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JALAC Institute Policy Brief

"The Signing of RCEP: Its Geopolitical and Economic Implications for the Biden Administration and Japan-Latin America Trade Relations"

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I. Introduction

On November 15, 2020, 10 member countries of the Association of Southeast Asian Nations (ASEAN), together with China, Japan, South Korea, Australia, and New Zealand, signed the Regional Comprehensive Economic Partnership (RCEP) Agreement. Concerns over possible adverse effects from further trade liberalization on domestic industries, especially the manufacturing sector, have led the Indian government not to join the RCEP at this time. This decision by India was a blow to the Japanese government as India's membership in the RCEP has been considered essential for forging the "Free and Open Indo-Pacific (FOIP)" strategy that Japan has been promoting in a "Quad" format with the United States, India, and Australia.

When the agreement goes into effect, the RCEP will not only further advance China's economic integration in the Asia-Pacific region, promoted primarily under the auspices of the "Belt and Road Initiative (BRI)," but also put pressure on President Biden to follow former president Trump's FOIP approach and to reconsider joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), from which the Trump administration withdrew soon after taking office in January 2017 (Hufbauer, Schott and Lu 2020). Once the new administration eventually defines its economic diplomacy toward the Asia-Pacific region, President Biden may propose a new US-led TPP agreement instead of returning to the so-far Japan-led CPTPP (Schott 2020, Lake 2020).

Furthermore, while the three major Asian economies (China, Japan, and South Korea) are further integrated under a common set of trade and investment rules with the ASEAN markets in rapid expansion, the RCEP could also emerge as an effective trade diplomacy for Latin America. The region has significantly expanded its commercial relations with Asia-Pacific countries over the last fifteen years. Of course, the RCEP's impact on and benefits for Latin America also depends on how Latin American countries respond to trade and business opportunities from an eventual RCEP's implementation. The present brief report discusses the RCEP's relevance to President Biden's diplomacy toward the Asia-Pacific region and the economic significance of RCEP from a Latin American perspective (its impact on trade relations with the Pacific Alliance and Mercosur). The report concludes with a note on how Japan can enhance trade ties between Latin America and Asia-Pacific, with CPTPP and RCEP as a possible policy anchor.

II. The Geopolitical Importance of RCEP

The RCEP is a comprehensive agreement that includes provisions on trade in goods and services and rules and disciplines suitable for 21st-century free trade agreements (FTAs), such as investment, intellectual property, e-commerce, competition policy, and government procurement. Specific provisions are also included on global value chains, small and medium-sized enterprise support, and economic and technical cooperation¹ (Elms 2020). The RCEP will reduce/eliminate tariffs in a timeframe of up to 20 years. Admittedly, the level of trade liberalization and comprehensiveness of trade rules are inferior to that of the CPTPP, reflecting in part a liberalization level acceptable for China, especially in the areas of intellectual property, digital-data distribution, and subsidies to state-owned enterprises² (Johnston 2020).

When the RCEP goes into effect, it will be the first mega FTA in which China will participate worldwide. RCEP member countries account for almost a third of the world's population and 29% of the world's GDP. The size of RCEP as a free trade area is superior to that of the United States–Mexico–Canada Agreement (USMCA) and is comparable to the European Union (EU). The RCEP could increase world national income by \$186 billion annually by 2030 and expand the member economies by 0.2%. The agreement is likely to bring significant benefits to China, Japan, and South Korea and proportionally much less to Southeast Asian countries (Petri and Plummer 2020a, 2020b). For Latin America, the RCEP member countries have become a central trading partner region that surpasses or is on par with the EU and the United States. A future enhancement of trade and investment relations with the RCEP region can provide South American countries new venues for its trade diversification efforts (in terms of markets and products), a trade structure of which has become significantly dependent on China. In contrast, exports of Mexico and Central American countries are heavily biased toward the U.S. market.

¹ Negotiation included the following 16 areas: 1) trade in goods, 2) rules of origin, 3) customs procedures and trade facilitation, 4) sanitary phytosanitary measures, 5) voluntary standards, enforcement and conformity assessment procedures, 6) trade remedies, 7) trade in services, 8) natural persons includes 16 chapters such as 9) investment, 10) intellectual property, 11) e-commerce, 12) competition, 13) small and medium-sized enterprises, 14) economic and technical cooperation, 15) government procurement, 16) dispute resolution, etc. In addition, four chapters on provisions and general definitions (Chapter 1), general provisions and exceptions (Chapter 17), institutional provisions (Chapter 18), and Final Provisions (Chapter 20).

² RECEP's tariff cut rate for industrial goods is expected to be 91.5%, inferior to those of the preceding FTAs such as the CETPP or Japan-EU EPA. The tariff cut rates for agricultural, forestry and fishery products are much lower in the RCEP. The rules on state-owned enterprises, a sensitive area for China, were not included. In addition, the rules on data distribution have not matched the standards the CPTPP. The "three principles" of data distribution included in the CPTPP: 1) "ensuring the free distribution of data"; 2) "prohibiting requests for installation of IT-related equipment such as servers in their home countries"; and 3) "prohibition of requests for disclosure of 'source code' by each country", are not included. However, it will be the first trade agreement to impose trade rules on China in the digital field.

The RCEP has the potential to represent a new roadmap for economic integration of the Asia-Pacific region. For the 15 countries to agree on common trade and investment rules, it was necessary to consider different economic development levels, social and political diversity, and domestic circumstances of each country (Elms 2020). In this respect, special and differential treatment (SDT) for developing member countries as embedded in the RCEP can also be possible “benefit” factors for Latin American countries should these countries decide to join. One and a half years after the RCEP agreement entered into force, new accession will also be open to countries outside the RCEP region, including Latin American countries.

While the idea to negotiate the RCEP was born in 2011 as an initiative of the ASEAN countries themselves, the former Obama administration tried to “encircle” China by promoting the TPP with U.S. allies and market-friendly countries in the Asia-Pacific region. President Obama pushed for the TPP among 12 countries, including three Latin American countries (Chile, Mexico, and Peru). The TPP initiative does not include China from the outset. President Trump, who wanted to reverse the Obama administration’s pursuit of a “pivot” policy to East Asia, withdrew from the TPP shortly after taking office. While he tried to propagate an “America First” policy, interest in RCEP grew in the Asia-Pacific region (Petri and Plummer 2020b).

As the conflict with the United States continues to mount, China has prioritized cooperation in Asia, established a geopolitical stance exclusive of the United States, and now is focused on building an economic zone where its influence is at its own (Hung 2020). In response to the RCEP, Chinese President Xi Jinping announced his willingness to participate in the CPTPP in November 2020. His remarks regarding China’s possible participation in the CPTPP have significant political implications for the Biden administration. Some have pointed out that Peking intends to curtail Taiwan’s participation in the CPTPP while putting a wedge in US-Japan relations. To foment complementarity between the RCEP and the BRI, China has also been negotiating a three-way FTA with Japan and South Korea in Northeast Asia beyond the RCEP framework. In addition, China has been updating bilateral FTAs with countries participating in CPTPP, such as Chile and Peru, whose trade has become heavily dependent on China (Schott 2020). Unsurprisingly, the Chinese government hastened to approve the RCEP in early March. As of April 30, 2021, Singapore and Japan also have finalized the internal ratification process on the RCEP.

In addition to China, the discussion on joining the CPTPP is progressing elsewhere as well. The most concrete case is when the U.K. government formally applied to join the CPTPP on

February 1, 2021. If the United States, South Korea, China, the United Kingdom, and possibly others such as Taiwan and Thailand participate in the agreement, a good opportunity will arise for the Japanese government to demonstrate its leadership, which chairs the CPTPP commission in 2021 (O'Connor 2020). However, the Japanese government is unlikely to lower the standards of CPTPP rules simply to enlarge its membership (Kato and Takeuchi 2020). It is also unknown whether the 11 participating countries will be willing or hesitant to renegotiate the CPTPP to accommodate the United States. It is also unlikely that the 11 countries accept China's accession first without the United States returning. On the other hand, if the United States moves to rejoin or renegotiate the CPTPP, this motion will provide a special incentive for CPTPP participating countries, such as Brunei, Chile, Malaysia, and Peru, to expedite the domestic ratification process postponed primarily for domestic reasons.

The RCEP is often seen as a China-led FTA alternative to replace the CPTPP; however, it is also true that ASEAN has led complex negotiations, which required over nine years for its successful conclusion (Elms 2020, Albert 2020). In RCEP negotiations, ASEAN "Centrality" is granted.³ Just as the ASEAN has drawn the United States into the East Asia Summit (EAS) since 2011, the RCEP's "Open Regionalism" framework may also encourage the ASEAN group to strengthen its relations with the United States, Europe, Latin America, and other countries/regions (Kuwayama 2019). Whether China or the ASEAN takes the lead, RCEP's geopolitical significance and economic importance to Latin America will also be different.

III. Relevance to Biden Administration

The Biden administration's diplomacy is likely to be based on reverting the Trump-style "America First" policy while maintaining multilateral frameworks and working together with international organizations and alliances. But the likelihood of his administration returning to the "pivot to Asia" approach delineated by President Obama seems limited, at least for now. Instead, President Biden appears to continue with the tough stance taken by the Trump administration with heavy doses of economic sanctions, tariff wars, and foreign technology restrictions (McDougall 2021). In Biden's China policy, multiple issues are prioritized, such as climate change, advanced industries, human rights, and security in the South China Sea and the East China Sea. Nevertheless,

³ In fact, the RCEP can be considered as updated collapsed version of the five existing 「ASEAN+1 FTAs」 concluded with 1) Japan, 2) China, 3) South Korea, 4) Australia and New Zealand, and (5) India, respectively. For the RCEP to enter into force, the completion of domestic procedures in six of the 10 ASEAN countries and three of the five other countries is required, not a simple majority of the 15 member states.

according to Professor Kawashima of Tokyo University, these issues are likely to be dealt with in a “compartmentalized” manner, not with a more holistic approach toward the Asia-Pacific in general or China in particular (Kawashima 2021).

While his administration is most likely to confront China’s BRI with the Quad “FOIP” strategy, it remains possible for the Biden administration to resort to trade diplomacy as a part of China’s policy. As initially intended by ex-President Obama, the TPP initiative has a strategic significance to counter China trying to increase its influence in the Asia-Pacific and eventually becoming a step for the United States to regain the leadership role in the global economy and world trade. However, President Biden, at least for now, remains cautious about returning to the CPTPP, which is positioned as a rival to the RCEP (Hoyama and Fang 2021). He has indicated that the CPTPP should be renegotiated as a prerequisite for rejoining. With mid-term elections in 2022, ambitious trade agreements such as the CPTPP or a new TPP are likely to be shelved for the foreseeable future. Given this domestic circumstance, the future course of the Biden administration is expected to be underlined by his version of the “America First” policy.

As mentioned above, the Biden administration has been cautious about FTAs but has made it clear that labor and the environment clauses must be included in any trade negotiation. A new FTA to revamp the CPTPP would be a possibility, which includes not only labor and environment but also new provisions on e-commerce, financial services, and currency manipulation discipline modeled after the USMCA agreement. (Greenberg 2020, Schott 2020). This approach will promote new trade rules based on U.S. law and practices. It could also cover areas such as subsidies for state-owned enterprises and digital trade (Schott 2021). This inclusion can also be the basis for future multilateral negotiations in the World Trade Organization (WTO), presenting good news for Mexico, a trilateral partner the USMCA.

The former Trump administration’s Asia policy evolved around the FOIP initiative, prioritizing security issues, particularly among the four quad countries: Australia, India, Japan, and the United States (Grace 2018). The Trump administration’s policy of focusing on sanctions and additional tariffs has resulted in winners and losers on the economic front, in contrast to the longstanding U.S. goal of building broad prosperity in the Asia-Pacific (Ford 2020). As Petri and Plummer (2020a) suggests, in the FOIP strategy, security has become a priority, and economic aspects have become secondary. As a result, President Trump’s stance has intensified hostility among and between ASEAN and East Asian countries, forcing countries to choose between the

United States and China.

However, considering the growing importance of mega-regional trade agreements such as the RCEP and CPTPP, there is a risk that the FOIP route alone will further reduce U.S. leadership. Without economic pillars, FOIP would continue forcing countries to choose between economic and security interests (Petri and Plummer 2020a). One option for the United States is returning to the TPP initiative while considering security concerns and promoting Indonesia, the Philippines, South Korea, Taiwan, Thailand, and other countries to join the CPTPP. The U.S. deepening engagement in the Asia-Pacific economy could double the appeal of the CPTPP itself and encourage China's participation in CPTPP in the long run.

IV. Significance of RCEP from Latin America's perspective

The RCEP member countries have become increasingly important trading partners for Latin American countries in recent years. As Table -1 shows, Latin American (14 countries) exports to RCEP exceeded \$195 billion in 2019, accounting for 20% of Latin America's world exports (about 980 billion). China accounts for 63% of exports to RCEP (16) countries (including India). ASEAN (10) is the second-largest export market after China, surpassing Japan, South Korea, and India. This scenario suggests the ASEAN, by itself, has become a major export destination for Latin America. The ASEAN countries are an increasingly important trading bloc for Argentina, Brazil, Chile, Mexico, Ecuador, and Bolivia. India, which opted out of the RCEP this time, is also an increasingly important export destination for Argentina, Brazil, Chile, Peru, and Bolivia.

When comparing Mercosur countries (Argentina, Brazil, Paraguay, and Uruguay) exports and Pacific Alliance countries (Chile, Colombia, Mexico, and Peru) exports to the RCEP region, the RCEP (16) countries combined accounted for 35% of Mercosur's world exports in 2019. That year, 39% of Brazil's total exports were destined to the RCEP markets. While China's importance as a trading partner has increased for Argentina and Uruguay, exports to Japan and South Korea have been sluggish. The preceding suggests for the Mercosur countries that the Asia-Pacific region is a major, if not the most important, trading partner region, surpassing the EU and the United States. Therefore, further enhancement of trade and investment relations with Asia-Pacific countries will contribute to the trade diversification of Latin American countries in that region beyond China.

In the case of the Pacific Alliance, given that more than 80% of Mexico's total exports go to the United States, the RCEP region accounted for only 13% of total Pacific Alliance exports in 2019. However, when analyzed by country, the RCEP share in total exports for Chile and Peru was impressively high at 52% and 44%, respectively. For these two Latin American countries, exports to Asia will be a key to revitalizing their economies in the post-Covid-19 period. Colombia's share was also relatively high at 16%. Mexico wants to increase exports to Asia and diversify its trade structure away from the United States.

Table-1 RCEP Member Countries: Importance as Trading Partners for Latin America (Exports of goods in 2019, US\$ million)

	China	Japan	Korea, Rep	Aus+NZ	India	CH+JP+KR +AUS+NZ +INDIA	ASEAN(10)	RCEP (16)(A)	World Total (B)	(A)/(B)(%)
Argentina	6,818	453	843	665	2,156	10,934	5,249	17,285	65,114	26.5
Brazil	63,358	5,432	3,450	529	2,777	75,544	11,618	87,392	225,383	38.8
Paraguay	11	30	85	4	171	300	174	444	7,652	5.8
Uruguay	2,147	28	9	8	12	2,203	126	2,339	7,816	29.9
MERCOSUR	72,333	5,943	4,386	1,205	5,115	88,982	17,167	107,460	305,966	35.1
Chile	22,571	6,367	4,696	348	1,186	35,168	1,041	36,384	69,681	52.2
Colombia	4,565	466	482	101	346	5,960	659	6,332	39,489	16.0
Mexico	6,852	3,872	2,183	1,062	967	14,936	2,302	16,511	458,395	3.6
Peru	13,546	1,975	2,278	119	1,787	19,705	613	20,428	46,132	44.3
Pacific Alliance	47,534	12,681	9,639	1,629	4,286	75,768	4,615	79,655	613,697	13.0
Bolivia */	460	671	577	179	723	2,609	19	2,629	9,065	29.0
Ecuador	2,897	350	156	49	137	3,589	1,480	4,221	22,329	18.9
Costa Rica	122	244	33	31	33	463	83	552	11,452	4.8
El Salvador	52	10	32	11	3	107	17	112	5,943	1.9
Guatemala	191	117	34	46	25	413	37	479	11,289	4.2
Honduras	5	18	27	32	1	85	11	86	3,091	2.8
Latin America (14 countries)	123,594	20,033	14,885	3,183	10,322	172,016	23,429	195,194	982,832	19.9

Note: */Bolivia figures for 2018.

Source: Created by me from CEPAL's database.

Chile and Peru have been strengthening trade relations with China, Japan, South Korea, and other Asia-Pacific countries within the framework of plurilateral agreements such as the CPTPP or bilateral FTAs. When it goes into effect, the RCEP will provide the Pacific Alliance countries additional venues to deepen trade relations with Asia-Pacific countries, including ASEAN (10). The Pacific Alliance has been working to strengthen ties with the ASEAN group over the last ten years and is expanding its cooperation efforts based on the Work Plan and Roadmap agreed by the two integration bodies (ASEAN Secretariat 2020, Faure 2017). For the Pacific Alliance, the priority should be to strengthen and diversify trade relations with the ASEAN as a group. It is still to be seen whether the ASEAN countries and the Pacific Alliance member countries will respond to new business opportunities from the RCEP on a bilateral basis or expand economic and technical cooperation efforts between the two integration entities.

Mercosur reached an agreement in principle on an FTA with the European Union (EU) and the European Free Trade Association (EFTA) in 2019. Negotiations for an FTA with Canada, South Korea, and Singapore have officially started. Mercosur has also agreed to strengthen cooperation with China and the Eurasian Economic Union (EEU). However, negotiations with Canada, Singapore, South Korea, and Lebanon have not progressed, partly due to differences in views between Argentina and Brazil over Mercosur's direction amid a severe economic setback of the Covid-19 crisis (Bartesaghi 2020). The renewal of a limited FTA focused on reducing tariffs on goods with Israel has made little progress. Against this background, for Mercosur members, who have not concluded bilateral or plurilateral FTAs with Asia-Pacific countries, joining the RCEP might be considered as a policy option as part of their economic diplomacy. While the possibility of participating in the CPTPP also exists, given a lower degree of liberalization required, the RCEP represents a lower hurdle for Mercosur member countries to join.

On the other hand, some experts view Mercosur should promote its relationship with the CPTPP (Frydman 2020). Mercosur is negotiating an FTA with Canada and has upgraded the existing bilateral agreements with Mexico, Chile, and Peru. Japan, with which an FTA (in this case, the Economic Partnership Agreement: EPA) has been proposed, is also a CPTPP member. These five CPTPP countries have FTAs in effect with the United States and the EU. Mercosur also wants to start FTA negotiations with Vietnam and Indonesia (Mercosur 2020). Strengthening ties with the CPTPP will also put pressure on the EU. Mercosur currently reached an agreement in June 2019 but has delayed its ratification due to environmental concerns raised in several EU countries. Negotiations with India to deepen the Mercosur-India Preferential Agreement, in vigor since 2009, may go forward with a view to India's joining the RCEP in the future.

In the short term, the RCEP could trigger a trade diversion and stifle trade between Latin America and Asia. Nonetheless, fomenting trade relations with the RCEP region should prompt Mercosur's diversification of the present trade structure skewed towards China. In addition, the common trade and investment rules within the RCEP framework will facilitate business for Latin American companies based in Asia. What is essential for Latin American countries is whether they will pursue integration with Asia individually or as part of the regional integration process through the Pacific Alliance (or the CPTPP framework) or the Mercosur framework. Future cooperation with RCEP will vary depending on how Latin American countries react (Kuwayama 2019, Frydman 2020).

V. Final Remarks: Japan's Role

Under the Trump administration, U.S. protectionism has intensified, bilateral agreements have increased worldwide, and the WTO system has been threatened. Despite this background, the Japanese government has been able to put into effect the CPTPP and the Japan-EU EPA. In January 2021, the EPA with the United Kingdom, which had withdrawn from the EU, came into force. Japan has worked hard to promote UK's joining the CPTPP, which formally applied for its accession in February 2021. Japan participates in both the CPTPP and RCEP agreements and is one of the few economic powers that can lead the revival of multilateralism and act as a 'bridge' to allow Latin American countries to engage in policy dialogue with the member countries of RCEP and the CPTPP.

By doing so, Japan can promote Latin American countries' involvement in large-scale FTAs such as the CPTPP and RCEP. In addition to Chile, Mexico, and Peru, Japan can encourage other Latin American countries to join the CPTPP. It can also play a role in strengthening relations between the Pacific Alliance and the ASEAN. At the same time, Japan can support Mercosur's effort to strengthen ties with the RCEP when its membership from outside the RCEP region is opened. Japan must keep improving the quality of RCEP trade rules and strive to build a model of an FTA covering the entire Asia-Pacific region with an emphasis on development cooperation (Kuwayama 2019). The Japanese government can also play a role in fomenting cooperation between the Pacific Alliance and Mercosur in Latin America, which are now based on different principles of economic integration. In sum, it is in Japan's interest to promote greater trade and investment links between the Asia Pacific and non-APEC and non-CPTPP Latin American countries, using both CPTPP and RCEP as a political leverage.

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