusion of the RCEP negotiation in 2020, there seems to be no sign of a rise of the RCEP share of FVA during this period (figure 5). However, this share has been larger than that (ASEAN to ASEAN share) in ASEAN, which suggests that China, one of the most important non-ASEAN members of RCEP, is behind this scenario as supplier to many RCEP members.

Comparing RCEP with other regional groups, while the FVA share is smaller in RCEP than in ASEAN and CPTPP (figure 6), it is higher in RCEP than in CPTPP in terms of involvement in the whole GVC (FVA plus DVX, or GVC participation) (figure 7; see also box 1 for GVC terminology). This is because RCEP economies are more involved in DVX than in FVA, in contrast to ASEAN or CPTPP, and this DVX length in RCEP is longer than in ASEAN and CPTPP. RCEP is rather active in DVX or the downstream part of GVCs.

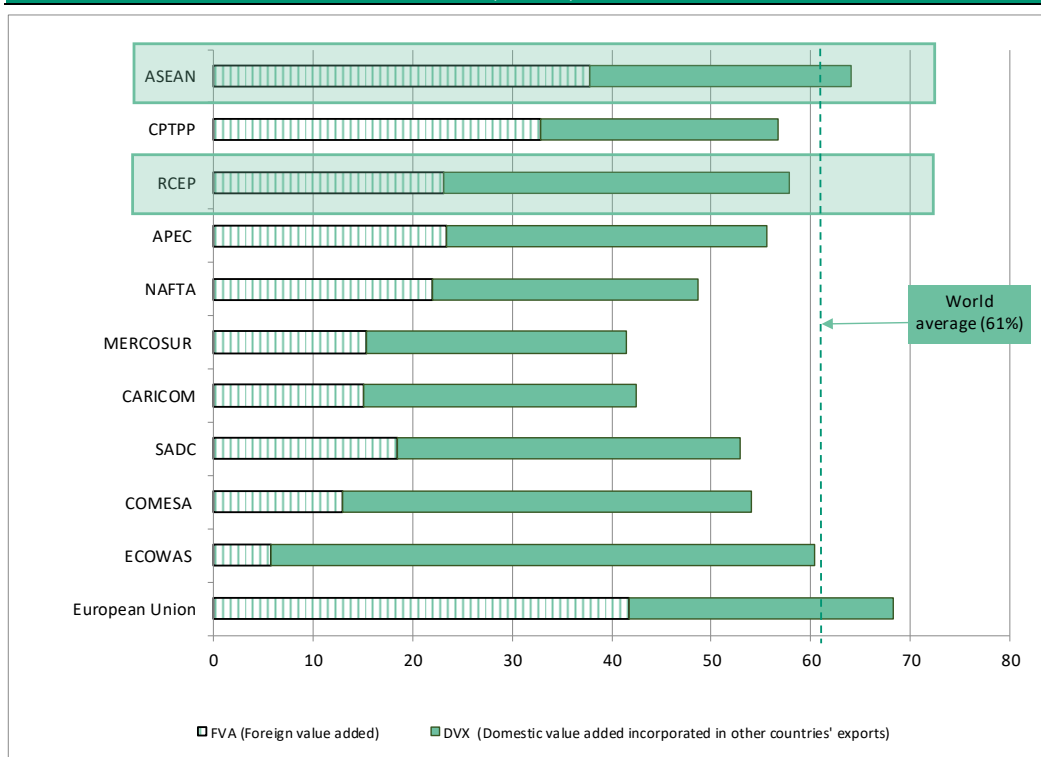
Figure 6. Which regional groups import more foreign value added in their exports in 2019
(Percent)



Source: AJC-UNCTAD-Eora database on ASEAN GVCs.

Note: CPTPP—Comprehensive and Progressive Trans-Pacific Partnership; RCEP—Regional Comprehensive Economic Partnership; APEC—Asia-Pacific Economic Partnership; NAFTA—North American Free Trade Agreement; MERCOSUR—Mercado Comum do Sul; CARICOM—Caribbean Community; SADC—Southern African Development Community; COMESA—Common Market for Eastern and Southern Africa; ECOWAS—Economic Community of West African States.

Figure 7. Which regional groups are more involved in GVC participation in 2019
(Percent)



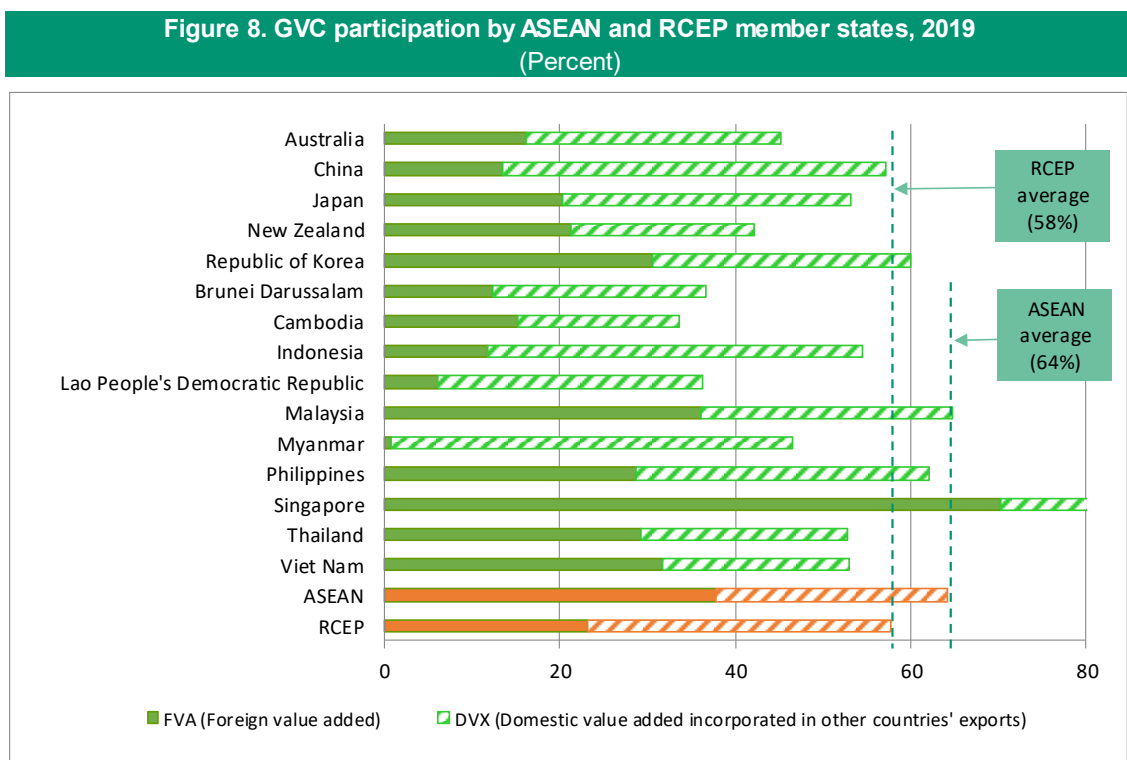
Source: AJC-UNCTAD-Eora database on ASEAN GVCs.

Note: CPTPP—Comprehensive and Progressive Trans-Pacific Partnership; RCEP—Regional Comprehensive Economic Partnership; APEC—Asia-Pacific Economic Partnership; NAFTA—North American Free Trade Agreement; MERCOSUR—Mercado Comum do Sul; CARICOM—Caribbean Community; SADC—Southern African Development Community; COMESA—Common Market for Eastern and Southern Africa; ECOWAS—Economic Community of West African States.

Among the 15 member states of RCEP, while the top three countries involved in GVCs (both upstream and downstream) are all ASEAN members (Singapore, Malaysia and the Philippines, in that order), the next two countries are non-ASEAN members: the Republic of Korea and China (figure 8). Japan also has a long GVC, and DVX, or the exported products that are integrated into other countries' exports, explain the majority of its GVC, rather than FVA, which indicates the receipt of foreign inputs into their exports. A similar pattern applies to China, but more strongly. China is a major supplier to virtually all RCEP countries, reflected in a longer downstream GVC path.

Like in China, in other non-ASEAN member states of RCEP, the downstream part of their GVCs is more involved as inputs to other countries' exports. Higher value-added exports involved in other country exports (DVX) than FVA is typical for RCEP GVCs. Generally speaking, in manufacturing, the extent of DVX may suggest the degree of own country's competitiveness and that of FVA the opposite. In the case of natural-resources-oriented countries, as their export value is created essentially within own economies only, DVX is the

main component of GVC participation (*e.g.*, Australia, Brunei Darussalam, Indonesia and Myanmar). Longer FVA paths suggest that domestic parts and components firms are not competitive enough to produce high value-added products. Improving competitiveness is what ASEAN member states have to do by, for example, attracting FDI and fostering domestic parts and components firms.



Source: AJC-UNCTAD-Eora database on ASEAN GVCs.

The longer downstream part of GVCs characterizes RCEP GVCs, while the upstream part dominates for ASEAN GVCs (with some exceptions, such as Brunei Darussalam, Indonesia and Myanmar). Another characterization of RCEP GVCs is the higher concentration of GVCs within the region, rather than outside the region, unlike ASEAN GVCs. Indeed, nearly half of GVCs in RCEP are formed within the region, as compared with 25 percent of GVCs in ASEAN (table 4). A smaller share of intraregional trade in ASEAN points to the limited regional value chains (RVCs). ASEAN's value chains are extended more outside the ASEAN region.

Table 4. GVC and RVC participation by ASEAN and RCEP, 1990–2019
(Percent of total exports)

year	ASEAN							RCEP								
	FVA: Foreign value added			DVX: Domestic value added incorporated in other countries' exports			Value chain participation	FVA: Foreign value added			DVX: Domestic value added incorporated in other countries' exports			Value chain participation		
	Total (A+B+C)	Created outside ASEAN (B)	Created within ASEAN (C)	Total (D+E+F)	Incorporated outside ASEAN (E)	Incorporated within ASEAN (F)	GVC participation (A+D)	RVC participation (C+F)	Total (G+H+I)	Created outside RCEP (H)	Created within RCEP (I)	Total (J+K+L)	Incorporated outside RCEP (K)	Incorporated within RCEP (L)	GVC participation (G+J)	RVC participation (I+L)
1990	37.6	33.9	3.8	18.6	14.8	3.8	56.2	7.5	81.3	51.0	30.3	100.3	70.0	30.3	181.6	60.5
1995	42.0	36.6	5.4	17.9	12.5	5.4	59.9	10.8	77.9	43.5	34.4	90.0	55.6	34.4	167.9	68.8
2000	41.0	35.0	6.0	20.4	14.3	6.0	61.4	12.1	84.7	47.4	37.3	95.2	57.9	37.3	179.9	74.6
2005	40.5	33.7	6.8	23.4	16.5	6.8	63.9	13.7	98.3	53.1	45.2	105.3	60.1	45.2	203.6	90.4
2010	38.3	30.8	7.5	25.6	18.0	7.5	63.9	15.1	98.2	51.8	46.5	108.2	61.7	46.5	206.4	92.9
2015	36.2	28.6	7.6	24.8	17.1	7.6	61.0	15.3	92.0	47.0	45.0	105.4	60.4	45.0	197.4	90.0
2019	37.1	29.6	8.2	26.4	18.2	8.2	64.1	16.3	86.1	39.7	46.4	129.7	83.3	46.4	215.9	92.9

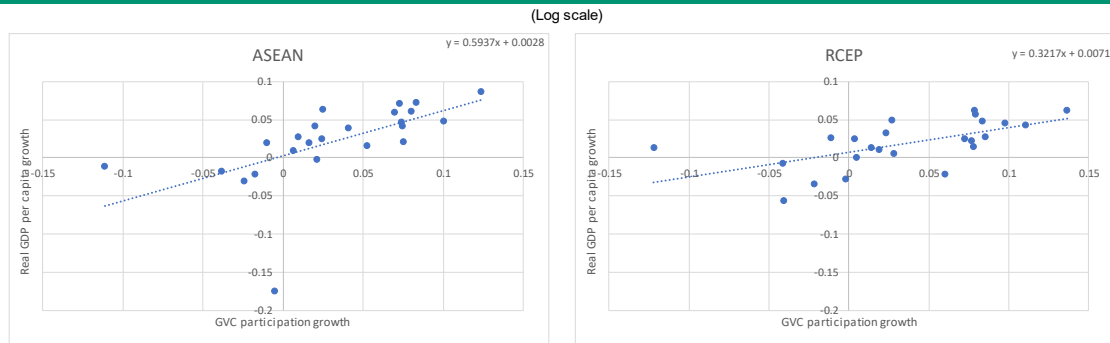
Source: AIC-UNCTAD-Eora database on ASEAN GVCs.

Intraregionally concentrated production and supply chains are observed more clearly by sector, in particular automobiles, electronics and textiles and clothing as discussed subsequently. Because of the inclusion of important producers such as China, Japan and the Republic of Korea, the importance of RCEP as suppliers (the upstream part of GVCs) and buyers (downstream part) becomes stronger.

If larger economic integration such as RCEP provides its member states with more impetus to grow further and faster, this agreement is certainly an advantage over ASEAN. Both ASEAN and RCEP (which includes all ASEAN member states) demonstrate a positive relationship between GVC participation growth rates and per capita economic growth rates.

Measuring this relationship shows that ASEAN GVCs cause a higher growth rate than RCEP GVCs. More precisely, the relationship between the per capita economic growth rate and the GVC participation growth rate for ASEAN is about two times higher than for RCEP (figure 9), reflecting that GVCs are more extensively established in ASEAN than in RCEP and that they benefit ASEAN more than RCEP so far. This implies that RCEP member states have an opportunity to grow faster than they do now because of further increases in trade and investment and economic size thanks to RCEP impact. For example, Malaysia, Thailand, Singapore and any other ASEAN member states could grow further if their value chains were extended to include RCEP member states. On average, looking at the trend line of the observation points indicates that over the past two and a half decades a 1 percent increase in the GVC participation rate may cause a 0.3 percent increase in the per capita economic growth rate in RCEP, while a 1 percent increase in the GVC participation rate may cause a 0.6 percent increase in per capita economic growth rate in ASEAN (figure 9).

Figure 9. Relationship between GVC participation and economic growth rates in ASEAN and RCEP, 1995–2019



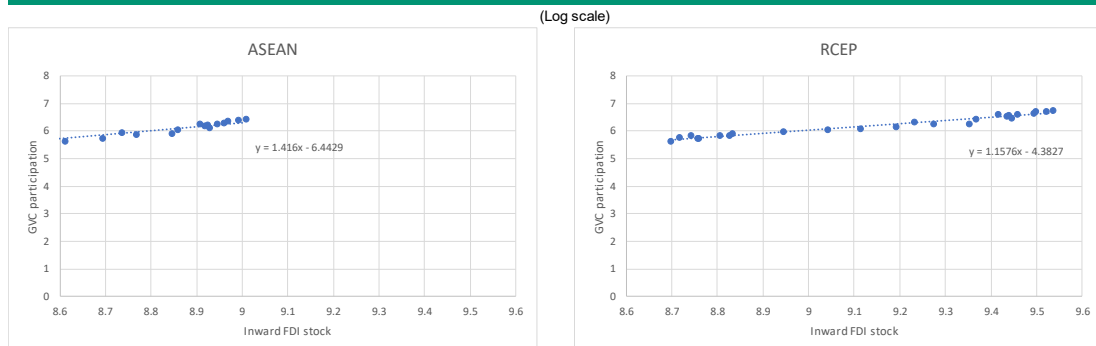
Source: AJC-UNCTAD-Eora database on ASEAN GVCs; GDP data from UNCTAD GlobStat.

Note: 24 observation points.

For GVC participation, yearly differences in the log value of the sum of FVA and DVX, both of which are in millions of dollars, are used, while, for GDP per capita, yearly differences in its log in dollars are used.

Like ASEAN, RCEP's integration as manifested by GVCs increases with FDI. The more FDI is present, the higher is GVC participation. In both ASEAN and RCEP, a 1 percent increase in FDI leads to a 1.1–1.4 percent increase in GVC participation (figure 10). It shows a strong bond between these two variables.

Figure 10. Relationship between GVC participation and FDI presence in ASEAN and RCEP, 1995–2019



Source: AJC-UNCTAD-Eora database on ASEAN GVCs and UNCTAD FDI/TNC database (for FDI stock).

Note: 25 observation points.

For GVC participation, the log of the sum of foreign value added (FVA) and domestic value added incorporated in other countries (DVX), both of which are in millions of dollars, is used, while, for inward FDI stock, its log in millions of dollars is used.

The effects of RCEP on trade and investment that are supposed to be translated into creating GVCs are clearly observed in different sectors. Even if the spread of ASEAN GVCs is wide in certain industries such as automobiles, electrics and electronics, textiles and clothing, agribusiness and tourism,² RCEP affects these industries differently depending on how GVCs are formed in ASEAN and RCEP.

² See AJC's paper series on ASEAN GVCs in these industries (https://www.asean.or.jp/en/centre-wide/centrewide_en/).

The importance of ASEAN members as suppliers to ASEAN exports and to RCEP exports is always higher in the former for these five industries. This means that the share of inputs that ASEAN supplies to RCEP exports is lower than to ASEAN exports by 2–7 percent by industry in 2017, with automobiles and electrical and electronics equipment showing large differences (table 5). Both industries are strong in ASEAN, but much stronger in RCEP (*e.g.*, China, Japan and the Republic of Korea). For this reason, RCEP countries have become more important suppliers to RCEP exports than ASEAN countries.

The three other industries' (textiles and clothing, agribusiness and tourism) exports show smaller differences between ASEAN and RCEP in terms of ASEAN's importance as suppliers, at most 2–3 percent. ASEAN ships sufficient inputs to both the ASEAN and RCEP regions relative to their respective exports. While ASEAN textiles and clothing exports are global, ASEAN exports in agribusiness and tourism are more regionally oriented. The fact that textiles and clothing are essentially produced in ASEAN and only in China in the non-ASEAN RCEP group reduces the loss of ASEAN members' importance as suppliers when they serve the RCEP market as compared with the ASEAN market. ASEAN agribusiness and tourism are so competitive that they can penetrate both ASEAN and RCEP markets as important suppliers.

Table 5. How much does ASEAN contribute to foreign value added of exports from ASEAN and RCEP, 1990–2017
(Percent of gross exports)

Industry/Regional group	1990	1995	2000	2005	2010	2015	2017
Automobiles							
ASEAN	5.2	6.9	7.8	8.8	9.0	9.0	9.8
RCEP	0.9	1.4	1.5	2.3	2.4	2.7	2.8
Difference	4.3	5.5	6.3	6.5	6.5	6.3	7.0
Electrical and electronic equipment^a							
ASEAN	6.0	8.1	9.0	10.3	11.5	11.9	12.0
RCEP	2.4	3.5	3.9	4.9	5.9	5.8	5.9
Difference	3.6	4.7	5.1	5.4	5.6	6.0	6.1
Textiles, clothing and leather							
ASEAN	2.2	3.5	4.3	4.5	4.7	4.5	4.7
RCEP	1.3	1.7	1.9	2.1	2.2	2.0	2.0
Difference	0.9	1.9	2.4	2.4	2.5	2.5	2.7
Agribusiness							
ASEAN	2.3	3.3	3.4	3.8	4.1	3.9	4.6
RCEP	1.2	1.9	1.9	2.1	2.3	2.2	2.6
Difference	1.1	1.5	1.5	1.7	1.8	1.8	2.0
Tourism^b							
ASEAN	1.8	2.5	3.0	3.4	3.6	3.5	4.7
RCEP	0.9	1.1	1.5	1.7	1.9	1.8	2.2
Difference	1.0	1.5	1.5	1.7	1.7	1.8	2.5

Source: AJC-Eora-UNCTAD database on ASEAN GVCs.

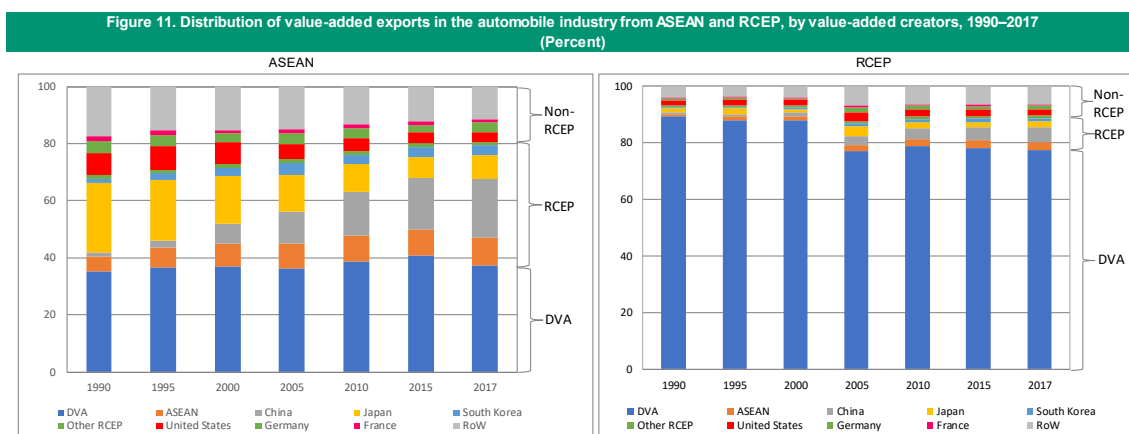
a. For Brunei Darussalam, Cambodia, Lao PDR and Myanmar, general machinery is included.

b. Only Singapore, Viet Nam, China, Japan and Australia include travel agency and tour operator services in addition to hotels and restaurants.

Automobiles

Of the five industries that are subject to study, the automobile industry shows the biggest difference between ASEAN and RCEP GVCs. The domestic share of value-added exports is less than 40 percent for ASEAN, less than half that of RCEP (figure 11). The high DVA share for RCEP exports in the automobile industry is due to the fact that non-ASEAN RCEP members include some of the world's largest automobile producers and exporters (Japan, China and Republic of Korea). The consistently high share of DVA for RCEP means that the region includes several strong automobile-producing countries.

In the ASEAN GVC, the RCEP share of FVA has been rising constantly because of China even if the Japanese share has declined. In the RCEP GVC, the RCEP share of FVA has remained almost the same since the beginning of the 2000s when RCEP countries did not trade much with each other (the RCEP share is small). ASEAN’s contribution as suppliers to automobiles exports from own region is 3–4 times larger than those from RCEP (table 5). ASEAN is increasingly contributing as input suppliers to RCEP, five times more than in the 1990s.



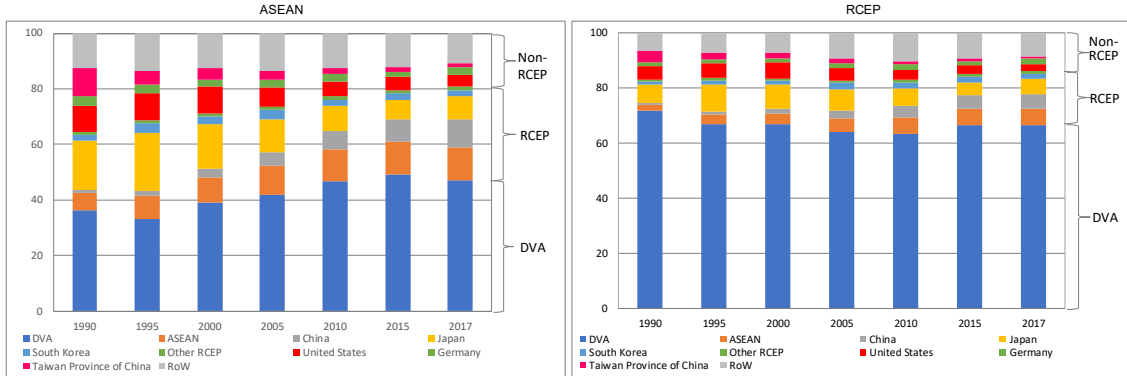
Source: AJC-UNCTAD-Eora database on ASEAN GVCs.

Electrical and electronics equipment

As in automobiles, but to a lesser extent, large producers in electrical and electronics equipment in non-ASEAN RCEP members have greatly increased the DVA share in RCEP GVCs than in ASEAN GVCs. The DVA share in ASEAN is less than 50 percent, while that in RCEP is around 70 percent (figure 12). The RCEP share in the upstream part of the ASEAN GVC is rising because of China and ASEAN, while the RCEP share in the RCEP GVC has not changed much because China and ASEAN did not significantly increase their contribution as suppliers of foreign inputs to RCEP exports (figure 12). ASEAN’s electrical and electronics inputs have not spread much into non-ASEAN RCEP members.

The difference in the ASEAN contribution to GVCs as foreign suppliers between ASEAN and RCEP is less than in the case of automobiles, about two times (table 5), and this difference has not shrunk over the years. Even though ASEAN has the largest share of FVA among the five industries (the largest contributor as foreign suppliers) in both ASEAN and RCEP exports, both ASEAN and non-ASEAN RCEP producers are strong exporters and competitive in this industry, playing complementary roles in supplying products between these two groups of producers.

Figure 12. Distribution of value-added exports in electrical and electronic equipment from ASEAN and RCEP, by value-added creators, 1990–2017 (Percent)



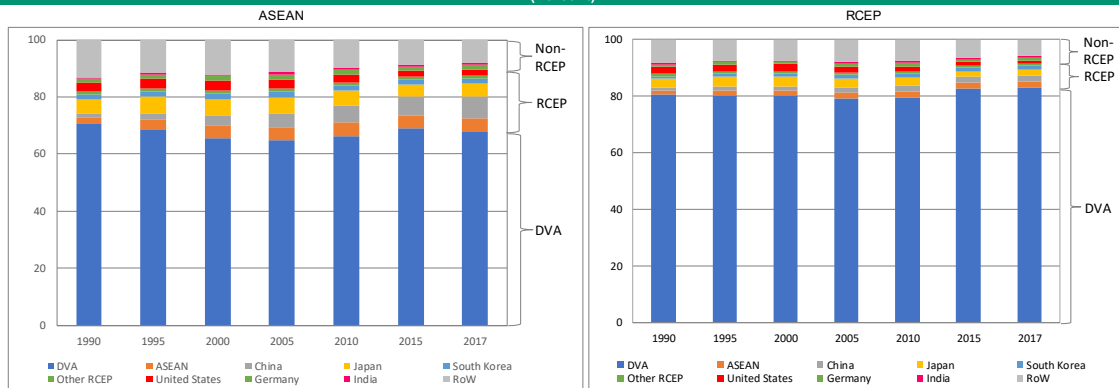
Source: AJC-UNCTAD-Eora database on ASEAN GVCs.
 Note: For Brunei Darussalam, Cambodia, Lao PDR and Myanmar, general machinery is included.

Textiles and clothing

In both ASEAN and RCEP GVCs, the role of RCEP (including ASEAN) has been strong, accounting for the bulk (90 percent) of gross exports (FVA+DVA) in this industry (figure 13). While the value created by this industry mainly originates in the domestic market (high DVA), ASEAN or RCEP including ASEAN contributes to the foreign part of value-added (FVA) creation of this industry.

Even though ASEAN members are main producers of textiles and clothing together with China, its smaller share of foreign supply in total exports (2 percent for RCEP and less than 5 percent for ASEAN) (table 5) means that these countries are final product exporters engaged mainly in apparel production rather than intermediate producers (*e.g.*, textiles), which are not much integrated into the next stage of production.

Figure 13. Distribution of value-added exports in textiles, clothing and leather from ASEAN and RCEP, by value-added creators, 1990–2017 (Percent)

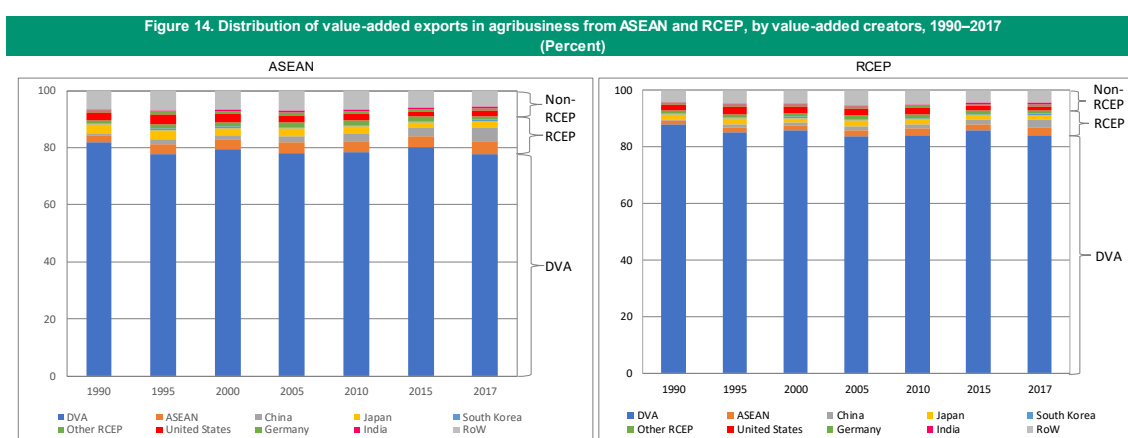


Source: AJC-UNCTAD-Eora database on ASEAN GVCs.

Agribusiness

Agribusiness and tourism are typically region- or domestic-market-oriented industries. Therefore, not only is the FVA share small, but also, if there is FVA, it comes from the region in question. While ASEAN as FVA contributor is rising, the FVA characteristics do not vary much otherwise (figure 14).

ASEAN’s contribution to FVA for RCEP and ASEAN is small because the majority of value-added exports originate in its own economy. Its share is between 3 percent (RCEP exports) and 5 percent (ASEAN exports) (table 5).



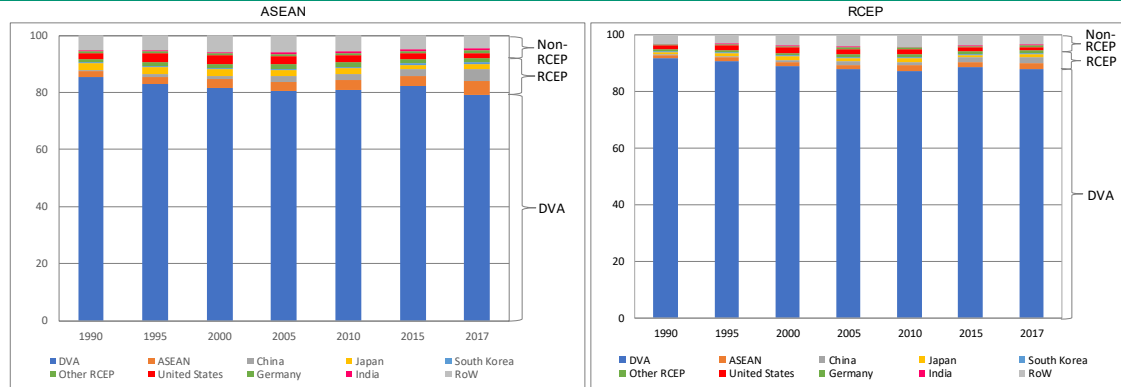
Source: AJC-UNCTAD-Eora database on ASEAN GVCs.

Tourism

Although ASEAN’s DVA in tourism is already high, reflecting the domestically oriented market, the inclusion of China, a large tourism destination country, results in an even higher level of domestically created value in RCEP (figure 15). Like agribusiness, almost all the value creation of exports resides in its own region.

Contribution by ASEAN members as foreign suppliers to ASEAN exports and RCEP exports is small, 2 percent for RCEP and less than 5 percent for ASEAN (table 5).

Figure 15. Distribution of value-added exports in tourism from ASEAN and RCEP, by value-added creators, 1990–2017
(Percent)



Source: AJC-UNCTAD-Eora database on ASEAN GVCs.

Note: Only Singapore, Viet Nam, China, Japan and Australia include travel agency and tour operator services in addition to hotels and restaurants.

These five industries are mainly concentrated in a few countries in ASEAN: Malaysia and Thailand for automobiles; Malaysia, Philippines and Thailand for electricals and electronics; Cambodia, Myanmar and Viet Nam for textiles and clothing; Indonesia, Malaysia and Thailand for agribusiness; and Philippines, Singapore and Thailand for tourism (table 6). Looking at these countries and industries clearly indicates what country and in what industry RCEP is likely to affect. Out of these five industries and 14 countries, Thailand in the automobiles industry is the largest beneficiary from the RCEP agreement, followed by Viet Nam in textiles and clothing. GVCs of these two countries in the given industry expand 1.9 times and 1.6 times, respectively (table 6). Myanmar in textiles and clothing, Indonesia in agribusiness and Philippines and Thailand in tourism do not show much enlargement of GVCs even if the region is extended from ASEAN to RCEP as their GVCs are firmly installed mainly in ASEAN. Their value chain operations are tightly articulated in ASEAN and do not require the extended chains to non-ASEAN RCEP members.

Table 6. Domestic value-added exports created in-country and foreign value-added exports from ASEAN and RCEP, 2017

(Percent of total value-added exports)

Industry/major ASEAN exporting country	DVA (A)	FVA (B)		Total value-added exports created (A+B)		Increased impact due to RCEP (E/D)
		ASEAN only	RCEP	ASEAN only (D)	RCEP (E)	
Motor vehicles and other transport equipment						
Malaysia	47.1	7.3	31.7	54.3	78.8	1.4
Thailand	31.3	9.7	48.4	41.0	79.7	1.9
Electrical and electronic equipment						
Malaysia	59.0	6.9	23.9	65.8	82.9	1.3
Philippines	53.7	7.7	26.7	61.4	80.4	1.3
Thailand	64.7	5.1	20.9	69.7	85.6	1.2
Textiles and clothing						
Cambodia	82.7	5.8	12.1	88.5	94.7	1.1
Myanmar	98.6	0.1	0.3	98.7	98.8	1.0
Viet Nam	45.3	9.4	40.6	54.7	86.0	1.6
Agribusiness						
Indonesia	94.6	0.8	2.9	95.4	97.5	1.0
Malaysia	66.1	6.6	17.9	72.7	84.1	1.2
Thailand	85.0	1.8	6.6	86.8	91.6	1.1
Tourism						
Philippines	89.9	1.5	4.9	91.3	94.8	1.0
Singapore	54.9	13.0	30.7	67.8	85.5	1.3
Thailand	90.1	1.1	4.6	91.2	94.7	1.0

Source: AJC-UNCTAD-Eora database on ASEAN GVCs.

Note:

DVA = domestic value added created in the country concerned.

FVA (ASEAN only) = foreign value added imported from ASEAN and used in exports from the country concerned.

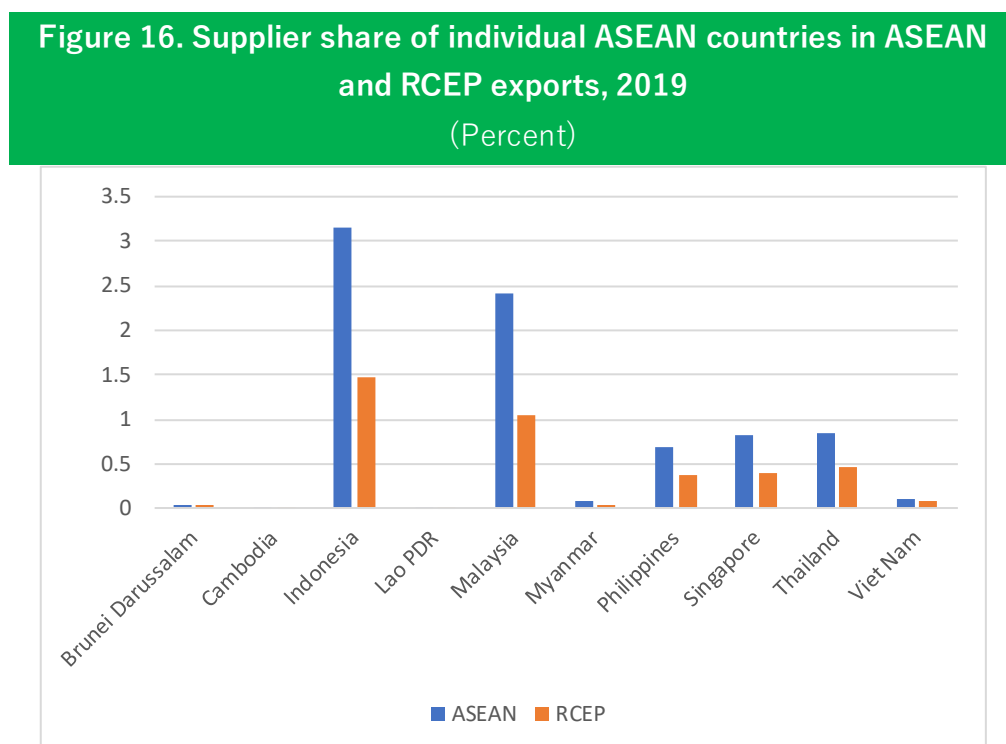
FVA (RCEP) = foreign value added imported from RCEP (including ASEAN) and used in exports from the country concerned.

Total value-added exports created = value-added exports from the country concerned created within the country concerned and those of parts and components of ASEAN/RCEP integrated into the country concerned.

GVCs for automobiles and electrical and electronics industries have room to expand to RCEP as a whole, beyond ASEAN. This is an opportunity that ASEAN can and should cultivate more under the RCEP regime.

b. Individual ASEAN country GVCs with ASEAN and with RCEP

Not all ASEAN 10 countries show the same pattern of GVCs within ASEAN and within the RCEP region. Some countries are prepared for an enlarged market, and others are not. Generally speaking, all ASEAN member states lose importance as suppliers to ASEAN exports when the export region expands from ASEAN to RCEP (figure 16).



Source: AJC-UNCTAD-Eora database on ASEAN GVCs.

Note: The share of ASEAN individual member states as suppliers to ASEAN exports. The total shares of ASEAN as suppliers to ASEAN and RCEP exports are 8.2 and 3.9 percent, respectively.

RCEP exporters use parts and components imported from a wider range of countries than ASEAN exporters do. ASEAN contributes the largest foreign value added to its own exports. In other words, ASEAN members are supplying parts and components to each other. However, when the region is extended to RCEP, the importance of ASEAN members as suppliers halves (8.2 percent vs. 3.9 percent)(memorandum in table 7).

c. Japan, China and Republic of Korea with ASEAN GVCs and with RCEP GVCs

With the RCEP agreement, China, Japan and Republic of Korea will enjoy direct benefits from their first agreement of a free trade agreement (FTA) and its associated benefits. Of these three countries, China and Japan will clearly gain the most.

For suppliers to ASEAN and RCEP exports, the importance of these countries is all lowered in RCEP exports relative to ASEAN exports. Among the three countries, however, Republic of Korea does not show a large decline compared with China and Japan, whose shares as foreign value-added creators in RCEP exports is almost halved (table 7). This implies that Chinese and Japanese firms have not established their supplier networks in the extended RCEP region relative to those established in ASEAN. While the supplier network of Korean firms is much smaller than Chinese and Japanese ones, they retain almost the same importance of suppliers in RCEP as in ASEAN.

On the downstream path of ASEAN and RCEP GVCs, these non-ASEAN RCEP member states provide a smaller share of their exports of parts and components (DVX) for RCEP exports than for ASEAN exports. But this reduced share is smaller in RCEP exports (from 8.6 percent to 5.6 percent) than in ASEAN exports (from 14.8 percent to 7.1 percent) (table 7).

Altogether the GVC participation (FVA plus DVX) by non-ASEAN RCEP members accounts for 22 percent of ASEAN exports and 14 percent of RCEP exports. These shares are, however, higher than the share of ASEAN members in ASEAN exports (17 percent) and RCEP exports (9 percent) (table 7).

Table 7. Involvement of non-ASEAN RCEP member states in ASEAN and RCEP GVCs, 2019 (Billions of dollars and percent)												
Non-ASEAN RCEP member state	FVA (A)				DVX (B)				GVC participation (A+B)			
	Value		Share in total exports		Value		Share in total exports		Value		Share in total exports	
	ASEAN	RCEP	ASEAN	RCEP	ASEAN	RCEP	ASEAN	RCEP	ASEAN	RCEP	ASEAN	RCEP
China	120.5	229.2	7.6	3.9	37.6	131.6	2.7	2.0	158.2	360.8	10.3	5.8
Japan	73.5	154.7	4.6	2.6	31.1	104.4	2.2	1.6	104.6	259.1	6.8	4.2
Korea, Rep. of	24.3	72.8	1.5	1.2	23.8	105.1	1.7	1.6	48.2	177.9	3.2	2.8
Australia	15.1	44.4	0.9	0.7	6.5	22.8	0.5	0.3	21.5	67.3	1.4	1.1
New Zealand	1.9	6.9	0.1	0.1	0.9	8.7	0.1	0.1	2.8	15.6	0.2	0.2
Non-ASEAN RCEP total	235.3	508.0	14.8	8.6	100.0	372.6	7.1	5.6	335.3	880.7	21.9	14.2
<i>Memorandum</i>												
ASEAN total	130	229.7	8.2	3.9	129.7	365.1	9.2	5.5	259.5	594.8	17.4	9.4

Source: AJC-UNCTAD-Eora database on ASEAN GVCs.

Note: FVA = foreign value added in exports from non-ASEAN RCEP member states; DVX = value-added exports from non-ASEAN RCEP member states incorporated in other countries' exports.

d. Australia and New Zealand with ASEAN GVCs and with RCEP GVCs

Australia and New Zealand are reticent in terms of trade and investment compared with the other three non-ASEAN countries. In principle because they are natural-resources-oriented economies, and thus the regional benefits of RCEP are limited. In both ASEAN and RCEP exports, firms in these two countries have small supplier networks and do not contribute much to ASEAN and RCEP exports as suppliers.

The importance of these two Pacific countries is clear in terms of the downstream part of GVCs. As suppliers to ASEAN and RCEP exports and as buyers from ASEAN and RCEP exports, these two countries retain almost the same shares in their respective exports. In other words, Australia and New Zealand contribute the same (but small) amount to upstream and downstream parts of ASEAN and RCEP GVCs (table 7). This is perhaps because these two countries mainly engage in natural resources industries and have not established manufacturing production networks in ASEAN or in RCEP.

3. Economic opportunities for ASEAN after the adoption of RCEP

Adopting the RCEP agreement provides more economic opportunities than were available before because of direct involvement in a larger economic group, increasing trade, increasing investment and increased market access.

a. Larger economic size

RCEP is eight times larger than ASEAN. The larger the market is, the more business opportunities are created. However, even if a country does not belong to a regional grouping, it has also opportunities to grow in both trade and investment. The question is whether growth would be larger in the case of regional integration than otherwise. This counterfactual is difficult to ascertain as no established methodology exists to measure it. However, studies show that, using a computable general equilibrium (CGE) model (Petri and Plummer, 2020), RCEP would increase global gross national income (GNI) in 2030 by \$186 billion more than the case without RCEP, 94 percent (or \$175 billion) of this increase would take place in the RCEP countries (table 8). This is equivalent to 0.4 percent of RCEP countries' GNI. China, Japan and Republic of Korea are the largest beneficiary countries with an additional increase of \$85 billion, \$48 billion and \$23 billion, respectively. These gains are equivalent to 0.3 percent, 1 percent and 1 percent of their respective GNIs (Petri and Plummer, 2020). ASEAN's economic gains are a minimum of \$17 billion, or 0.3 percent (table 8).

Table 8. Economic and trade impact of RCEP, 2030

(Billions of dollars)

RCEP member states	Gross national income (GNI)				Exports of goods and services			
	GNI without impact of RCEP		Expected changes due to RCEP	GNI with impact of RCEP	Exports without impact of RCEP		Expected changes due to RCEP	Exports with impact of RCEP
	2020 ^a	2030	2030	2030	2020 ^b	2030	2030	2030
ASEAN member states	2 923	5 638	17	5 655	1 713	2 556	62	2 618
Brunei Darussalam	14	31	0	31	7	16	0	16
Indonesia	1 030	2 189	3	2 192	182	433	13	446
Malaysia	330	671	4	675	207	490	1	491
Philippines	389	678	2	680	91	177	7	184
Singapore	298	485	0	485	599	473	- 3	470
Thailand	488	808	4	812	258	535	26	561
Viet Nam	257	494	3	497	288	343	14	357
CLM (Cambodia, Lao PDR, Myanmar)	116	282	1	283	38	89	4	93
Non-ASEAN member states	22 931	37 702	158	37 860	4 595	7 481	447	7 928
Australia	1 303	2 589	1	2 590	318	586	3	589
China	14 624	27 754	85	27 839	2 723	4 732	244	4 976
Japan	5 156	4 876	48	4 924	894	1 055	135	1 190
Korea, Rep. of	1 644	2 220	23	2 243	602	1 025	64	1 089
New Zealand	204	263	1	264	57	83	1	84
RCEP total	25 854	43 340	175	43 515	6 307	10 037	509	10 546

Source: AJC based on Petri and Plummer (2020) and World Bank's World Development Indicators database (GNI and exports of goods and services).

a 2019 for Brunei Darussalam.

b 2016 for Lao PDR and 2019 for Japan and New Zealand.

Note: Based on the scenario of "business as before," which does not account for the trade war between China and the United States.

China, Japan and Republic of Korea concluded the first kind of economic partnership and trade agreement with RCEP. This fact pushes these three countries forward to receive economic benefits. ASEAN has already concluded an FTA with other five non-ASEAN member states. Therefore, the impact on ASEAN is more limited. The weaker impact on ASEAN, compared with the impact on China, Japan and Republic of Korea, partly lies in the fact that ASEAN has already benefitted from existing FTAs.

b. Increasing trade

As much as 91 percent of traded products receive lower or zero tariff rates. Even though this percentage is lower than the case of CPTPP, these lowered tariff rates provide an impetus for trade growth. At the same time, sanitary and phytosanitary measures (chapter 5 of the RCEP agreement) and standards, technical regulations and conformity assessment procedures (chapter 6) clarify major non-tariff measures relating to trade regulations.

Because of the lack of a counterfactual, estimates of the impact on trade vary by methodology. According to the United Nations Conference on Trade and Development's (UNCTAD's) estimates, the RCEP agreement's tariff concessions could further boost its exports by nearly

2 percent, or approximately \$42 billion with \$2.3 trillion of total RCEP exports in 2019 (table 9).³ The effect on trade is, however, not uniform. The UNCTAD estimates show that Japan alone receives nearly half of such export gains (\$20 billion or 5.5 percent of its exports). All other non-ASEAN member states gain more exports than pre-RCEP (with China, the second largest gainer, receiving \$10 billion or 2 percent more of its exports). However, in terms of ASEAN, exports from Cambodia, Indonesia, the Philippines and Viet Nam would be reduced because of trade diversion whereby their exports are diverted to other RCEP members because of better tariff concessions.

³ UNCTAD, “Asia-Pacific partnership creates new ‘centre of gravity’ for global trade”, 15 December 2021, <https://unctad.org/news/asia-pacific-partnership-creates-new-centre-gravity-global-trade>. The increase in exports would result from trade creation of nearly \$17 billion and trade diversion valued at nearly \$25 billion. Note that the global exports as estimated by UNCTAD differ from that in table 10 (\$25 billion).

Table 9. Effects of RCEP on exports, 2019

(Billions of dollars)

RCEP member state^a	Overall effects	Trade diversion^b	Trade creation^c	As percentage of exports from RCEP
Japan	20.2	15.7	4.5	5.5
China	11.2	6.9	4.3	1.8
Korea, Rep. of	6.7	4.4	2.3	2
Australia	4.1	2.8	1.3	1.9
New Zealand	1.1	0.8	0.3	4.5
Malaysia	0.2	-0.3	0.6	0.1
Singapore	0.2	-0.3	0.5	0.2
Lao PDR	0.1	0	0.1	2.7
Myanmar	0.1	0	0.1	1.2
Brunei Darussalam	0	0	0	0.6
Thailand	0	-1.1	1.1	0
Philippines	-0.1	-0.2	0.2	-0.1
Cambodia	-0.3	-0.4	0	-3.9
Indonesia	-0.3	-0.8	0.4	-0.3
Viet Nam	-1.5	-2.3	0.8	-1.2
RCEP total	41.8	25.2	16.6	1.8

Source: UNCTAD, "Asia-Pacific partnership creates new 'centre of gravity' for global trade", 15 December 2021.

a Ranked in descending order of effects.

b Trade creation emerges as lower tariffs would stimulate trade between members.

c Trade diversion emerges as lower tariffs within the RCEP would redirect trade.

In the future, according to Petri and Plummer (2020) using a CGE model, RCEP will increase global exports of goods and services by \$509 billion in 2030 over global exports without RCEP (table 8), equivalent to 5 percent of RCEP exports. China and Japan gain the most (\$244 billion and \$135 billion, respectively), followed by Republic of Korea and ASEAN (both at around \$60 billion). Among ASEAN member states, the largest gainers are Thailand (\$26 billion), Viet Nam (\$14 billion) and Indonesia (\$13 billion). The largest exporter from ASEAN in 2020, Singapore, records a negative impact falling behind Thailand and Malaysia.

Another study that uses SMART simulations⁴ also shows a more advantageous trade position for non-ASEAN member states (table 10). RCEP even causes exports from ASEAN to decrease by \$750 million at the 2019 level, with six ASEAN member states falling except Brunei Darussalam, Indonesia, Lao PDR and Thailand. Among non-ASEAN member states, all five countries are expected to increase exports, with Japan gaining most from these increases. Japanese gained exports from RCEP would go to China (receiving 68 percent of a \$14 billion rise of Japanese exports) (Banga *et al.*, 2021). Altogether for RCEP countries exports would increase by 1.2 percent.

On the import side, all RCEP countries, including both ASEAN and non-ASEAN member states, would experience increases in imports. Among them, China experiences the highest rise of imports (41 percent of total changes due to RCEP; table 10), followed by Republic of Korea, Malaysia, Cambodia and Japan. China accounted for one-third of RCEP merchandise imports prior to RCEP (table 10). Cambodia's imports are mainly from China. China's dramatic increase in imports partly owes to the increased number of commodities that fall under the preferential treatment of RCEP beyond World Trade Organization (WTO)-governed most favoured nation from 883 to 954 starting from 1 January 2022.⁵

Increases in exports in one country imply increases in imports in another. Therefore, thinking about the impact of RCEP on the trade balance or net exports (exports less imports) would be ideal. As long as net exports are positive, or exports are larger than imports, the country experiences a trade surplus and increases GDP by this amount or less (accounting for FVA). ASEAN deepens the trade deficit while non-ASEAN members further improve the trade balance. After China, Viet Nam continues to have the second largest trade deficit both before and after RCEP. However, Australia remains the largest surplus country, followed by Republic of Korea.

These figures from different methodologies can be put into the context of the individual country's economic size or trade volume in RCEP. China, Japan and ASEAN account for 57 percent, 20 percent and 11 percent of RCEP GNI in 2020, respectively (table 8). The

⁴ Part of the World Integrated Trade Solutions developed by the World Bank and UNCTAD. Unlike the general assumptions of perfect competition used in CGE modelling, the SMART programme accounts for the tariff reduction differences by product. It is a disaggregated model rather than a general or aggregated model.

⁵ "China—From 2022, tariff reductions for 954 items will start, and tariff reductions will start due to the entry into force of the RCEP agreement", *Economic Daily*, 16 December 2021.

dominance of China in the impact of RCEP as measured by monetary value partly reflects its largest share not only in economic size but also in trade and FDI inflows.

Table 10. Impact of RCEP on balance of trade, 2019
(Millions of dollars)

RCEP member states	Pre-RCEP exports	Changes in exports		Pre-RCEP imports	Changes in imports		Balance of trade (Exports less imports)	
		due to RCEP	Post-RCEP exports		due to RCEP	Post-RCEP imports	Pre RCEP	Post RCEP
ASEAN member states	631 318	- 752	630 566	771 230	7 821	779 051	-139 912	-148 485
Brunei Darussalam	5 875	4	5 879	2 221	0	2 221	3 654	3 658
Cambodia	3 846	- 9	3 837	17 206	2 309	19 515	-13 360	-15 678
Indonesia	90 965	162	91 128	100 594	315	100 908	-9 628	-9 781
Lao PDR	3 832	35	3 867	4 438	51	4 490	- 607	- 623
Malaysia	134 140	- 336	133 805	122 922	3 760	126 682	11 218	7 122
Myanmar	10 091	- 307	9 784	11 819	172	11 991	-1 728	-2 206
Philippines	47 019	- 116	46 904	70 379	148	70 527	-23 359	-23 623
Singapore	90 502	- 80	90 422	141 488	0	141 488	-50 987	-51 067
Thailand	126 521	206	126 726	129 503	877	130 380	-2 983	-3 654
Viet Nam	118 527	- 313	118 215	170 660	189	170 850	-52 133	-52 635
Non-ASEAN member states	1426 013	25 579	1451 592	1419 284	20 099	1439 383	6 729	12 209
Australia	195 179	989 ^a	196 168	101 726	13	101 739	93 453	94 429
China	587 781	6 550	594 331	727 465	11 402	738 867	-139 684	-144 536
Japan	348 431	14 282	362 713	336 269	2 287	338 556	12 162	24 157
Korea, Rep. of	268 962	3 487	272 449	232 889	6 391	239 280	36 073	33 169
New Zealand	25 661	270	25 931	20 935	7	20 942	4 726	4 989
RCEP Total	2057 332	24 827	2082 158	2190 514	27 920	2218 435	-133 183	-136 276

Source: Banga *et al.* (2021).

a These figures include the increase in Australia's exports of beef to China post tariff liberalization and do not account for China's ban of beef imports from Australia in 2020.

RCEP is likely to affect more trade businesses than general economic activities as the higher gains in exports than in GNI show. RCEP is a trade-oriented regional integration. There is a clear division of labour in trade with China, Japan and Republic of Korea on one hand and leading ASEAN member states on the other hand, and within ASEAN, ASEAN6 and CLMV countries play a complementary role.

There is also some variation by industry. Four industries that tend to form GVCs (agribusiness, automobiles, textiles and clothing and electronics) experience different impacts from trade liberalization. These industries have winners and losers.

- Agribusiness. Imports of certain agricultural products would increase the most for Thailand (\$679 million, or 77 percent of total changes in imports) due to RCEP (Banga *et al.*, 2021). While China's dominance in ASEAN strengthens, ASEAN can find ways to expand in the non-ASEAN RCEP countries (in particular Japan).

- Automobiles. Vehicle imports would increase the most due to RCEP in Malaysia (\$717 million, or 21 percent of total changes in imports), Myanmar (\$59 million, or 34 percent of total changes in imports) and Viet Nam (\$46 million, or 24 percent of total changes in imports) (Banga *et al.*, 2021). China provides more competitive power. ASEAN may lose competitiveness unless not only major automobile producers such as Thailand increase productivity but also peripheral countries such as Malaysia, Indonesia and Viet Nam gear up their production.
- Textiles and clothing. ASEAN countries can benefit from RCEP, expanding their imports mainly from China. The greatest increase in imports will occur for Brunei Darussalam (\$34 million, or 18 percent of total changes in imports), Cambodia (\$1.2 billion, or 61 percent of total changes in imports) and Indonesia (\$129 million, or 41 percent of total changes in imports) in terms of the share of changes in total respective imports (Banga *et al.*, 2021). On the export side, China is the largest gainer. Cambodia is the largest export destination for Chinese textiles.
- Electrical and electronics equipment. Electrical machinery and mechanical appliances are among the products with the largest increase in imports for Cambodia (\$158 million, or 8 percent of total changes in imports), Lao PDR (\$3 million, or 5 percent of total changes in imports), Philippines (\$16 million, or 11 percent of total changes in imports), Malaysia (\$752 million, or 23 percent of total changes in imports) and Viet Nam (\$77 million, or 41 percent of total changes in imports) (Banga *et al.*, 2021).

c. Increasing investment

Opening up of more sectors and further services liberalization increase investment. Services (chapter 8 of the Agreement) in which the most favoured nation treatment principle prevails are highlighted. At the same time, however, the RCEP agreement allows the positive list approach for eight countries (Cambodia, China, Lao PDR, Myanmar, New Zealand, Philippines, Thailand and Viet Nam) for the next three years, after which they also move towards the negative list approach.

Free trade agreements, by creating bigger markets, have a potentially positive effect on FDI. The WTO was notified of some 350 regional trade agreements by mid-October 2021.⁶ However, while RCEP will become one of these 350 agreements, the question remains as to whether this agreement is indeed intended to promote investment (and trade), or will *de facto*

⁶ https://www.wto.org/english/tratop_e/region_e/region_e.htm

be an inactive agreement like many of the FTAs that are reported to the WTO.

The formation of a regional integration scheme like RCEP is a policy shock that affects the decision-making of transnational corporations. Its effects depend, of course, on its impact on the principal factors determining the location of FDI, in particular, the extent to which (UNCTAD, 2008)

- Market size is increased, or market access is improved in a credible way, creating possibilities for specialization in the context of corporate networks and contributing to higher economic growth.
- Resources (labour, technology, *etc.*) become more available.
- A new predictable and transparent regulatory framework for FDI emerges.

Assessing the impact of FTAs on FDI flows is not easy unless each of these factors is examined. However, one study (Fujita, 2011) finds in a rough analysis of 115 out of more than 280 regional trade agreements currently in force that only in 17 cases did the share of FDI flows in countries party to such agreements rise by more than 1 percentage point after entry into the agreement, while in most cases shares in world FDI flows remained almost the same.⁷ It is too early to determine which course RCEP will take, but at least many of ASEAN's (or its member states) and its partners' (ASEAN plus one) agreements are included in the latter group of this early estimate: almost no change occurred in their shares in world FDI flows around the time of establishment. This may imply that FTAs may not affect the volume of FDI flows unless they explicitly include FDI provisions, and even if they do, unless the determinant factors mentioned previously are realized. Even if FDI provisions are included, as in many recent FTAs including RCEP, the agreement itself does not have a great impact on the volume of FDI. Companies may simply seek protection from unpredictable and uncommercial changes in investment environment. Although the RCEP agreement has a chapter on investment (chapter 10), it is safe say that FDI flows would increase to the extent that the economic size is affected (table 8 for the expected change due to RCEP GNI).

Whether any investment occurs beyond "business as usual" investment, or whether RCEP causes any foreseeable investment, is perhaps between ASEAN and non-ASEAN member states, in particular China. China is already one of the largest host countries for FDI in the

⁷ Calculated as the share of countries party to a regional agreement in world FDI inflows in the immediate past five years before the entry year compared with the share in the following five years of the entry year. This, however, does not say anything about the distribution of FDI within the region.

world but does not host much investment from ASEAN.

As a positive relationship exists between the size of an economy and FDI inflows, the rise of GDP or GNI because of RCEP will increase FDI inflows. Although it is a crude measure, given that the ratio of FDI inflows to GNI is 0.01 or one dollar of GNI causes 1 cent of FDI inflow over 2015–2019 (table 11), a 0.4 percent increase in GNI due to RCEP (table 8 and column D in table 11) means a \$914 million increase in FDI inflows to RCEP (column F in table 11), some 40 percent of which would go to ASEAN member states. While both ASEAN and China attract almost the same size of FDI inflows from the world (at \$137 billion) (column B in table 11), the largest gainer from the RCEP agreement is China, whose expected rise of inflows (\$420 million) is almost twice that of ASEAN as a whole (\$236 million). Even though Japan and Republic of Korea represent the largest impact of RCEP on their economies (1 percent rise in GNI) among RCEP member states, as they are not large host economies to FDI, their increases in FDI flows are small at less than \$120 million (column F in table 11), about half of the entire ASEAN region.

Table 11. Impact of RCEP on FDI flows, based on 2015–2019 levels

RCEP member states	GNI (2015–2019 average, \$ billions)(A)	FDI (2015–2019 average, \$ billions)(B)	FDI per \$1 GNI (C=B/A)	Expected GNI due to RCEP (2015–2019 average, \$ billions) (D)	Expected FDI with impact of RCEP (2015–2019 average, \$ billions) (E=C*D)	FDI increases due to RCEP (2015–2019 average, \$ millions) (F=E-B)
ASEAN member states	2739.1	136.6	0.05	2747.3	136.8	236.1
Brunei Darussalam	13.2	0.2	0.02	13.2	0.2	0.0
Indonesia	962.8	17.0	0.02	964.1	17.1	23.3
Malaysia	319.7	9.2	0.03	321.6	9.3	54.9
Philippines	371.7	6.3	0.02	372.8	6.4	18.7
Singapore	313.0	76.8	0.25	313.0	76.8	0.0
Thailand	443.3	5.7	0.01	445.5	5.8	28.4
Viet Nam	212.9	14.0	0.07	214.2	14.1	85.2
CLM	102.4	7.2	0.07	102.8	7.2	25.6
Non-ASEAN member states	20630.4	207.9	0.01	20735.9	208.6	678.1
Australia	1307.4	45.5	0.03	1307.9	45.5	17.6
China	12515.0	137.0	0.01	12553.3	137.4	419.7
Japan	5014.9	11.5	0.00	5064.3	11.7	113.6
Korea, Rep. of	1599.9	11.4	0.01	1616.4	11.5	117.8
New Zealand	193.3	2.5	0.01	194.0	2.5	9.4
RCEP	23369.5	344.4	0.01	23483.2	345.4	914.1

Source: AJC, Column (A) from the World Bank's World Development Indicators; Column (B) from UNCTAD; Column (D) from Petri and Plummer (2020) for the rise of GNI.

Note: The ratio of FDI flows to GNI is assumed to be the same before and after RCEP. Expected rise of GNI is applied to FDI for its increase.

RCEP countries account for 41 percent of total FDI inflows to ASEAN in 2015–2020 (ASEAN and UNCTAD, 2021, p. 33), of which 17 percent is from ASEAN to ASEAN and 24 percent is from non-ASEAN member states to ASEAN. ASEAN member states are the largest investors in ASEAN, or intraregional FDI is more than any other countries/regions, followed closely by Japan. Chinese investment in ASEAN is about half of what ASEAN or Japan invested in 2018–2020 (ASEAN and UNCTAD, 2021, p. 34). However, the growth of Chinese FDI in ASEAN is dramatic, accounting for 7.9 percent of total ASEAN FDI inflows in 2016–2020 compared with 6.2 percent in 2011–2015. For outward FDI from China, ASEAN is a rapidly rising host economy for China with 9.4 percent of total Chinese FDI outflows in 2019, up from only half that a decade ago (5 percent in 2009). This implies that the rise of FDI inflows into ASEAN because of RCEP largely benefits China due to both push (from China) and pull (into ASEAN) factors.

With an additional \$48 billion rise in GNI because of RCEP (from \$5,015 billion to \$5,064 billion in table 11), Japan is also able to invest abroad. With the Japanese government initiative of the strengthening overseas supply chains programme, which provided financial support to 81 projects in 2020 and 11 in 2021 in ASEAN, together with the RCEP incentives, Japanese companies have increased FDI in ASEAN. As their investment is mainly in the area of manufacturing, unlike China whose investment focuses on real estate, it is more tuned to GVCs. Indeed, the main manufacturing industries in ASEAN such as electronics and automobiles are at the heart of ASEAN manufacturing, attracting a large amount of FDI and widening and strengthening GVCs. Therefore, increasing investment in ASEAN manufacturing, particularly in those GVC-sensitive industries, can enhance the ASEAN GVC.

4. Costs for ASEAN associated with expanding regionalization

Among the possible costs to be experienced by ASEAN in the extended regionalization beyond ASEAN, this section considers two areas: centrality and distribution of benefits.

a. Centrality

The ASEAN Charter stipulates centrality for ASEAN as one of the purposes of ASEAN: “(T)o maintain the centrality and proactive role of ASEAN as the primary driving force in its relations and cooperation with its external partners in a regional architecture that is open, transparent and inclusive”⁸ (Article 1. 15). RCEP is no exception.

⁸ The ASEAN Charter, 2007, <https://asean.org/asean/asean-charter/charter-of-the-association-of-southeast-asian-nations/>.

The question to address is whether ASEAN can maintain its centrality in RCEP. In this paper's context, if centrality is defined as the extent to which ASEAN can play a role in GVCs created by RCEP, ASEAN loses its centrality (Fujita, 2021). ASEAN struggles to keep the same economic position in RCEP GVCs as in own ASEAN GVCs in both the upstream and downstream parts of GVCs.

To sum up the analysis of the positioning of ASEAN in RCEP GVCs and its comparison with own ASEAN GVCs, several findings emerge:

- The share of DVA in value-added exports is larger in RCEP than in ASEAN.
- The share of ASEAN in FVA (*i.e.*, ASEAN parts and components imported and used in RCEP/ASEAN exports) is smaller in RCEP than in ASEAN.
- The share of China in FVA (*i.e.*, Chinese parts and components imported and used in RCEP/ASEAN exports) is higher in RCEP than in ASEAN.
- The share of Japan in FVA (*i.e.*, Japanese parts and components imported and used in RCEP/ASEAN exports) is higher in RCEP than in ASEAN.
- The share of Republic of Korea in FVA (*i.e.*, Korea's parts and components imported and used in RCEP/ASEAN exports) is higher in RCEP than in ASEAN.
- China, Japan and Republic of Korea become more important suppliers to RCEP than to ASEAN.
- ASEAN members become less important suppliers to RCEP than to ASEAN.
- The DVX path of ASEAN GVCs is shorter than the DVX path of RCEP GVCs (figure 7).

These findings mean that ASEAN's role in RCEP GVCs, particularly in non-ASEAN RCEP GVCs, becomes smaller. While ASEAN can produce many products, they do not necessarily become inputs to other countries' exports, particularly not to non-ASEAN RCEP members' exports, except extractive products.

b. Distribution of benefits

Benefits are not fairly or equitably distributed among countries and among industries. This paper considers the impact of RCEP on national income, trade (exports, imports and balance of trade) and FDI flows. As no counterfactual is established, coming up with decent estimates of the real changes in these economic variables is difficult. No matter which estimate is used and examined, a common finding emerges: ASEAN members do not necessarily share benefits commensurate with their size and share in the global economy, trade and FDI flows. Indeed, non-ASEAN member states benefit more from the RCEP impact. Among them, China and Japan benefit the most. At the outset of this paper, table 2 made clear that ASEAN represents 12 percent, 26 percent and 43 percent of RCEP GDP, exports and FDI inflows, respectively,

in 2019. This is a rough indication of the distribution of benefits between ASEAN and RCEP. Within these regions, each individual member state can claim its own equitable share of distribution.

- In GNI, ASEAN as a whole accounts for only one-tenth of the total increases in income (table 8). While ASEAN and RCEP receive almost the same share in the increases in GNI, China got more than half and Japan more than one-quarter of the total. ASEAN's increases are even smaller than those of the Republic of Korea.
- In exports, increases due to RCEP for ASEAN are almost on par with those of Republic of Korea, which is only one-quarter of what China gets. Another indicator even shows declines in exports due to trade diversion effects for some ASEAN countries, including Philippines, Cambodia, Indonesia and Viet Nam (table 9).
- Increases in imports are relatively high for ASEAN, which makes the trade deficit worse. However, non-ASEAN RCEP member states indicate an improvement in trade balance, increasing trade surplus more (table 10).
- FDI inflows show better results for ASEAN than trade does, but this is only one-third of China's impact (table 11).

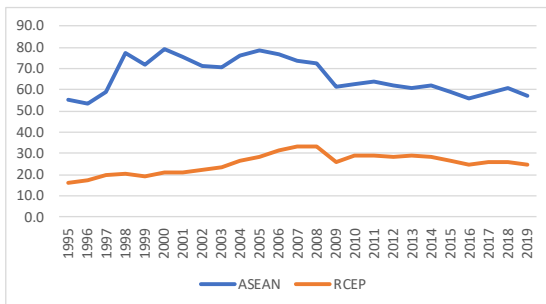
5. Policy implications

Regardless of RCEP, mutual interest in economic cooperation is already rising in Asia and the Pacific. The RCEP agreement would strengthen this mutual interest. To maximize benefits from RCEP and at the same time minimize negative effects from the RCEP agreement for ASEAN, some policy suggestions are in order.

ASEAN's role in RCEP, particularly among non-ASEAN RCEP member states, should become more important. On the upstream part of GVCs, smaller contributions by ASEAN to RCEP GVCs mean that ASEAN is losing opportunities to grow because a positive relationship between GVC participation and economic growth is not maximized (Section 2). ASEAN members also fail to materialize the benefits from the downstream path if their products cannot be used much in downstream GVCs. ASEAN firms need to improve the competitiveness of exportable products.

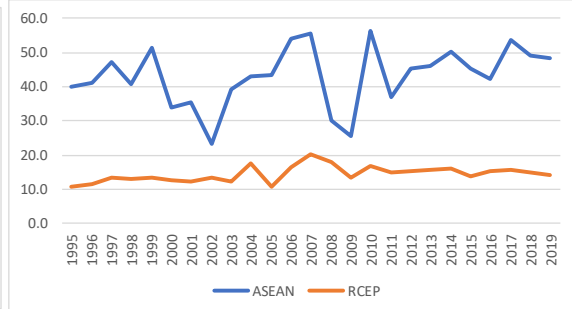
Including non-ASEAN RCEP member states in RCEP reduces the significance of trade and investment in terms of size of economy (GDP). ASEAN is a more trade-oriented and FDI-receiving region than RCEP (figures 17 and 18).

Figure 17. Exports as a percentage of GDP, 1995–2019



Source: UNCTAD.

Figure 18. FDI inflows per \$1,000 GDP, 1995–2019



Source: UNCTAD.

In the situation where RCEP is less integrated than ASEAN, then the question is how to retain ASEAN centrality in a wider region than ASEAN. Section 4 summarizes where ASEAN loses its central position in RCEP GVCs. It would be ideal if more products would benefit from RCEP trade measures to expand the international production networks. In this respect, while RCEP defines the rules of origin (chapter 3 of the agreement), production on non-originating goods is not included in the calculation of the local contents rule. This production is expected to be considered sooner within the rules of origin like in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, although the agreement says that this point will be reviewed five years after the agreement is implemented (article 3.4.2).

With this premise, this paper identifies five specific policy measures.

Creation of regionwide production schemes: RCEP should consider expanding its production networks by creating regionwide schemes to promote and facilitate trade and investment. As production networks established in ASEAN go beyond ASEAN to form a wider value chain, a systematic mechanism to facilitate trade and investment is required (*e.g.*, creating something like ASEAN’s old Brand to Brand Complementation scheme in RCEP). As RCEP still lacks a regional structure, institutionalizing regional integration schemes and measures through private sector initiatives is needed. Being an ASEAN-centric FTA, RCEP requires initiatives and intellectuals to create a pan-RCEP production network.

Utilization of existing production programmes and initiatives of member states: ASEAN should better utilize the initiatives and programmes announced or implemented by the RCEP partner countries. For example, as noted in Section 3, the Japanese government (Ministry of Economy, Trade and Industry) introduced a programme to diversify and multiply supply chains in ASEAN to deal with various risks such as COVID-19 that disrupted the supply chains. ASEAN should not miss out on such opportunities.

Increases in FDI: GVC is the nexus of trade and investment. FDI was generally smaller in RCEP than in ASEAN, only one-third of what ASEAN gets in terms of the size of economy (figure 18). Countries in RCEP should continue to promote FDI. The share of RCEP in world FDI inflows is lower than that of world GDP (table 2). There is room to increase inward FDI. In promoting FDI, countries should pay more attention to FDI that creates value chains. A positive relationship exists between GVC participation and FDI presence (figure 10), and regional integration and GVCs reinforce each other. ASEAN FDI should increase in RCEP, in particular non-ASEAN RCEP member states. This is a way to increase the ASEAN share in FVA of RCEP GVCs.

ASEAN's higher GVC participation in its own region works less in RCEP because international production networks extended to non-ASEAN members of RCEP are lacking. Increases in FDI from ASEAN in this region is essential. At the same time as ASEAN is the production hub of various manufacturing products whose elasticity of demand is relatively high, the centrality question for ASEAN is whether non-ASEAN member countries of RCEP demonstrate potential supplier relationships and whether their products are in higher demand (higher demand elasticity) (Fujita, 2021). It is paramount for ASEAN to have their products more demand-elastic in RCEP if doing so moves towards further integration of the regional economy beyond ASEAN.

Strengthening the relationship with Japan: Particular attention should be paid to the relationship between Japan and ASEAN within the context of RCEP. As seen, Japan, together with China, benefits most from the RCEP agreement. ASEAN can exploit the relationship with Japan that benefits much more from RCEP than ASEAN. ASEAN and Japan should look at one another more from an investment partner's point of view given that the RCEP impact on FDI is high for ASEAN. Within RCEP, Japan pays proportionately more attention to ASEAN than the world average as seen by its ASEAN share in RCEP in terms of trade (one-third for Japan vs. one-quarter for the world) and FDI (three-fifths for Japan vs. two-fifths for the world) (table 2). With a potentially new production network of Japan with China and Republic of Korea encouraged by RCEP, ASEAN could forge a dynamic and strategic relationship with Japan.

While this paper does not examine the perspective on FDI outflow, ASEAN is emerging as a significant investor and Japan is making efforts to be a large host country for FDI. No substantial ASEAN FDI exists in Japan, except one from Singapore that primarily invests in real estate and logistics. The sheer size and accumulated technological assets of Japan should make it very attractive to ASEAN firms seeking markets and access to locational assets. In this

context, it is not certain whether both regions may miss out on opportunities—opportunities for investment for further growth and development emanating from this agreement—or whether they immediately start to pay attention to one another and increase investment. It all depends on various factors and, particularly, on the evolution of the agreement that affects FDI flows between the two regions.

More emphasis on the downstream part of GVCs: ASEAN governments should pay more attention to their exported products to ensure they become parts and components of other countries' exports. Providing after-sales services for exported products can be considered a possible solution to enhancing the competitiveness of ASEAN products, which need to become essential products in export markets. By doing this, ASEAN's exportable products become part of required products, which cannot be replaced easily with other countries' exported products. Competition in exportable products is high. Once they form a part of value chains, these products are locked into the production lines of various GVCs as long as they maintain competitiveness, which may guarantee the ASEAN export market.

The role of ASEAN in RCEP GVCs is smaller than that in ASEAN GVCs. Therefore, ASEAN connectivity through production also becomes smaller. However, while this is partly because RCEP is less integrated than ASEAN, there are some ways for RCEP and its ASEAN member states to rectify the situation, as mentioned previously, and then ASEAN can play a central role in the region. With the increasing strength of ASEAN economies and companies, opportunities are emerging for a bigger role for ASEAN to play in the RCEP region and the regional GVCs (Fujita, 2021). Inequitable distribution of benefits from the RCEP agreement is deeply rooted in the characteristics of ASEAN GVCs in RCEP. The centrality and distribution problems are linked and could be solved simultaneously with potentially the same solution.

AJC is expected to play a role in not only increasing awareness of Japanese and ASEAN (especially CLM) firms, particularly small and medium-sized enterprises, regarding the usefulness of RCEP to their businesses, but also advising them on how to utilize this agreement.

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