Mega-regionals in Asia

TPP, RCEP, and EAEU

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Outline of this presentation

- RTAs have proliferated in recent years, to which Asia Pacific economies have become major contributors
- Our focus here will be:
  - The Trans-Pacific Partnership (TPP);
  - The Regional Comprehensive Economic Partnership (RCEP);
  - The Eurasian Economic Union (EAEU)

Trans-Pacific Partnership

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TPP: by the numbers

- The largest regional trade agreement in Asia
- Currently comprises 12 Asia Pacific economies:
  - Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Viet Nam
  - Other economies may join in
- Accounts for:
  - Close to 800 million people
  - 39% of the world's GDP
  - Over 30% of world's imports and 24% of world's exports

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What the Agreement entails

The TPP is significant because it:

- Upgrades existing arrangements, as it aims to
  - Expand liberalization commitments to WTO+ level
  - Expand to WTO-beyond areas (Singapore issues etc.)
- Creates new FTA relationships (see mapping)
- Establishes new networks, including the creation of deeper supply chain connections between Asia and the Americas

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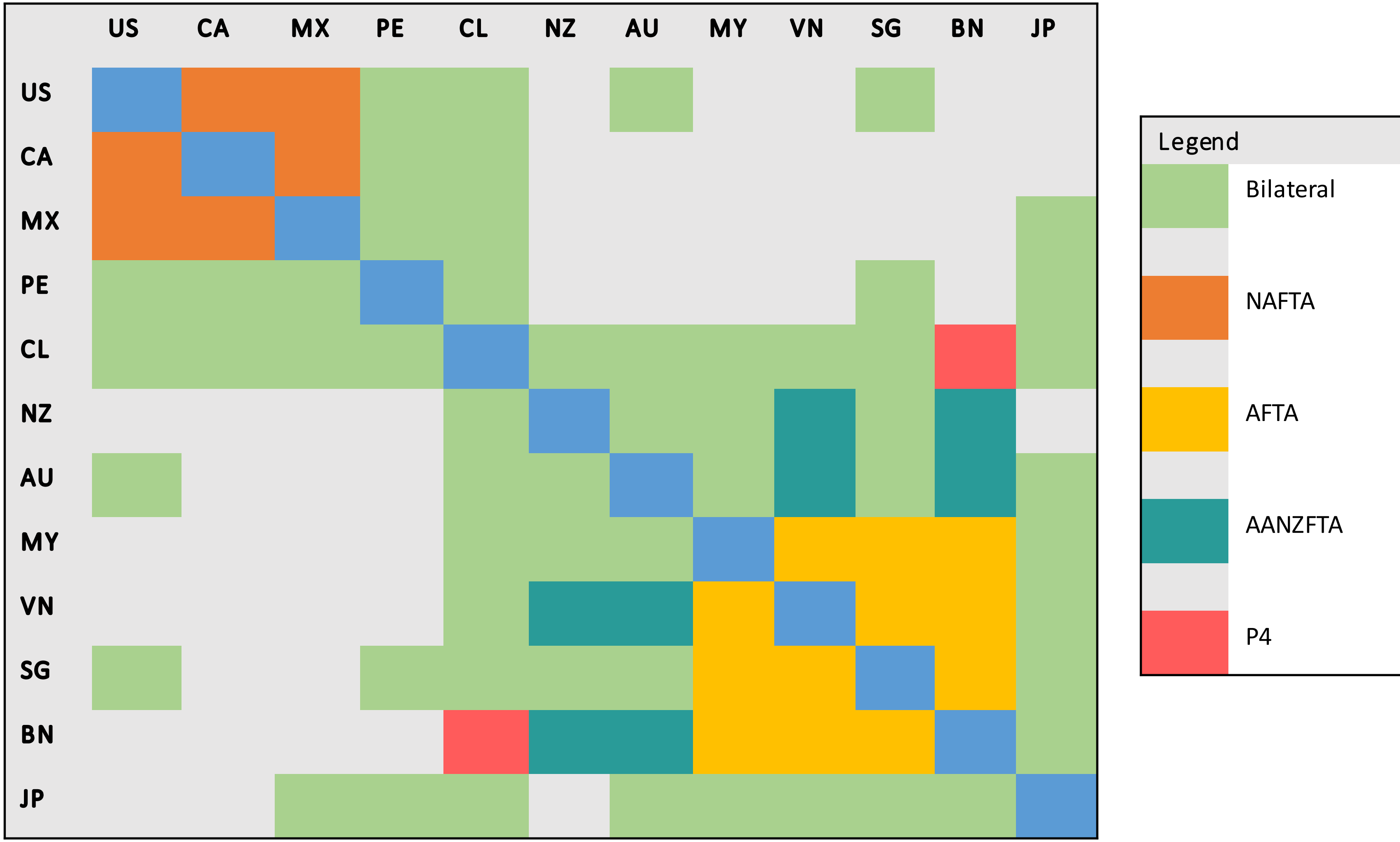
Mapping of bilateral agreements



What the Agreement entails

The TPP is often marketed as a 21st century trade deal that reaches well beyond borders into national regulations:

- Covers areas besides barriers on trade in goods
  - services trade (with negative approach commitments), intellectual property rights, and e-commerce
- Phases out protectionist policies and institutes stronger enforcement of intellectual property rights
- A novel ISDS for a plurilateral deal centered in Asia

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Unique features of the Agreement—in goods

- Tariffs will be completely eliminated on 90% of all products the moment it becomes effective
  - Other FTAs institute more gradual duties elimination
  - More reductions will be phased in, such that close to 98% of all goods will incur zero tariffs overtime
- TPP allows for advance customs rulings
  - The Agreement's Advanced Ruling mechanism allows exporters and importers to obtain determinations on tariff classification and valuation that are binding throughout an applicable period

Unique features of the Agreement—in goods

- TPP allows for voluntary customs disclosures and self-certification of origin
  - In other FTAs, firms must apply for COs, which usually have limited validity periods, require a fee, and are issued by Chambers of Commerce
  - The TPP streamlines this process by allowing importers and exporters to self-declare that they have met the RoO criteria

Unique features of the Agreement—in goods

- TPP makes regional cumulation of origin possible and permits trans-shipment
  - Under the agreement, businesses can more easily source raw materials, labor, parts, and components from suppliers throughout the TPP, create products, and qualify for lower tariff rates or duty-free entry into other TPP markets
  - The TPP supports global value chains and especially benefits firms that would benefit from integrated sourcing.

Unique features of the Agreement—others

- Services – negative list approach
- IPR – changes of patent timing and other provisions
- Investment – ISDS and some other provisions
- Cooperation
- Standards
- Above and other issues will be touched upon in the rest of the presentation

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Some points to keep in mind—impact

- Gains estimated as high as $¼ trillion (relates to the estimate in several high profile studies of the impact on worldwide GDP of TPP's implementation, see list of references)
  - This estimate relates to the impact on the global economy 10 years from now
- In terms of adverse impact on non-TPP countries, even by 2025 these are estimated to be only:
  - 0.2% of China's GDP
  - 0.1% of India's GDP
  - Less than 1% of EU GDP

Some points to keep in mind—ratification

The Agreement is currently undergoing a two-year ratification period. The TPP can enter into force in three ways:

- The agreement is ratified by all countries within 2 years. It comes into effect 60 days after the 12th TPP member completes its ratification
- In the event that not all original signatories have ratified the deal within a period of two years, min. 6 countries that account for 85% of the combined GDP throughout TTP have to ratify the final text <u>within two years</u> for the deal to be implemented. Given their sizes, the US and Japan have to ratify the deal
- In the event the TPP does not enter into force under previous two provisions, it will enter into force 60 days after min. 6 countries that account for 85% of the combined GDP throughout TTP ratify the final text

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Some points to keep in mind

ACCESSION:

TPP is open to accession by countries or customs territories that are members of APEC and any other country as agreed upon by present member states. A future signatory must comply with the obligations, subject to conditions that are agreed upon by the signatory and the member states

WITHDRAWAL:

Any member may withdraw from TPP by providing six months notice of withdrawal, unless the member states agree on a different period.

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Some points to keep in mind—for members

- While the 12 members may well undertake a considerable portion of global trade, much of that will not be affected by the TPP
  - Current WTO provisions mean that many TPP parties will continue to pay zero or very low tariffs on a wide range of products
  - Many TPP members already have exiting trade agreements in place with other participating countries

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Some points to keep in mind—for businesses

- TPP may not necessarily be more beneficial for specific industries than existing agreements. For instance:
    - The Singapore-US agreement covers virtually every tariff line. If a firm produces an item all in Singapore and exports it to the US, there could be products that the firm could ship with zero tariff under agreements that it couldn't under TPP.

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Some points to keep in mind

	Encompassed Regional Trade Agreements				
	1 ASEAN	2 ASEAN-Australia-NZ	3 ASEAN-Japan	4 P-4	5 NAFTA
Australia		●			
Brunei	●	●	●	●	
Canada					●
Chile				●	
Japan			●		
Malaysia	●	●	●		
Mexico					●
New Zealand		●		●	
Peru					
Singapore	●	●	●	●	
United States					●
Vietnam	●	●	●		

(2012, $billions)

Concerns about the TPP—ISDS

The inclusion of the investor-to-state dispute settlement (ISDS) clauses allow foreign investors and firms to challenge governments over policies that harm their interests

- Foreign investors can seek compensation from the national government for enforcing regulations
- The ISDS provision includes an MFN clause that enables foreign corporations throughout the TPP region to sue a member-state based on the ISDS provisions in *any other* trade agreement that specific country has signed, regardless of the country that deal was signed with

Concerns about the TPP—IPR

All signatories will be required to conform parts of their domestic laws and policies to the TPP provisions. The IP chapter would require significant changes to member countries' copyright laws, including obligations to:

- Expand copyright protection, trademark, and pattern law beyond the period established in the 1994 Agreement on Trade-Related Aspects of Intellectual Property Rights
- For other countries other than Canada and Chile to adopt the U.S. Digital Millennium Copyright Act (DMCA)

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Regional Comprehensive Economic Partnership

RCEP: by the numbers

- A comprehensive FTA under negotiation encompassing goods, services, investment, competition, and IPR
- Membership: ASEAN + 6 Free Trade Partners (Australia, China, India, Japan, New Zealand, and Republic of Korea)
- Accounts for:
  - 3.4 billion people—over 45% of global population
  - 28% of world imports and 30% of world exports
  - Close to 30% of global GDP

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Map of the RCEP

Possible objectives

To what extend is the RCEP motivated by trade objectives?

- The agreement aims to harmonize existing FTAs between ASEAN and its 6 Free Trade Partners
- However, the RCEP is between partners that already trade extensively across low barriers

The making of RCEP is potentially motivated as much by political rationales as by trade objectives:

- Strategic rationales potentially explain China’s significant role in the RCEP
- Expression of a regional objective or relationship

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Possible objectives: ASEAN

There are limited intra-ASEAN trade (25%) and investment (16%). China, Japan, and Republic of Korea are major trade and investment partners:

- FDI in ASEAN: Japan (11%), China (4%), and Republic of Korea (5%)
- Export markets of ASEAN: Japan (12%), China (10%)
- Import sources of ASEAN: Japan (11%), China (13%)
- Major imports and exports of ASEAN are parts and components of electronics and automotive products

What does RCEP cover?

On physical goods, the RCEP aims to progressively eliminate tariffs on almost all trade in goods to establish a free trade area

- Early tariff elimination on products of interest to the least developed ASEAN countries will be prioritized to accommodate these countries

- RCEP countries had agreed to reduce tariffs on 65% of trade in goods to zero immediately, while tariff for 20% of trade in goods will be reduced to 0 within 10 years after implementation of RCEP. The remaining 15% is subject to future negotiations

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What Does RCEP Cover?

On Trade in Services (TIS), it substantially eliminates restrictions and discriminatory measures on trade in services throughout the RCEP region.

RCEP will also cover technical cooperation, intellectual property rights, legal and institutional matters, and other relevant emerging issues.

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RCEP on ASEAN economies

The RCEP is aligned with ASEAN’s objective to improve internal economic integration and so the progress of the AEC.

Given its coverage on all ASEAN members and its aim to accommodate less developed member countries, the Agreement is expected to bring income gains that are more balanced among ASEAN member states.

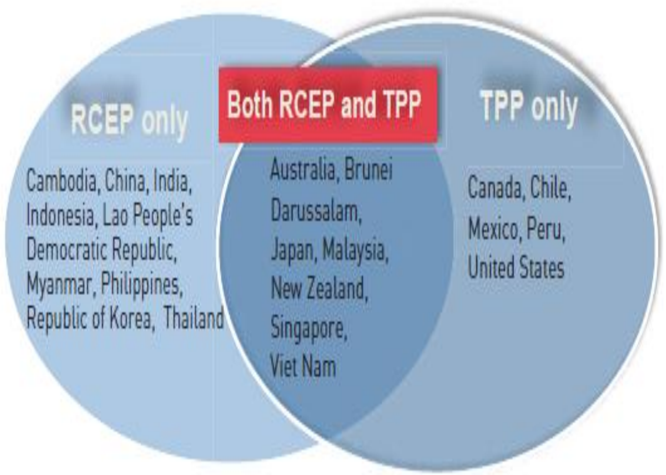
Comparison between RCEP and TTP

TABLE 6.1 Comparison of the combined economic size, populations and imports of the Regional Comprehensive Economic Partnership and Trans-Pacific Partnership

	GDP (Trillions of dollars; percentage in world)	Population (Millions; percentage in world)	Imports Billions of dollars; percentage in world)
Regional Comprehensive Economic Partnership	21.2 (29.6%)	3 400 (49.0%)	5 070 (27.7%)
Trans-Pacific Partnership	27.6 (38.5%)	790 (11.4%)	5 090 (30.6%)
Memo item: Asia Pacific Trade Agreement*	11.4 (15.8%)	2 816 (40.5%)	2 746 (14.8%)

Source: ESCAP calculation, based on IMF World Economic Outlook Database (accessed July 2014).

* including six current Participating States and Mongolia.



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Comparison between RCEP and TTP

- Stakeholders' involvement:
  - RCEP is virtually a government-to-government negotiation
  - Through rounds 6 to 18, businesses, trade associations, and NGOs were welcomed to contribute to the TPP negotiations
- Approaches:
  - The RCEP accepts that member states reduce trade barriers at different rates and makes limited demands for regulatory harmonization
  - TPP explicitly aims to be the gold standard of PTAs with few exemptions and more demand, extensive regulatory commitments

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Potential impacts of mega-blocs

- Possibility of cancel up to 52 current agreement connecting members within TPP and RCEP groups (70% of intra-Asian RTAs are among ASEAN + 6)
- Creation of parallel governance that may affect WTO
- Impact of the RCEP and TTP on ASEAN economic integration and cooperation
- Preference erosion due to S-S and N-S FTAs

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Toward the FTAAP

The benefits from an ambitious FTAAP could be substantial in view of the enormous economic size of the group: 58% of global GDP.

The economic benefit however would depend on the level of liberalization, the final number of members, and whether FTAAP could trigger consolidation of overlapping existing regional arrangements:

- Progress of TPP and RCEP will heavily influence the future of regional integration
- Possible pathways towards broader liberalization in FTAAP—discussion and options currently being considered in APEC forum

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Eurasian Economic Union

EAEU: An economic union

- Membership: Russian Federation, Belarus, Kazakhstan, Kyrgyzstan, and Armenia
- Structurally modeled on the EU, comprising a single market with its commission, court, and bank based in Moscow, Minks, and Almaty, respectively
- Started as a customs union on January 1, 2010, between Belarus, Kazakhstan, and Russia
  - Followed by a declaration on Eurasian economic integration on November 18, 2011, and the commencement of the functioning of Single Economic Area on January 1, 2012
  - The Treaty on the EEU entered into force on January 1, 2015

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EAEU’s common markets

Framework currently underway:

- A framework of common market of services was created in 2015
- Common labor market was launched in 2015A legal framework for a common EEU financial market is currently being formulated
- Relevant documents of common energy and transport market have been adopted
- Customs Code is currently being drafted

Implementation of common markets:

- By 2016: Medicine and medical services
- By 2019: Energy market
- By 2025: Financial markets and overall oil markets

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The Silk Road economic belt

The Agreement on Trade and Economic Cooperation of the EAEU and China:

- Negotiations began on May 8, 2015
- Implementation of this Agreement will contribute to the projects of Silk Road economic belt

Silk Road economic belt:

- Involves the creation of infrastructure projects in railways, road transport, energy, industrial parks
- With this project, the EEU aims to be an effective transit bridge between the European Union and the Asia Pacific—an effective economic area from the Atlantic to the Pacific

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Concerns about the EAEU

- Global economic slowdown, weakening growth in oil-exporting countries (including Russia) due to tumbling oil prices
- Depreciation of Ruble increase trade tensions
- Possibility of monetary union?

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Thank you

Q&A

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