The Role of Mega Regional FTAs in the Age of Uncertainty

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• Global uncertainty: Lack of progress on WTO DDR, US President Trump’s policy, Brexit
• Slow growth of trade relative to GDP
• The role of mega-regional FTAs has become increasingly important
• The Asia-Pacific region has seen some successes and on-going negotiations of mega regionals
  □ ASEAN Economic Community (AEC)
  □ TPP11, Japan-EU Economic Partnership Agreement
  □ RCEP (and CJK FTA)
• How can low and middle-income countries, particularly small ones, benefit from such a trend?
Introduction: Global uncertainty

• Rising sentiments of anti-globalization: Slow progress of the WTO Doha Round; Brexit; and President Trump’s “America First” policy
• Brexit: A sudden change in the rule of the game governing trade, investment and finance on the part of the UK
• The Trump Administration marking a major shift of US economic diplomacy
  □ A nationalistic "America First" approach with protectionist and mercantilist flavor
  □ Opposition to multilateral negotiations and institutions in favor of bilateral negotiations to maximize US leverage
President Donald Trump’s trade policy

• President Trump wants to make America great, reduce US trade deficits by:
  □ placing major pressures on countries that have large bilateral trade surpluses with the United States such as China
  □ withdrawing from TPP
  □ renegotiating NAFTA
  □ renegotiating the US-Korea FTA
• Trump prefers bilateral trade deals to multilateral ones such as TPP
• What would be the implication of his policies for Asia?
# US bilateral trade balances, 2016

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<thead>
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<td>1,460</td>
<td>752</td>
<td>2,212</td>
<td>2,210</td>
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<td>2,713</td>
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<td>116</td>
<td>54</td>
<td>170</td>
<td>463</td>
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<tr>
<td>Euro Area</td>
<td>201</td>
<td>147</td>
<td>348</td>
<td>328</td>
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<td>31</td>
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<td>Mexico</td>
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<td>31</td>
<td>262</td>
<td>300</td>
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<td>Japan</td>
<td>64</td>
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<tr>
<td>Italy</td>
<td>17</td>
<td>9</td>
<td>25</td>
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<tr>
<td>India</td>
<td>22</td>
<td>20</td>
<td>42</td>
<td>46</td>
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<tr>
<td>Korea, Rep</td>
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<td>22</td>
<td>64</td>
<td>71</td>
<td>11</td>
<td>81</td>
</tr>
<tr>
<td>Canada</td>
<td>267</td>
<td>54</td>
<td>322</td>
<td>284</td>
<td>30</td>
<td>313</td>
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<tr>
<td>Other</td>
<td>760</td>
<td>415</td>
<td>1,176</td>
<td>779</td>
<td>250</td>
<td>1,026</td>
</tr>
</tbody>
</table>

Source: Compiled by the author from trade data of the Bureau of Economic Analysis, US Department of Commerce.

[https://www.bea.gov/iTable/iTable.cfm?reqid=62&step=1&isuri=1#reqid=62&step=2&isuri=1&6210=1](https://www.bea.gov/iTable/iTable.cfm?reqid=62&step=1&isuri=1#reqid=62&step=2&isuri=1&6210=1)
Trade and FDI in Asia

Exports and imports of goods & services

Exports of goods & services (% of GDP)
Imports of goods & services (% of GDP)

Source: World Bank, World Development Indicators dataset:
Global trade slowdown

• The global trade/GDP ratio has been growing slowly or flat since the GFC, with Asia’s trade declining after reaching a peak in 2007-12

• Reasons for slower growth of trade/GDP ratios
  □ Cyclical factors: Changes in the demand composition weak trade finance; a rise in trade protection
  □ Structural factors: Diminishing marginal gains from technology improvements; maturation of global value chains; China's economic rebalancing

• China’s economic rebalancing:
  □ A shift away from investment-led growth to consumption-led growth (toward less trade-intensive growth)
  □ A shift away from manufacturing-driven to services-driven growth (toward less-trade intensive growth)
Inward and outward FDI stock

Inward FDI stock (% of GDP)

Outward FDI stock (% of GDP)

Source: World Bank, World Development Indicators dataset:
Rising FDI stock/GDP ratios

• However, the FDI stock/GDP ratios have continued to rise globally.

• The only exception is China’s inward FDI stock/GDP ratio which reached its peak in the late 1990s, declined until 2009, and then started to rise very slowly.

• Inward FDI stock and outward FDI stock (as a ratio of GDP) continued to rise as a trend in most countries and regions.
Possible policy responses

• Restoration of economic growth:
  - Growth strategy and productivity increases
  - Improving business environments for inventions, innovation, technological improvements—investment in human capital, R&D, rule of law

• Expansion of global and regional value chains to other developing countries (South Asia, Sub-Saharan Africa, Latin America)

• Limiting protectionist measures

• Liberalization of trade in goods and services—WTO DDR, multilateral agreements, and mega-regional FTAs
Mega-regional FTAs in Asia

- ASEAN Economic Community (2015)
- Formation of ASEAN+1 FTAs completed
- Following US President Trump’s withdrawal from the TPP, Japan took leadership in the negotiation of TPP11 with other TPP member countries, which reached a broad agreement to implement it in November
- A broad agreement on Japan-EU EPA reached
- Negotiations on RCEP (and a CJK FTA) underway
# 4 pillars of ASEAN Economic Community

<table>
<thead>
<tr>
<th>Pillars</th>
<th>Core Elements</th>
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<tbody>
<tr>
<td><strong>I. Singe Market and Production Base</strong></td>
<td>(1) Free flow goods</td>
</tr>
<tr>
<td></td>
<td>(3) Free flow of investment</td>
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<tr>
<td></td>
<td>(5) Free flow of skilled labor</td>
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<tr>
<td><strong>II. Competitive Economic Region</strong></td>
<td>(1) Competition policy</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(4) Infrastructure development (Transport; ICT; energy; mining; infrastructure financing)</td>
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<td></td>
<td>(5) Taxation</td>
</tr>
<tr>
<td><strong>III. Equitable Economic Development</strong></td>
<td>(1) Development of small and medium enterprises</td>
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<td></td>
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<tr>
<td><strong>IV. Integration into the Global Economy</strong></td>
<td>(1) Coherent approach towards external economic relations (includes FTAs and CEPs)</td>
</tr>
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*Source: ASEAN Secretariat, ASEAN Economic Community Blueprint (2008)*
Why TPP11?

• TPP11 can be a model for the 21st century trade and investment rules in the Asia-Pacific region, even though 23 provisions and rules (mostly related to IPR, ISDS) will be frozen until the US returns

• The US can always come back to the TPP without new negotiations and all the frozen provisions and rules would be restored

• There are economic benefits to TPP11, though smaller

• TPP11 countries may acquire a certain degree of negotiating power against the US if the US proposes bilateral FTAs

• Once TPP11 is in pace, Japan and China will have incentives to conclude RCEP
  - Japan regards TPP as a long-term benchmark for RCEP
  - China has an interest in forging a mega-FTA where it can play a major role
Share of GDP in TPP members’ total GDP

Case of TPP12: Including the US

Case of TPP11: Excluding the US

Note: Data are for 2013 GDP
Source: Computed from IMF, World Economic Outlook database, October 2016
Economic benefits of tariff reductions under TPP12 and TPP11 (% change in real GDP)

Obstacles to the RCEP

- **RCEP**: An ASEAN-centered FTA by the ASEAN+6
  - Not as ambitious as the TPP in liberalization and rule-setting, but includes both developed and developing countries, allowing special and differential treatment for the latter
  - Focus on goods trade, services trade, investment, economic technical cooperation, intellectual property, competition policy and dispute settlement

- **Major differences among major economies:**
  - Japan wants to achieve a high degree of liberalization and include a wide range of trade and investment rules (e-commerce, IPR, competition, government procurement, etc)
  - China wants to achieve a moderate degree of trade liberalization in a way that many ASEAN countries support it
  - India is reluctant to accept even a moderate degree of trade liberalization due to fear of being exposed to highly competitive Chinese products ← India could be treated like CLMV and given longer time to achieve liberalization
Economic benefits of tariff reductions under RCEP
(% change in real GDP)

Per capita GDP of RCEP members, 2016
(US$ at current prices)

Implications for low- & middle-income countries

• Low- and middle-income countries, particularly small ones, tend to be excluded from supply chains and mega-regional FTAs, with the exceptions of
  □ East and Southeast Asia for supply chains (Vietnam and Laos & Cambodia recently joining supply chains)
  □ TPP (Vietnam, Malaysia), AEC (Cambodia, Indonesia, Laos, Myanmar, the Philippines, Vietnam) and RCEP

• By joining mega-FTAs, low- and middle-income countries can benefit through access to large markets and inward FDI

• Large countries (China, Japan, India, ROK, etc.) should make efforts to include these developing countries in mega regionals, for example by expanding RCEP membership
Conclusion

- Japan has led TPP11 negotiations:
  - The largest economy among the group
  - Japan wants to set a high-standard benchmark
  - Japan can then make some compromises in RCEP negotiations against China
- RCEP is a natural outcome of ASEAN+1 FTAs as an extension of AEC
- Large economies (China, Japan, India, the ROK) should include low- and middle-income countries in mega regional FTAs, such as RCEP
- In the medium term, it is in the best interest of all East Asian economies to also join TPP (particularly if the US returns to it) and eventually forge an FTAAP
- Asia and Europe should also aim to forge an Asia-EU FTA
<table>
<thead>
<tr>
<th>Country</th>
<th>WTO membership</th>
<th>(Date GATT signed)</th>
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<tbody>
<tr>
<td>China</td>
<td>11 December 2011</td>
<td>--</td>
</tr>
<tr>
<td>Japan</td>
<td>1 January 1995</td>
<td>(10 September 1955)</td>
</tr>
<tr>
<td>Korea, Republic of</td>
<td>1 January 1995</td>
<td>(14 April 1967)</td>
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<td>India</td>
<td>1 January 1995</td>
<td>(8 July 1948)</td>
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<tr>
<td>Australia</td>
<td>1 January 1995</td>
<td>(1 January 1948)</td>
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<tr>
<td>New Zealand</td>
<td>1 January 1995</td>
<td>(30 July 1948)</td>
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<tr>
<td>Cambodia</td>
<td>13 October 2004</td>
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<tr>
<td>Brunei Darussalam</td>
<td>1 January 1995</td>
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<td>Indonesia</td>
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<td>Lao PDR</td>
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<td>Malaysia</td>
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<td>Myanmar</td>
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<td>Philippines</td>
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<td>Vietnam</td>
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<tr>
<td>European Union</td>
<td>1 January 1995</td>
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</tr>
<tr>
<td>United States</td>
<td>1 January 1995</td>
<td>(1 January 1948)</td>
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Source: WTO website: [https://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm](https://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm)
Negotiating countries for TPP & RCEP; FTAAP

**FTAAP**

- China
- Korea
- Japan
- Australia
- New Zealand

**RCEP**

- India
- China
- Korea
- ASEAN
- Cambodia
- Lao PDR
- Myanmar
- Indonesia
- Philippines
- Thailand

**NAFTA**

- US
- Canada
- Mexico
- Chile
- Peru

**TPP**

- Brunei Darussalam
- Malaysia
- Singapore
- Vietnam

**Chinese Taipei, Hong Kong SAR, Papua New Guinea, Russian Federation**

*Source: Author*
Thank you
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