

## **RCEP and the Regional Tug-Of-War in the Bay of Bengal and Indo-Pacific Region**

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### **Introduction**

The Indo-Pacific make it to the headlines again, with yet another economic cooperation. After the Quad and their naval exercises and economic promises of union, China has brought forth the Regional Comprehensive Economic Partnership (RCEP) and created perhaps the biggest economic partnership to be seen yet. China and 14 other countries have agreed to form the world's largest free trade bloc, encompassing nearly a third of all economic activity, in a deal many in Asia are hoping will help hasten a recovery from the shocks of the coronavirus pandemic. As a result, there is a tumultuous situation in the Bay and the greater Indo-Pacific region, with China and now ASEAN getting all the attention and potential influence of controlling this widely competitive zone. The RCEP is promising a rise in GDP for all the members, increasing their potential by leagues greater than any other Free Trade Agreements had to offer. And now, the use of militarizing this assimilation is coming into discussion sure enough, as we have seen in the case of the Quad. With India still on the fence of joining the RCEP, one can only wonder what kind of influence will it have and how much would Russia and China be able to wedge themselves into power over the Indo-Pacific region. This paper will be a basic visit on understanding what RCEP is and discuss the different ways it is significant and desirable by the member states. It will discuss the attempts of the European Union in standing up against the might of

China and what it has to do with the RCEP. The paper will also discuss the rivalry that the Bay of Bengal is facing right now, thanks to China and Russia logging heads with India and others, as well as take another gander at Myanmar and how it is planning on using the Bay for its own gains and recovering resources.

### **What is RCEP?**

On November 15, China, the members of ASEAN (Association of Southeast Asian Nations), Australia, Japan, South Korea and New Zealand signed the Regional Comprehensive Economic Partnership (RCEP). The largest trading bloc in the world, accounting for 30% of world's GDP, will be established when the agreement enters into force<sup>1</sup>. The RCEP represents a leap forward in the greater economic integration of East, Southeast Asia which China, and is also likely to be a step backward, at least in terms of economic decoupling proposals for the supply chains. The agreement does not control, considering its wide reach, the issues of labor and environmental standards that were the focus of the Trans-Pacific Partnership (TPP) abandoned by the administration of Donald Trump. The agreement deals with the reduction of tariffs on goods traded between the parties to the agreement and with the rationalization of investment practices. The integration of "rules of origin," which has so far remained diverse, is an interesting topic. The key winners are the biggest RCEP economies, China, Japan and Korea, while the United States and India are the ones that will lose

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<sup>1</sup> Paszak, P. (2020). The Regional Comprehensive Economic Partnership (RCEP) and Rivalry in the Indo-Pacific. Retrieved November 30, 2020, from Warsaw Institute website: <https://warsawinstitute.org/regional-comprehensive-economic-partnership-rcep-rivalry-indo-pacific/>

out. The entry into force of the agreement, at the expense of foreign entities, would improve intra-regional trade. The RCEP includes developed economies such as Japan and South Korea, which are feature high labor costs as well as access to considerable capital resources and developing countries where the labor force is cheap. Investment processes can be improved in ASEAN countries where manufacturing is even more labor-intensive, i.e. dependent on cheap labor, by promoting procedures and services. The effect of the agreement remains uncertain on efforts to transfer production from China to other countries in the region with a view to diversifying supplies. On the one side, the agreement would reinforce the economic relations between Japan, South Korea and China and on the other hand, encourage the relocation of factories to Southeast Asia, resulting in partial diversification. Although, it needs to be noted that, the competitive advantages of China make decoupling in the short- and medium-term an unlikely scenario. India was also initially expected to be a party to the deal, but the authorities in New Delhi declared their withdrawal from the talks in 2020. The key reason for this was the concern about the industry in India, which in many respects remains less competitive than its regional rivals. The second problem was the minimal effect of the RCEP on the free flow of services, which is the main driving force and the source of its comparative benefits for the Indian economy. From the viewpoint of Indian interests, opening up to competitors in the industrial market with little shift in relation to services was deemed unprofitable. It should be noted that India still has the possibility to join the agreement. But RCEP and diplomacy is a factor to watch out

for, as analysts from Citi Research said “the diplomatic messaging of RCEP may be just as important as the economics – a coup for China.”<sup>2</sup>

### **What Makes the RCEP Significant?**

What makes the RCEP significant is quite literally its sheer size and the potential it offers with its approach to developing the members’ economic stances. The RCEP isn't as comprehensive and doesn't cut tariffs as deeply as the Trans-Pacific Partnership's successor, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Many analysts, in fact, agree that RCEP's size and assimilation is what makes it intimidating. Rajiv Biswas, Asia Pacific chief economist for analyst firm IHS Markit, had commented for BBC that, the members of RCEP includes a larger group of nations, notably reflecting the members of China, which boosts the total GDP of the RCEP members considerably<sup>3</sup>. While there are already a number of bilateral trade agreements China is a part of, this is the first time that a regional multilateral trade pact has been signed by it.

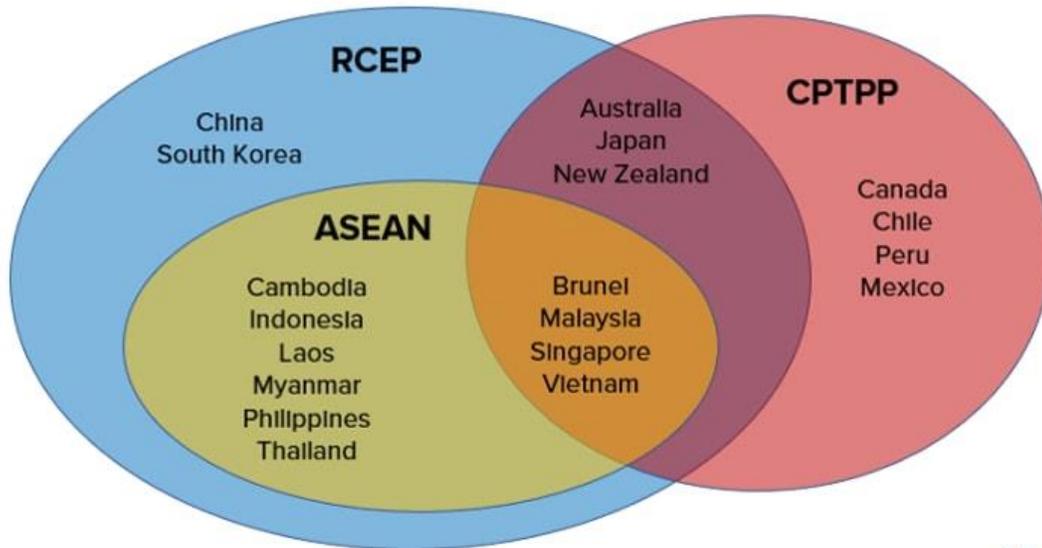
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<sup>2</sup> Lee, Y. N. (2020). ‘A coup for China’: Analysts react to the world’s largest trade deal that excludes the U.S. Retrieved December 1, 2020, from CNBC website:

<https://www.cnbc.com/2020/11/16/rcep-15-asia-pacific-countries-including-china-sign-worlds-largest-trade-deal.html>

<sup>3</sup> RCEP: Asia-Pacific countries form world’s largest trading bloc. (2020). Retrieved November 30, 2020, from BBC website: <https://www.bbc.com/news/world-asia-54949260>

## Trade groupings involving Asia Pacific nations



SOURCE: The Economist Intelligence Unit



Another reason to why RCEP is desirable has to do with how comparatively simple it would make trade from that of the existing Free Trade Agreements (FTA). The RCEP is expected to eliminate a range of tariffs on imports within 20 years<sup>4</sup>. But it is possible that the new "rules of origin", which officially define where a product comes from will have the biggest impact compared to others. There are limitations to FTA even though most states have existing agreements between them. Even within an FTA, companies with global supply chains could face tariffs because their goods contain components that are manufactured elsewhere. For example, a product manufactured in Indonesia

<sup>4</sup> Kok, F. (2020). RCEP: world's largest free trade deal announced. Retrieved November 30, 2020, from AEB website: <https://www.aeb.com/intl-en/magazine/articles/rcep-worlds-largest-free-trade-deal-announced.php>

containing Australian parts might face tariffs elsewhere in the ASEAN free trade zone. Sections of any member nation will be considered fairly, in fact, equally, under the RCEP, which might give companies in RCEP countries an incentive to search for suppliers within the trade area.

### **EU's Stance Regarding RCEP in The Indo-Pacific Region**

Despite many internal differences, the EU has shown a remarkable ability to unite on some aspects of foreign policy. In the sense of a new policy that takes tougher positions against China's "unilateral" moves and naval assertiveness in the Indian Ocean and the Western Pacific, stretching from East Africa to East and Southeast Asia, then the South China Sea, Taiwan, Japan, Indonesia, and Australia, the main European powers are researching how to strengthen their military presence. In this sense, Britain has made strategic steps in the Indo-Pacific in recent years (region). In this corner of the globe, it has a critical interest, and depends for its survival on global trade. The United Kingdom, which was an international commercial, naval and military force in the past centuries, has made some progress in the region. At the same time, France has been trying to consolidate its position in the Indo-Pacific region for many years, and is the only European country in that region with a sustainable military presence. France is using the military diplomacy card in the Indo-Pacific to defend its interests and contribute to curbing China's territorial aspirations, from the movement of warships in the China Sea to military drills in Southeast Asia. Recently, Germany has been reported to have considered sending warships in support of US freedom of navigation operations. Germany, by moving past its historic role, could soon become

a more involved strategic player in East Asia by introducing a new strategic strategy in the Indo-Pacific.

The RCEP should not be seen simply as a cooperation on trade, but as an agreement on economic cooperation that strengthens regional political security and stability and strengthens the centrality of ASEAN in Southeast Asia and the Indo-Pacific region. Although the momentary withdrawal of India from the agreement has clouded the debate of the progress of the negotiation, the RCEP will be the largest trade bloc in the world, covering an estimated 45 percent of the world's population and responsible for about a third of global GDP. The economic benefits of the agreement are significant with or without India. With India in the agreement, RCEP is expected to generate a real GDP increase of approximately \$171 billion for the bloc, and without India, an increase of roughly \$137 billion<sup>5</sup>. In the background of the trade conflict between the United States and China and the instability within the European Union (EU), by sending a clear signal to the world that Asia is not only committed to a cooperative, multilateral and rules-based order, but also open to business, the RCEP is bucking the prevailing tides. The aim of Economic ASEAN is not to establish an EU-style bloc, but to incorporate the region further into the global economy. The signing of the RCEP, as a core element of both the ASEAN Outlook for the Indo-Pacific (AOIP) and the ASEAN Economic Community (AEC), represents an essential step in

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<sup>5</sup> Berger, B. (2020). What RCEP Means for the Indo-Pacific. Retrieved November 30, 2020, from The Diplomat website: <https://thediplomat.com/2019/12/what-rcep-means-for-the-indo-pacific/>

reaffirming the centrality of ASEAN in regional architecture and relations, improving inclusiveness and achieving the 2025 ASEAN Community Vision.

### **What is EU Doing to Constrain China in the Indo-Pacific Region?**

In the beginning of 2020, ASEAN members replaced the European Union as the main trading partner of the People's Republic of China and the trade reached USD 300 billion<sup>6</sup>. The RCEP will further strengthen these mechanisms and cement China's status as the leading economic actor in the region. Peace and economic development are a goal for the countries of Southeast Asia. Growing ties with China will mean lessening the power of the United States. Although ASEAN acknowledges that the US has a constructive role to play in providing public goods and stopping the China's aggressive behavior, it fears at the same time the destabilization caused by competition from big powers<sup>7</sup>. Therefore the "middle way" of building symbiotic economic relations with China, and at the same time, maintaining diplomatic cooperation with the Quad (India, USA, Japan and Australia) members is the most probable scenario here.

### **China and Russia in the Bay of Bengal**

Meanwhile, China has moved forward to reinforce its maritime ties with countries across the Indian Ocean. Beijing, with the expansion of its submarine fleet and aircraft

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<sup>6</sup> Policy Department for External Relations. (2020). EU-China trade and investment relations in challenging times. Retrieved from <https://www.bruegel.org/wp-content/uploads/2020/06/EU-China-trade-and-investment-in-challenging-times.pdf>

<sup>7</sup> Berger, B. (2020). What RCEP Means for the Indo-Pacific. Retrieved November 30, 2020, from The Diplomat website: <https://thediplomat.com/2019/12/what-rcep-means-for-the-indo-pacific/>

carriers, has boosted its naval capability. Its goal is simply to reinforce its complete presence in the Indian Ocean. It is rising the ability of its naval base in Djibouti, on the shores of East Africa, to dock an aircraft carrier there after its second aircraft carrier was launched on 17 December. China is set to acquire another five or six aircraft carriers, each capable of carrying up to 36 fighter aircraft. It is also fast augmenting its submarine fleet<sup>8</sup>. These acquisitions will give China the powewr to intervene militarily across the Indian Ocean in the coming years. In the western Indian Ocean, China also showed its military strength, conducting joint naval drills last year with its allies. An unprecedented four-day joint naval exercise was conducted in the Indian Ocean and the Gulf of Oman by China, Russia and Iran. This followed a meeting in Beijing, on June 14, 2019, between the Presidents of the three nations, Xi Jinping, Vladimir Putin and Hassan Rouhani<sup>9</sup>. Not to mention, China and Pakistan had a major joint exercise, which commenced in the New Year, with the exercise titled as 'Sea Gardens 2020'. China claimed that the exercise was meant to consolidate their all-weather strategic partnership” and included frigates, destroyers, fast attack crafts, along with what were titled as “air and sub-surface assets”<sup>10</sup>.

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<sup>8</sup> Parthasarathy, G. (2020). China tightening its grip on Indian Ocean. Retrieved December 2, 2020, from The Hindu Businessline website: <https://www.thehindubusinessline.com/opinion/china-tightening-its-grip-on-indian-ocean/article30784939.ece>

<sup>9</sup> China, Russia and Iran to hold joint naval drills from Friday. (2019). Retrieved December 2, 2020, from Reuters website: <https://www.reuters.com/article/us-china-iran-russia/china-russia-and-iran-to-hold-joint-naval-drills-from-friday-idUSKBN1YU0FI>

<sup>10</sup> Elmer, K. (2020). China, Pakistan complete Sea Guardians 2020 joint naval exercise in Arabian Sea. Retrieved December 2, 2020, from South China Morning Post website: <https://www.scmp.com/news/china/diplomacy/article/3046064/china-pakistan-complete-sea-guardians-2020-joint-naval>

The RCEP will further accelerate these processes and consolidate China's position as the leading economic actor in the region. Stability and economic development are a priority for the countries of Southeast Asia. Increasing ties with China will mean reducing the influence of the United States. Although ASEAN recognizes the constructive role of the USA in providing public goods and stopping the aggressive behavior of the PRC, at the same time it fears the destabilization caused by the great power competition. The most likely scenario is therefore following the "middle way" of building symbiotic economic relations with China and maintaining diplomatic cooperation with the Quad members (USA, Japan, India, and Australia).

### **The Potentials of Myanmar on the Bay of Bengal**

Myanmar has become the focal point of South Asian economic and infrastructural development thanks to all the attention China and Russia, as well as, India, is paying it. This has led to the Bay of Bengal inadvertently coming into focus, and now, China, Myanmar and India are thinking on how to use the Bay of Bengal and procure resources as well as use its geopolitical location to its highest potential. This has further facilitated naval exchanges, energy resource discovery and connectivity infrastructure growth on the Bay's essential coastline. Among other trends, four factors have transformed the Bay of Bengal's strategic and economic geography—the increasing southward orientation of China; the opening of Myanmar; the rich natural resources, particularly oil and gas; and the growing networks of regional connectivity

in and around the Bay's littorals<sup>11</sup>. The increasing non-traditional security threats, including environmental threats, piracy and terrorism, are other emerging concerns that are changing the perception of the Bay. The Bay of Bengal connects the Indian and Pacific Oceans in the northeast of the Indian Ocean via crucial sea routes: the Malacca Straits and the Strait of Hormuz. It also links two major areas, South Asia and Southeast Asia, with the western littorals of India, Bangladesh and Sri Lanka, while Myanmar, Thailand, Indonesia and Malaysia form its eastern littorals. The Bay is strategically essential for the major powers, given this geostrategic position in the Indo-Pacific zone. In the recent past, Myanmar has been growing its interactions in naval operations, energy exploration, regionalism and connectivity with regional as well as extra-regional forces. The influence now Myanmar is getting over the Bay is making it more obvious that with support of China and India and their deep sea-ports, there will soon be energy security and resources ensured for this state.

### **Conclusion**

The RCEP is yet another ambitious ploy from China to flag its power in the Indo-Pacific region, and now, replacing the graces of EU, ASEAN has taken the front and center to justify and back China towards its goals. It does not however mean that EU is backing out of trying to find its own niche here. An Indo-Pacific strategy for the European Union is a matter of when and not if. The collective response of the Union will however be reactive to various political and economic developments across the Atlantic and in

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<sup>11</sup> Yhome, K. (2014). Myanmar and the Geopolitics of the Bay of Bengal. Retrieved December 2, 2020, from ORF website: <https://www.orfonline.org/research/myanmar-and-the-geopolitics-of-the-bay-of-bengal/>

particular, in the Indo-Pacific region. Both irk Beijing and its delay can be seen as an indicator of such a tactic in the offing as a leverage in driving home Brussels point, be it Hong Kong or Xinjiang or any other transactional negotiations<sup>12</sup>. Given that the EU's bandwidth is largely consumed by several other changes in foreign policy, from Belarus to Greece, it is highly unlikely that the EU will suddenly start investing resources on an Indo-Pacific strategy. However, it is advisable for EU members to start singing a similar tune while keeping an eye out for relevant developments. And as for Myanmar, the opening up of the state to regional giants and figuring out their potential has added a new strategic value to the Bay of Bengal. Isolated for decades, Myanmar is actively and robustly engaging the world's major players in redefining its geopolitical identity, announcing its new found significance in geostrategy on a global platform today. This has further encouraged naval exchanges, exploration of energy resources and development of connectivity infrastructure in a vital littoral of the Bay. An overall climate of rivalry will keep the Bay central to international attention for the coming decades. Indo-Pacific strategies will verily increase the potential for all the states involved, but for littoral states trying to secure their sovereign decision-making, it will become more and more difficult to find their voice and not decide to side with a strong economic and military cooperation amidst this tug-of-war.

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<sup>12</sup> Thakkar, C. (2020). Is the EU ready for an Indo-Pacific strategy? Retrieved December 2, 2020, from The Times of India website: <https://timesofindia.indiatimes.com/blogs/ctspeaks/is-the-eu-ready-for-an-indo-pacific-strategy/>

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 **CFISS STRATEGIC HIGHLIGHTS**

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