

## Analysis of the Impact of RCEP to China

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### Abstract

Through the relevant research and analysis of RCEP, the paper summarizes the opportunities and challenges that RCEP may bring to China. Opportunities include zero tariff, Low-cost effect caused by factor circulation, strengthening integration and connection with other Asian countries; Challenges include employment pressure brought by labor precipitation, building ecological and economic system, internationalization of RMB, and suppression of all parties. In addition, why India did not join RCEP, this paper analyzes from different aspects, such as the political aspects, diplomacy and economic structure. Then I analyze the limitations of RCEP, that is, RCEP can only solve the circulation problem of market economy, and the consumption and distribution problems have not been solved. China needs to constantly come up with new solutions and provide Chinese wisdom. RCEP is only the first step of the long March. Finally, the article is summarized.

### Keywords

RCEP; Opportunity; Challenge; India.

## 1. The Opportunities of RCEP brings to China

### 1.1. RCEP-related Content

On 15 November, 2020, China, Japan, South Korea, Australia, New Zealand, and ten ASEAN countries showed the signing ceremony of the RCEP agreement to the world by video. RCEP covers a population of 2.2 billion, and both economic aggregate and trade volume account for almost a third of the world, marking the world's largest free trade agreement ever [1]. The free trade agreement is that the two countries or several countries sign contracts to promote economic integration and avoid tariffs, allowing goods and services to flow freely between countries, and the economy grows together. This signing is a real historical opportunity for the Chinese and the Chinese people, but also a very serious and challenging opportunity. The challenge is an all-round, from home and abroad, affecting the people of all classes of the whole society. However, the opportunities it brings are very rare, which can let China take the opportunity to conduct in-depth ecological and economic transformation, and at the same time let China return and truly return to the center of the world stage with a peaceful and friendly image.

### 1.2. Opportunities Brought about by the RCEP

#### 1.2.1. Zero Tariff

The zero tariff is positive part for China, but relatively limited [2]. For us, the tariff reduction, in fact, is mainly reflected in the Japanese side, because except for Japan, China and other Member States are basically close to zero tariffs. Before joining the RCEP, Japan's tariffs on Chinese import and export products were generally higher than those in other countries and regions. Although tariffs declined with expanding trade, Japan remained 2.47% by 2018. This means that China can get more benefits from Japan after joining the RCEP, while the zero tariffs in ASEAN and China have covered 90% of the tax list products, which should reach more than 95%

after this signing, which is a slight progress. But the agreement is indeed good for consumers, beyond doubt.

### 1.2.2. Low-cost Effect Brought by Factor Circulation

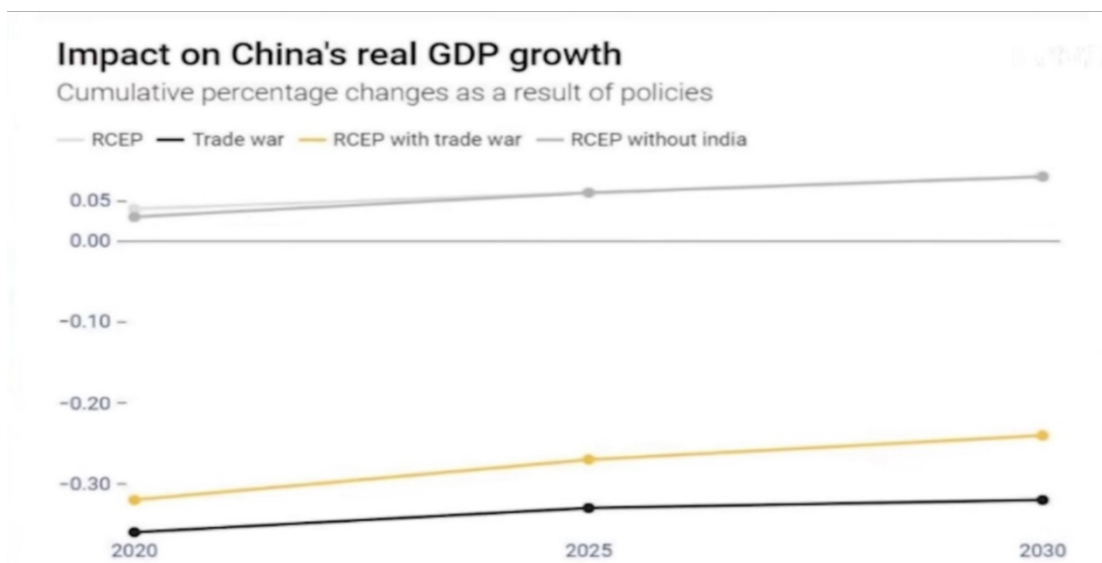
The deeper impact under this agreement is to make the circulation of capital, technology, services, products and other elements realize the Low-cost effect. Each role in this region can greatly reduce costs when participating in the division of labor in the regional industrial chain, promote the flow of elements, and make the regional economy more active and develop more rapidly. Simple example, a garment made in Vietnam, when no agreement, wool produced in New Zealand, when they were exported to China, needed a tariff; China processed raw materials into cloth, exporting to Vietnam, another tariff; Vietnam bought cloth into clothing, and sold to China, Japan and South Korea, another tariff, which greatly increases the cost of flow. But if the RCEP took effect and there were no tariff between these countries, the price would become cheaper. Generally, cheap means more sales and greater market, which will attract more people to do this, which will promote the development of the local textile and garment industry, and industry development means more jobs to solve employment, which is also very good for export.

### 1.2.3. Closer Integration and Connection of China with Other Asian Countries (Real Opportunities)

Under the above circumstances, the regional value chain will be able to preferably integrate and utilize resources, but it is worth noting that the regional value chain is not necessarily fully beneficial to China. First, a report from the Peterson Institute for International Economics (PIIE) showed that if the two countries continue in their current state, RCEP contributes 0.4% to Chinese GDP growth by 2030, while trade friction between China will reduce Chinese GDP by 1.1% (Figure 1); Researchers at the University of Queensland and Indonesia also said that by 2030, RCEP will only increase 0.08%, while the same period will reduce China's GDP by 0.32% (Figure 2).

Peru	442	1	10	0	0	0.1	2.3	0.0	0.0
United States	25,754	-23	-12	10	0	-0.1	0	0.0	0.0
Latin America and Caribbean	7,341	7	0	0	0	0.1	0	0.0	0.0
<b>Asia</b>	<b>50,659</b>	<b>-289</b>	<b>53</b>	<b>179</b>	<b>53</b>	<b>-0.6</b>	<b>0.1</b>	<b>0.4</b>	<b>0.1</b>
Brunei	31	0	1	0	0	-1.1	2.6	0.5	-0.1
<b>China</b>	<b>27,839</b>	<b>-304</b>	<b>-28</b>	<b>100</b>	<b>9</b>	<b>-1.1</b>	<b>-0.1</b>	<b>0.4</b>	<b>0.0</b>
Hong Kong	461	-18	1	1	1	-3.9	0.2	0.3	0.2
India	5,487	10	-3	-6	60	0.2	-0.1	-0.1	1.1
Indonesia	2,192	2	-1	3	-2	0.1	-0.1	0.1	-0.1
Japan	4,924	5	47	46	-9	0.1	0.9	0.9	-0.2
Korea	2,243	5	-3	23	-2	0.2	-0.1	1.0	-0.1
Malaysia	675	3	21	4	-1	0.4	3.1	0.6	-0.2
Philippines	680	2	0	2	-1	0.3	0	0.3	-0.1
Singapore	485	7	17	0	1	0.6	0.7	0.0	0.1

Figure 1. Peterson Institute Forecast Report



**Figure 2.** Source The World Economy, University of Queensland

The data given by both suggest that they believe the GDP growth RCEP brings to China is minimal to offset friction between China and the US, but both researchers agree that RCEP can help China, especially a closer integration with the rest of Asia [3]. Personally, I also think that in essence, RCEP can bring economic growth to China will not be as big as we say now, even in the long run, the benefits of RCEP is not economic, its impact on the domestic economy may be greater than contribution, but for the two research institutions, China will have closer contact with Asian countries, I very agree. I even think this is the starting point of the opportunities and challenges China facing. This close connection is the topic that I will discuss later: the flow of elements and industrial transfer.

## 2. The Challenges of RCEP brings to China

### 2.1. The Shallow Challenge --The Employment Pressure Caused by Labor Precipitation

The establishment of the RCEP system does indeed result in the transfer of manufacturing, and the large amount of labor force, is indeed a challenge to face. But in my opinion, this is not the kind of employment challenge generally considered. The labor precipitation caused by industrial transfer can only affect China's economic development in a short term, partial and shallow level, and will not form our insolvable crisis. The challenges brought by the labor precipitation are actually reflected in how to complete the construction of China's ecological and economic system through this labor precipitation.

### 2.2. Deep Challenges --Real Challenges

#### 2.2.1. Creates an Ecological and Economic System

When industrial transfer and release a large number of labor, how to through the system and policy adjustment to improve the rural ecological economic system, absorb the labor, promote ecological economic development, realize not only relief of employment pressure, but also again letting economic development to find new growth point, what's more, can also consider the rural revitalization and ecological civilization construction, this are the real challenges we will face in the future. This will involve the reform of the collective economic system, education and medical equity, with great challenges. But this have already been written in the 14th Five-Year plan and 2035 advanced project.

### 2.2.2. RMB Internationalization

The probability of China's manufacturing industry transfer abroad having a serious impact on China's whole industrial chain is very small. It is really a little exaggerated to say it is a challenge. However, China's appropriate foreign investment in China's capital is indeed worth encouraging at *present* [4]. There are two reasons: First of all, their foreign investment can bring rich returns, which can promote the development and maturity of China's virtual economy; Second, due to investment plays an important role in regional economy, RMB is greatly likely to become the settlement currency of RCEP countries, especially in small economic countries, thus making the dominant currency in the process of Asian economic integration, as China will become the dominant country of RCEP in the future. In addition, in the whole RCEP framework, exports from various countries, especially ASEAN countries, are likely to increase significantly in the future with the elimination of tariff barriers when China's industries are gradually transferred to them. After all, China has such a huge consumer market. Southeast Asian countries have such a huge cost advantage in general consumer goods, which will directly lead to RCEP countries immersed in China's economy, and the parties are bound to get closer and closer, forming a harmonious situation. Then the demand for RMB will inevitably gradually increase. At the same time, the dollar, as the world settlement currency, its credit has not been as good as that year. If there is a more stable and responsible international currency to replace it, I believe that the world must be happy to see it. And such a currency, as China plays an extremely important role in the Asian economy, after becoming the dominant country in the RCEP, it will inevitably fall on the RMB, all of which will make the RMB truly achieve "going global". China's industrial transfer under the RCEP agreement is not a big challenge, but a good opportunity. But this step of "going global" is the most serious challenge we will face.

### 2.2.3. Pressure from all Sides

In addition to absorbing labor in ecological economy development, there is another layer of benefit. It is that three-dimensional ecological resources such as mountains, rivers, farmland, forests, lakes and grass can become the value basis of RMB, based on the collective economic reform, In this way, the RMB has a more "ecological resource standard" basis. This means that the RMB will have its own monetary system and monetary rules. On this basis, if the RMB can also become a regional settlement currency, then this means that the RMB begins to disintegrate the dollar hegemony in Asia and challenge the status of the dollar world settlement currency, which means the beginning of the RMB to make itself a credit international settlement currency in the world. Unlike the US dollar linked to the world's bulk agricultural products and oil, if the RMB is based on its own ecological economy and ecological economic resources, its currency value will be more stable than the US dollar. That is bound to really threaten the financial and dollar status of some countries, and really begin to disintegrate certain financial and dollar hegemony. To this end, we will face extremely difficult challenges, and the twenty years of the disappearance of Japan is the best proof.

## 3. Consideration behind India's Exit from the RCEP

I summarize the following points for the reasons why India withdrew from RCEP.

### 3.1. India is not an Export-oriented Economy

India is not an Export-oriented economy. For China, Japan and South Korea residents, the development model of latecomer countries generally is a generation of hard-working, into factories for OEM, and then constantly upgrading. But India is not the case, it does not rely on this. India's foreign trade was only \$326 billion in 2018, 16th in the world, which is not high than its sixth GDP in the world, and has not developed for a long time, with trade with trading partners increasing only 7% in the past five years. In the internal government evaluation, the

utilization of Indian trade agreements is only at the medium level and no RCEP agreement at all.

### **3.2. There are Many Problems with its Economic Structure**

India's economic structure is problematic. Its industries always have conflict with RCEP countries. RCEP has 15 countries, India have a trade deficit with 11 of which and is expanding in recent *years* [5].

### **3.3. Pressure on Indian Politics**

India's Modi government relies on "populism" and needs public support to stabilize its country. If it joins the free trade agreement, it will worsen its economic situation, so the Modi government has outely no way to suppress the "populist riots"

### **3.4. China's Growing Influence**

The problem of the China-India border has not been solved in recent years, and India does not want to rely too much on Chinese products at this time. Biden made it clear in a previous interview with the media that China is a rival, so the future RCEP and CPTPP agreements are likely to conflict, and India will certainly wait for sale in order to maintain its status.

Based on the above analysis, we can learn that India quit RCEP only because of its individual differences, and it is more suitable for its basic national conditions. Therefore, this is not a problem of the RCEP system, but only the individual differences in individual countries.

## **4. RCEP is Limited and is Only the First Step of the Long March**

Although RCEP is initiated and dominated by ASEAN, China, as the largest trading country and economy in the trade system, is bound to gradually stand in the center position. Just like building a group, the people with the most voice will stand in the center position. But can China stand in center firmly? The market economy has four key points, including production, circulation, distribution and consumption. RCEP only addresses trade tariffs(circulation), and distribution and consumption are still problems, more than 2 billion people under the RCEP framework need to face. We should recognize the limitations of RCEP and firmly and actively consider coping strategies. RCEP is just the first step in the long March, and we need to constantly provide Chinese wisdom.

## **5. Conclusion**

This article mainly introduces the relevant content of RCEP, taking RCEP as the entry point, and deeply analyzing the opportunities and challenges that RCEP may bring to China. Finally, it deeply analyzes the reasons and considerations behind India did not join RCEP. Through the analysis, the relevant conclusions are drawn. The main conclusions are as follows:

First of all, the main opportunities brought by RCEP include zero tariff, Low-cost effect brought by factor circulation, closer integration and connection between China and other Asian countries, etc. These will better promote development in all aspects of China.

Second, the main challenges brought by RCEP include the employment pressure brought by the labor precipitation, the building of an ecological and economic system, the internationalization of the RMB, and the all-round pressure from all sides. This will form an obstacle to our way forward, and it is also a problem that we will spend more manpower, material and financial resources to solve in the future, which needs to be gradually solved by Chinese wisdom.

Third, the main reasons for why India did not join RCEP are as follows: India is not an Export-oriented economy, problems in India's economic structure, the pressure on Indian politics, India does not want to rely too much on China, and worry about China's influence is too much.

Fourth, RCEP only solves the circulation problem in the market economy, and the consumption and distribution problem have not been solved. China needs to constantly come up with new solutions and provide Chinese wisdom. RCEP is only the first step in the long March.

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