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Whether Can RCEP Cooperation in Digital Economy Raise New "Tiger Cub" Economies

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Regional Comprehensive Economic Partnership (RCEP) is the world's largest regional trade agreement, signed by ten ASEAN countries and five regional trade partners. In January 2022, the RCEP officially took effect, which not only marks the triumph of multilateral cooperation, but more importantly, will be significant contributor to global economy. At present, facing the wave of digital globalization, RCEP could put more emphasis on the international cooperation in technology innovation, digital infrastructure, and cross-border e-commerce, making digital economy boost RCEP's goal to deeper economic integration. Member states can achieve long term success through jointly establishing cooperation mechanism on digital economy, and working to build community with digital sharing for RCEP parties, which also help revive economic strength in the big recession caused by COVID-19 pandemic. Furthermore, this study finds that the former "Tiger Cub" economies which are Indonesia, Thailand, Malaysia, and Philippines stand a credible chance of becoming the new "Tiger Cub" economies in Asia-Pacific, for their rapidly rising digital markets.

Keywords: RCEP, digital economy, cooperation mechanism, Tiger Cub economies

Introduction

The Regional Comprehensive Economic Partnership (RCEP) is a free trade agreement among 10 member states of ASEAN-Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam plus Australia, China, Japan, New Zealand, and Republic of Korea. The RCEP negotiations were launched in November 2012 and entered into force on January 1, 2022 for Australia, Brunei Darussalam, Cambodia, China, Japan, Laos, New Zealand, Singapore, Thailand, and Vietnam, which are first 10 ratifying countries. Later, RCEP will enter into force for the Republic of Korea on 1 February 2022 and as well for Malaysia on 18 March 2022. As the world's largest trading bloc, RCEP becomes the main contributor of world's economy. According to data by the World Bank, the agreement would cover 2.3 billion people or 30% of the world's population, contribute US $25.8 trillion about 30% of global GDP, and account for US $12.7 trillion, over a quarter of global trade in goods and services, and 31% of global FDI inflows. The figure below presents the comparison between RCEP and other regional trade agreements by global share.

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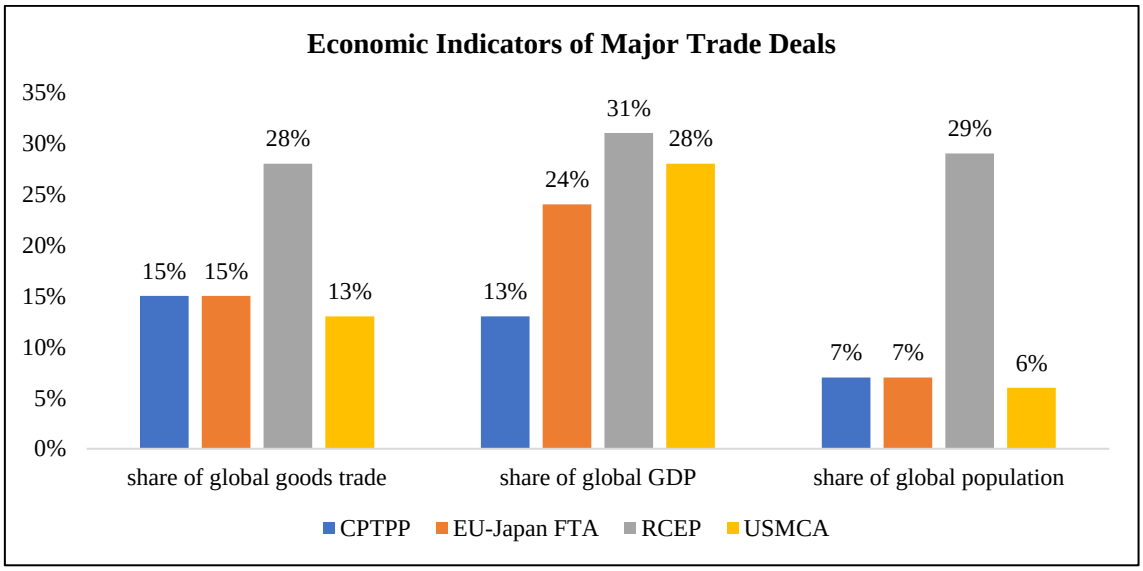

Figure 1. Economic indicators of major trade deals. Source: Congressional Research Service.[1]

RCEP agreement includes 20 chapters, which cover a wide variety of provisions: trade in goods and services, rules of origin, government procurement, e-commerce, technical standards, and investment among others, with tariff concessions a central principle, which will eliminate as much as 90% of tariffs within the bloc for the next 20 years. The sudden outbreak of COVID-19 has significant economic impacts on the countries of Southeast Asia. However, the implementation of RCEP has proven to be one of the four dynamics that drives economic recovery, which paves the way for deeper economic integration (Suvannaphakdy, 2021).

There are some positive voices from international society. For instance, Mohamed Azmin Ali, Malaysia's international trade minister, called the deal an "economic-recovery tool" that will help to open markets and strengthen supply chains. "That provides a lot of opportunities for building and strengthening intra-Asian supply chains", said Jeffrey Schott, a senior fellow at the Peterson Institute for International Economics.

The aim of the paper is to assess the potentiality of cooperation on digital economy for RCEP participating economies, focusing on RCEP's significant role in reshaping global economy structure and digital economy's prospect in boosting RCEP cooperation. In this study, based on synthesized analysis, the cooperation on digital economy among RCEP members is estimated to boost RCEP, through few channels of accelerating digital transformation, upgrading supply chains, and promoting digital infrastructure connectivity.

What RCEP Means for Global Economy Structure

On the regional level, the entry into force of the RCEP agreement is a manifestation of the region's resolve to keep markets open; strengthen regional economic integration; support an open, free, fair, inclusive, and rules-based multilateral trading system; and, ultimately, contribute to global post-pandemic recovery efforts. On the global level, RCEP would bring changes to the world map, at least economically, and the

[1] https://crsreports.congress.gov/search/#/1?termsToSearch=RCEP&orderBy=Relevance.

migration of the centers of power and future growth to the Asia-Pacific region (Propper & Catarivas, 2020). Many international academic institutions (e.g., The Brookings Institution, Peterson Institute for International Economics (PIIE), and World Bank Group) have made predictions on economic influence RCEP would generate after taking effects.

The Brookings Institution attached RCEP both economic significance and geopolitical significance. First of all, RCEP will connect about 30% of the world's people and output and, in the right political context, will generate significant gains. According to computer simulations the Brookings had conducted, RCEP could add $209 billion annually to world incomes, and $500 billion to world trade by 2030. The effects of RCEP are impressive even though the agreement is not as rigorous as the CPTPP. It incentivizes supply chains across the region but also caters to political sensitivities. Second, Brookings defined RCEP as a triumph of ASEAN's middle-power diplomacy instead of labelling it as "China-led". Neither China nor Japan was politically acceptable as architects for the project. Without such "ASEAN centrality", RCEP might never have been launched.

According to PIIE, the 15-nation RCEP will establish a vast regional trade bloc with prominent roles for China, Korea, and Japan, in other words, the "anchor" countries. They claimed that, as these nations expand their production networks, build interconnected innovation systems, increase collaborative manufacturing, and develop mutual trust in supply chains, the United States stands to lose economic and political clout in the region. The agreements originally sought to limit China's influence, but without the balancing influences afforded by the United States and India, they will enhance rather than limit China's outsized influence in regional decision making.

Through applying a top-down, macro-micro modeling framework, the World Bank Group (Estrades, Maliszewska, Osorio-Rodarte, & Pereira, 2022) assessed both economic and distributional effects of the implementation of the RCEP, from which they discovered three major findings. First, the trade liberalization reforms covering reductions of tariffs, non-tariff measures, and harmonization of rules of origin can greatly lower the trade costs; second, RCEP will have a positive impact on the trade and income in its member countries; third, relying on its strong economic resilience and sustained growth, RCEP could help alleviate the extreme poverty.

The Potentials of Digital Economy in RCEP

At present, we are embracing the digital era, in which the digital technology has taken the center stage in stimulating economic growth. Despite the economic recession induced by COVID-19 pandemic, the progress of digital transformation has been accelerated unprecedentedly. A digital economy offers tremendous advantages, including faster communication, innovative products and services, and enhanced health and safety (Goodman & Risberg, 2021).

A powerful force drives the world toward a converging commonality, and that force is technology. Based on information technology of new generation, digital economy raises new business model and economic paradigm. Not only it serves as supplement of existing economic system, but also helps to reshape the global economy. It is not hard to predict that, the ongoing economic globalization will be transforming into digital globalization, where cross-border data flow and transfer play the major parts in economic activity. The necessity of developing digital economy relies on the fact that chasing the opportunity of technological and

industrial revolution is the choice for strategic reason, which also drives high quality development of economic society. Digital technologies such as big data, artificial intelligence, block chain, and internet of things (IoT) are widely applied to the whole manufacturing process including design, production, and sales, promoting deep integration of digital technology and real economy. Driven by high-speed development pace, broad radiation scope, and far-reaching impact, digital technology is becoming key power in reallocating resource factors, reshaping global economy structure, and changing global competitiveness structure.

It is not exaggerated to say that digital economy has helped human survive the enormous recession. The crisis created a sudden need for businesses and their employees to take up or increase working from home. Digital technologies have been crucial in allowing economic activities to endure and in enabling a significant portion of individuals to continue earning income (Ker, Montagnier, & Spiezia, 2021). According to the statistics published by International Telecommunications Union, approximately 4.9 billion people were using the Internet in 2021, which means that roughly 63% of the world's population is now online. To be more specific, the percentage of individuals using the internet in Asia-pacific region in 2021 was 61%. International bandwidth usage in 2021 reached a worldwide total of 932 Tbit/s with a 30% increase. Similarly, the highest regional total for international bandwidth use is in the Asia-Pacific region at over 400 Tbit/s, twice as high as in Europe (204 Tbit/s) or the Americas (180 Tbit/s). Meanwhile, 96% of population in Asia-Pacific is covered by 4G mobile network.

The statistical data in the report of *White Paper on Global Digital Economy* released by China Academy for Information and Communications Technology (CAICT) suggests that average growth rates of digital economy in high-income and upper-middle-income countries worldwide are farther higher than their GDP growth rates. RCEP region is consisted of six high-income countries, four upper-middle-income countries, and five lower-middle-income countries,[2] which indicates that, first, most member states are showing broad prospects in digital economy, with upper-middle-income countries taking the lead; second, there exists a huge digital divide between higher income countries and lower income countries.

As the largest trading bloc in the world, RCEP should seize the opportunity of comprehensive digitalization wave, take the advantage of digital technology, and make digital economy set stage for better regional economy integration. Cheah, George, Gupta, and Xie (2020) believed that the relationship between the digital economy and RCEP is mutual. As the digital economy is forecasted to be beneficial to RCEP member nations, the signing of RCEP itself will support the development of digitalization as well. Not long after, Southeast Asia's digital market is estimated to be the fourth largest beyond China, United States, and Europe (Zhai, 2021). Then, Asia-Pacific and Indo-Pacific would be key battlefield of global digital competition.

However, due to the huge difference on economic scale, technological level, and development orientation between countries, the real challenges brought by digital divide should be fully acknowledged. Each country starts digitalization process on varying basis, showing great discrepancies on setting digital development goals. As a result, the digital economy in Southeast Asia appears to be fragmented, even inconsistent, which means that it lacks overall top-design and plan of RCEP as a whole (Jiang & Wang, 2020). In order to obtain maximum benefits for member countries, several measures are suggested here to achieve high-quality development of digital economy.

[2] High-income: Australia, Brunei Darussalam, Japan, Republic of Korea, New Zealand, and Singapore; upper-middle income: China, Indonesia, Malaysia, and Thailand; lower-middle income: Cambodia, Lau PDR, Myanmar, Philippines, and Vietnam.

Establishing Cooperation and Dialogue Mechanism on Digital Economy

RCEP includes an extensive digital trade chapter (Chapter 12—"Electronic Commerce"). Although RCEP has made new attempt on establishing common standards on e-commerce, still, it might not be enough to cater the demand of future development of digital economy. Given the varying stages of development for each country, a new cooperation and dialogue mechanism with more vitality and flexibility will be in urgent need. Member countries may work together to create a "Asian Model" for digital cooperation that aims at solving innovative issues such as privacy protection, cyber security, cross-border data flow. On one hand, they could borrow experiences from existing international pact of higher standards. For example, the e-commerce articles in CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership) and DEPA (Digital Economy Partnership Agreement), an ambitious new pact between Chile, New Zealand, and Singapore that aims at improving collaboration and trade in the digital economy, both provide high referential value for setting standards of RCEP. In September and November 2021, China officially applied to join CPTPP and DEPA for further effort on economic integration and free trade and investment. On the other hand, the huge digital divide standing between countries determines that the practice of setting rules should consider balancing various interests of member states. It is necessary to construct detailed framework and deepen international cooperation through dialogue mechanism on different level. To be more specific, discussions and implementations of official documents, for instance, the "Road Map for Digital Economy in RCEP", are of great significance to address gaps in digital cooperation.

Building Community With Digital Sharing for RCEP Parties

At first place, digital infrastructure connectivity paves the way for digital economy. A concerted effort to enhance connectivity on digital infrastructure would be key to bridge the digital divide. Digital infrastructure programs should specifically target gaps in digital inclusion, technology literacy, and internet connectivity, as these will be essential to strengthening local economies during and after the pandemic (Runde, Savoy, & Murphy, 2020). Among RCEP countries, China, South Korea, Japan, and Singapore appear to outperform other developing countries in terms of both development level and national competitiveness. Countries that outperform in digital economy could facilitate countries falling behind to improve digital infrastructure by offering financial aids, sending expert team, and giving technology transfer. Many Chinese corporates have been "going out" to carry out infrastructure constructions, gradually shifting from the traditional to new infrastructure which is digital based. For example, some Chinese internet companies have shown strong will to work with local government to build digital infrastructure, dedicated to provide welfare and convenience for local people. Till now, the digital cooperation is projected to many aspects, ranging from digital medical care to digital travelling, and even to smart cities. In the near future, each country might be better coordinated to strengthen their digital cooperation on communication, navigation, and cyber security.

At second place, the cross-border e-commerce boosts RCEP's digital trade. Cheah et al. (2020) claimed that the highest potential for growth and recovery stemming from RCEP is linked to e-commerce and digital trade. So far, RCEP has set relevant regulations on e-commerce, which will not only promote the development of cross-border e-commerce, but also greatly promote sustainable cooperation between RCEP countries. For example, the rapidly rising e-commerce market of Indonesia will attract more investors to come to invest in advanced logistics system and e-commerce system, among other sectors in Indonesia. What's more, the fruits

exports and imports between Thailand and China have begun expanding. If the logistics and freight transportation cooperation could be progressed, it would also help raise overall cross-border trade.

At third place, the digitalization of manufacturing helps promote Asian supply chains. Manufacturing in Asia-Pacific is becoming fragmented because over the last few decades, supply chains of Asia-Pacific area have increasingly become global value chains, where goods and services production cycles span multiple countries (Runde et al., 2020). Digitalization of manufacturing, in which the real and virtual worlds converge in an Internet of Things, services, and data, forces enterprises to adopt a novel model and new strategies. It will benefit manufacturing companies in many ways, such as smart technology and operations management. Digital technologies provide access to the network and integrate all the production areas. It includes real-time inventory data analytics, productivity, reduced cost & time, and process optimization. As a result, it will enhance the business processes, and ultimately upgrade the supply chains in Asia-Pacific region. Particularly for small and medium-sized enterprises (SMEs), the digital economy is a symbol for rapid and accessible opportunities to connect with suppliers, consumers, and partner firms (Cheah et al., 2020).

At fourth place, the digital payment system could somehow break the world's "currency hegemony". To achieve the goal of upgrading economic integration, the creation of digital currency can come into play in knitting economies closer together. Digital currencies exhibit properties similar to traditional currencies, but generally do not have a physical form, unlike currencies with printed banknotes or minted coins. This lack of physical form allows nearly instantaneous transactions over the internet and removes the cost associated with distributing notes and coins. In 2020 April, the Chinese government announced the starting of the tests of the country's Central Bank Digital Currency (CBDC), DCEP (Digital Currency Electronic Payment) in four major cities. Besides China, many other RCEP countries have shown their interest in developing and potentially deploying their own CBDCs, including Thailand, Cambodia, Vietnam, Philippines, and Japan. Thanks to the joint basis, RCEP countries should take a further step in constructing a universal payment system, with digital currency based, to reduce transaction costs. Without a working payment system, no amount of e-commerce frameworks will create new economic growth or job opportunities for firms in Asia (Elms, 2016). The influence of USD in the RCEP region is fading away since the global financial crisis and the COVID pandemic reinforces this trend. As a result, the benefits of using USD as the anchor currency for the region can no longer justify the excessive uncertainties it induced. There is clear evidence in Guo and Zhou (2021)'s paper, showing that CNY enjoys a clear advantage in terms of the stability criterion over JPY, but JPY is in a similar positive to CNY in terms of the intensity criterion. However, given the historical influences of USD and JPY, there is still a long way for CNY to win a dominant position for the anchor currency in RCEP region.

New "Tiger Cub" Economies in Asian

The "Tiger Cub" previously refers to the economies of the developing countries of Indonesia, Malaysia, the Philippines, and Thailand. These economies were so named because they were experiencing economic prosperity during 1980s in 20th century, by adopting the development model of "Four Asian Tigers". However, the 1997 Asian financial crisis gripped much of East Asia and Southeast Asia. Among the Tiger Cub, Indonesia and Thailand were the countries most affected by the crisis, followed by Malaysia and Philippines. Falling under bad influence of such severe economic downturn, though, these economies caught up the development opportunities of digital economy. As it can be seen, many member countries wrestle to keep their pace with the new wave of digital globalization, hoping to grow to be competitive. Indonesia, Thailand, and Malaysia have

also rolled out their own digital strategies in line with its development orientation and interests. For example, the "Making Indonesia 4.0" roadmap and "Thailand 4.0 Policy" aim to revive economic strength by concentrating on gaining benefits from broad digitalization. Since the digital globalization trend is not likely to be reversed, in an attempt to accelerate the national digitalization process, they stand a credible chance of becoming the new "Tiger Cub" of digital economy, which could be another growth pole for digital economy.

Conclusion

Implementation of the RCEP has partially helped mitigate the negative economic impacts of COVID-19 in the East Asia and the Pacific region. More importantly, digital economy could deepen economic integration because digital technology is not restricted by geographical barriers and time constraints. In recent years, RCEP parties have shown great potentials in digital economy, rising to be a new center of gravity for global economy. Thus, the most important task is to establish a cooperation or dialogue mechanism in the form of separate official agreement or legal framework aimed at regulate digital economic activities, instead of presented as one single chapter under the ongoing pact. What's more, the current articles are mainly concentrated on e-commerce, which might narrow down the range of aspects that digital economy originally covers. The growing trend of digitalization and expanding application scenarios also indicate the necessity of proposing a more comprehensive and upgraded mechanism.

Notwithstanding, there are still some challenges facing RCEP parties, including the mutual trust between countries, standards settings for digital technology, cross-border data flow, and data governance. These issues may have to be well addressed to guarantee the high-quality development of digital economy within RCEP area. For now, data governance seems to be a hot issue of much concern. Despite the rapidly growing role of data in Asia's economy, there exist a few agreed rules in this area. As the world's largest trading bloc, there might be an increasing risk of cross-border data creation and transfer. This highlights the need for better coordination of data governance among RCEP parties. One possible solution could be a network of policy officials, like establishing Digital Stability Board (DSB), which would require professional regulators for data. No matter what, if RCEP members could stick to the principles of multilateral cooperation, the digital economy could serve as a powerful engine driving RCEP toward deeper economic integration.

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