

Bangladesh Joining RCEP: Understanding Possible Benefits and Challenges

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Source: Business Inspection

Introduction

Regional Comprehensive Economic Partnership or RCEP is a regional trading block comprising 15 countries and around 2.3 billion people, a \$25.8 trillion GDP, 30% Global GDP, and a \$12.7 trillion trading hub. More than 31% of global FDI inflows are currently accounted for in RCEP.

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Recently, Bangladesh has decided to join this emerging trade-bloc-styled partnership where the core motive would be to partner in boosting exports with other members.²

RCEP: A Brief Overview

RCEP is the world's largest trading block led by China. The forum works as a free trade agreement where members are from ASEAN countries, with an addition of other countries, respectively Australia, India, Japan, New Zealand, and South Korea.³ Although RCEP is a China-led trading block, there are also member states of America's close allies-Japan, South Korea, and Australia.⁴



Source: CNBC

The trading block, RCEP, was formed during the 19th ASEAN Meeting held in November 2011. The negotiations started in November 2012 during the 21st Summit of ASEAN in Cambodia. By November 2019, all the participating countries aimed to sign a deal. The objective of RCEP is to create an integrated market with the member countries to make it easier to export and import products and services. The RCEP initiative came into force in January 2022. It is the hub of high-

² Pratim Ranjan Bose. "Why Bangladesh's Decision to Join The RCEP Might Be an Amateurish Affair." *Swarajyamag*, August 7, 2023. <https://swarajyamag.com/foreign-affairs/why-bangladeshs-decision-to-join-the-rcep-might-be-an-amateurish-affair>.

³ Business Inspection BD, "Bangladesh Has Taken the Initiative to Join the RCEP," *Business Inspection BD*, May 29, 2023, <https://businessinspection.com.bd/bangladesh-has-taken-the-initiative-to-join-the-rcep/>.

⁴ Abul Kashem. "Ministries Positive About Joining China-Led Trading Bloc RCEP." *The Business Standard*, August 2, 2023. <https://www.tbsnews.net/economy/ministries-positive-about-joining-china-led-trading-bloc-rcep-675402>.

quality and comprehensive Free Trade Agreements. Besides, the main focus of the trade block is to strengthen trade in goods and services, dispute settlement, e-commerce, economic cooperation, and small to medium enterprises. There is another reason why RCEP has evolved as the largest trading partner. RCEP was pushed to counter the United States-led Trans-Pacific Partnership (TPP).⁵

Reason for the RCEP Creation⁶

RCEP was created to:

- Benefit member countries from low and eliminated tariffs on imported goods and services for the next 20 years.
- Surpass in size and scope from the existing APTA (Asia-Pacific Trade Agreement) and CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership).
- Help China gain enough capacity in the economic race against the U.S. and U.S.-led trade blocks.

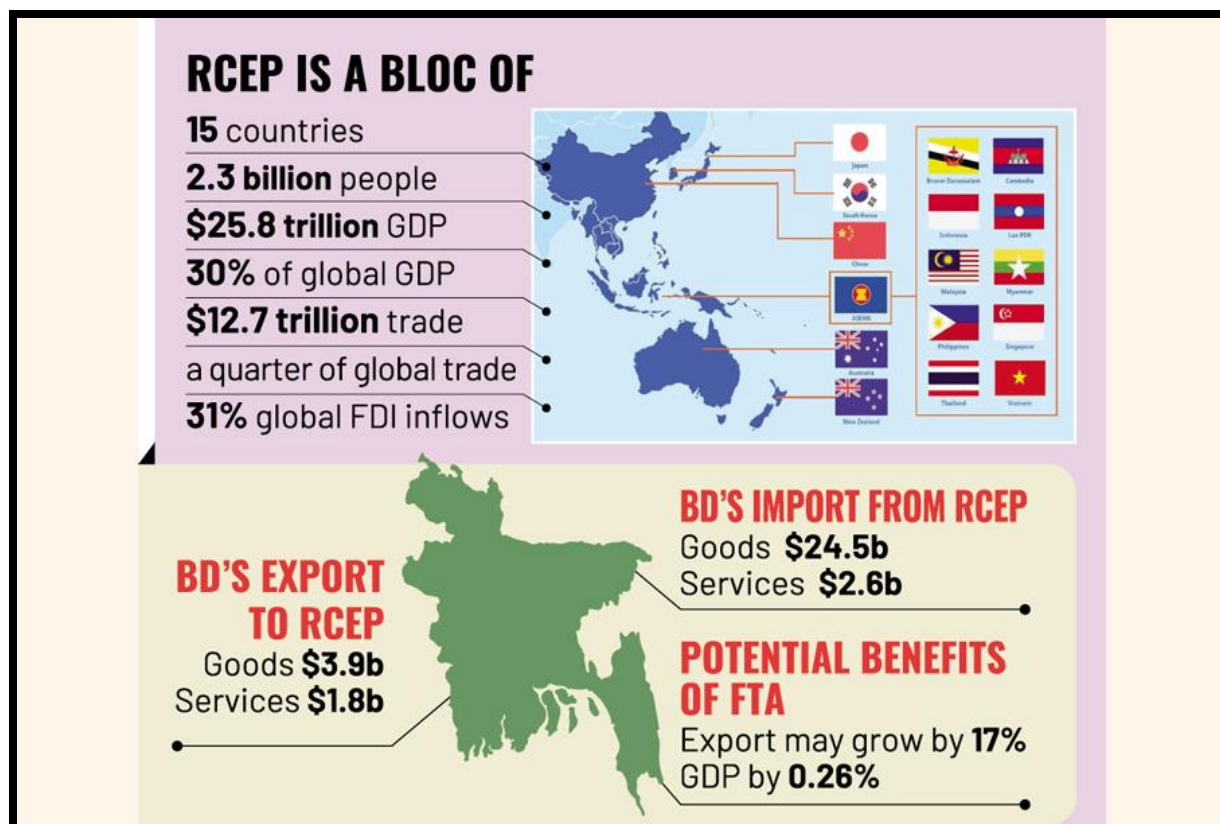
Bangladesh's Interest in RCEP

The decision of Bangladesh to join the RCEP trade forum emerged from the workshop held in Dhaka. Participants expressed their opinions and interests in signing a Free Trade Agreement with the RCEP members. So far, the decision is that if there is a political agreement reached with the country and the terms and conditions of RCEP allow the inclusion of any new member country, only then will Bangladesh send a formal letter that expresses interest in joining the trade block. Moreover, Bangladesh has been lobbying for free trade agreements, preferential trade deals, and comprehensive economic partnerships with major partners and economic blocs.⁷

⁵ Business Standard. "What Is RCEP, What Is Regional Comprehensive Economic Partnership, RCEP India." [www.business-standard.com](https://www.business-standard.com/about/what-is-rcep), n.d. <https://www.business-standard.com/about/what-is-rcep>.

⁶ Ghosh, Iman. "RCEP Explained: The World's Biggest Trading Bloc Will Soon Be in Asia-Pacific." *Visual Capitalist*, June 11, 2021. <https://www.visualcapitalist.com/rcep-explained-the-worlds-biggest-trading-bloc-will-soon-be-in-asia-pacific/>.

⁷ Business Inspection BD, "Bangladesh Has Taken the Initiative to Join the RCEP," *Business Inspection BD*, May 29, 2023, <https://businessinspection.com.bd/bangladesh-has-taken-the-initiative-to-join-the-rcep/>.

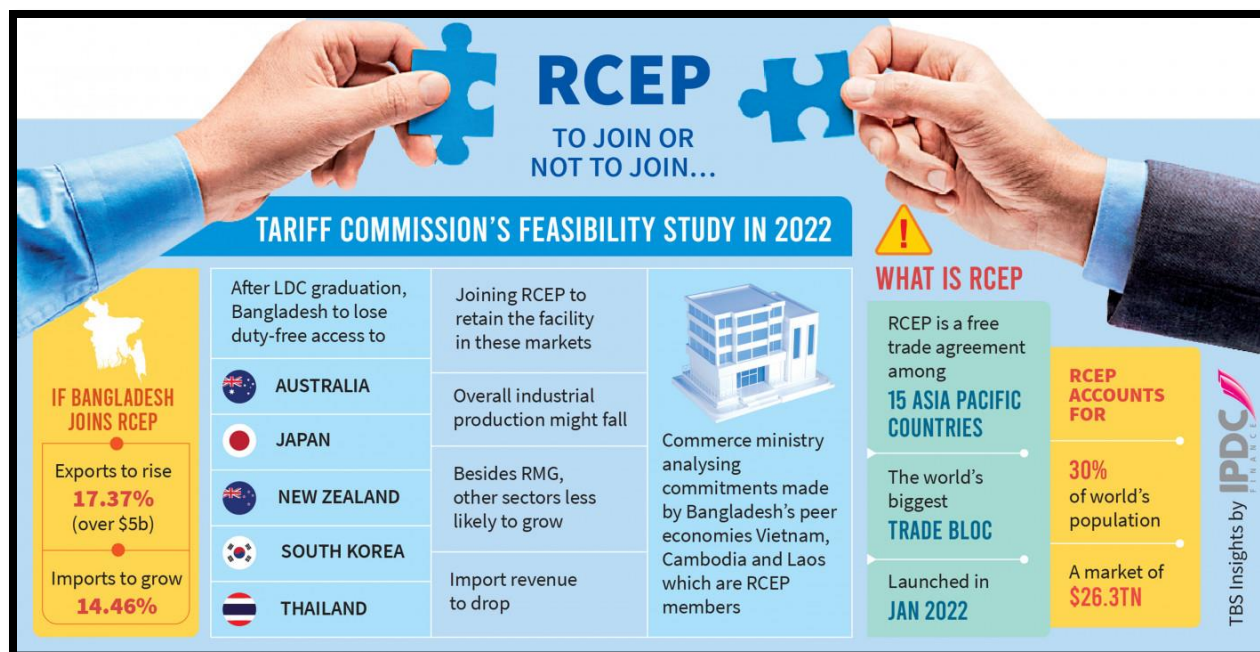


Source: The Financial Express

Bangladesh's interest in RCEP would be the following ones⁸:

- The commercial and strategic importance will provide Bangladesh with a strong boost in the environment of regional and international areas.
- Bangladesh's exports will grow by 17%, and GDP will be 0.26% if an agreement is signed.
- Bangladesh has already been witnessing preferential market access to many member countries of RCEP through GSP facilities and Preferential Trade Agreements (PTA).
- The main concern of Bangladesh is the unavailable duty-free access after graduation from the Least Developed Country Status (LDC).
- RCEP will open the path of consistent progress for Bangladesh to deal with all the member countries. RCEP will lead Bangladesh to the major export destination and important sources.

⁸Rezaul Karim, "Bangladesh's Joining RCEP Almost Certain," The Financial Express, August 2, 2023, <https://thefinancialexpress.com.bd/economy/bangladesh/bangladeshs-joining-rcep-almost-certain>.



Source: The Business Standard

Possible Benefits of Bangladesh's Joining RCEP

Bangladesh's Joining RCEP will bring potential benefits.⁹ They are:

- **Export of Apparel Products:**

It is estimated that more than 68% of total merchandise exported to RCEP under the category of Apparel-Product, within the top 20 export products. Bangladesh is already having success in the Ready-Made Garments (RMG). In that case, exporting apparel products will be much easier for Bangladesh.

- **The Chance to Reform Tariff Policy and Education-Sector Policy:**

Bangladesh can be creative while signing Free Trade Agreements (FTA). The country must develop human resources that must be groomed with training. Also, tariff policy changes and education-sector policy are expected to be reformed immediately.

- **Preferential Market Facility:**

After availing the membership to RCEP, Bangladesh will have the scope to get preferential market facilities from other member countries.

⁹Rezaul Karim. "Bangladesh's Joining RCEP Almost Certain." The Financial Express, August 2, 2023. <https://thefinancialexpress.com.bd/economy/bangladesh/bangladeshs-joining-rcep-almost-certain>.

- **Capacity Building:**

Necessary moves must be taken to strengthen the supply side and product quality at domestic institutions and foreign investor levels.¹⁰

- **Export Diversification:**

Bangladesh does not need to focus on the apparel category only. It is high time the country moved to other export product diversification to ensure more earnings from the regional bloc.¹¹

- **Increase in Exports and Imports:**

According to a study on goods trade conducted by the Bangladesh Trade and Tariff Commission (BTTC), if Bangladesh joins the trade block, there may be an increase in Bangladesh exports by 17% and imports by 14%. Also, if there is an agreement on free trade with block members, the Gross Domestic Product (GDP) is 0.26%.¹²

- **Tariff Reduction:**

After joining RCEP, Bangladesh may experience a reduction of tariffs for 90% of trade. In the first 10 years of joining the regional trade block RCEP, import tariffs must be reduced for about 90% of the trade. The next 15 years will be available for tariff reduction of the 10% remaining trade.¹³

- **Trade Liberalization:**

Some crucial measures- standardization, harmonization, and quality control may enhance the competitiveness among local industries if Bangladesh joins RCEP. The effect of trade liberalization will affect a number of domestic industries. But at that time, industries would not be protected as they are now.¹⁴

¹⁰Refayet Ullah Mirdha, “Bangladesh Moves to Join RCEP,” *The Daily Star*, July 27, 2022, <https://www.thedailystar.net/business/economy/news/bangladesh-moves-join-rcep-3081516>.

¹¹Tbs Report, “Export Diversification: Current Scenario and Possibilities,” *The Business Standard*, February 4, 2023, <https://www.tbsnews.net/thoughts/export-diversification-current-scenario-and-possibilities-579614>.

¹²Pratim Ranjan Bose. 2023. “Why Bangladesh’s Decision to Join The RCEP Might Be an Amateurish Affair.” *Swarajyamag*, August. <https://swarajyamag.com/foreign-affairs/why-bangladeshs-decision-to-join-the-rcep-might-be-an-amateurish-affair>.

¹³Abul Kashem. 2023. “Bangladesh’s Application to Join RCEP Awaits PM’s Nod.” *The Business Standard*, September 6, 2023. <https://www.tbsnews.net/bangladesh/bangladeshs-application-join-rcep-awaits-pms-nod-696126>.

¹⁴Abul Kashem. 2023. “Ministries Positive about Joining China-Led Trading Bloc RCEP.” *The Business Standard*, August 2, 2023. <https://www.tbsnews.net/economy/ministries-positive-about-joining-china-led-trading-bloc-rcep-675402>.

Challenges Bangladesh May Face While Joining RCEP¹⁵

The Bangladesh Trade and Tariff Commission (BTTC) conducted a comprehensive feasibility report on whether the country should join RCEP. The study examines both conditions of pros and cons. The challenges are:

- **Declining Industrial Production:** According to the Tariff Commission Report, there is a decline in the revenue of income of Bangladesh from import duties.¹⁶
- **Beneficial for Consumers, Manufacturers May Suffer:** After joining the RCEP, consumers may benefit from the diverse product ranges. However, manufacturers may not get enough benefits.
- **Decrease in Income from Import Duties:** There is expected to be a decline in Bangladesh's income from import duties. Even if Bangladesh joins RCEP and passes out from the LDC status, additional duty losses may occur.
- **Entering a comprehensive FTA is difficult:** It is difficult to enter a comprehensive FTA because it would require opening up both sectors of goods and services. Consequently, it comes up with the risk of job loss and shakeouts in the domestic market.
- **Failure to diversify the export basket:** The export basket of Bangladesh needs to diversify its products. Bangladesh has yet to explore beyond Ready-Made Garments (RMG). In this area, Bangladesh may witness a slow stream as the country has not provided efforts to rationalize tariffs.¹⁷
- **Diplomatic Stance:**

It may seem easier to assume that joining RCEP would lead Bangladesh towards China. But the main theme of joining RCEP is just the Free Trade Agreement and Trade Benefits. There is no other hidden stance from the diplomatic perspective.

¹⁵ "Govt Examines Pros-Cons of Joining World's Biggest Trade Bloc." *The Business Standard*, July 29, 2023. <https://www.tbsnews.net/economy/govt-examines-pros-cons-joining-worlds-biggest-trade-bloc-673498>.

¹⁶ Doulot Akter Mala, "Decline in Some Major Imports Hits Govt Revenues," *The Financial Express*, August 6, 2023, <https://thefinancialexpress.com.bd/economy/bangladesh/decline-in-some-major-imports-hits-govt-revenues>.

¹⁷ Pratim Ranjan Bose. "Why Bangladesh's Decision To Join The RCEP Might Be An Amateurish Affair." *Swarajyamag*, August 7, 2023. <https://swarajyamag.com/foreign-affairs/why-bangladeshs-decision-to-join-the-rcep-might-be-an-amateurish-affair>.



Source: The Business Standard

- **Holding Back the Foreign Trade:**

World Trade Organization has estimated that Bangladesh would lose around 15% of its foreign trade after graduating from the LDC status. In this context, Bangladesh must decide whether the country needs duty-free access and the linkage to the Free Trade Agreement.

- **Losing the Tax Revenue:**

After being a part of the FTA (Free Trade Area), Bangladesh may lose the tax revenue generated from imports from the member states of RCEP.

- **Affecting Domestic Industries:**

The trade regime liberalization will affect domestic industries because they will not be protected as they are in the current context.

Recommendations

If we analyze both benefits and challenges, it seems evident that the benefits exceed the challenges. To avoid these challenges, taking comprehensive measures is necessary. Some recommendations are:¹⁸

- **Capacity Building:**
Bangladesh should bolster its capacity for duty-free trade, export diversification, standardization, and mutual recognition.
- **Export-Oriented Investments:**
One promising outcome if Bangladesh joins RCEP is the potential increase in the investment of export-oriented goods and services. Bangladesh will have the capacity to promote the opportunity of potential investment based on the market demand.
- **Enhancement of Export Sector:**
The priority of the government is to continue the export sector. RCEP will bring a greater benefits scheme for the country in these export dynamics.
- **Not More Than a Trade Deal:**
Joining any trade is indeed a lengthy process. Joining RCEP will give Bangladesh access to the market as a part of the trade deal. It would lead towards harmonizing the regulations of the domestic market and being transparent in tariffs as well as subsidies.

The agenda of RCEP comes with different propositions that Bangladesh may have difficulty dealing with because there are tariff concessions, labor rights standards maintained, IT and Data-centric cooperation, and compliance with Intellectual Property Right Laws.¹⁹ Since November 15, 2020, RCEP has emerged as one of the largest economic integrative blocks. Bangladesh is a middle country between South Asia and RCEP member states. That is why the decision to join Bangladesh has to be practical in terms of the current economic and political context. But there is no doubt that Bangladesh will benefit from RCEP in enhancing its trade.

¹⁸ South Asia Monitor. "Will Bangladesh Benefit by Joining the RCEP? The Pros Outweigh the Cons," n.d. <https://www.southasiamonitor.org/spotlight/will-bangladesh-benefit-joining-rcep-pros-outweigh-cons>.

¹⁹ Textile Today, "The RCEP FTA: Boon or Bane for Bangladesh," *Textile News, Apparel News, RMG News, Fashion Trends*, March 27, 2023, <https://www.textiletoday.com.bd/rcep-fta-boon-bane-bangladesh>.

Conclusion

To sum up, the decision for Bangladesh to join RCEP will be a strategic stance. Only assessment, the ability to fulfill commitments, and benefits review will provide better decision-making. So far, Bangladesh is taking a positive stand regarding getting into RCEP, considering all the issues. Bangladesh will be playing the role of an import-dependent country on the RCEP. The region is expected to see 45% of imports coming. So far, it is estimated that only the RMG sector can grow if Bangladesh joins RCEP.