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RCEP: Going Beyond ASEAN+1 FTAs

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During the 21st ASEAN Summit in November 2012, Asia is going to see yet another regional arrangement come into being. This one will be called the Regional Comprehensive Economic Partnership (RCEP), the framework of which was endorsed by Leaders at the 19th ASEAN Summit in November 2011¹. The RCEP takes into account the East Asia Free Trade Agreement (EAFTA) and the Comprehensive Economic Partnership in East Asia (CEPEA) initiatives, with the difference that the RCEP is not working on a pre-determined membership. Instead, it is based on open accession which enables participation of any of the ASEAN FTA partners (China, Korea, Japan, India and Australia-New Zealand) at the outset or later when they are ready to join. The arrangement is also open to any other external economic partners.

The objective of RCEP is to attain a comprehensive and mutually beneficial economic partnership agreement that is expected to involve deeper engagement and improve over the existing ASEAN FTAs with Dialogue Partners.

The three RCEP Working Groups on Trade in Goods, Services and Investments, involving ASEAN Member States and the FTA Partners have already been established. With these preparations underway, one needs to look into the relevance and the differentiating factor for the RCEP that can add value to the efforts already in progress for regional economic cooperation.

¹ <http://www.aseansec.org/26744.htm>

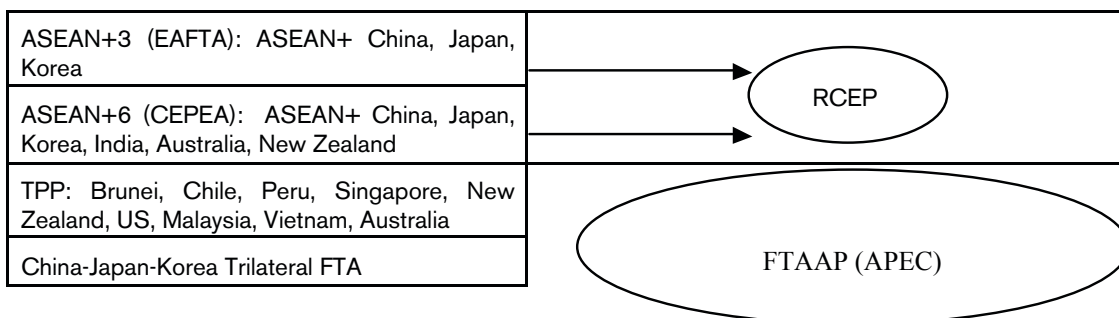
RELEVANCE OF RCEP FOR ASEAN

With not much progress in the WTO Doha Round, RCEP validates the fact again that it is easier for two countries or a small groups of countries, who are “like-minded” trading partners, to work together on a common ground of economic cooperation. These enable the negotiating countries to achieve faster results. Besides, the economically dynamic Asian countries felt the importance of bilateral and plurilateral FTAs for the continued liberalization of trade in goods and services, as well as the adoption of WTO-plus issues (like, trade facilitation, investment, government procurement and competition policy)². Hence, as of June 2010, East Asia witnessed 47 FTAs in effect and another 90 in different stages of development.

RCEP is expected to further entrench ASEAN Centrality, which assumes that ASEAN, instead of the bigger economies like those of China, Japan, the US or India, should be the hub of developing a wider Asia-Pacific regional architecture. This is severely challenged amidst the rapid pace of regional economic cooperation arrangements evolving in the region. These include the Asia-Pacific Economic Cooperation (APEC), the East Asia Summit (EAS), the Trans-Pacific Partnership (TPP) and the China-Japan-Korea Trilateral FTA (*Table 1*). RCEP, in this context, is important, and can demonstrate ASEAN's capability to bring together its own ten members and external partners for economic growth, development and harmonisation.

Moreover, RCEP, based on the “ASEAN++” formula can be seen as a good compromise between EAFTA, which is based on the ASEAN+3 formula and thus favoured by China, and CEPEA, which is based on the EAS and thus favoured by Japan (and Singapore and Indonesia).

Table 1: Efforts under Various Frameworks



It should be noted that ASEAN works on a principle of “all for one and one for all”, as a key component of its foreign economic relations. But several of the regional trade integration processes, like the TPP³ and the APEC's FTAAP⁴ do not include all ASEAN member states.

² Trade agreements that contain more stringent obligations than the WTO multilateral trade regime requires.

³ The current form of TPP includes Singapore, Brunei, Malaysia and Vietnam from the ASEAN region.

⁴ Among the ASEAN countries, APEC includes Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam.

The leaders believe that ASEAN need to forge closer ties, forming common positions on numerous issues, in order to negotiate with bigger economic partners or other regional groupings.

The TPP, originally known as the Trans-Pacific Strategic Economic Partnership Agreement with only four members (Brunei, Chile, New Zealand and Singapore), has been announced as a “gold standard” FTA in 2011. The new TPP⁵, with another five members negotiating, is expected to cover issues of not only a regular FTA but also provisions for protecting intellectual property; creation of investor-friendly regulatory frameworks and policies; and other emerging issues, including measures to ensure that state-owned companies “compete fairly” with private companies⁶. These issues, though seen as crucial for the next wave of economic integration, may be very difficult to be satisfied by the developing countries in the region. With a grand promotion of TPP by the US on potential benefits and real opportunity costs of trade liberalization, it seems to have cornered ASEAN states. By contrast, the flexibility principle in the RCEP, such as “the agreement can be accomplished in a sequential manner or single undertaking or through any other agreed modality” and “the agreement shall provide for special and differential treatment to ASEAN Member States”⁷ provides a more generous consideration of each state's development needs.

CRITICAL SUCCESS FACTORS

RCEP needs to be a business-friendly regional integration process, which should maximize the benefits and lower the cost of the businesses. To maximize benefits, RCEP should incorporate the following principles:

1. consistency with WTO rules, particularly the General Agreement on Tariffs and Trade and General Agreement on Trade in Services;
2. comprehensive coverage of WTO- plus issues;
3. openness to new members, keeping in mind the production network developing on the global platform; and
4. focus on domestic structural reforms, which is a key factor for the implementation process later.

RCEP should be developed in partnership with the business community, who believes in economic efficiency. The RCEP negotiation and implementation process must have well-balanced representation of policy makers and the private sector. This way the agreement between a small group of countries can also reflect the interest of the private sector, especially in “behind the border” integration measures, which would increase the probability of the usage of the initiative once it is implemented. The existing initiatives of economic

⁵ Five additional countries – Australia, Malaysia, Peru, the United States, and Vietnam – are negotiating to join the TPP.

⁶ Sanchita Basu Das and Hnin Wint Nyunt Hman, “The Trans-Pacific Partnership (TPP): Economic and Strategic Implications for the Asia-Pacific”, ISEAS Perspective, July 23, 2012.

⁷ ASEAN Framework for Regional Comprehensive Economic Partnership (ASEAN Secretariat, 2011)

cooperation suffer from lack of awareness among the ultimate beneficiaries, and hence a low level of usage by the private sector.

RCEP is expected to bring another choice into the trade policy marketplace. But according to several trade economists, with multiple FTAs in the region, the international trading system is likely to become disordered. They argue that trade liberalization under multiple overlapping FTAs can cause problem as the same commodity can be subject to different tariffs, tariff reduction timelines and Rules-of-Origins (ROOs) for obtaining preferences (*Table 2*). This can raise transaction costs for businesses. In these circumstances, RCEP should be able to address the “spaghetti bowl” effect of FTAs. It should encourage rationalization and flexibility of ROOs. It is believed that gains can be made from pursuing a simplified approach to ROOs in East Asia involving harmonized ROOs, coequality of rules and cumulation of value contents (Kawai and Wignaraja, 2011)⁸.

Table 2: Different ROOs in FTAs: Selected products

Product (HS Code)	AFTA	ASEAN-China FTA	ASEAN-Korea FTA	ASEAN-Japan CEPA	US-Singapore FTA
Electronic (integrated circuits)	CTC or 40% RVC	40% RVC	CTC or 40% RVC	CTC or 40% RVC	CTC
Parts and accessories for motor vehicles	40% RVC	40% RVC	45% RVC	40% RVC	6-digit CTC or CTC plus 30% VC (build-up)
Woven fabrics of cotton	CTC; or 40% RVC; or process criterion for textile products	40% RVC; or process criterion for textile and textile products	CTC or 40% RVC	CTH or CTC plus material is dyed or printed in either party's area; or non-originating material is woven entirely in any party's area	CTH

Note: AFTA is Association of Southeast Asian Nations Free Trade Area; CEPA is Comprehensive Economic Partnership Agreement; CTC implies change in tariff classification; CTH implies change in tariff heading; HS = harmonized system; RVC means regional value content; VC means value content.

Source: Kawai and Wignaraja (2011)

⁸ 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

Attached with the varying ROOs is also the administration system (issuing authority of certificate of origin and application method), which also varies across the states of East Asia. While for some countries, issuing authority is held by customs agencies, other countries use third-party certification (such as through the chambers of commerce) or government certification. The mode of the application process also varies between nations. Some countries like Singapore and South Korea rely on electronic systems administered by private sector bodies and others use a paper-based system administered by public institutions. RCEP should be able to adopt best practices in ROO administration from East Asia or other parts of the world that particularly aim for lowering transaction and time cost. Information technology should be used wisely and training programmes should be readily available for the smaller business enterprises.

At present, China and India, which are US\$7.3 trillion and US\$1.7 trillion economies respectively, are not a part of TPP negotiations. China offers enormous potential for the small and export-oriented ASEAN members as intra-industry trade takes up a large portion of China-ASEAN trade. On other hand, India offers lot of complementarities in the services sector. Agreement by both or either of these economies to join the RCEP can act as an important differentiating factor for it vis-à-vis TPP.

Finally, RCEP should learn from the experiences of other regional cooperation initiatives in East Asia. For example, since non-tariff barriers (NTB) are an important issue in trade integration, they should be given a priority from the beginning. It is necessary to create and maintain a database on NTBs to trade on the basis of surveys of relevant firms. If some NTBs are necessary, RCEP must (a) develop regional standards and subject the NTBs to them, (b) streamline and regionally harmonize licensing and customs procedures, and (c) develop common approaches to testing methods and conformity assessments.

Another area where RCEP could make a change and unleash maximum potential benefit, is the 'trade in services'. RCEP, being driven by ASEAN, should bear in mind that liberalising the services sector is a very sensitive issue for the nations, especially when the services sector accounts for more than 50 percent of its GDP. Maybe, it would be more appropriate if RCEP adopts a sector-wise liberalization process, identifying the sectors that has immense potential and that can generate faster results (for example, tourism and the related services).

CONCLUSION

RCEP is envisioned to enhance market access with due consideration given to the stages of economic development of its members. This is likely to be more appealing for ASEAN and other developing countries in the region, as opposed to "no gold standard, no deal". RCEP is expected to promote integration of the production process in the wider Asian region; and provide more complementary options, including lower transaction costs to businesses, in addition to existing ASEAN+1 FTAs.

But much depends on how ASEAN drives its own integration effort of forming an ASEAN Economic Community (AEC) by 2015 and the years later. With the global economy still struggling with uncertainties, ASEAN can offer much more to domestic and foreign investors by having a single market and production base. Moreover, as ASEAN is striving to be in the driver's seat in the efforts of global economic rebalancing, it is important for the region to deliver on its promises as made under the AEC Blueprint.

In future, it remains to be seen how multi-track and the multi-speed arrangements develop in the region. For the initial period, we may see APEC, TPP and RCEP tracks exist in parallel with friendly rivalry. This is mainly because all have different economic coverage of countries, speed of negotiation and depth of integration (*Table 3*). But in the long run, policy makers may have to look for ways to develop complementarity as this will optimise the use of resources of the member economies and will result in better distribution of benefits among stakeholders.

Table 3: TPP vs. RCEP

	TPP	RCEP
Economic Coverage, 2011*		
GDP (% global share)	25.6	28.4
Merchandise trade (% global share)	16.3	27.7
Population (% global share)	7.3	47.9
Speed Negotiation	<ul style="list-style-type: none"> • Started in March 2010 • "Broad Outline" achieved by November 2011 • 14th round of TPP negotiations taking place in Leesburg, Virginia from September 6-15, 2012. 	<ul style="list-style-type: none"> • Not yet started
Depth Issues Covered	<ul style="list-style-type: none"> • include trade in goods, services and investment <ul style="list-style-type: none"> • trade facilitation • IPR, competition policy, government procurement, labour and environment. 	<ul style="list-style-type: none"> • Three Working Groups on trade in goods, trade in services and investment

* Estimates of TPP include Brunei, Chile, New Zealand, Singapore, the US, Peru, Malaysia, Vietnam and Australia and estimates of RCEP include ten ASEAN countries and the six FTA partners (Australia-New Zealand, China, India, Korea and Japan)

Source: IMF World Economic Outlook (April 2012), WTO Database, news reports and author's calculation

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