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RCEP and TPP: Comparisons and Concerns

By Sanchita Basu Das

As reaffirmed in a recent report from the Asian Development Bank (ADB), "Asia's economies are increasingly vital to each other and to the world. Asia's output today roughly equals that of Europe or North America, and may well be 50 per cent larger than theirs by 2020, in terms of purchasing power parity." Moreover, with both the US and Europe continuing to post a low GDP growth of 1-2.5 per cent annually, the centre of the recovery has decisively shifted to Asia.

These factors became very apparent during the November 2012 ASEAN summit, when two different approaches to trade liberalisation became clear. One is the ASEAN-led Regional Comprehensive Economic Partnership (RCEP) and the other is the US-led Trans-Pacific Partnership (TPP). It was also decided during the meetings that the US will be able to build its trade relationship with ASEAN through the Expanded Economic Engagement (E3) initiative.

With the Doha Round getting delayed at the multilateral level and the bilateral free trade agreements (FTAs) generating marginal gains for the private sector, mini-lateral arrangements like RCEP and TPP are picking up steam, promising to become the next generation of trade liberalisation process. Where Asian countries are concerned, mini-lateral relationships are more appealing since they involve a small number of countries, are therefore easy to negotiate and can ensure flexibility in satisfying domestic interests.

While it may appear that TPP and RCEP have relatively similar objectives of trade liberalisation and economic integration, the differences are substantive nevertheless. This paper takes a closer look at both these arrangements.

COMPARING RCEP AND TPP

RCEP, driven by ASEAN, is an FTA between ASEAN and ASEAN's FTA partners - Australia-New Zealand, China, South Korea, Japan and India[1]. It is envisaged to be a high-quality and mutually beneficial economic partnership agreement that will broaden and deepen current FTA engagements. It is expected to be concluded by end-2015 and will involve a region accounting for almost half of the global market and about a third of the world's economic output. It is based on an open accession clause and welcomes participation by any ASEAN FTA partner who chooses to participate later.

TPP, on the other hand, is a US-led process and is presented as a "WTO-plus approach"[2]. Around eleven countries (New Zealand, Singapore, Brunei, Chile, the US, Canada, Australia, Peru, Malaysia, Vietnam, Mexico) have already been negotiating TPP for over a year now, although these do not include major powers like China or India. The US has encouraged other APEC countries to join the negotiations, which are set to be concluded by October 2013 (Table 1).

Table 1: Comparing the Regional Initiatives

	GDP (nominal, US$ trillion)		GDP (PPP, US$ trillion)	Population (billion)		Total Merchandise Trade (US$ trillion)
	2011	2015*	2011	2011	2015*	2011
RCEP	19.9 (28%)	26.2 (32%)	26.1 (33%)	3.4 (48%)	3.5 (48%)	10.1 (28%)
TPP	20.7 (29%)	24.4 (30%)	20.8 (26%)	0.66 (9.4%)	0.68 (9.4%)	7.8 (21%)
ASEAN	2.1 (3.1%)	3.1 (3.8%)	3.4 (4.2%)	0.60 (8.7%)	0.64 (8.8%)	2.4 (6.5%)
APT	16.5 (23%)	21.8 (26%)	20.7 (26%)	2.1 (31%)	2.2 (30%)	8.8 (24%)
CJK FTA	14.3 (20%)	18.7 (23%)	17.3 (22%)	1.5 (22%)	1.5 (21%)	6.4 (17%)
APEC	38.8 (56%)	48.5 (59%)	43.9 (56%)	2.7 (40%)	2.8 (39%)	17.6 (48%)
NAFTA	17.9 (26%)	21.1 (25%)	18.1 (23%)	0.46 (6.6%)	0.47 (6.5%)	5.4 (15%)
EU	17.6 (25%)	17.5 (21%)	15.8 (20%)	0.50 (7.2%)	0.50 (7.0%)	12.3 (33%)

*Note: the numbers in the parenthesis give the percentage to the world; CJK - China-Japan-Korea Trilateral FTA; APT- ASEAN Plus Three; NAFTA – North America FTA, APEC – Asia-Pacific Economic Cooperation; * implies IMF forecast.*
Source: World Economic Outlook, IMF, October 2012 database; World Trade Organisation Database; author's calculation

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1 *http://www.asean.org/asean/asean-summit/item/asean-framework-for-regional-comprehensive-economic-partnership (accessed on Jan 1, 2013).*
2 *http://www.ustr.gov/about-us/press-office/fact-sheets/2011/november/united-states-trans-pacific-partnership (accessed on January 1, 2013).*

RCEP will be built on ASEAN's experience and is expected to integrate all five of the ASEAN+1 FTAs into a regional economic framework[3]. Being an ASEAN process, it will be guided by the "ASEAN way" where objectives and commitments are driven by a consensus process. RCEP is likely to be more accommodative of the development differences of the member countries, thus providing flexibility and adjusting mechanisms in reaching the common end-goals. In addition to liberalizing trade in goods, services and investment, it will pay more attention to physical, institutional and people-to-people connectivity and to narrowing development gaps and will be built in response to new developments, such as the emerging international production networks.

On the other hand, in addition to the trade in goods, services and investment component, TPP is said to have a more demanding set of commitments – intellectual property rights, labour standards, competition policy, investment rules, the environment and the role of state-owned enterprises. These issues may not have any immediate direct trade-related aspects but are marketed as relevant in meeting 21st-century challenges. Since TPP comprises members from different levels of economic development, it will be quite difficult to reach consensus on optimal standards. This is because different labour laws often function as part of the comparative advantage enjoyed by low-labour-cost countries, or intellectual property (IP) regulations may not strike the right balance between owners of IP and users *(Table 2)*.

3 Basu Das, Sanchita, "RCEP: Going Beyond Asean+1 FTAs", ISEAS Perspective, August 17, 2012.

Table 2: RCEP vs. TPP

	RCEP	TPP
COMPARISONS	RCEP is led by ASEAN to gather together all separate non-ASEAN FTAs. Born out of ASEAN+1 FTAs with China, India, Japan, South Korea, Australia and New Zealand Based on open accession clause, where membership can be expanded later as new countries sign FTA with ASEAN. Negotiations expected to start in 2013 and to be concluded by 2015.	TPP is led by the US in line with its foreign policy objective of pivot toward Asia. Born out of P4 agreement between New Zealand, Brunei, Singapore and Chile in 2005. APEC countries have been encouraged to join negotiations; also open to accession by non-APEC members. Negotiations started in 2011 and are likely to be concluded by October 2013
CHARACTERISTICS	Aims to form an integrated regional economic agreement that is deeper than existing FTA co-operations and to support equitable economic development. Areas include: trade liberalisation in goods, services and investment, technical cooperation, intellectual property, dispute settlement (WTO+ issues)	Aims to establish regional FTA that can tackle the challenges of 21st century. Areas include: trade liberalisation in goods, services, investment, intellectual property rights, environmental protection, labour, financial services, technical barriers to trade and other regulatory issue (WTO+ issues).
CONCERNS	Building on "ASEAN way" and differential treatment depending on level of members' development may slow progress. Conflict developing from tension between China and the US. ASEAN+1 FTAs have different features and are at different stages of implementation.	Gold standard 21st century FTA and addresses next generation issues (cross-cutting/new trade challenges). Does not include China and India. May divide ASEAN since not all are not participating in TPP, which may undermine ASEAN's centrality.

Source: Author's compilation from various sources

PERCEIVED BENEFITS FROM RCEP AND TPP

Since tariff rates have already been lowered for the countries involved, "behind the border" issues or trade facilitation measures may gain prominence. These may include publication of customs laws and regulations, trade procedures and documentation, product standard and conformation and trade-related infrastructure and services. According to ADB, while Asia-Pacific is home to some of the best trade facilitation performers in the world (such as Singapore and Hong Kong), the region also houses some of the worst performers *(Table 3)*. Both RCEP and TPP are expected to pay more attention to this aspect of trade, with more specific assistance being given to SMEs so that they can benefit from the mini-lateral processes.

Table 3: Time and Cost to Export and Import, 2009

	Time for Exports (days)	Time for Imports (days)	Cost to export ($ per container)	Cost to import ($ per container)
Brunei	28	19	630	708
Cambodia	22	30	732	872
Indonesia	21	27	704	660
Laos	50	50	1860	2040
Malaysia	18	14	450	450
Philippines	16	16	816	819
Singapore	5	3	456	439
Thailand	14	13	625	795
Vietnam	22	21	756	940
ASEAN Avg.	22.1	21.9	803.9	873.8
China	21	24	500	545
Hong Kong	6	5	625	583
South Korea	8	8	742	742
Japan	10	11	989	1047
India	17	20	945	960
Australia	9	8	1060	1119
New Zealand	10	9	868	850
USA	6	5	1050	1315
G-7 Avg.	9.7	10.1	1122.9	1228.3

G-7: Canada, Japan, Germany, France, Italy, United Kingdom and United States

Source: Designing and Implementing Trade Facilitation in Asia and the Pacific, ADB and UNESCAP, 2009

RCEP and TPP are expected to promote domestic reforms in line with regional goals. For a country like Malaysia, the government there may view TPP as an instrument for introducing domestic reforms. If it is keen on transparency and liberalisation, it could use the agreement as a justification for undertaking difficult domestic reforms[4].

It is possible that agreements between a small group of countries like RCEP and TPP may be able to calm some of the concerns of the "noodle bowl" effect of overlapping smaller FTAs and achieve an overarching set of free trade principles. This is particularly the case for ASEAN as besides the regional FTAs, the member countries are also pursuing

4 Shankaran Nambiar, "The Trans-Pacific Partnership: What is Malaysia's Rationale?", East Asia Forum, September 21, 2012 their own bilateral ones *(Table 4)*. This has reduced the potential benefits from economic integration since the private sector has to devote attention to different rules and regulations, in turn increasing the cost of utilizing preferential concessions. It is argued that RCEP should gear itself towards encouraging rationalisation and flexibility of rules of origin (ROOs). Gains can be gained from a simplified approach to ROO in East Asia, involving harmonised ROOs, co-equality of rules and accumulation of value contents (Kawai and Wignaraja, 2011)[5].

Table 4: Country-Wise Membership in Agreements

	FTAs^	WTO	RCEP	TPP	APEC
Brunei	Y (16)	Y	Y	Y	Y
Cambodia	Y (10)	Y	Y	--	--
Indonesia	Y (20)	Y	Y	--	Y
Laos	Y (12)	Y*	Y	--	--
Myanmar	Y (11)	Y	Y	--	--
Malaysia	Y (25)	Y	Y	Y	Y
Philippines	Y (13)	Y	Y	--	Y
Singapore	Y (36)	Y	Y	Y	Y
Thailand	Y (25)	Y	Y	--	Y
Vietnam	Y (17)	Y	Y	Y	Y
China	Y (26)	Y	Y	--	Y
Rep of Korea	Y (31)	Y	Y	--	Y
Japan	Y (23)	Y	Y	--	Y
India	Y (33)	Y	Y	--	--
Australia	Y (21)	Y	Y	Y	Y
New Zealand	Y (19)	Y	Y	Y	Y
USA	Y (14)	Y	--	Y	Y
Russia	Y	Y	--	--	Y

Note: Y implies yes, a member, -- not yet a member,
^ includes TPP and Comprehensive Economic Partnership for East Asia (CEPEA/ASEAN+6);
** got membership in October 2012, though not yet ratified*
The number in the brackets gives the number of bilateral FTAs the country has either concluded or is currently negotiating.
Source: ADB ARIC Database; US FTAs (export.gov); Author's compilation

5 *Masahiro Kawai and Ganeshan Wignaraja (ed.), "Asia's Free Trade Agreements: How is Business Responding?" Asian Development Bank, the ADB Institute with Edward Elgar Publishing, 2011*

Regional trading arrangements like RCEP and TPP are expected to support the emerging international production network (IPN). It is claimed that there is a positive relationship between production network and trade integration (Kimura et al, 2007[6]; Ando and Kimura, 2005[7]). However the relationship can work both ways. While deep trade agreements can stimulate production network by facilitating trade among potential members of supply chain, countries involved in international production fragmentation are willing to sign deeper trade agreements so as to formalise their role as providers of intermediate goods and services.

East Asia has emerged as a dominant base of global manufacturing for the electronics industry, especially for assembly and component manufacturing. In the automobile industry, Japanese assemblers are taking advantage of the regional trade liberalisation programme to streamline production facilities and to facilitate the division of labour in ASEAN countries so as to benefit from regional scale of production. Keeping this in mind, RCEP and TPP may give more priority to certain service sectors (transportation, telecommunications, ICT, logistic and financial services) that can contribute to or take advantage of the formation of international production and distribution networks.

POSSIBLE CONCERNS

There is some concern about competition between TPP and RCEP, since the regional pacts have similar objectives over trade liberalisation and economic integration. These two agreements may also come into direct conflict due to the rivalry between the US and China[8], as each of these powers seeks to shape economic cooperation in the Asian region and cement their economic interests. Besides, any competition between these two agreements may lead to disunity within ASEAN, which may undermine the organisation's centrality in the region. While Brunei, Singapore, Malaysia and Vietnam are members of both RCEP and TPP, the rest of ASEAN countries are currently members of only RCEP.

It should also be noted that ASEAN FTAs are currently not uniform in structure. On trade in goods, for example, ASEAN and its six FTA partners not only use different tariff classifications[9] for their tariff concessions but also use different schedules for their FTAs with different countries. In addition, tariff concessions from the same country differ depending on the FTA involved, and tariff elimination rates are different across ASEAN+1 FTAs[10]. Trade in services and investment are not concluded for all ASEAN+1 FTAs either. While agreements on services trade are included in the ASEAN–Australia-New Zealand,

6 Kimura, F, Y Takahashi, and K Hayakawa (2007), "Fragmentation and parts and components trade: comparison between East Asia and Europe", The North American Journal of Economics and Finance, 18(1):23-40.
7 Ando, M and F Kimura (2005), "The formation of international production and distribution networks in East Asia", in T Ito and A Rose (eds.), International trade in East Asia, NBER-East Asia Seminar on Economics, 14:177-216, University of Chicago Press.
8 Rowley, Anthony; "What the TPP Is Really About," Business Times (Singapore), February 2, 2011
9 Kuno, Arata; "Constructing the Tariff Dataset for the ERIA FTA Database" (http://www.eria.org/publications/research_project_reports/images/pdf/y2010/no26/Chapter2.pdf)
10 Lim, Hank; "The Way Forward for RCEP Negotiations", East Asia Forum, December 3, 2012

ASEAN–China and ASEAN–South Korea FTAs, such was signed for the ASEAN-India FTA in December 2012 and is yet to be included for the ASEAN-Japan FTA. All these are likely to make difficult the consolidation for existing ASEAN agreements and the establishing of common rules and disciplines for further integration under RCEP.

The pace of RCEP negotiations is heavily dependent on the progress of the achievement of the ASEAN Economic Community (AEC) Blueprint by 2015. This, in turn, is dependent on domestic reforms, the alignment of the national economies to the regional initiatives and the transparency in 'behind-the-border' measures including coordination between negotiating and implementing agencies in ASEAN countries. These domestic policy supports are critical stepping stones for the timely conclusion of RCEP negotiations. In this regard, active participation of the private sector will be crucial.

The TPP is being promoted as a "Gold-standard FTA" and is expected to develop a level playing field for businesses in the Asia-Pacific by focussing on liberalising 'behind the border' measures for cross-border trade and investment, and strengthening regulatory reforms. However, currently, the nine partners are at different levels of economic development[11]. An unprecedented range of WTO Plus issues covered under TPP will require significant reforms in the domestic industrial and economic policies of most members. These will make negotiations tough, especially for developing countries in need of fundamental economic reforms and for economies that comprise largely of state-owned enterprises (SOEs).

Also, the emerging economies of China and India are not part of TPP. But all current TPP members have important strategic and economic linkages with both. Substantial economic gains can be realised if these two eventually come on board.

CONCLUDING REMARKS

To conclude, over the next few years, Asia is going to experience an increase in regional integration activities. In addition to ASEAN's own commitment to build an AEC, its member countries will be working hard to participate in RCEP and TPP, which may also undergo gradual expansion.

Both RCEP and TPP are ambitious regional trade arrangements, which are going to involve complex negotiation processes with multiple parties at different stages of economic development and sectors that may or may not be prepared for liberalisation. While it is possible that initially both TPP and RCEP may generate some competition for each other, eventually both are possible pathways to a free trade area of the Asia-Pacific (FTAAP)[12], [13].

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11 Basu Das, Sanchita and Nyunt Hman, Hnin Wint, "The Trans-Pacific Partnership (TPP): Economic and Strategic Implications for the Asia-Pacific", ISEAS Perspective, July 23, 2012.
12 http://www.fta.gov.sg/press_release%5CFACTSHEET%20ON%20RCEP_final.pdf (accessed on 31st Dec 2012).
13 The Mutual Usefulness between APEC and TPP, APEC Policy Support Unit, October 2011

RCEP and TPP, if successful, will be unprecedented accomplishments for economic integration in the Asia-Pacific. It will seek not only to deepen regional integration but also to facilitate trade through international production networks. However, the economic value of RCEP and TPP will depend on what is finally agreed upon and included in the final agreement. It will depend on the extent to which the agreement can strive for deeper "behind the border" integration measures, and reach an acceptable compromise on the challenging issues. Implementation integrity from all participating members will also be a key to its potential success.

According to Petri, Plummer and Zhai (2011), both TPP and Asian Track integrations (defined as AEC, CJK FTA, East Asia FTA) are likely to generate substantial gains and incentive for enlargement. The effect on the world economy will be small initially but by 2025, the annual welfare gains should rise to US$104 billion on the TPP track and US$303 billion on both tracks and US$862 billion with an FTAAP. For larger countries (the US and China), the benefits may be modest initially, while for smaller countries, the agreements can offer significant immediate benefits[14].

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Sanchita Basu Das is an ISEAS Fellow and is Lead Researcher (Economic Affairs) at the ASEAN Studies Centre, ISEAS, Singapore.

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14 Petri, Peter A.; Plummer, Michael G.; and Zhai Fan, "The Trans-Pacific Partnership and Asia Pacific Integration: A Quantitative Assessment", East-West Center Working Papers, Economics Series, No.119, October 24, 2011

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Editor: Ooi Kee Beng

Institute of Southeast Asian Studies
30, Heng Mui Keng Terrace
Pasir Panjang,
Singapore 119614
Main Tel: (65) 6778 0955
Main Fax: (65) 6778 1735

Homepage: www.iseas.edu.sg