

# THE ASIAN TRADE CENTURY?

DEBORAH ELMS





# Significant Global Trade Disruption

Growing pressure on global trade regime

- Changes in attitude from largest trading partners
- Less certainty over benefits of trade

Enter COVID-19..

- Sudden, sharp shifts in both supply and demand
- Global impact
- Rapid reset for businesses

Governments under increasing pressure to protect local jobs (and still collect revenue) while keeping markets open

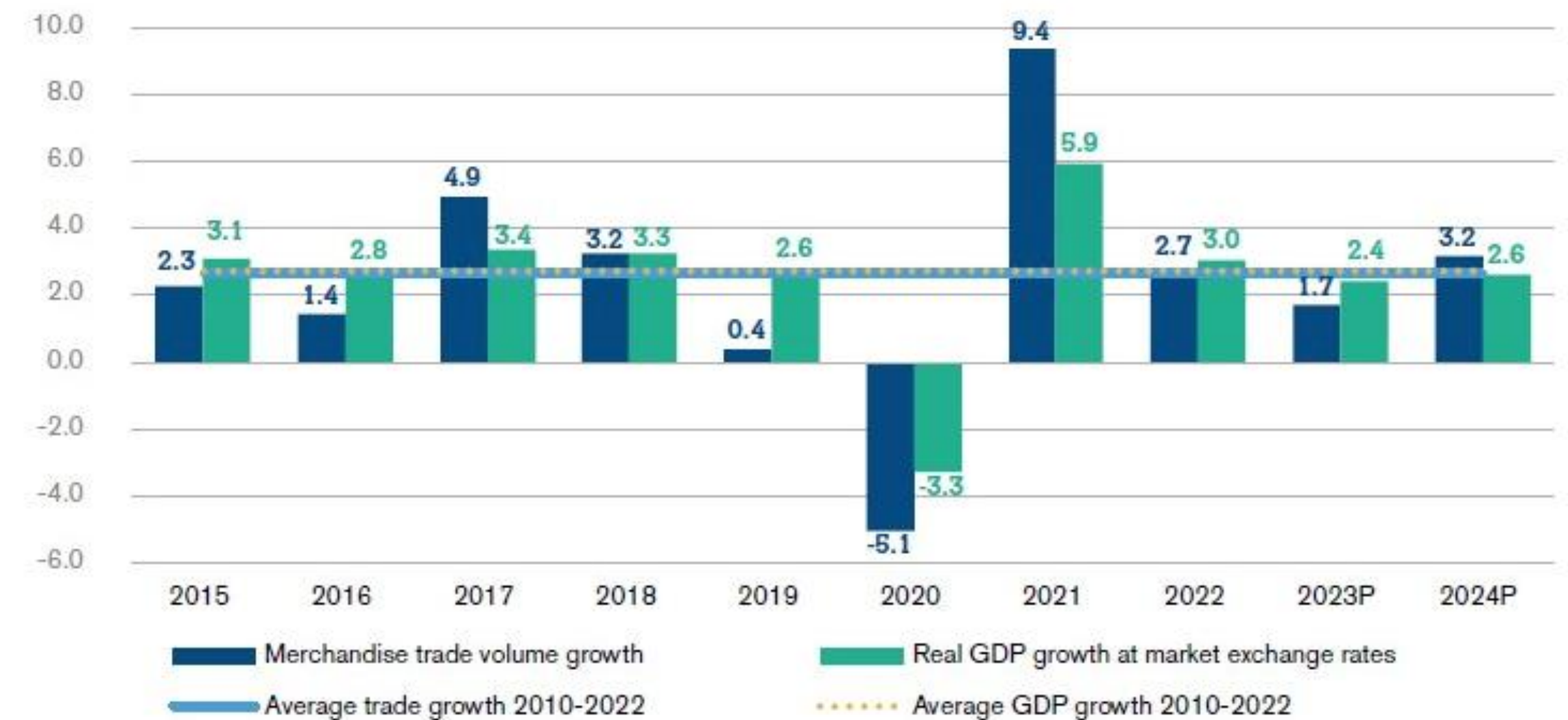
Uncertainty over extent of “decoupling” between US and China

- Some moves will impact Asia

Changing technology which may have profound effects on trade and investment flows

Chart 1: World merchandise trade volume and GDP growth, 2015-2024

Annual % change



Note: 2023 and 2024 are projections.

Source: WTO for merchandise trade volume and consensus estimates for GDP.

# Trade Agreements Can Provide Greater Certainty



Given the extent of global trade disruption, how can businesses manage to reduce risks and increase certainty?

One important and overlooked approach: using the network of Free Trade Agreements (FTAs)

FTAs do not solve all business challenges, but can be important source of lowered costs and opportunity for more foreign market share

Every FTA is different

- Some are more useful than others—deeper and broader coverage

Each FTA only works between members—cannot use one agreement to move goods to one location and then a different deal to move to a third market

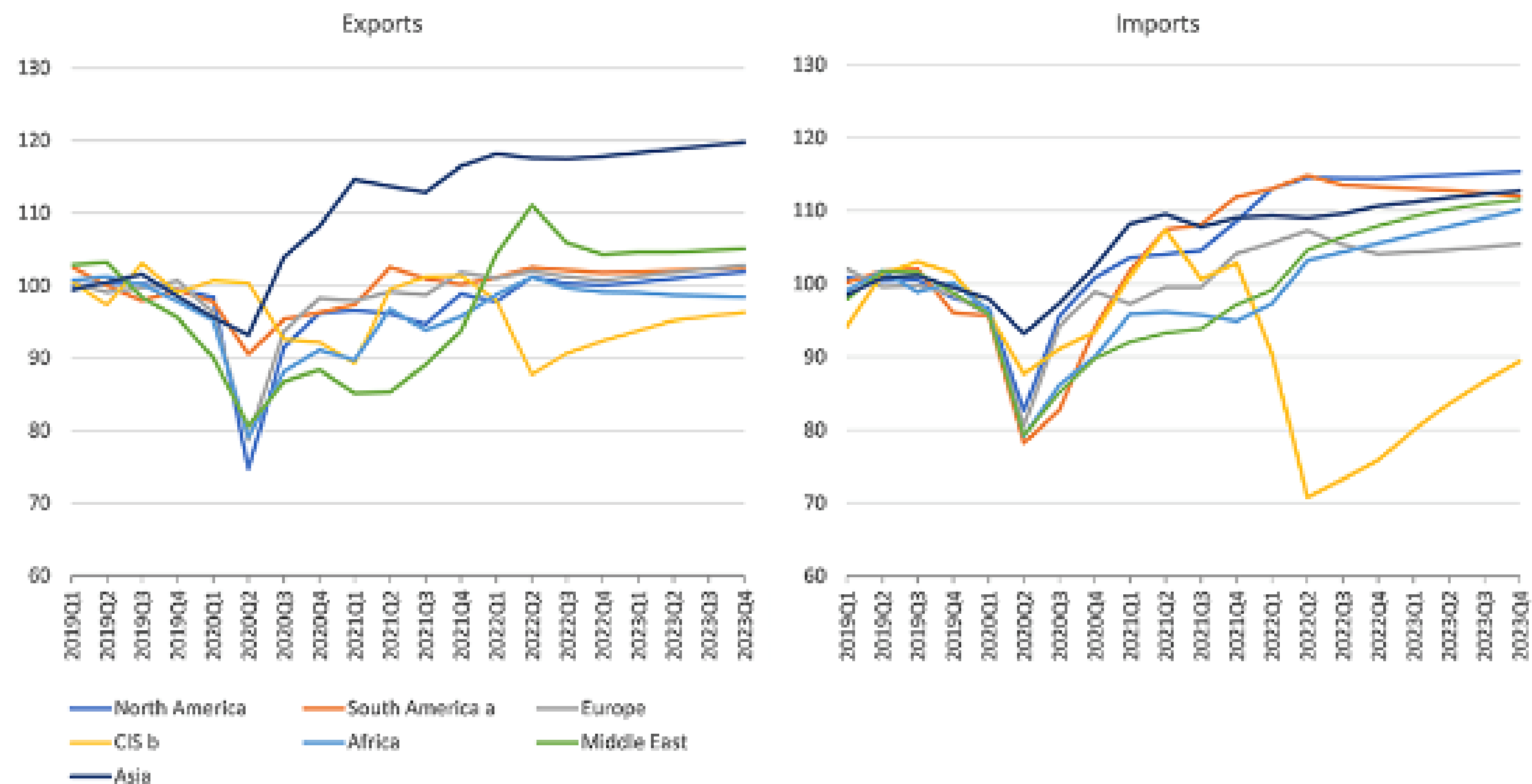
FTAs include two parts: a set of rules and country-specific commitments

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# Trade Matters in Asia

**Chart 4: Merchandise exports and imports by region, 2019Q1-2023Q4**

Volume index, 2019=100



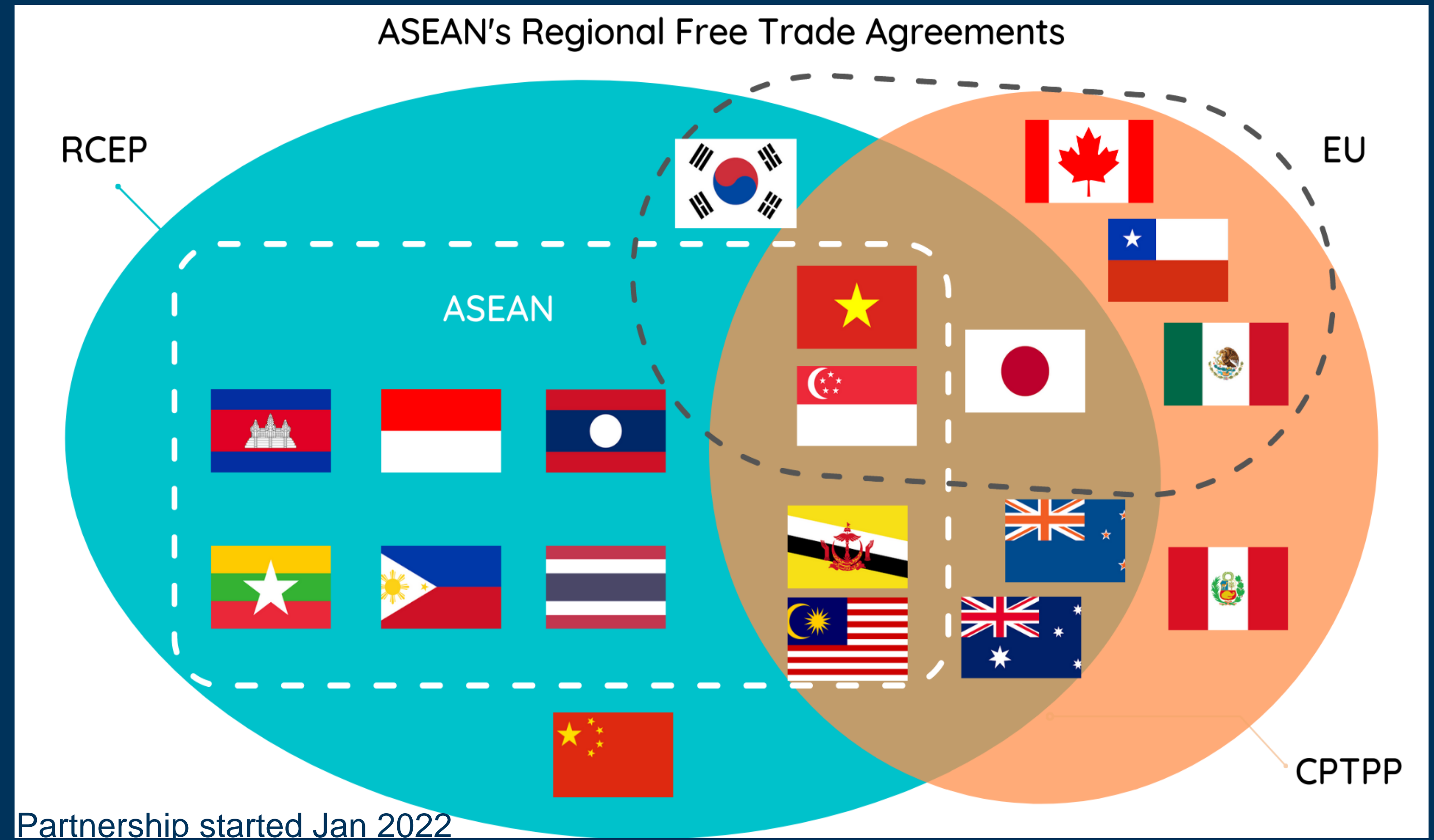
a. Refers to South and Central America and the Caribbean.

b. Refers to the Commonwealth of Independent States, including certain associate and former member States.

Source: WTO and UNCTAD.

# Asia Continues to Pursue Economic Integration

- Asia leads the world in creating a network of trade deals that cover different partner markets, with a wide range of potential benefits
- Four are especially key: RCEP, CPTPP, EU deals and ASEAN





# RCEP = Now in Force for 15 Members Across Asia





# RCEP is a Comprehensive Trade Agreement



RCEP contains 20 chapters and more than 14,000 pages of country-specific commitments including:

- Goods, services, investment, trade facilitation, intellectual property, e-commerce, standards, SMEs, government procurement, and dispute settlement

Designed to reduce complexity in Asia by integrating ASEAN's existing trade arrangements with larger ASEAN Dialogue Partners in the region

- Remained ASEAN-led from the start to finish through 8 years of negotiations

Agreement came into force in January 2022 for most members

Texts and schedules available for review at: <https://rcepsec.org/legal-text/>

- RCEP will be creating Secretariat to help better manage implementation

RCEP opening for accessions: Hong Kong, Bangladesh?

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# Trade in Goods

RCEP members already had a lot of existing trade agreements between them that had to be reflected

Diversity in membership in RCEP is significant

Result: Tariff reductions can be complicated

- Not all drop to become duty-free, many with long timelines
- Bigger issue: complexity, 37 separate tariff schedules

Rules of origin (ROOs) very helpful

- One ROO for each tariff line used by all member countries

Better trade facilitation: faster, easier processing of goods at customs

- Only one RCEP Preferential Certificate of Origin document needed for trade across all 15 Asian members





# Trade in Services and Investment

Many services firms already operate in RCEP countries

- Many also currently invest in member states

*But* access and protection not guaranteed

Rules can shift quite suddenly, leaving firms with little recourse and limited warning

RCEP should help limit risk and improve stability for firms

Like all trade agreements, services and investment commitments have rules plus country-specific commitments or schedules

One complication in services: members used two different methods or approaches to listing their country-specific commitments

- Can be extremely hard to understand and unravel, especially for businesses
- But all agreed to switch to negative lists, starting in 2030

Investment chapter, by contrast, all members used same negative list schedules as all wanted to encourage in-bound investment





# Bottom Line: RCEP

RCEP is likely to transform trade in region: “in Asia for Asia”

Will take time to phase in many of the existing tariff cuts

But the consistent rules of origin and PCO requirements will help firms by lowering compliance costs

Can start to create “Asian” qualifying goods for shipment across 15 important markets

Goods commitments coupled with changes coming in services, investment, and other elements in agreement

Agreement can be upgraded and improved over time:

- More goods coverage
- Faster tariff reductions
- New rules to maintain consistency in Asia

Like all FTAs, benefits flow to firms based in Asia, regardless of location of HQ or nationality

- But, of course, follow the rules carefully





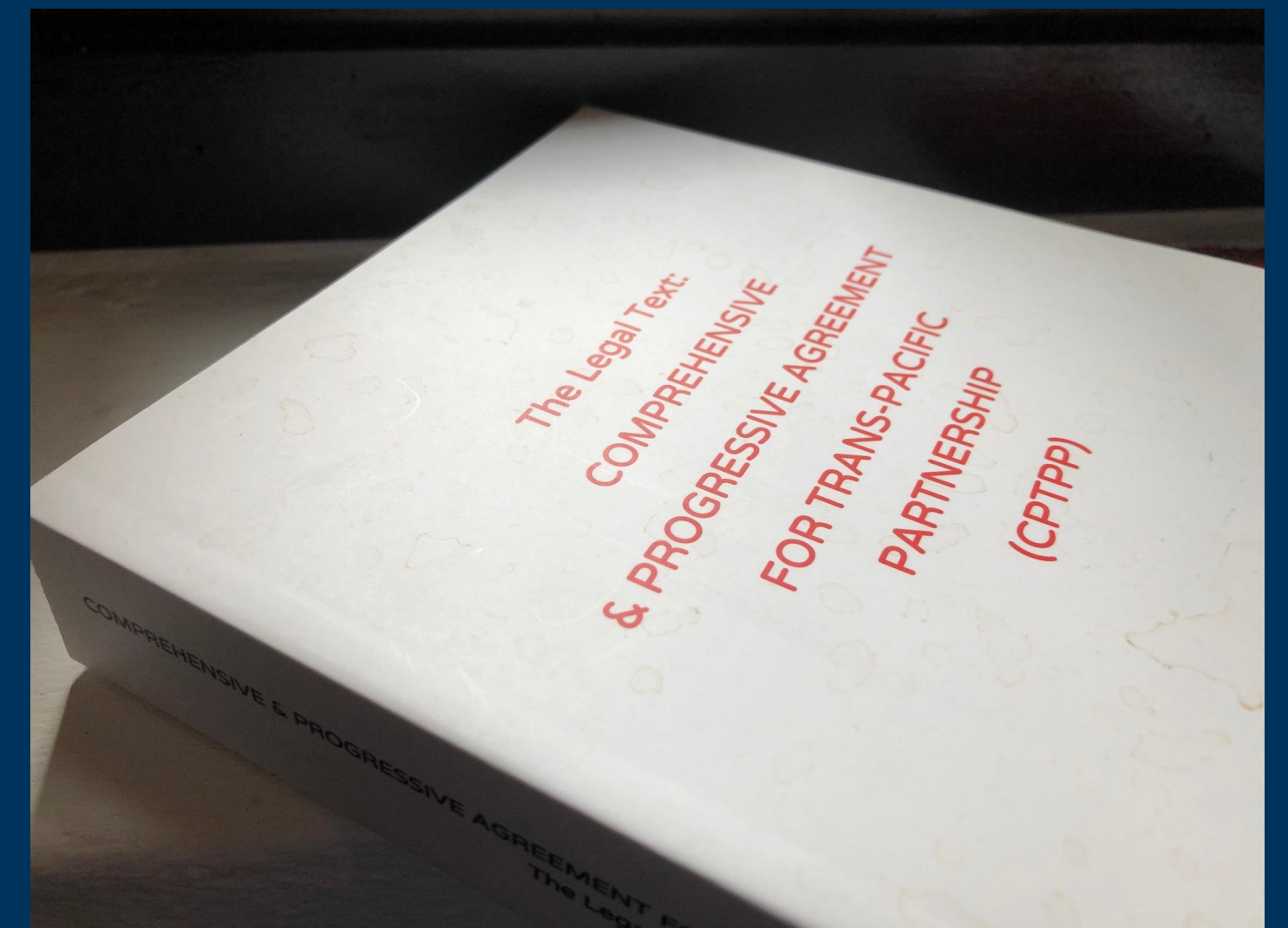
# CPTPP

Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) in force since late 2018

- Australia, Canada, Chile, Japan, Mexico, New Zealand, Peru, Malaysia, Singapore, and Vietnam
- Tariff cuts now already on “Year 6”
- Entire remainder of agreement already in force
  - Very tiny number of exceptions for Vietnam set to expire (mostly related to digital and IP rule implementation)

CPTPP currently expanding:

- United Kingdom ratifications underway: agreement goes “live” 60 days after 6<sup>th</sup> member approves
- Formal applications pending from China, Ecuador, Chinese Taipei, Costa Rica, and Guatemala





# What's Different About the CPTPP?

CPTPP is broader:

- Covers markets for *all* goods (including agriculture), services, investment, government procurement, e-commerce with meaningful promises for opening
- Tariff cuts nearly all currently at duty-free or zero tariffs for everything
- All services, investment and other commitments active already
- 30 chapters included in agreement, 6000+ pages

CPTPP is deeper:

- Has new rules for areas like intellectual property, food and food safety (SPS), standards (TBT), environment, labor, competition, customs, etc.

Shared norms:

- Every member has same commitments (just longer time frames for some members to implement deal)





# EU Active in Region



Economic integration in Asia also includes active policies by European Union

- Two ASEAN bilaterals in force already: Singapore and Vietnam
- More under negotiation, including Indonesia, Malaysia, Thailand
- Eventual plan to create bloc-to-bloc FTA

EU also connected to wider Asia

- Bilaterals already in place with Japan, Korea, New Zealand
- New agreement nearly finished with Australia

EU also provides significant funding for trade capacity building and other institutional support for ASEAN

However, the EU also requires the inclusion of commitments on trade and sustainable development including human rights requirements for partners



# Indo-Pacific Economic Framework (IPEF)



IPEF is the newest acronym on the block—but IPEF is NOT a trade agreement like others

- 14 members joined US: Australia, Brunei, India, Indonesia, Japan, Fiji, Malaysia, New Zealand, the Philippines, Singapore, South Korea, Thailand, and Vietnam
- It has an unusual structure and does not cover the majority of topics in all other Asian trade arrangements

Four "pillars" of activity: trade, supply chains, green infrastructure, tax and anti-corruption

- First managed by USTR in the US, #2-4 managed by US Commerce Department
- #1 is "all or nothing" in nature, #2-4 allows members to pick and choose topics

Under trade pillar, currently 9 items including labor (worker rights), environment, digital, competition, regulatory practices, and bit on standards

- Unclear what form final agreements will take
- Some will replicate existing commitments in other forums, some will have new activities
- Negotiations likely to start concurrently but unlikely to end concurrently



# Asia Increasingly Anchoring Digital in Trade Agreements

Digital trade and e-commerce flourished without many rules or regulations

No rules, however, often problematic for firms

Growing potential for regulatory fragmentation in digital space

Incoherence favors larger firms with capacity to manage overlapping, conflicting, time consuming rules and regulations

Firms of all sizes prefer consistency in policy landscape

- Best outcome—similar rules in largest set of economies

Some Asian economies increasingly anchoring digital rules into trade agreements

- Either digital or e-commerce elements of existing free trade agreement
  - Or, increasingly, stand-alone trade arrangements for digital
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# Lots of Ways to Manage Digital Trade

ASEAN/Australia/New Zealand FTA (AANZFTA) had extensive e-commerce chapter from 2010

Lot of similar types of initiatives embedded in bilateral agreements

ASEAN and RCEP economies working on range of digital rules

WTO's Joint Sector Initiative (JSI) on E-Commerce ongoing with 86 members

TPP had many deep commitments among 12 participants, maintained in CPTPP

US-led Indo-Pacific Economic Framework (IPEF) to include digital

Latest innovation: digital-only agreements

- DEA designed to expand existing FTA
- DEPA created as independent agreement

Many economies working on deals that can have accession or expansion in the future





# What Explains Specific Variations in Digital Commitments?

Part of the variation between these digital agreements is about timing: older models tend to have less comprehensive commitments

- Not all commitments are equal—some are currently “cooperation” only

Similarities can come from past experiences working together

Differences from diverse objectives:

- Create stand-alone FTA
- Modernize and update an existing FTA
- Design digital-only deal with the intention of replicating provisions elsewhere by members and non-members

Bottom line: lots of ways to get to a solution to provide greater consistency in digital trade rules suitable for the future





