

## Regional Comprehensive Economic Partnership (RCEP): Impact on the Integration of Textile and Apparel Supply Chain in the Asia-Pacific Region

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**Background:** The Regional Comprehensive Economic Partnership (RCEP) is an ambitious free trade agreement (FTA) currently under negotiation between ten member states of the Association of Southeast Asian Nations (ASEAN) and other six large economies in the Asia-Pacific region (Australia, China, India, Japan, South Korea, and New Zealand) (Lee, 2016). Textile and apparel (T&A) is a critical sector under the RCEP. In 2015, the sixteen RCEP members altogether exported \$369 billion worth of T&A (50% of world share) and imported \$124 billion (34% of world share) (WTO, 2016). Because free trade agreements often shape regional supply chains (Masali, 2016), this study intends to evaluate how will the implementation of the RCEP affect the integration of T&A supply chain in the Asia-Pacific region. With limited literature on related topics, findings of the study will significantly enhance our understanding of the T&A specific sectoral impact of the RCEP. Results of the study will also provide valuable inputs helping T&A firms prepare for the changing business environment as a consequence of the RCEP as well as policymakers for the T&A sectoral negotiation under the RCEP.

**Literature review:** Following the pattern of the flying geese model, Asian countries have formed a collaborative T&A production network, within which developed economies typically undertake more capital and technology-intensive textile manufacturing whereas developing economies produce labor-intensive apparel (Lopez-Acevedo & Robertson, 2016). For example, a clothing labeled “Made in Vietnam” often contains fabrics made in China from yarns spun in Japan. Free trade agreements (FTA) in the area, such as the ASEAN-China FTA, have also facilitated the formation of this regional T&A supply chain (Yuh, MyClear & Aslam, 2015). Moreover, apparel produced by Asian countries are both consumed within the region and exported to other key consumption markets such as the United States and Europe (WTO, 2016).

Because the RCEP intends to eliminate import tariffs on T&A products traded between its members, implementation of the agreement theoretically is likely to result in the following trade effects: First, the RCEP will encourage its members to source a greater share of textile inputs from within the RCEP area (*H1*). Second, the RCEP will encourage its members to source a greater share of apparel from within the RCEP area (*H2*). Third, as a consequence of a more integrated T&A supply chain, apparel exports from RCEP members will become more competitive and acquire a larger market share in the U.S. and EU markets (*H3*).

### Methods and data:

The computable general equilibrium (CGE) model developed by the Global Trade Analysis Project (GTAP) was adopted in this study to test the hypotheses. Compared with a single-equation econometric model, the GTAP CGE model has the advantage of capturing the input-

output relationship between the T&A industry and other sectors in the setting of an open global economy and generate more robust results (Adams, 2005). Data of the analysis came from the latest GTAP9 database, which includes trade and production data of 57 sectors in 140 countries in 2015 as the base year (Aguilar, Angel, Narayanan & McDougall, 2016). For the purpose of the study, we assume that with the implementation of the RCEP, the tariff rates applied for T&A traded between RCEP members will be reduced to zero.

### Results and discussion:

Table 1 Share of Textile Imports from RCEP members (by value) Unit: %

Scenario/Importers	ASEAN	Australia	China	India	Japan	South Korea	New Zealand
Base year =2015	80.3	73.5	39.9	75.2	86.5	77.7	69.2
RCEP	85.9	80.5	52.4	87.9	90.2	85.2	76.3
RCEP vs Base year	5.7	7.1	12.5	12.7	3.8	7.6	7.1

Table 2 Share of Apparel Imports from RCEP members (by value) Unit: %

Scenario/Importers	ASEAN	Australia	China	India	Japan	South Korea	New Zealand	U.S.	EU
Base year =2015	81.0	80.7	13.5	40.6	88.5	78.3	83.3	65.4	40.7
RCEP	89.4	87.9	22.9	60.9	92.8	86.7	90.7	66.3	41.2
RCEP vs Base year	8.4	7.2	9.4	20.3	4.3	8.4	7.4	0.8	0.5

First, compared to the base year level in 2015, RCEP members will raise the proportion of their textile imports from the RCEP region by eight percentage points on average, after the implementation of the agreement (*H1* is supported). China and India particularly will increase their usage of textile inputs from the RCEP region as a result of the trade deal (Table 1). Second, compared to the base year level in 2015, RCEP members will raise the proportion of their apparel imports from the RCEP region by eight percentage points on average, after the implementation of the agreement (*H2* is supported). Notably, in the RCEP era, approximately 90% of apparel imported into ASEAN members, Australia, Japan, South Korea, and New Zealand will come from the RCEP region (Table 2). Additionally, after the implementation of the RCEP, market shares of RCEP members in the U.S. and EU apparel import market will slightly increase by 0.8 and 0.5 percentage points compared to the base year level in 2015 (*H3* is supported).

Implications and future research agenda: First, findings of the study confirm that the RCEP will result in a more integrated T&A supply chain among its members and shift the pattern of T&A trade in the Asia-Pacific region. Second, findings of the study suggest that as a trading bloc, the RCEP will make it even harder for non-RCEP members to get involved in the T&A supply chain in the Asia-Pacific region. Furthermore, findings of the study suggest that although the RCEP is a regional trade agreement, the impact of the RCEP will go beyond its members. Future studies can continue to explore how the implementation of the RCEP might affect T&A production and

trade of non-RCEP countries such as Bangladesh, the United States and T&A producers in the Europe.

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