



## **Session III**

**RCEP: Consolidating from Asia Track**







# RCEP: Consolidating from Asia Track

■ Gary Hawke

## 1. The world context

Our seminar is about “pathways” and the “Asia track”. Only the acronym, “FTAAP” denoting “Free Trade Area of the Asia Pacific” explicitly mentions “trade”. This is appropriate as diplomacy has followed economic trends to become concerned with “economic integration”. The objective is to provide a framework in which resources of all kinds, labour, materials, and capital, can be used to enhance living standards despite the existence of jurisdictional borders. The framework, must of course be compatible with the wider objectives of governments and aspects of local identity valued by specific communities.

We sometimes hear complaints that trade negotiators have invaded territory properly reserved for other consideration. Such complaints are misguided. The agenda of economic diplomacy has widened over time, following a slow and inexorable path. As soon as tariffs were reduced, the impact of other barriers to cross-border trade became more significant and more visible. So attention turned to technical barriers to trade, the impact of government procurement rules, the effect of subsidies, and so on. “Trade negotiations” changed accordingly but the process continues. Secondly, more and more activities participated in the search for optimal resource allocation despite jurisdictional boundaries. Investors appreciated that overseas investment could be a means of minimising the impact of border barriers, and services could be provided among jurisdictions. Rules about investment, about cross-border service provision, and establishing commercial presence to provide services in another jurisdiction became important parts of economic diplomacy. Thirdly, the game was really changed as trade as an exchange of goods between economies gave way to “trade in tasks”<sup>1</sup> in which producers from international production networks to combine activities in many economies to serve widespread markets. The long succession of conceptions of economic diplomacy in terms of responding to border barriers to trade in goods – initially tariffs, and then non-tariff measure such as SPS requirements, administrative costs of documentation and inspection, and government procurement requirements - has given way to an agenda of removing unnecessary obstacles to the ease of doing business across borders. The modern game has the conditions of doing business as the central focus. Regulatory policy which was traditionally seen as having a domestic focus is now at the centre of international economic diplomacy. For international production networks, services trade is not a minor supplement to trade in goods but essential to business operations, and because services trade cannot be separated from international investment flows, trade and investment have to be considered together. The conventional separation of real and financial integration is deeply entrenched in international economic governance through the WTO on the one hand the World Bank and

<sup>1</sup> *Trade patterns and global value chains in East Asia: From trade in goods to trade in tasks* (IDE-JETRO and WTO, 2011).

IMF on the other, but it is incompatible with how the game has changed.

While international trade in services can be through cross border supply directly as with some business services, through movement across borders to engage in consumption as with education and health services, or through movement of natural persons across borders to perform a service as with some engineering operations, much cross-border trade in services requires a commercial presence in the destination market, and commercial presence usually requires supporting investment. There is a direct link between trade in services and an increasing flow of international investment. It is well known that conventional statistical measurement of trade in services is understated because of conventions that record some transactions as investments rather than trade flows. Statistical mismeasurement is an inconvenience but the issue is wider; international trade in services is a potential source of enhanced productivity in both source and destination economies. We know that gains are possible – since marginal equivalences across borders have not been realised.<sup>2</sup> We also know that the traditional practices of “offer and acceptance” in WTO negotiations have not been fruitful and that no alternative procedures have yet been adopted. For example, it might be fruitful to change the burden of proof, and require parties to reduce barriers to international service flows identified by possible trading partners unless a convincing rationale for the barrier can be generated. Obviously that would require a great deal of experience in developing the idea of “convincing” but it is no more than a development of the accepted idea of transparency, and the idea of a “bound” tariff rate was just as experimental in the 1950s.

The growth of services trade is therefore a reason for increasing dissatisfaction with reliance of conventional multilateral governance. Trade negotiators are deeply challenged. Business as usual is not adequate in the changed international economy. But the growth of international production networks is even more far-reaching. Above all, management of intellectual property and innovation is central to the operations of international production networks.

The underlying change is well known even if its implications are less well known. We are familiar with the concept of a “world car” assembled from parts made in many different economies or the evidence assembled by Daisuke Hiratsuke of disk drives being assembled in Thailand using 43 components from 10 other countries and 11 components produced in Thailand, the disk drive then being combined with other components to produce a finished product in China.<sup>3</sup> There is as usual a lot of prehistory. It is many years since the standard description of world trade was that of scholars like Folke Hilgerdt and J.B. Condliffe in the middle of the twentieth century, an exchange for food or raw materials for manufactured goods. By the 1960s, we were aware that international trade between major economies included a substantial amount of intra-sector trade – small cars for large cars, cotton goods for other textiles, etc. Explanations in terms of more intensive exploitation of specialization were supplemented

<sup>2</sup> Jenny Corbett “Comment” in *Research Institutes Network Statement No 1* (Jakarta: ERIA, 2012) pp. 41-2.

<sup>3</sup> Michael J. Ferrantino “Supply chains and behind-the-border trade barriers: Implications for developing nations” *Vox* (11 February 2012), [www.voxeu.org/index.php?q=node/7611](http://www.voxeu.org/index.php?q=node/7611)



by theorizing about imperfect competition and product differentiations. Yet more intensive exchanges have generated recognition that there have recently been at least three important sources of gains from trade: differentiated goods produced subject to increasing returns, love of variety creating a trade-off with increasing scale of production; allocative efficiency as more efficient firms gain relative to less; and the positive impact of larger markets on innovation. A greater market permits more variety for consumers by a variant of the classic Ricardian argument, heterogeneous firms can coexist with different profitability and create a larger market which leads to all of entry, exit and reallocation, and if innovation involves some fixed costs, it can easily fit into an increasing returns framework. At the most disaggregated SITC level, 1161 industries, intraindustry trade grew from 10% of the total to about 30% from 1960 to the 1990s and then stabilized; at the 59-industry level it grew from 30% to 55% at the same period.<sup>4</sup> All of which might remind us that conventional sectoral and industrial classifications were created by statisticians in the nineteenth century and were adopted by economists, even those who accepted the classical injunction that the end purpose of production is consumption and should have been aware that it is easy to give too much prominence to producers and too little to consumers.

The literature on “outsourcing” is enormous. Hong Kong industrialist Victor Fung has been quoted as saying, “You sourced in Asia, and you sold in America and Europe.” Now, said Fung, the rule is: “Source everywhere, manufacture everywhere, sell everywhere.” The whole notion of an ‘export’ is really disappearing.”<sup>5</sup> We can easily underestimate the force of such observations. In many economies, strategy has been built for a number of years on achieving the best use of domestic resources by identifying consumers overseas and providing what they want. New Zealand is not alone in having literally for over a hundred years attached importance to putting products in boxes and sending them to consumers abroad. Now we have to adapt to a world where we may never know the final consumers of local produce and the task is finding appropriate roles within a network of suppliers. It is only too easy to fall back into familiar ways of thinking. As we think about a China, Japan, Korea agreement, or about Korean trade policy more generally, it is easy to think about competition in finished cars from various suppliers, but the main point is now that Korea and Japan compete for places in international production networks.<sup>6</sup>

International trade in intermediate products is not just in discrete transactions between anonymous buyers and sellers but takes place as repeated transactions within relationships among sequential producers. International production networks are more than vehicles for trade in intermediate products although writers are sometimes ambivalent about this. International production networks could not exist without international trade in intermediate products, but there could be trade in intermediate products without international production networks. Trade in intermediate goods means that it is now not possible to think of tariffs as simply part of an export-led growth strategy, but international production networks

4 Marc J. Melitz and Daniel Trefler “Gains from Trade when Firms Matter” *Journal of Economic Perspectives* 26(2) (Spring 2012), pp. 91-118

5 Thomas L. Friedman “Made in the World” *New York Times* (28 January 2012).

6 Cf. Shiro Armstrong “South Korean trade: beyond ‘free’ trade deals” *East Asia Forum* (19 December 2012)

pose challenges to policy development which are even wider and deeper. Asian writers tend to see international production networks as related to Japanese FDI in South-east Asia and China, part of market-led integration, and generating changes in production methods which includes dissemination of innovation. Outsourcing may actually be greater for longer-distance trade, reflecting Japanese FDI in ASEAN, and international production networks may be more stable than most outsourcing – firms invest in sunk costs to establish relationships and work to maintain them.<sup>7</sup> European and American sources on the other hand tend to identify supply chains<sup>8</sup> with the presence of intermediate inputs.<sup>9</sup>

There is no doubt that much can be traced to the balance of agglomeration and dispersion. Japanese firms were attracted by lower wage costs elsewhere which more than outweighed increased transport costs on components and higher management costs. But that is merely a starting point for much variety. Modern value chains have different sources. Electronics and motor vehicles rely on specialization in production and increasingly in design, but in fish processing, supermarket chains demanded a complete product range - finfish, shrimp, tuna and aquaculture – and forced processors to form chains in order to assemble the required range. The result could be described as a market-based chain. Furthermore, chains are not static. Even a production network which began from a simple cost-minimizing exercise, balancing wage costs against the costs of transport and management, was likely to change over time. Production networks adopted just-in-time manufacturing, itself partly a trade-off between minimizing inventory costs versus the implicit or explicit costs of possible interruptions of supply, but soon a tool of modern management techniques. Just-in-time manufacturing turns any potential interruption into a crisis and demands highly motivated and informed management. A production network also requires interoperability, with components made with precision to the standards needed in the next stage of production. An international production network is likely to require professional services across borders – engineers from the “home” economy to solve problems encountered in a subsidiary supplier, legal services to define agreed standards, and so on. International production networks generate the importance attached to new topics in economic integration, standards, intellectual property, trade in services, movement of natural persons, investment. They are much more than the sources of trade in intermediate goods.

There are, of course, many other changes taking place. Especially in Asia, there is increased concern with inclusive growth, narrowing development gaps both between economies and within economies.

7 Fukunari Kimura and Ayako Obashi “Production Networks in East Asia: What We Know So Far” *ADB Working Paper* No 320 (November 2011)

8 The terminology is far from uniform. “Supply chains” are sometimes seen in too mechanical a form, the logistics systems along which goods flow. “Value chains” tend to be associated with management literature and directs attention to the relative returns from research & development, production, and marketing. “International production networks” signals the range of relationships involved in cross-border manufacturing and marketing, including innovation, but tends to bias the discussion towards seeing Asian developments.

9 Ironically Richard E. Baldwin “Global Supply Chains: Why They Emerged, Why They Matter, and Where They are Going” *CEPR Discussion Paper* No DP9103 (August 2012) recognises the complexity of production networks, but while Richard Baldwin “WTO 2.0: Global governance of supply-chain trade” *Centre for Economic Policy Research: Policy Insight* No 64 (December 2012) also recognises the same complexity it proceeds to analyse chains in terms of intermediate imports which makes them prominent in Europe and leads to the conclusion that they are deterred by distance, which is not what the Asian evidence suggests. The OECD has also begun exploring international production networks but its early work gives excessive attention to intermediate imports alone.



FTAs have always been conceived as an instrument for economic growth and the more inclusive notion of economic integration makes that even more apparent. The objective has always been to facilitate the operation of economic activities throughout the region in such a way as to maximize their contribution to the welfare of the region as a whole. That conception is conventional in relation to economic thinking – the most fundamental question of economics since Adam Smith has been under what conditions self-interest achieves a social optimum – but it is less instinctive for thinkers accustomed to zero-sum games, whether sporting contests or national struggles for position and status. “Regional economic integration” points towards minimizing the impact of national boundaries whether by tariffs or other barriers while preserving rules and institutions which make private interests compatible with social ambitions.

The trends in international production networks and towards more concern with inclusive growth come together for international economic diplomacy in the treatment of standards and intellectual property. Standards have long been part of the agenda of technical barriers to trade since standards purportedly adopted for consumer safety or to provide for interconnections among products (between for example fire hydrants and fire-hoses) could be used to preclude competition between imports and domestic products. But standards have become much more important because of the need for interoperability among members of international production networks. In turn, standards can be private property and so an important part of international property rules (IP). Public policy conceives IP as finding the optimal balance between encouraging invention and disseminating knowledge so as to promote efficient use of resources. But there can well be conflicts between economies where patents are held and economies which seek to innovate.

Many in China must have been startled when after succeeding in entering the WTO, they found that their participation in the international economy was governed by lawyers and litigation. “Chinese firms typically pay foreign patent holders 20-40 percent of the price of each cell phone made in China; 30 percent for each PC; and 20-40 percent for each CNC machine tool.” (CNC is computer numerical control.) The Chinese value added share is usually estimated at 10-15% - Asian subcontractors of multinationals do better than domestic firms.<sup>10</sup> The demands for adjustment are enormous. One of the three competing 3-G standards is protected by than 2000 patent families comprising more than 6000 patents from 50 companies and consortia. A smart phone involves hundreds of standards coming from dozens of standards-setting organizations – camera, video, web browser, PDA, Wi-Fi etc. Smart phones are the field for 8000 patents held by 41 companies.<sup>11</sup> Furthermore, “the challenge for standardization now is no longer technology alone. Equally important is the challenge to standardize the interactions of people who create and use the technology within these networks, In other words, standards need to be developed for the work practices and business routines that enable these networks to grow and adjust

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10 Dieter Ernst *Indigenous Innovation and Globalization: The Challenge for China's Standardization Strategy* (UC Institute on Global Conflict and Cooperation and East-West Center, June 2011), p. 51

11 Ernst, p. 44

to changing requirements of technology and markets.”<sup>12</sup> We read American complaint about stolen intellectual property but the biggest engine of change in the Chinese Intellectual Property regime is the challenge to legitimate Chinese business - legal Chinese handset producers are under attack from illegal producers of Shanzhai handsets.<sup>13</sup>

In any case, we hear far less about commitments by firms and the governments of advanced economies to ensuring “Fair, Reasonable and Non Discriminatory” access to standards and patents despite provisions to this effect in international law and agreements.<sup>14</sup> “Technology transfer” is still widely understood as it was used in the 1960s, to refer to vehicles for official aid. It now relates to the terms of participation in international supply chains. In any case, the term is antiquated: the better conception is “technology sourcing: strategies of technology-using companies and countries that involve search, absorption, learning, diffusion, as well as innovations—especially incremental innovations—that convert ideas, inventions, and discoveries into new products, services, processes, and business models.”<sup>15</sup> The receipt of new technology is not passive, but the consequence of active searching and innovation.

There is a tension between standards and innovation. Standards can freeze technology. That can be an incidental by-product of the search for “fitness for purpose” and interoperability. Or it can be the deliberate result of firms seeking competitive advantage by manipulating access to intellectual property. Hence an international regime for managing Intellectual Property and Standards is an essential component for economic integration. But it is no easy task. Any idea of a uniform international intellectual property regime has to be complex. For most economies, economic development is a matter of catching up with the frontier. In poor countries, a weak IPR regime is optimal – to encourage dissemination; utilization of knowledge invented abroad should be preferred to incentives for innovation. Advanced economies will naturally prefer stronger IPR regimes. That can be derived as an abstract argument, or it could be deduced from the economic history of many countries, including the US, not known for its ready adoption of European copyright agreements in the nineteenth century. It is not surprising that patents and intellectual property issues are among the issues proving to be contentious in the TPP negotiations,<sup>16</sup> but it will be even more problematic when considered in conjunction with China’s participation in moving from TPP to FTAAP.<sup>17</sup> However, the problems are not only between developed and developing

<sup>12</sup> Ernst, p. 45

<sup>13</sup> Ernst, p.82; An earlier example of the same process by which the balance of interests between tolerance of imitation and protection of intellectual property moved in favour of the latter is discussed in David Clayton “Trade-offs and rip-offs: Imitation-led industrialization and the evolution of trademark law in Hong Kong” *Australian Economic History Review* 51(2) (July 2011), pp. 178-98. The same story can be told in terms of U.S. economic history.

<sup>14</sup> But we are hearing more. “Free exchange: Standard procedure” *Economist* 407 (8835) (11 May 2013), p. 76 reports an interesting case in which an American judge assessed “RAND” = reasonable and non-discriminatory royalties - for use of patents necessary for a standard in a case brought by Motorola against Microsoft as a few cents rather than a few dollars. Businesses might be more inclined to seek agreement than to rely on courts.

<sup>15</sup> Dieter Ernst and Barry Naughton “Global Technology Sourcing in China’s Integrated Circuit Design Industry: A Conceptual Frame-work and Preliminary Findings” *East-West Center Working Papers Economics Series No. 131* (August 2012)

<sup>16</sup> Claude Barfield “The TPP: A model for 21st century trade agreements?” *East Asia Forum* 25 July 2011.

<sup>17</sup> A similar argument can be developed relating intellectual property rules and attractiveness to FDI. Cf Hodaka Morita “FDI and Technology Spillovers Under Vertical Product Differentiation” *APEC Economics Newsletter* Vol.15 No. 08 (September 2011)



economies. It is fascinating to watch the impact of the difference between the European tradition of centralized management of standards with the US tradition of decentralization. The former looks tidier and more easily comprehended; the latter is far more responsive to change. It will be no easy task in the TransAtlantic Trade and Investment Partnership to reconcile the two approaches and what suits the US and Europe may not suit Asia.

It is easy to think that the existing American, European and Japanese provisions for standards and patents constitute the international system. But there are actually many national systems, and we have to facilitate their reconciliation rather than seek simply to supplant them with those of one of the major economies. Furthermore, we have to accept that there can be no international norms or systems which do not involve some Chinese participation. Only now are Chinese engineers entering “informal social peer group networks” which are especially important. Chinese firms are only now beginning to assume leadership roles in international organizations.<sup>18</sup>

In particular, the rhetoric which China shares with other Asian economies about the primacy of economic development is not merely “aspirational” – it is the starting point of national strategy. It leads into an intention to use “indigenous innovation” as a means for economic development. There are then many tensions to be managed. The place of information security relative to participation in global networks is one – the idea of controlling the internet to preserve the political elite is a debased view of a much more complex issue. The promotion of innovation as a protective device versus participation in global innovation processes is another. China’s efforts to reconcile “indigenous innovation” with globalization are strained by the simple inability of government regulations to keep up with technical change.

## 2.Consolidating from the Asia Track

RCEP is less advanced than TPP. The modalities which will be used are not yet obvious. The agreed objectives which were negotiated by all ASEAN members with the existing ASEAN FTA partners espouse liberalization of all trade in goods, “to substantially eliminate restrictions and/or discriminatory measures with respect to trade in services”, to create “a liberal, facilitative and competitive investment environment” to “reduce IP-related barriers to trade and investment by promoting economic integration and cooperation in the utilization, protection and enforcement of intellectual property rights”, and to promote competition and “the curtailment of anti-competitive practice”. There are some caveats, especially for the CLM economies, but it is generally agreed that they should be managed by differential implementation phases rather than by differences in objectives. Especially interesting are agreement on “an effective, efficient and transparent process for consultations and dispute resolution” and provision for delayed entry by an ASEAN FTA partner that did not participate at the outset and for entry to a completed RCEP by “any other economic partners”.

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<sup>18</sup> Ernst, p.52

The basic conception of RCEP is to achieve an appropriate location of the ASEAN Economic Community in its regional and global setting. This poses challenges. There is tension between the ideas of “docking” existing FTAs, agreement that there should be no retreat from the provisions of any of the existing ASEAN or ASEAN + 1 agreements, and realization that a business-friendly RCEP requires something close to a common tariff schedule among ASEAN and its partners.<sup>19</sup> There is no basis in the “Guiding Principles and Objectives” for thinking that RCEP has lower objectives than TPP at the level of ambition,<sup>20</sup> and the widespread belief that Asian FTAs have many more exclusions than most is increasingly outdated. Asian FTAs are now likely to include coverage of agriculture, services and the WTO+ ‘Singapore issues’.<sup>21</sup>

The modalities of RCEP are likely to draw on the experience of the “ASEAN way” and in particular on the way in which the ASEAN Economic Community was developed. There would then be even more emphasis on agreed end-points and flexibility on the duration of transitions by individual members to those end-points than has become customary with FTAs. RCEP is likely to rely more reliance on peer review and less on formal monitoring than TPP, and there is probably considerable difference in understandings of the initial position on disputes resolution as quoted above. Journalistic and public commentary on “legally enforceable” is surprisingly resilient in the face of the debacle of legally-binding agreements in Europe. Thinking in terms of a national justice system is too readily transferred to the international arena where there is no enforcement mechanism. Even the WTO rests eventually on peer esteem and the desire to be credible in further international interactions. Game theory has taught us the enormous difference between one-off and repeated transactions, and ASEAN has the enormous advantage of a history of continual interactions. International terminology will eventually catch up with Asian emphasis on relationship maintenance.<sup>22</sup>

Because of its continuity from the ASEAN Economic Community, RCEP starts with a better understanding of international production networks in Asia. It will more readily see the movement of

19 Hank Lim “The way forward for RCEP negotiations” *EABER/SABER Newsletter* (December 2012); Hank Lim “The way forward for RCEP negotiations” *East Asia Forum* (3 December 2012); Yoshifumi Fukunaga and Arata Kuno “Toward a Consolidated Preferential Tariff Structure in East Asia: Going beyond ASEAN+1 FTAs” *ERIA Policy Brief* No 2102-03 (May 2012); Hikari Ishido & Yoshifumi Fukunaga “Liberalization of Trade in Services: Toward a Harmonized ASEAN++ FTA” *ERIA Policy Brief* No 2102-02 (March 2012).

20 Cf. Donald K. Emmerson “Challenging ASEAN: the American pivot in Southeast Asia” *East Asia Forum* (13 January 2013) with its “non-American, loosely declarative RCEP that subsumes existing arrangements, versus the American-promoted, intrusively ‘gold-standard’ TPP that requires domestic reform” where one suspects that the claimed differences are simply assumed on the basis of “American” or not. One of the interesting puzzles of the modern world is why the determined Japanese opposition to membership of TPP does not extend to RCEP. Contrary to some assertions, the modalities of the two do not differ materially on agriculture. Japan has a considerable investment in any development of an Asian community, and it has long found negotiations with the US difficult.

21 Masahiro Kawai and Ganeshan Wignaraja *Patterns of Free Trade Areas in Asia* (Honolulu: East-West Center Policy Studies 65, 2013), p. xv, 27-38. ERIA research, especially Yoshifumi Fukunaga et.al. “FTA Mapping Study” and *Mid-Term Review of the Implementation of the AEC Blueprint: Executive Summary* (Jakarta: ERIA, October 2012) dispels any notion that ASEAN FTAs are “low quality” with little coverage, although there is certainly room for improvement.

22 The contrast between the EU and ASEAN is not black & white. ASEAN has involved a mixture of binding and voluntary agreements. The EU has come to rely in some contexts, especially in social policy, on the effect of frequent consultation to generate agreed norms. It can be argued that the problem with the Euro was not in a breakdown of black-letter agreements subject to independent enforcement but to a failure to decide in advance whether the agreement shared the usual EU practice of separate judicial enforcement or depended on agreed norms of behaviour. Nevertheless, the EU is still characterised by reliance on supranational enforcement in a way which will not work in Asia, and the key is not to achieve a “legally binding agreement” but to secure commitment to an agreed process.



skilled labour as part of the just-in-time strategy of regional manufacturing enterprises and not as belonging in a distinct “migration” category. It will not seek to segregate subsidies in domestic income distribution schemes. It will more readily adopt an “ease of doing business” strategy and be less constrained by conventional thinking about the standard chapters of an FTA. But the differences between TPP and RCEP in these regards are matters of degree rather than of principle, or even of procedure rather than substance.

RCEP will take a more determined approach to ensuring that it contributes to “narrowing development gaps” and to a collegial approach to capability development. TPP will see development as an automatic implication of liberalization, with supplementary efforts conceived essentially as official development assistance. An Asian approach will see much more relevance in the spreading of international production networks to areas which are still marginal to the process of Asian economic integration such as Laos and Myanmar, to sectors of the economy other than those where they are already prominent, textiles, motor vehicles, and electronics (including to food), and to more specialization on innovation and marketing in relatively developed economies. The “business-led” nature of economic integration in Asia is much more at home in an RCEP context than it is in TPP (even though this too is a matter of degree). The emphasis on facilitating innovation will create a bridge between harnessing international production networks to consumer welfare and simultaneously between economic integration and inclusive growth (while also necessitating a welcome return to a sensible approach to intellectual policy rights in place of rent-extraction for patent-holders), and it will renew the link between fostering competitive business as an instrument of strategy for growth and development.

The biggest difference between TPP and RCEP is likely to be in the extent to which participants understand and support regional aspirations for inclusive growth, with the next most obvious difference being in the extent of participants’ commitment to seeing integration and liberalization as a means to sustainable, resilient and innovative growth in a world characterized by international production networks.

Many commentators are sceptical of the prospects for RCEP, often for non-economic reasons.<sup>23</sup> Indeed, there sometimes seems to be a contest between searching for reasons to continue being sceptical of the ability of relatively small economies to solve problems, or to reassert the primacy of analysis not based in economics. While there are clearly tensions among Asian countries as there are elsewhere, Asian leaders have generally not allowed economic integration to be disrupted for extraneous reasons,<sup>24</sup> and while ASEAN has a reputation for making progress slowly, it is not only in Aesop’s *Fables* that the tortoise can beat the hare. Furthermore, while TPP has a clear leader, the US, modern leadership theory

23 e.g. Claude Barfield “Crunch time for the TPP” *East Asia Forum* (10 January 2013). Cf also Jagdish Bhagwati <http://www.scoop.co.nz/stories/HL1211/S00205.htm> “I don’t think it will happen. For the simple reason that you have to take the geo-politics into consideration.” See also Beginda Pakpahan, University of Indonesia “Will RCEP compete with the TPP?” *East Asia Forum* (28 November 2012).

24 Rodolfo C. Severino “The United States and ASEAN” (30 November 2012). There nearest there is to a high visibility counterexample is the absence of China’s representative from the IMF annual meeting in Tokyo and that may well have been due to domestic commitments. See also Brad Glosserman “A problem bigger than the Senkakus” *PacNet* #62A (9 Oct. 2012). There are some confusing signals; cf the continued meetings on C-J-K but also interruptions to monetary developments reported in Gregory Chin “Currency internationalisation in Asia” *East Asia Forum* (8 January 2013). The launching of RCEP is the clearest evidence of intent.

favours dispersed leadership with participants leading where they know most and have most at stake. Concentrated leadership is high-risk rather than always effective.

Much will depend on whether ASEAN negotiators can turn their minds from familiar wrangling over tariff lines and conceptualize the internationalization of the ASEAN Economic Community, and especially whether they can focus on the structural reform agenda. But then in the case of TPP, much will depend on whether USTR can be diverted from a fixed mindset of pursuing US interests exclusively rather than promoting economic integration by finding reconciliation between US interests and those of partners. ASEAN governments might mistake infrastructure projects which contribute to regional connectivity for “populist measures, such as subsidies and cash dole-outs, which are not only aimed at inducing domestic spending, but also boosting the popularity of ruling political parties”,<sup>25</sup> but then political frustration of sensible policy is far from unknown in the non-ASEAN parties to TPP. It is hard to resist the conclusion that there is simply ignorance of the achievements of ASEAN and an unwillingness to distinguish “leadership” from furtherance of the ambitions of the current leading power, the US. Certainly, allegations of “talkfests only” levelled at Asian institutions are often really complaints that Asian countries do not share the wishes of the accusers.

The difference in membership is much wider than China being in RCEP and the US in TPP. Perhaps most importantly, TPP is “Asia Pacific” in orientation while RCEP is East Asian, and for countries giving priority to avoiding any division in the Pacific – Australia, India and Japan as well as New Zealand – that is important. But the role of the US is central because of the problems posed by its political system to adapting to modern economic integration.

### 3. Are RCEP and TPP converging?

Furthermore, the US is crucial for the issue of whether TPP can evolve into FTAAP.

The US initiative to seek closer engagement with ASEAN announced late in 2012 may be an indication of a more positive approach to this issue. The “Expanded Economic Engagement with ASEAN” has an emphasis on facilitation and collaboration on evolving appropriate regulatory regimes, but it also suggests a focus on investment and standards that could easily distract ASEAN as a whole to the kind of wrangling already found in TPP. The balance of positive and negative effects is far from obvious.<sup>26</sup>

The prospect of managing conflict with Congress mandated a lukewarm response by the Administration to Japan’s interest in TPP<sup>27</sup> and it is often thought to preclude inclusion of China. Although Administrations have won surprising victories in Congress before now, and the economic logic

25 Julius Cesar I. Trajano “Between Developmentalism and Populism: Walking a Tightrope in Southeast Asia” *RSIS Commentaries* No. 227/2012 (17 December 2012)

26 Cf. Andrew Elek “US commits to ASEAN integration” *East Asia Forum* (25 November 2012)

27 Edward Luce “Obama’s coming leap of faith on Europe” *FT.com* (23 December 2012)



of moving beyond TPP to FTAAP is strong, the ability of TPP to include the kind of accessions clause that is needed in the modern international economy is hard to reconcile with US participation. This is especially important for the process of forming international rules and norms. “Any set of international rule making which excludes the Chinese will not be a relevant basis for the ‘second unbundling’.”<sup>28</sup> President Obama has said that China would be a welcome participant in economic integration processes, as would any economy which “plays by the rules” but the assumption seems to be that US rules are all that is required.<sup>29</sup> It has been suggested that a prime motivation for moves towards a US-EU trade agreement is to act while the US and EU have a large enough share of world trade to be confident that they can establish international rules,<sup>30</sup> but it is surely already too late. There cannot even now be any enunciation of world rules and norms that does not involve Chinese participation in their formulation.

More pragmatically, we can note that the P4 agreement from which TPP is being evolved includes a very permissive accessions clause. The US did not even consider acceding to P4 rather than initiate TPP negotiations. No difference in behaviour can be expected of China.

We can make equivalent observations about RCEP. The assertion of an intention to include an “open accessions clause” is a welcome starting point but it is consistent with several final products and we concluded above that economic integration now requires close interaction among governments to assess how individual regulatory provisions are to be reconciled with a plurilateral agreement. No major economy is going to adhere to an existing agreement without further consideration,<sup>31</sup> and there is already recognition of that in the provision of the RCEP “Guiding Principles and Objectives” that an ASEAN FTA partner which chose not to participate from the beginning would be able to join the negotiations “subject to terms and conditions that would be agreed with all other participating countries”. It is hard to believe that all would change once negotiations were completed, especially as economic integration is a never-ending process. The difference from TPP is only that there would not be an absolute bar flowing from US Congressional procedures. Neither RCEP nor TPP offers a solution to the issue of how to manage multilateralization of economic integration although both may provide a useful precedent, and RCEP is more likely to do so than TPP is.

The geo-economic implication of dominance of RCEP over TPP is that future world economic governance is likely to be divided among Asia, Europe and America with numerous other smaller regional participants. It is less likely to be based on major regions of Asia-Pacific and Trans-Atlantic with numerous minor regions, the expected end-point of TPP leading to an FTAAP and the Trans-Atlantic Trade and Investment Partnership. Notice that neither of these conceptions involves autarchic

28 Stephen Grenville “The future of international trade” *Lowy Institute Interpreter* (26 June 2012).

29 RIN *Statement No 1*, n. 51.

30 Edward Luce “Obama’s coming leap of faith on Europe” *FT.com* (23 December 2012); some other observers have no doubt that TPP will set international rules, e.g. “joining TPP would allow Japan to have a seat at the table in shaping the rules that will govern international economic behavior in the twenty-first century.” Matthew P. Goodman “Not Beyond Hope: Japan and TPP” *PacNet* #3 (9 Jan. 2013).

31 The Treaty of Amity and Cooperation and various other international instruments are not counterarguments because they do not constrain the behaviour of private sector entities in the same way as economic integration does.

blocs. Continued global integration prevails in both cases, as is clearly envisaged in the RCEP provision for agreement eventually between RCEP and other trading partners. The two different conceptions are of how clubs will form, experiment, and participate in the formulation of global norms and rules. ASEAN has a long history of successfully reconciling its joint community-building with separate foreign economic policies. That experience should also assist towards reconciling an Asian economic integration process with maintaining an Asia-Pacific framework for security issues, should that be desired. The more important issue for ASEAN is judging whether its interests will be best served in the future by Asian or Asia-Pacific exploration of possible developments in international norms and rules, especially about innovation and standards.

TPP and RCEP are not immediately incompatible. Indeed, they may be mutually reinforcing, partly because of the substantial common membership – Australia, Brunei, Japan, Malaysia, New Zealand, Singapore, Vietnam – which would become much more if TPP succeeded in evolving into FTAAP and also because ASEAN will want to maximize its unity, China and Korea will not want to be excluded from a significant element in international global governance, while the US Congress would certainly be energized by the prospect of US exclusion from an equally significant element.

The geo-strategic implications are even less obvious. How the world of the future will manage global strategic developments is likely to be different from how it manages economic interdependence.

## 4.To FTAAP?

An initial assessment of APEC 2013 is that FTAAP has become more rather than less likely.

Progress has been slow in all the relevant forums. In respect of the Expanded Economic Engagement with ASEAN, E3, the communiqué dated 21 August 2013 from USTR Froman and ASEAN trade ministers meeting in Brunei noted “continued cooperation on ethical business practices among small and medium-sized enterprises” in a workshop, “Progress on the non-binding draft ASEAN-US Statement on Shared Principles for International Investment and ASEAN-US Trade Principles for Information and Communication Technology Service” and “Continued commitment to standards cooperation and good regulatory practices cooperation”. That does not seem very much, and finalization of investment principles will not meet the October deadline. Much the same is true of TPP, and TTIP was easily derailed by domestic US political battles. There are grounds for worry that RCEP has been diverted into traditional tariff battles away from the required emphasis on internationalization of the ASEAN Economic Community.

Yet, the overall project of economic integration continues to attract high-level leadership endorsement. And the demands of economic trends will continue to demand attention. The issue is whether the political process will be coherent and autonomous or the result of responses to specific demands, guided only by a very general political sentiment.



## 5. Conclusion

“Consolidating from the Asia Track” will not be simple. But it offers a way forward towards reconciling economic and community objectives within Asia and enabling Asia to participate appropriately in world economic governance.





# China (Shanghai) Pilot Free Trade Zone: A Solid Step towards Greater Liberalization

■ Chen Bo

Pushed hardly by China's new Premier, Keqiang Li, China (Shanghai) Pilot Free Trade Zone (FTZ) was eventually approved on August 22<sup>nd</sup>, 2013. The FTZ covers four regions in Pudong New District which were formerly known as bonded areas: Yangshan Deep Water Port, Pudong Airport, Waigaoqiao bonded Zone and Waigaoqiao bonded logistics Park. These four regions in total cover 28.78 square kilometers.

Up to 2012 there were more than 200 international operation centers (on shipping and logistics) 31 regional headquarters and 50 settlement centers for international trade in these four areas. The total international trade value in these areas exceeded 110 billion USD in 2012. In other words, different from the establishment of Shenzhen Special Economic Zone from a small village, the Shanghai FTZ chooses areas with solid economic basis. It indicates the emergency and ambition: China wants to reform the whole economy towards more internal and external liberalization and China's government announces that they expect the reforms in the FTZ can be replicated throughout China within 2 to 3 years.

Then what are the driving forces behind such a grand reform project? I think it is a certain result of the internal and external troubles faced by China at the moment.

The internal problems refer to China's slowing economic growth, which reflects the possibility of China sliding towards the so called middle income trap. After more than 35 years' fast growth, China is facing surging labor costs and thus many international manufacturers, such as Nike and Adidas, have to move their manufacturing business out of China. Yet China is still struggling for its industry upgrading: though numerous industrial policies have been implemented for promoting high value-added industries, few of them become competitive internationally. As a result, China is encountering industry hollowing out problem, a typical problem in developing countries when falling into the middle income trap. While facing structural problems in economic growth, the best solution in the past 35 years was first opening and then reforming. Indeed, there have been three rounds of fast growth since China's economic reform in 1978 and each of which indeed started from opening: the establishment of Shenzhen Special Zone in 1979, the opening of Pudong district in 1992, and the entry of WTO in 2001. Therefore, the government media has mentioned repeatedly that the launch of Shanghai FTZ is another round of reform attempts starting from international opening.

But compared to domestic problems, the "foreign aggression" was a more direct cause for the establishment of FTZ. The influence of "Trans-Pacific Partnership Agreement" (TPP)

initiated by Singapore in 2005 was greatly enhanced after United States joined the party in 2008, and TPP was obviously designed in accordance with US' own interests ever since.

Vowing to build a unified market in the Pacific Rim in 2020, the TPP requires member countries to eliminate all tariffs on not only manufactured goods but also agricultural products, as well as opening their service and financial sectors.

The US-version of TPP did not receive positive response from Asia-Pacific countries in the beginning since Japan is well-known for its hard position on agriculture protection and the Asia Pacific nations worry about the consequence of their financial sector after liberalization. With the US successfully "forcing" Japan and Vietnam to concede in the negotiations, TPP may be eventually formed in a year or sooner. Though China for the first time clearly expressed its interest in joining the TPP negotiation in July's 2013 Sino-US strategic economic dialogue, it is still not confident about the implications of TPP to its economy. First of all, negotiation secrecy in TPP makes China worry that U.S. may take advantage of it and discriminate China by forcing it to accept more liberalization obligations than other countries. Secondly, TPP sets very high standards on Intellectual Property Right protection, labor/environmental protection, as well as various safety standards which are believed to result in much higher production costs and thus undermine China's competitiveness in manufacturing sector. Thirdly, TPP announces very ambitious comprehensive openness in all economic sectors (usually referred to as "high quality" FTA agreement) with very tight agenda. Participating countries, no matter developed or developing ones, are obligated to commit to liberalize their economies to the other TPP members before the deadline which is currently set at 2020.

Therefore China has to look for other FTA choices simultaneously albeit the integrated Asia Pacific markets proposed in TPP seems very attractive to China. First, China seems very likely to be excluded in the conclusion of current TPP negotiation. In order to mitigate the trade and investment diversion problem from TPP, China needs to actively seek alternatives. Second, China would have stronger bargaining power in future TPP negotiation had it had good alternatives at hand. Among these alternatives, the most attracting one is the Regional Comprehensive Economics Partnership (RCEP).

RCEP was originally proposed by Indonesia and officially endorsed in the 19th ASEAN Summit in November 2011. The current blueprint of RCEP is to integrate the existing 6 ASEAN plus 1 FTAs into an integrated ASEAN plus 6 FTA (i.e. ASEAN 10 plus China, Japan, South Korea, Australia, New Zealand, and India). The new generation of China's government seems very enthusiastic about RCEP. In Oct. 8th, 2013 China's new President, Xi Jinping, announced that China is going to push the economic integration in Asia Pacific region. Oct. 11th, China's new Premier, Li Keqiang, stated clearly that China is going to push RCEP forward. There are several reasons for China being so ambitious about the RCEP. First of all, RCEP is emerging from the existing six ASEAN plus 1 FTAs and thus can be easier to accept among Asia-Pacific nations. Second, though RCEP also emphasizes it is a high quality FTA like TPP, it



may give different treatments to nations according to their different development stages, which is similar to WTO. Thus RCEP seems more favorable to developing countries in Asia Pacific. More importantly, leading the negotiation of RCEP could strengthen China's leadership in Asia Pacific and may also enhance China's bargaining power in the possible TPP negotiations in the future.

But if China were to lead the RCEP negotiation forward, it should seriously prepare for its economic liberalization to meet requirements of high quality FTA in the first place. Above all, both TPP and RCEP expect the grand liberalization to be realized by 2020. In other words, to China there are only about 6 years left!

As a result, despite all the conjecture about possible reforms and the timetable of them in the FTZ, the long-term policy objectives of the pilot zone would be generally consistent with the prevalent high quality FTA requirements.

To this end, the goal of building FTZ would be reflected in the following four aspects: First, zero tariff for all merchandise trade including agricultural products; Second, Intellectual property protection, labor, environmental and safety to meet international standards, i.e. US Standard; Third, to enhance the economic and regulatory fairness and transparency, remove subsidies and preferential policy support for specific industries and state-owned enterprises; Fourth, full liberalization of the financial services industry, open capital account to allow free convertibility of currency, and free movement of capital.

In addition, the FTZ should include all major industries in the national economy, to form a fairly competitive situation among state-owned, private, and foreign businesses, and follow a negative-list management approach to allow all businesses that is not prohibited. The traditional examination-and-approval mode should also change to registration mode.

In short, the pilot FTZ with systematic innovation as its main purpose should build a micro sample open economy under global competition, so that the country can learn from the economic management methods, and assess the economic impacts China would encounter after greater liberalization.

The building of Shanghai FTZ is part of Premier Li Keqiang's reform, which centers on de-leveraging, reducing stimulate and upgrading the industrial structure, so as to achieve rational allocation of resources through the market mechanism. It is widely believed that the results of Shanghai FTZ trials largely determine the success of the new round of economic reform for the entire country.

Thus many scholars compared Shanghai FTZ to Shenzhen in 1979, or China's joining in to the World Trade Organization in 2001. The request for Shanghai FTZ to be replicable elsewhere in the country means it will be the vane for China's future economic reform. In a sense, the success of Shanghai's pilot zone would also largely determine how confident and ambitious China is in leading the RCEP negotiation and negotiations in other high quality FTAs.





## **Session IV**

**TPP vs. RCEP: Building Blocks towards Greater  
Regional Economic Integration?**







Prepared for presentation at the 28<sup>th</sup> Pacific Economic Community Seminar on “TPP and RCEP: Emerging Dual Track Pathways towards FTAAP” organized by Chinese Taipei Pacific Economic Cooperation (CTPECC) and Taiwan Institute of Economic Research, 13<sup>th</sup>- 14<sup>th</sup> November 2013, Regent Hotel, Taipei, Chinese Taipei

## ASEAN-10 Competitiveness, Impact of Global Growth Engines, Regional Economic Integration through Free Trade Agreements

Dr. Tan Khee Giap  
Associate Professor  
Co-Director, Asia Competitiveness  
Institute  
Lee Kuan Yew School of Public Policy  
National University of Singapore

Dr. Vu Minh Khuong  
Assistant Professor  
Lee Kuan Yew School of Public Policy  
National University of Singapore

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### Presentation outlines

1. Introduction: GDP of world's major economies & the flying geese theory
2. Competitiveness Ranking: Methodological framework
3. Competitiveness Ranking: Results and discussion
4. Emerging policy issues
  - Regional economic integration
  - China-ASEAN connectivity
  - Japan ASEAN connectivity
5. Growth strategies: Global growth engines and strategic direction for promoting growth
6. ASEAN-relate FTAs, Singapore-related FTAs and Conclusion

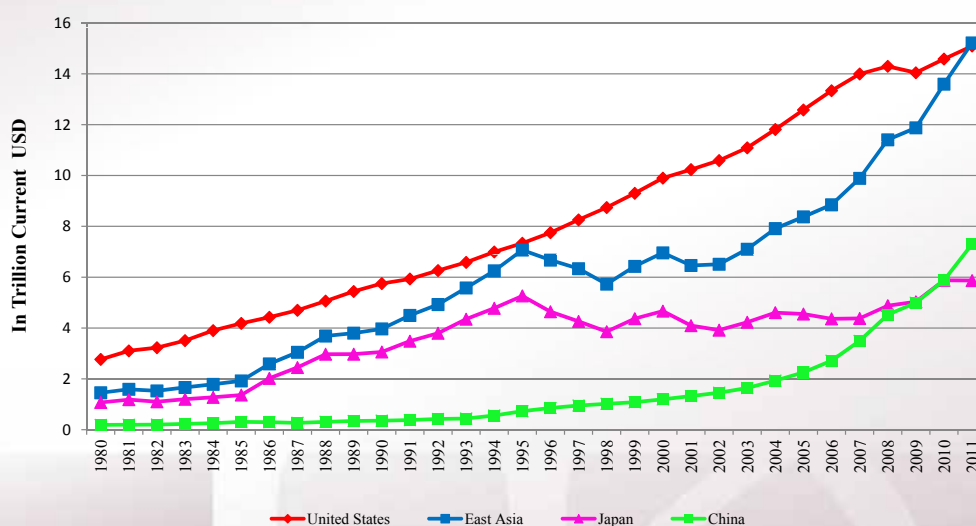
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### GDP of China, Japan, United States and East Asia, 1980-2011



Source: World Bank Database

East Asia include China, Japan, South Korea, Chinese Taipei, Hong Kong, Singapore and ASEAN-4 countries (Malaysia, Thailand, Indonesia and Philippines)

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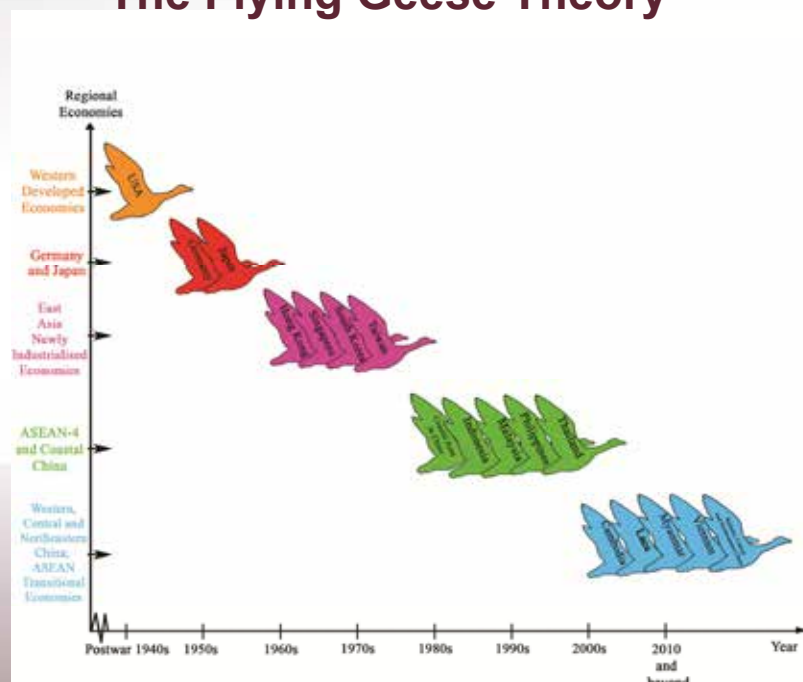
**ASEAN-10 is home to about 600 million people combined GDP of US\$3.1 trillion PPP adjusted (2010)**

Group	Population		GDP (PPP\$)		Income Level (World=1.0)
	(million)	Share in world	(billion)	Share in world	
ASEAN-10					
Brunei	0.4	0.01%	20.1	0.03%	4.6
Cambodia	14.1	0.2%	30.8	0.04%	0.2
Indonesia	239.9	3.5%	1,032.3	1.4%	0.4
Lao PDR	6.2	0.1%	15.9	0.02%	0.2
Malaysia	28.4	0.4%	431.2	0.6%	1.4
Myanmar	48.0	0.7%	76.8	0.1%	0.1
Philippines	93.3	1.4%	367.8	0.5%	0.4
Singapore	5.1	0.1%	293.4	0.4%	5.2
Thailand	69.1	1.0%	587.5	0.8%	0.8
Vietnam	86.9	1.3%	276.8	0.4%	0.3
ASEAN-10	591.4	8.6%	3,132.7	4.1%	0.5
China	1,337.8	19.4%	10,105.0	13.2%	0.7
India	1,224.6	17.8%	4,122.3	5.4%	0.3
World	6,894.4	100%	76,296.5	100%	1.0

Source: WDI (2012)

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## The Flying Geese Theory



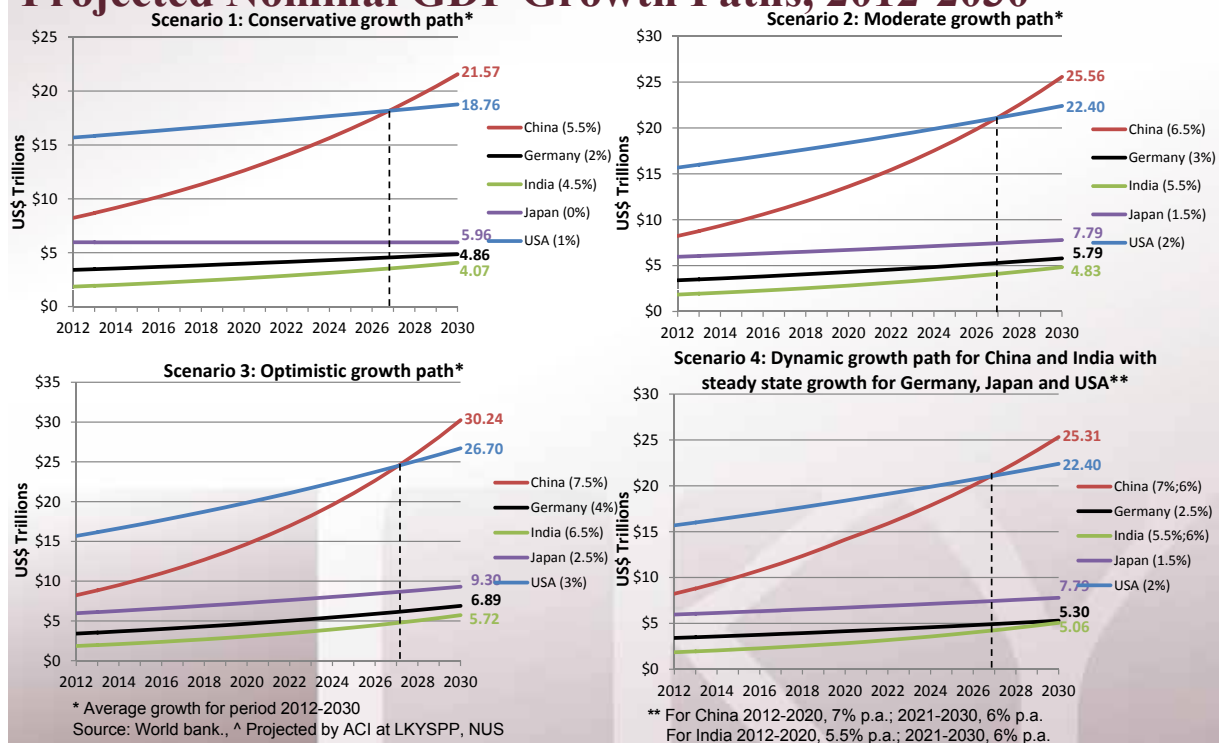
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### Nominal GDP and GDP Per Capita of Major Economies, 2012

	Nominal GDP (2012)		Nominal GDP adjusted for PPP (2012)	
	Total (in US\$)	Per Capita (in US\$) (rank)	Total (in US\$)	Per Capita (in US\$) (rank)
United States	15.68 Trillion (1 <sup>st</sup> )	49,965 (10 <sup>th</sup> )	15.68 Trillion (1 <sup>st</sup> )	49,965 (8 <sup>th</sup> )
China	8.22 Trillion (2 <sup>nd</sup> )	6,091 (79 <sup>th</sup> )	12.47 Trillion (2 <sup>nd</sup> )	9,233 (83 <sup>rd</sup> )
Japan	5.95 Trillion (3 <sup>rd</sup> )	46,720 (12 <sup>th</sup> )	4.48 Trillion (4 <sup>th</sup> )	35,178 (22 <sup>nd</sup> )
Germany	3.39 Trillion (4 <sup>th</sup> )	41,514 (18 <sup>th</sup> )	3.35 Trillion (6 <sup>th</sup> )	40,900 (16 <sup>th</sup> )
France	2.61 Trillion (5 <sup>th</sup> )	39,772 (20 <sup>th</sup> )	2.37 Trillion (7 <sup>th</sup> )	36,104 (21 <sup>st</sup> )
United Kingdom	2.43 Trillion (6 <sup>th</sup> )	38,514 (21 <sup>st</sup> )	2.33 Trillion (9 <sup>th</sup> )	36,901 (20 <sup>th</sup> )
Brazil	2.25 Trillion (7 <sup>th</sup> )	11,340 (53 <sup>rd</sup> )	2.36 Trillion (8 <sup>th</sup> )	11,909 (66 <sup>th</sup> )
Russian Federation	2.01 Trillion (8 <sup>th</sup> )	14,037 (41 <sup>st</sup> )	3.37 Trillion (5 <sup>th</sup> )	23,501 (38 <sup>th</sup> )
Italy	2.01 Trillion (9 <sup>th</sup> )	33,049 (23 <sup>rd</sup> )	2.01 Trillion (11 <sup>th</sup> )	33,111 (23 <sup>rd</sup> )
India	1.84 Trillion (10 <sup>th</sup> )	1,489 (132 <sup>nd</sup> )	4.79 Trillion (3 <sup>rd</sup> )	3,876 (115 <sup>th</sup> )
Singapore	274 Billion (32 <sup>nd</sup> )	51,709 (9 <sup>th</sup> )	328 Billion (38 <sup>th</sup> )	61,803 (4 <sup>th</sup> )

\*Source: World Bank national accounts data, and OECD National Accounts data files  
<http://data.worldbank.org/>; Retrieved on 20 August, 2013

### Projected Nominal GDP Growth Paths, 2012-2030<sup>^</sup>





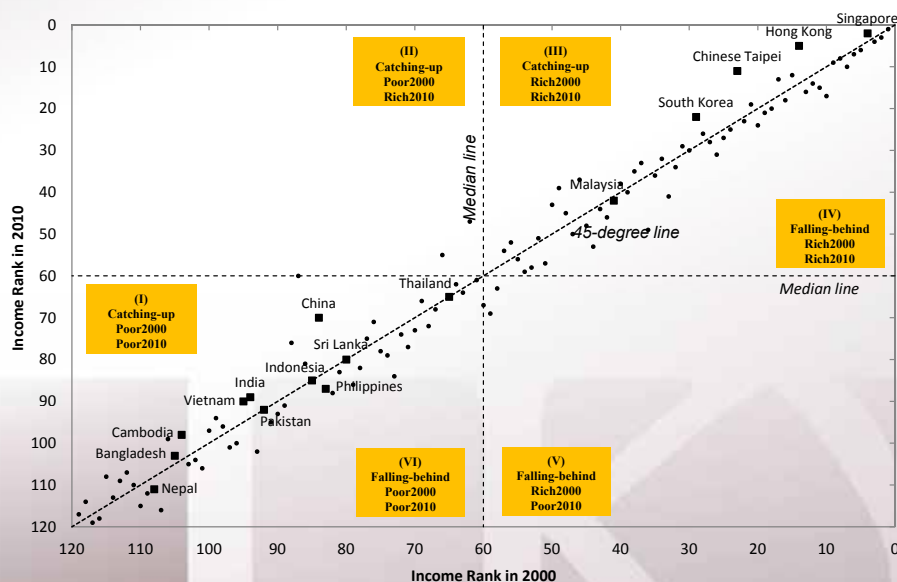
## The Global Economic Reality : Calling a spade a spade

- The Chinese economy or the Chinese government is not amount to collapse any time soon, and China will be the biggest economy in the world before 2027 under different growth scenarios. AS the world approaches 2027, tension between USA (and possibly Japan) with China is expected to intensify and more so in 2023 when China's new leadership for 2023-2033 kicks in.
- China must share her economic prosperity with the rest of the world especially the relatively lesser developed ASEAN under the modality of flying gees theory and East Asia model of development through releasing production bottlenecks by way of infrastructure investment.
- USA and Japan must return to Asia economically to balance the increasing over-dependence of ASEAN or dominance of China rather than excessive military build-up to contain China.
- As our empirical results have shown, intra-ASEAN trade is insignificant and the ASEAN Plus economic formulae is important to generate growth momentum for the Asian region while maintaining ASEAN centric in it's the ASEAN plus vehicle with Indonesian and Malaysia playing the leading role.

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## Asian economies were on a notable catching-up trend during 2000-2010 but the performance of ASEAN countries was not outstanding...

Global Dynamics of Catching-up & Falling-behind, 2000-2010: Developing Asia

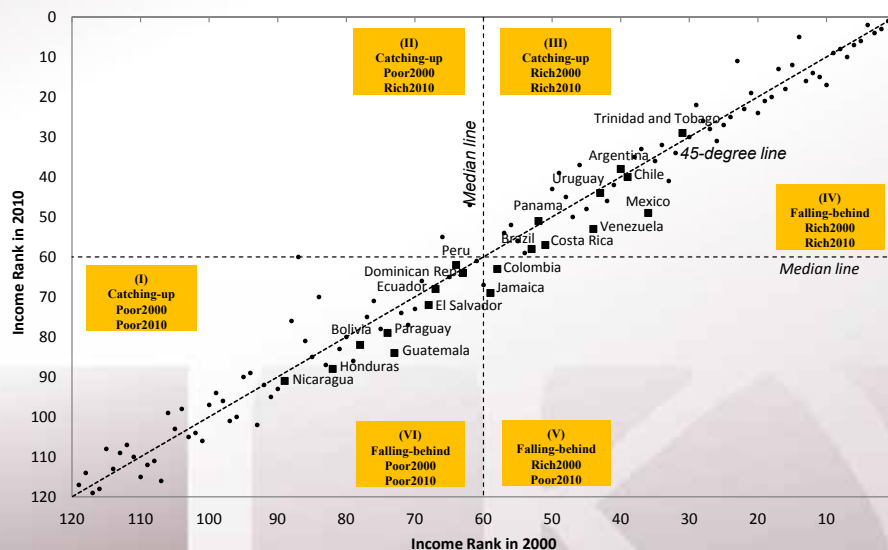


Source: Vu (2013)

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For comparison, Latin American economies were on a falling-behind trend during 2000-2010.

Global Dynamics of Catching-up & Falling-behind, 2000-2010: Latin America



Source: Vu (2013)

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### Why ASEAN-10 Competitiveness Ranking?

- The ASEAN-10 economies can seize the unprecedented opportunities associated with the rise of Asia especially with emerging China and India and revitalization of Japanese economy to foster their economic development, growth catching-up and greater regional economic integration.
- The ASEAN-10 economies are facing structural problems and production bottlenecks in boosting/sustaining high economic performance, with economies such as Malaysian, Thailand and Philippines which are in danger of being caught in the middle income trap.
- The ASEAN-10 competitiveness ranking provides policy makers in the ASEAN-10 economies with policy insights and suggestions for enhancing national competitiveness and economic growth. It also help policy makers monitor the progress of country performance over time in comparison to peer countries.
- Non-performance in the economy by any other member economy is bad for ASEAN as there will be a tendency to divert to external conflict or issues from domestic economic problems.

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## Presentation outlines

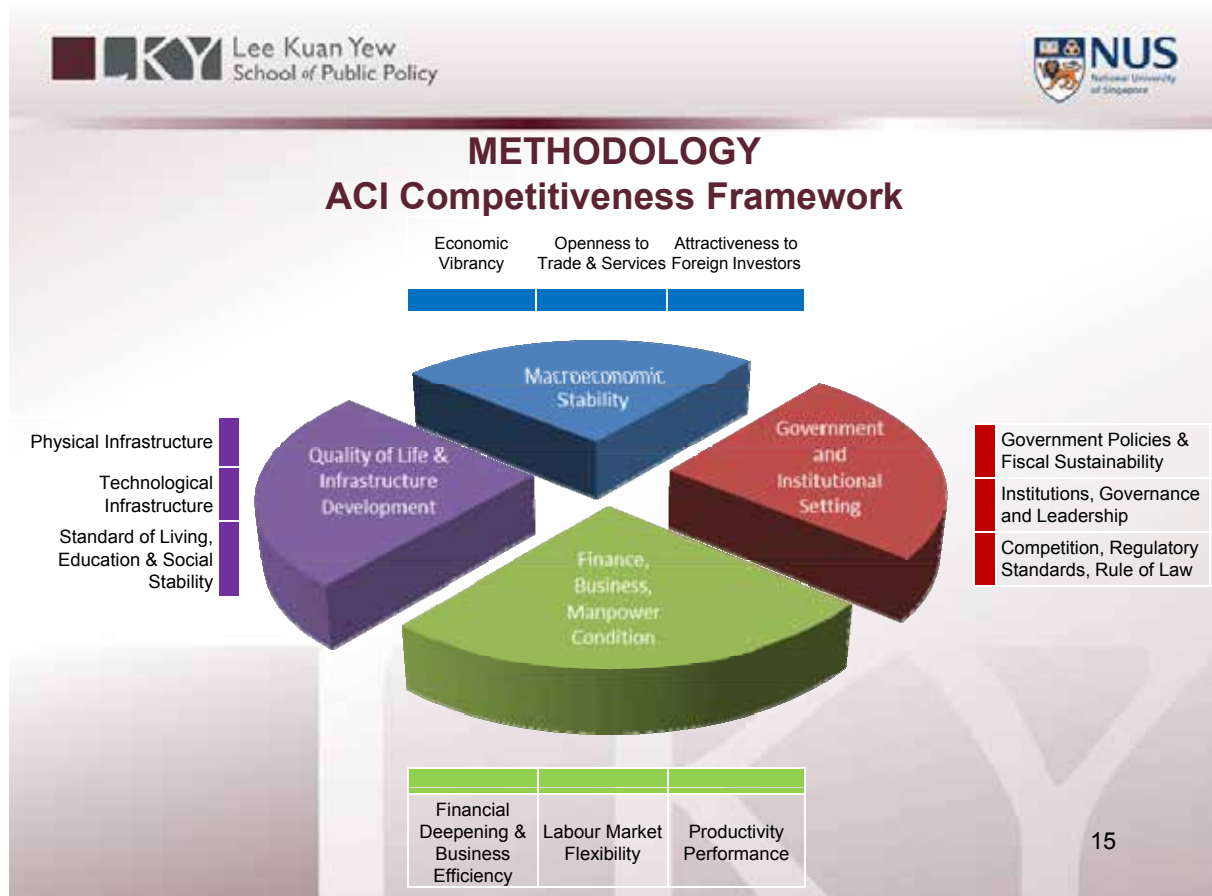
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## METHODOLOGY ACI Competitiveness Framework



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**METHODOLOGY**  
**ACI Competitiveness Framework**

Environment/Sub-environment	Number of Indicators
<b>I-Macroeconomic Stability</b>	<b>24</b>
1) Economic Vibrancy	12
2) Openness to Trade and Services	5
3) Attractiveness To Foreign Investors	7
<b>II-Government and Institutional Setting</b>	<b>45</b>
4) Government Policies and Fiscal Sustainability	15
5) Institutions, Governance and Leadership	15
6) Competition, Regulatory Standards and Rule of Law	15
<b>III-Financial, Business and Manpower Conditions</b>	<b>22</b>
7) Financial Deepening and Business Efficiency	9
8) Labour Market Flexibility	9
9) Productivity Performance	4
<b>IV-Quality of Life and Infrastructure Development</b>	<b>37</b>
10) Physical Infrastructure	8
11) Technological Infrastructure	21
12) Standard of Living, Education and Social Stability	8

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## METHODOLOGY

### The Standardized Score

- To measure how well a country performs in comparison to the average-performing country
- A standardized score is calculated for each indicator
  - SS=0: the same as the group average
  - SS<0: below the group average
  - SS>0: above the group average
- The subindex on a given sub-environment is the average of the standard scores of its indicators.
- The index on a given environment is the average of the subindexes of its sub-environments.
- The overall competitiveness index is the average of the indexes of the four environments.

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### Overall Competitiveness ranking of ASEAN-10, 2000-2010

TOTAL										
Rank	1		2		3		4		5	
	Economy	Score	Economy	Score	Economy	Score	Economy	Score	Economy	Score
2000	Singapore	1.4672	Malaysia	0.5160	Thailand	0.2955	Brunei	0.2254	Philippines	-0.0811
2001	Singapore	1.4498	Malaysia	0.5316	Thailand	0.3002	Brunei	0.2651	Philippines	-0.1238
2002	Singapore	1.4135	Malaysia	0.6048	Thailand	0.3236	Brunei	0.2356	Philippines	-0.1733
2003	Singapore	1.3501	Malaysia	0.5889	Thailand	0.3299	Brunei	0.2620	Philippines	-0.1996
2004	Singapore	1.4022	Malaysia	0.6305	Thailand	0.3007	Brunei	0.2420	Indonesia	-0.1723
2005	Singapore	1.4242	Malaysia	0.6353	Thailand	0.3078	Brunei	0.2670	Philippines	-0.1917
2006	Singapore	1.3837	Malaysia	0.6625	Thailand	0.2756	Brunei	0.2567	Indonesia	-0.1647
2007	Singapore	1.3996	Malaysia	0.6450	Thailand	0.2423	Brunei	0.2074	Indonesia	-0.1082
2008	Singapore	1.3887	Malaysia	0.6174	Thailand	0.2330	Brunei	0.1933	Indonesia	-0.1068
2009	Singapore	1.4518	Malaysia	0.5322	Thailand	0.2247	Brunei	0.2077	Indonesia	-0.0857
2010	Singapore	1.4463	Malaysia	0.5766	Thailand	0.2210	Brunei	0.2039	Indonesia	-0.0657

TOTAL										
Rank	6		7		8		9		10	
	Economy	Score	Economy	Score	Economy	Score	Economy	Score	Economy	Score
2000	Vietnam	-0.2847	Indonesia	-0.2945	Cambodia	-0.4205	Laos	-0.7111	Myanmar	-0.7121
2001	Vietnam	-0.2653	Indonesia	-0.2726	Cambodia	-0.4272	Laos	-0.6723	Myanmar	-0.7856
2002	Vietnam	-0.2155	Indonesia	-0.3018	Cambodia	-0.4363	Laos	-0.6590	Myanmar	-0.7918
2003	Vietnam	-0.2242	Indonesia	-0.2808	Cambodia	-0.4382	Laos	-0.6693	Myanmar	-0.7189
2004	Philippines	-0.2161	Vietnam	-0.2718	Cambodia	-0.4918	Laos	-0.6582	Myanmar	-0.7653
2005	Indonesia	-0.2167	Vietnam	-0.2762	Cambodia	-0.5098	Laos	-0.6682	Myanmar	-0.7716
2006	Philippines	-0.1822	Vietnam	-0.2739	Cambodia	-0.5331	Laos	-0.6436	Myanmar	-0.7810
2007	Philippines	-0.1811	Vietnam	-0.2548	Cambodia	-0.5243	Laos	-0.6387	Myanmar	-0.7873
2008	Philippines	-0.1900	Vietnam	-0.2074	Cambodia	-0.5387	Laos	-0.6314	Myanmar	-0.7581
2009	Vietnam	-0.1866	Philippines	-0.2432	Cambodia	-0.5203	Laos	-0.6154	Myanmar	-0.7653
2010	Vietnam	-0.1878	Philippines	-0.2574	Cambodia	-0.5151	Laos	-0.6295	Myanmar	-0.7923

### Macroeconomic Stability Ranking, 2000-2010

MACROECONOMIC STABILITY										
Rank	1		2		3		4		5	
	Economy	Score	Economy	Score	Economy	Score	Economy	Score	Economy	Score
2000	Singapore	1.5599	Malaysia	0.5190	Thailand	0.3588	Indonesia	-0.1372	Brunei	-0.1811
2001	Singapore	1.4976	Malaysia	0.4891	Thailand	0.3885	Brunei	-0.0398	Indonesia	-0.1213
2002	Singapore	1.4192	Malaysia	0.5790	Thailand	0.4109	Brunei	-0.0551	Indonesia	-0.1220
2003	Singapore	1.4240	Malaysia	0.5244	Thailand	0.3939	Brunei	-0.0421	Indonesia	-0.1537
2004	Singapore	1.4970	Malaysia	0.6201	Thailand	0.3736	Indonesia	-0.0010	Brunei	-0.1019
2005	Singapore	1.5559	Malaysia	0.6221	Thailand	0.3836	Brunei	0.0131	Indonesia	-0.0881
2006	Singapore	1.4779	Malaysia	0.5924	Thailand	0.3824	Brunei	0.0590	Indonesia	-0.0451
2007	Singapore	1.4575	Malaysia	0.5919	Thailand	0.3549	Indonesia	0.0773	Brunei	-0.0510
2008	Singapore	1.3234	Malaysia	0.5446	Thailand	0.3809	Indonesia	0.1279	Brunei	-0.0581
2009	Singapore	1.5067	Malaysia	0.4129	Thailand	0.3658	Indonesia	0.0893	Brunei	-0.0852
2010	Singapore	1.5447	Malaysia	0.4814	Thailand	0.3429	Indonesia	0.0668	Brunei	0.0243

MACROECONOMIC STABILITY										
Rank	6		7		8		9		10	
	Economy	Score	Economy	Score	Economy	Score	Economy	Score	Economy	Score
2000	Cambodia	-0.2359	Philippines	-0.2464	Vietnam	-0.2482	Myanmar	-0.6496	Laos	-0.7394
2001	Vietnam	-0.2041	Cambodia	-0.2461	Philippines	-0.2838	Laos	-0.6428	Myanmar	-0.8373
2002	Vietnam	-0.1656	Philippines	-0.2900	Cambodia	-0.2979	Laos	-0.6437	Myanmar	-0.8347
2003	Vietnam	-0.2281	Cambodia	-0.2697	Philippines	-0.3311	Myanmar	-0.6508	Laos	-0.6667
2004	Vietnam	-0.3173	Philippines	-0.3303	Cambodia	-0.3364	Laos	-0.6700	Myanmar	-0.7339
2005	Cambodia	-0.3175	Vietnam	-0.3677	Philippines	-0.4122	Laos	-0.6669	Myanmar	-0.7223
2006	Vietnam	-0.3300	Philippines	-0.3570	Cambodia	-0.3705	Laos	-0.6391	Myanmar	-0.7699
2007	Philippines	-0.3073	Vietnam	-0.3098	Cambodia	-0.4248	Laos	-0.6203	Myanmar	-0.7685
2008	Vietnam	-0.2032	Cambodia	-0.3793	Philippines	-0.3821	Laos	-0.6322	Myanmar	-0.7218
2009	Vietnam	-0.1723	Cambodia	-0.4504	Philippines	-0.4598	Laos	-0.5605	Myanmar	-0.6465
2010	Vietnam	-0.2077	Philippines	-0.4283	Cambodia	-0.4709	Laos	-0.6677	Myanmar	-0.6855



## Government and Institutional Setting Ranking, 2000-2010

GOVERNMENT AND INSTITUTIONAL SETTING										
Rank	1		2		3		4		5	
	Economy	Score	Economy	Score	Economy	Score	Economy	Score	Economy	Score
2000	Singapore	1.6287	Malaysia	0.5221	Thailand	0.4551	Brunei	0.3959	Philippines	-0.0204
2001	Singapore	1.6542	Malaysia	0.5543	Thailand	0.4524	Brunei	0.3819	Philippines	-0.0718
2002	Singapore	1.5226	Malaysia	0.6612	Thailand	0.5045	Brunei	0.3627	Philippines	-0.1303
2003	Singapore	1.5044	Malaysia	0.6646	Thailand	0.5390	Brunei	0.3896	Vietnam	-0.1716
2004	Singapore	1.4614	Malaysia	0.7101	Brunei	0.4588	Thailand	0.4587	Philippines	-0.2289
2005	Singapore	1.4468	Malaysia	0.7533	Brunei	0.4814	Thailand	0.4808	Philippines	-0.1731
2006	Singapore	1.4556	Malaysia	0.7257	Brunei	0.4680	Thailand	0.3344	Philippines	-0.1660
2007	Singapore	1.5036	Malaysia	0.6925	Brunei	0.4282	Thailand	0.2409	Indonesia	-0.1853
2008	Singapore	1.6060	Malaysia	0.6040	Brunei	0.3924	Thailand	0.1975	Philippines	-0.2009
2009	Singapore	1.6057	Malaysia	0.4761	Brunei	0.4725	Thailand	0.1701	Indonesia	-0.1222
2010	Singapore	1.6183	Malaysia	0.5324	Brunei	0.3965	Thailand	0.1635	Indonesia	-0.0784

GOVERNMENT AND INSTITUTIONAL SETTING										
Rank	6		7		8		9		10	
	Economy	Score	Economy	Score	Economy	Score	Economy	Score	Economy	Score
2000	Vietnam	-0.2637	Cambodia	-0.4327	Indonesia	-0.6183	Laos	-0.8141	Myanmar	-0.8526
2001	Vietnam	-0.2610	Cambodia	-0.4687	Indonesia	-0.6085	Laos	-0.7743	Myanmar	-0.8584
2002	Vietnam	-0.2106	Cambodia	-0.4137	Indonesia	-0.6225	Laos	-0.7942	Myanmar	-0.8798
2003	Philippines	-0.2108	Cambodia	-0.3983	Indonesia	-0.5271	Laos	-0.8666	Myanmar	-0.9233
2004	Vietnam	-0.2799	Indonesia	-0.3500	Cambodia	-0.4730	Laos	-0.8152	Myanmar	-0.9421
2005	Vietnam	-0.2918	Indonesia	-0.3671	Cambodia	-0.5673	Laos	-0.8258	Myanmar	-0.9372
2006	Indonesia	-0.2432	Vietnam	-0.3241	Cambodia	-0.5246	Laos	-0.7946	Myanmar	-0.9313
2007	Philippines	-0.1893	Vietnam	-0.3192	Cambodia	-0.4620	Laos	-0.7743	Myanmar	-0.9350
2008	Indonesia	-0.2119	Vietnam	-0.3214	Cambodia	-0.4681	Laos	-0.7090	Myanmar	-0.8887
2009	Philippines	-0.2831	Vietnam	-0.2960	Cambodia	-0.4453	Laos	-0.6952	Myanmar	-0.8826
2010	Philippines	-0.2924	Vietnam	-0.3205	Cambodia	-0.4254	Laos	-0.6712	Myanmar	-0.9227

## Financial, Businesses and Manpower Conditions Ranking, 2000-2010

FINANCIAL, BUSINESSES AND MANPOWER CONDITIONS										
Rank	1		2		3		4		5	
	Economy	Score	Economy	Score	Economy	Score	Economy	Score	Economy	Score
2000	Singapore	1.2168	Malaysia	0.4277	Brunei	0.3154	Thailand	0.1618	Philippines	-0.0093
2001	Singapore	1.2317	Malaysia	0.4858	Brunei	0.3209	Thailand	0.1487	Philippines	-0.0782
2002	Singapore	1.3047	Malaysia	0.5372	Brunei	0.2830	Thailand	0.1082	Philippines	-0.0998
2003	Singapore	1.1351	Malaysia	0.5111	Brunei	0.3303	Thailand	0.1939	Philippines	-0.1180
2004	Singapore	1.3215	Malaysia	0.5326	Brunei	0.2733	Thailand	0.1886	Indonesia	-0.1432
2005	Singapore	1.3431	Malaysia	0.4744	Brunei	0.2337	Thailand	0.1809	Philippines	-0.0650
2006	Singapore	1.2774	Malaysia	0.6156	Brunei	0.1971	Thailand	0.1829	Indonesia	-0.1277
2007	Singapore	1.2633	Malaysia	0.6595	Thailand	0.1853	Brunei	0.1351	Indonesia	-0.0939
2008	Singapore	1.2631	Malaysia	0.6948	Thailand	0.2030	Brunei	0.0851	Indonesia	-0.1231
2009	Singapore	1.3299	Malaysia	0.6298	Thailand	0.2164	Brunei	0.1070	Indonesia	-0.0913
2010	Singapore	1.2535	Malaysia	0.7064	Thailand	0.2365	Brunei	0.0932	Indonesia	-0.0913

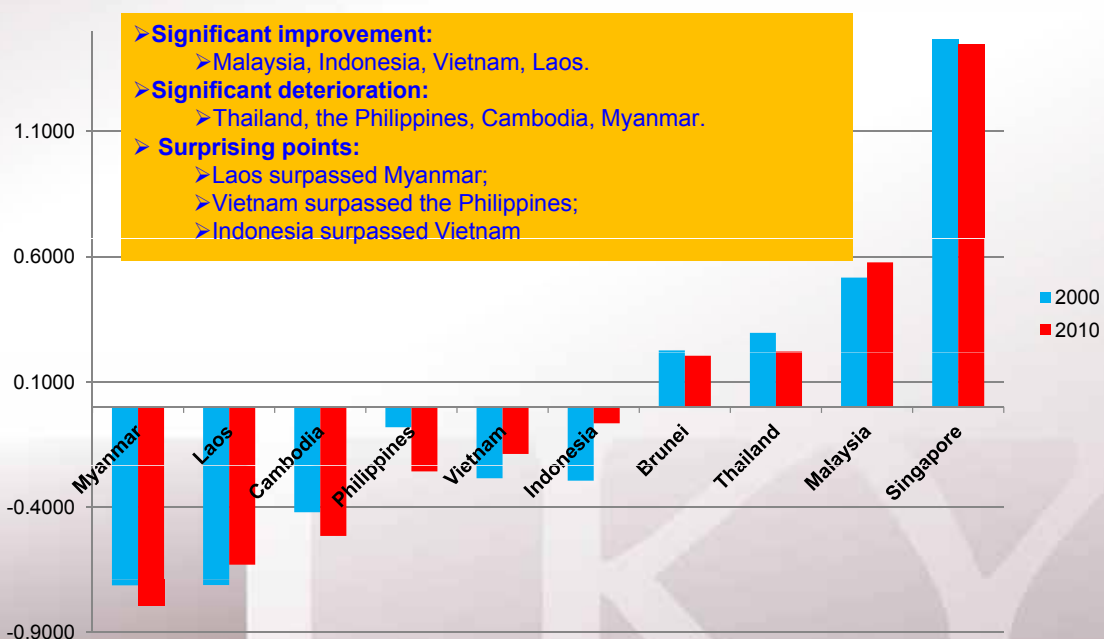
FINANCIAL, BUSINESSES AND MANPOWER CONDITIONS										
Rank	6		7		8		9		10	
	Economy	Score	Economy	Score	Economy	Score	Economy	Score	Economy	Score
2000	Indonesia	-0.0915	Vietnam	-0.3454	Myanmar	-0.5001	Laos	-0.5840	Cambodia	-0.5913
2001	Indonesia	-0.1019	Vietnam	-0.3067	Myanmar	-0.5426	Cambodia	-0.5744	Laos	-0.5832
2002	Indonesia	-0.1189	Vietnam	-0.2776	Myanmar	-0.5435	Laos	-0.5528	Cambodia	-0.6405
2003	Indonesia	-0.1621	Vietnam	-0.2759	Myanmar	-0.3983	Laos	-0.5512	Cambodia	-0.6651
2004	Philippines	-0.2097	Vietnam	-0.2793	Myanmar	-0.4562	Laos	-0.5461	Cambodia	-0.6814
2005	Indonesia	-0.1990	Vietnam	-0.2399	Myanmar	-0.4866	Laos	-0.5869	Cambodia	-0.6546
2006	Philippines	-0.1324	Vietnam	-0.2489	Myanmar	-0.4697	Laos	-0.5568	Cambodia	-0.7375
2007	Philippines	-0.1445	Vietnam	-0.2553	Myanmar	-0.4539	Laos	-0.5761	Cambodia	-0.7196
2008	Philippines	-0.1306	Vietnam	-0.1828	Myanmar	-0.4530	Laos	-0.6081	Cambodia	-0.7482
2009	Philippines	-0.1826	Vietnam	-0.2320	Myanmar	-0.5008	Laos	-0.6197	Cambodia	-0.6566
2010	Philippines	-0.1992	Vietnam	-0.2276	Myanmar	-0.5204	Laos	-0.5903	Cambodia	-0.6607

### Quality Of Life and Infrastructure Development Ranking, 2000-2010

QUALITY OF LIFE AND INFRASTRUCTURE DEVELOPMENT										
Rank	1		2		3		4		5	
	Economy	Score	Economy	Score	Economy	Score	Economy	Score	Economy	Score
2000	Singapore	1.4633	Malaysia	0.5952	Brunei	0.3714	Thailand	0.2063	Philippines	-0.0484
2001	Singapore	1.4156	Malaysia	0.5974	Brunei	0.3973	Thailand	0.2113	Philippines	-0.0613
2002	Singapore	1.4076	Malaysia	0.6419	Brunei	0.3520	Thailand	0.2708	Philippines	-0.1730
2003	Singapore	1.3370	Malaysia	0.6556	Brunei	0.3702	Thailand	0.1928	Philippines	-0.1384
2004	Singapore	1.3291	Malaysia	0.6593	Brunei	0.3379	Thailand	0.1821	Philippines	-0.0954
2005	Singapore	1.3511	Malaysia	0.6912	Brunei	0.3398	Thailand	0.1859	Philippines	-0.1165
2006	Singapore	1.3240	Malaysia	0.7164	Brunei	0.3027	Thailand	0.2025	Philippines	-0.0734
2007	Singapore	1.3740	Malaysia	0.6362	Brunei	0.3172	Thailand	0.1884	Philippines	-0.0836
2008	Singapore	1.3624	Malaysia	0.6260	Brunei	0.3538	Thailand	0.1506	Philippines	-0.0462
2009	Singapore	1.3650	Malaysia	0.6100	Brunei	0.3367	Thailand	0.1467	Vietnam	-0.0460
2010	Singapore	1.3686	Malaysia	0.5865	Brunei	0.3015	Thailand	0.1413	Vietnam	0.0047

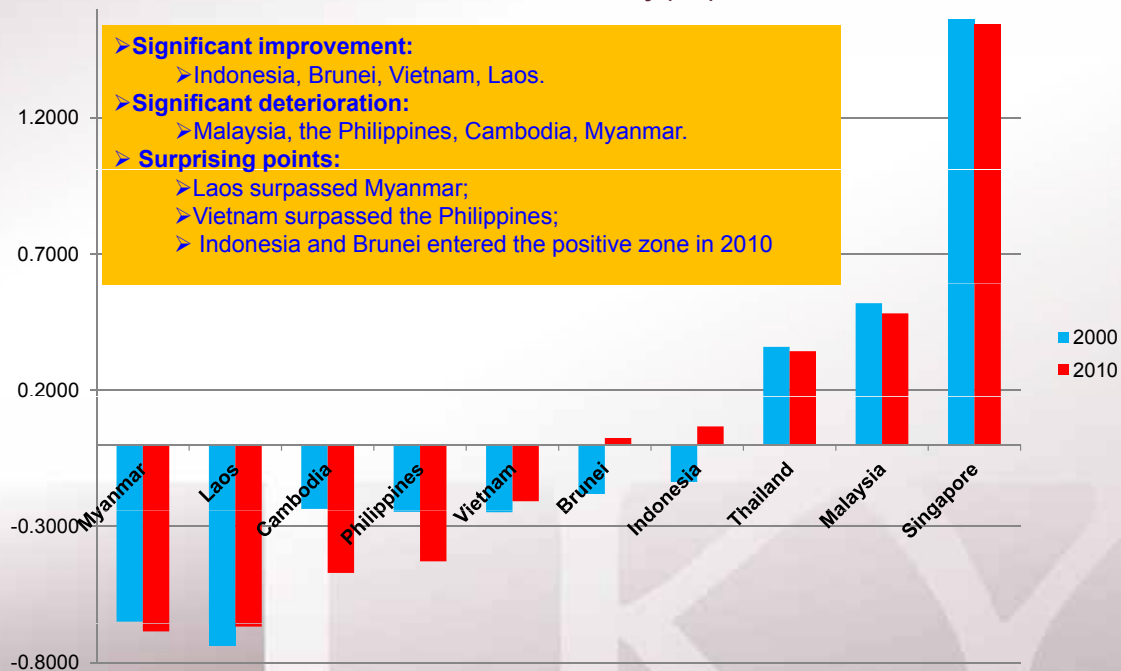
QUALITY OF LIFE AND INFRASTRUCTURE DEVELOPMENT										
Rank	6		7		8		9		10	
	Economy	Score	Economy	Score	Economy	Score	Economy	Score	Economy	Score
2000	Vietnam	-0.2817	Indonesia	-0.3311	Cambodia	-0.4222	Laos	-0.7068	Myanmar	-0.8459
2001	Indonesia	-0.2586	Vietnam	-0.2893	Cambodia	-0.4194	Laos	-0.6891	Myanmar	-0.9039
2002	Vietnam	-0.2082	Indonesia	-0.3436	Cambodia	-0.3932	Laos	-0.6451	Myanmar	-0.9090
2003	Vietnam	-0.2211	Indonesia	-0.2805	Cambodia	-0.4196	Laos	-0.5927	Myanmar	-0.9034
2004	Indonesia	-0.1952	Vietnam	-0.2106	Cambodia	-0.4764	Laos	-0.6017	Myanmar	-0.9292
2005	Vietnam	-0.2056	Indonesia	-0.2126	Cambodia	-0.4998	Laos	-0.5932	Myanmar	-0.9403
2006	Vietnam	-0.1926	Indonesia	-0.2429	Cambodia	-0.4997	Laos	-0.5840	Myanmar	-0.9531
2007	Vietnam	-0.1348	Indonesia	-0.2308	Cambodia	-0.4907	Laos	-0.5840	Myanmar	-0.9917
2008	Vietnam	-0.1220	Indonesia	-0.2200	Cambodia	-0.5591	Laos	-0.5763	Myanmar	-0.9691
2009	Philippines	-0.0472	Indonesia	-0.2187	Cambodia	-0.5291	Laos	-0.5863	Myanmar	-1.0312
2010	Philippines	-0.1096	Indonesia	-0.1598	Cambodia	-0.5036	Laos	-0.5888	Myanmar	-1.0407

### Overall Competitiveness: 2010 vs. 2000

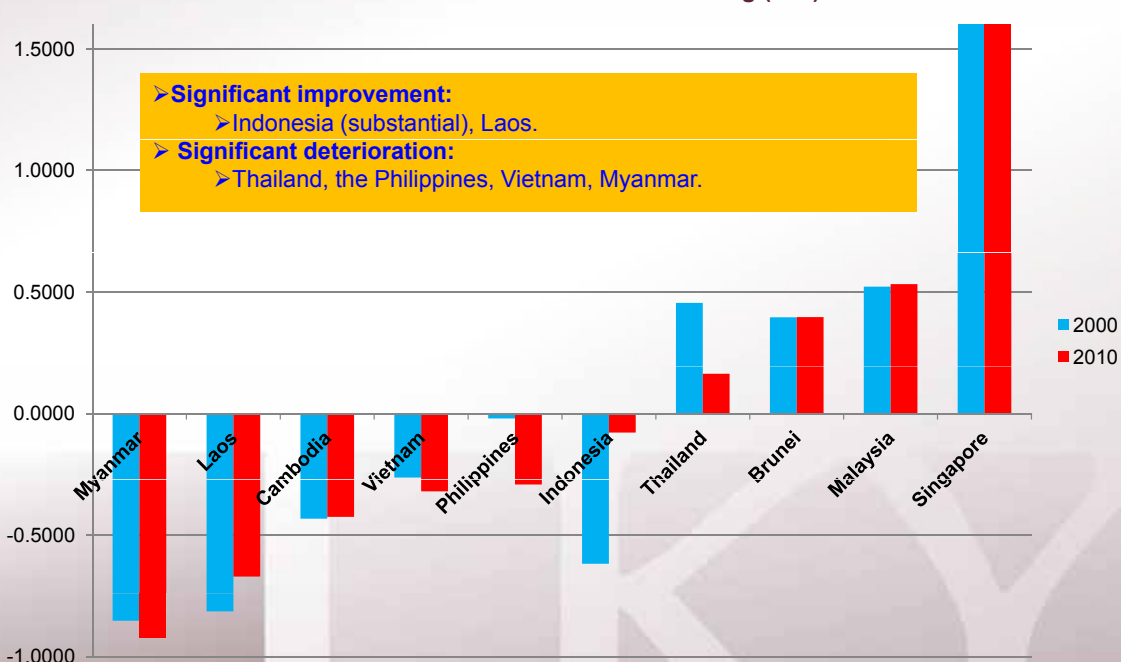


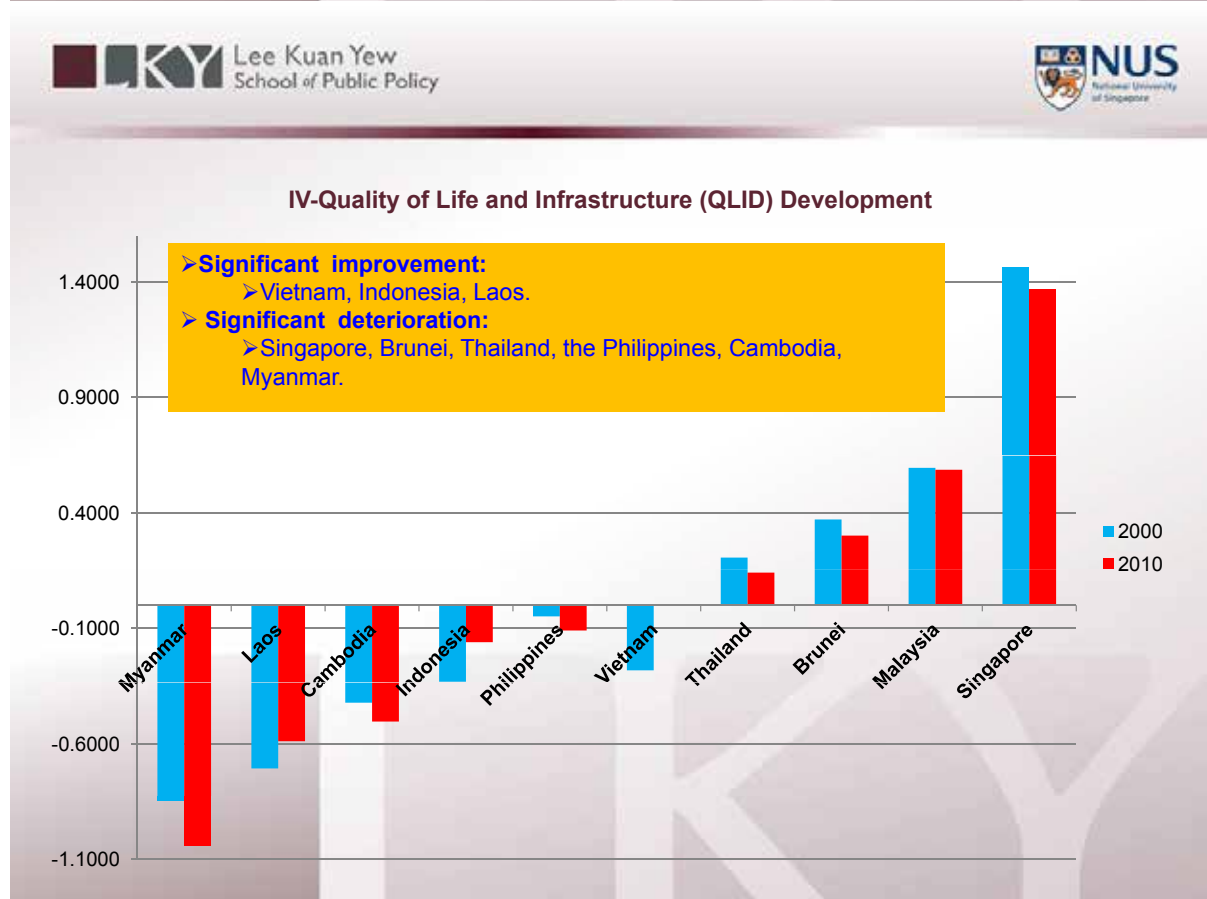
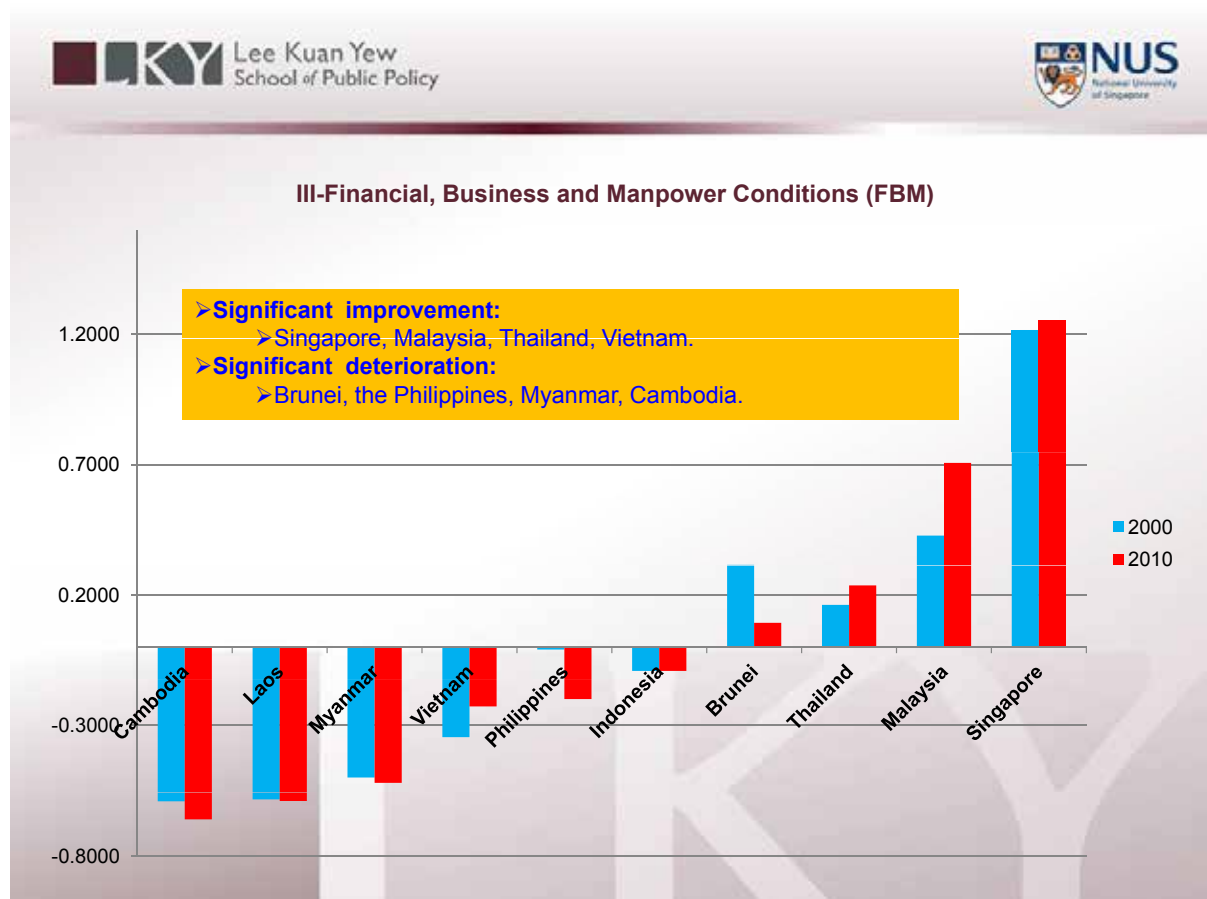


### I-Macroeconomic Stability (MS)



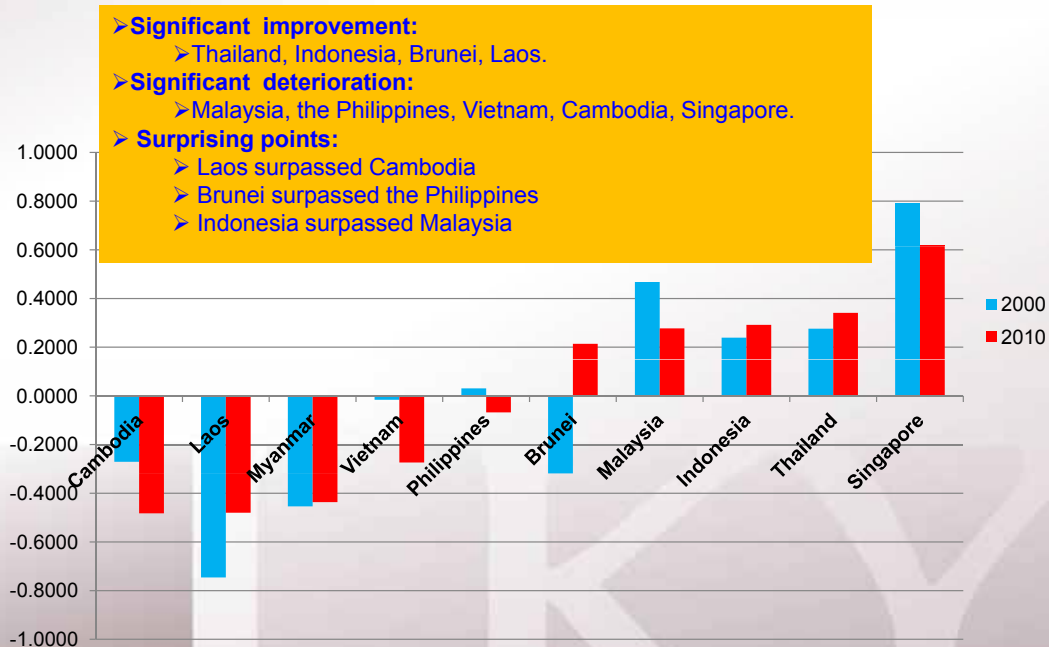
### II-Government and Institutional Setting (GIS)



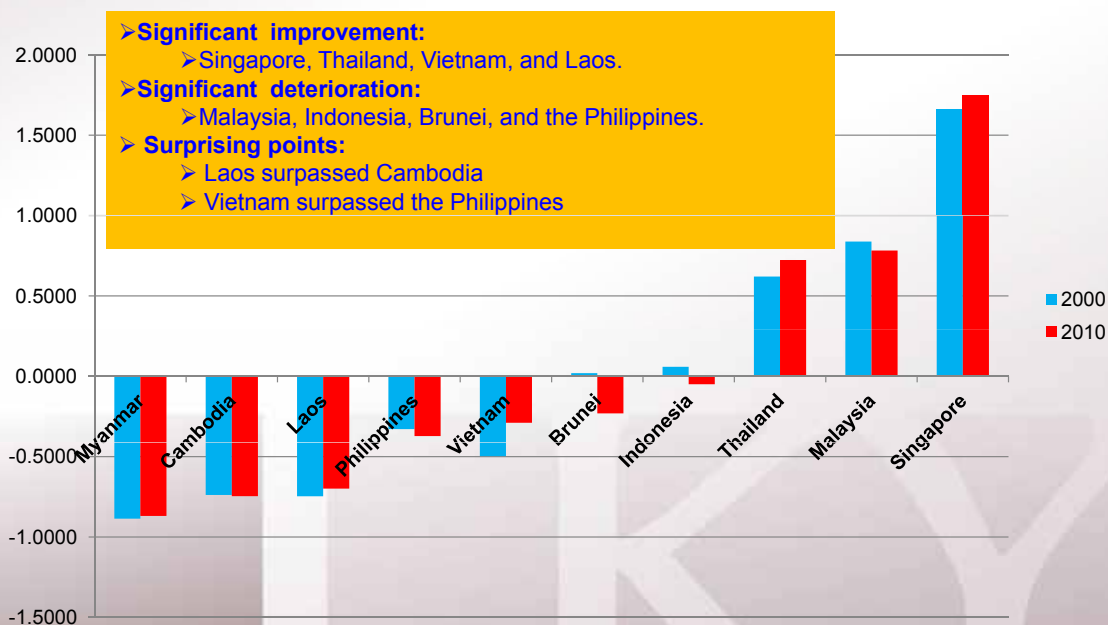




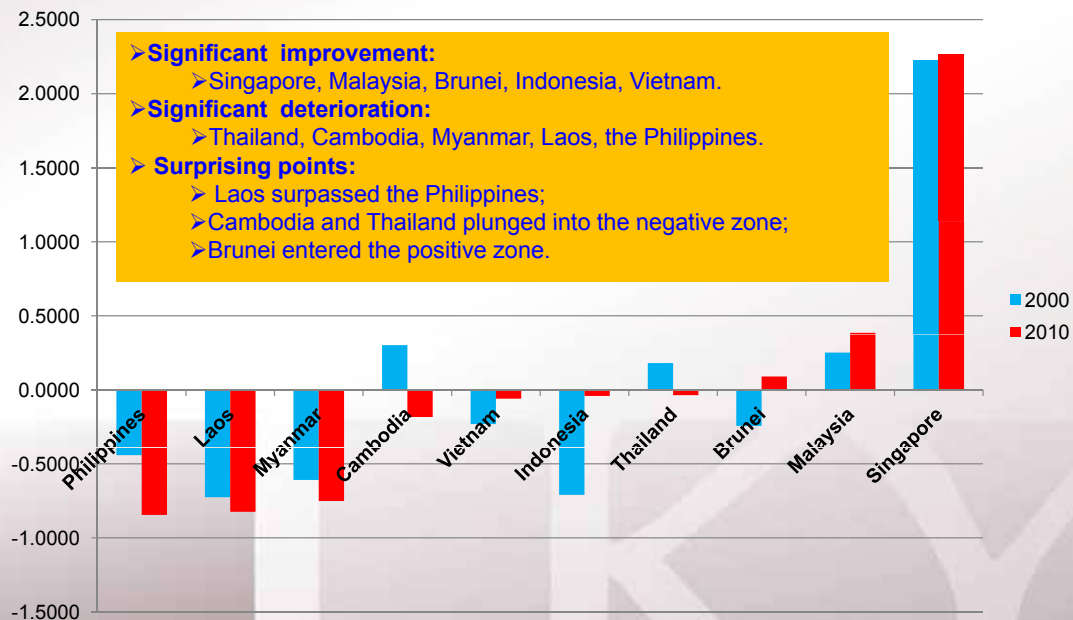
### I-Macroeconomic Stability -Economic Vibrancy (EV)-



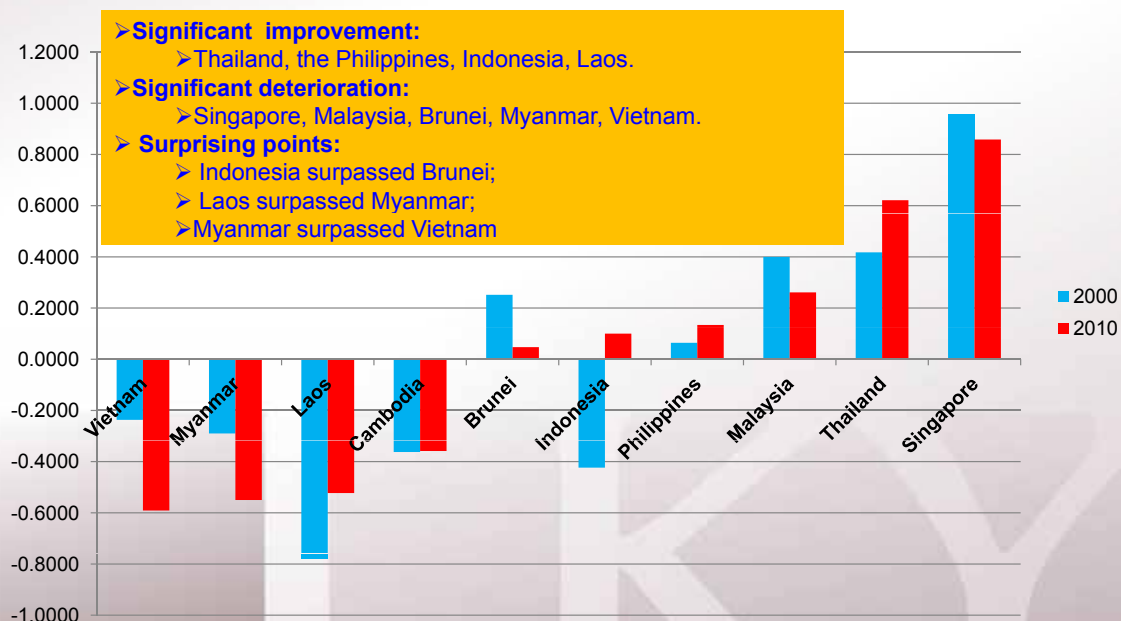
### I-Macroeconomic Stability - Openness To Trade and Services (OTS)-



### I- Macroeconomic Stability - Attractiveness To Foreign Investors (AFI)-

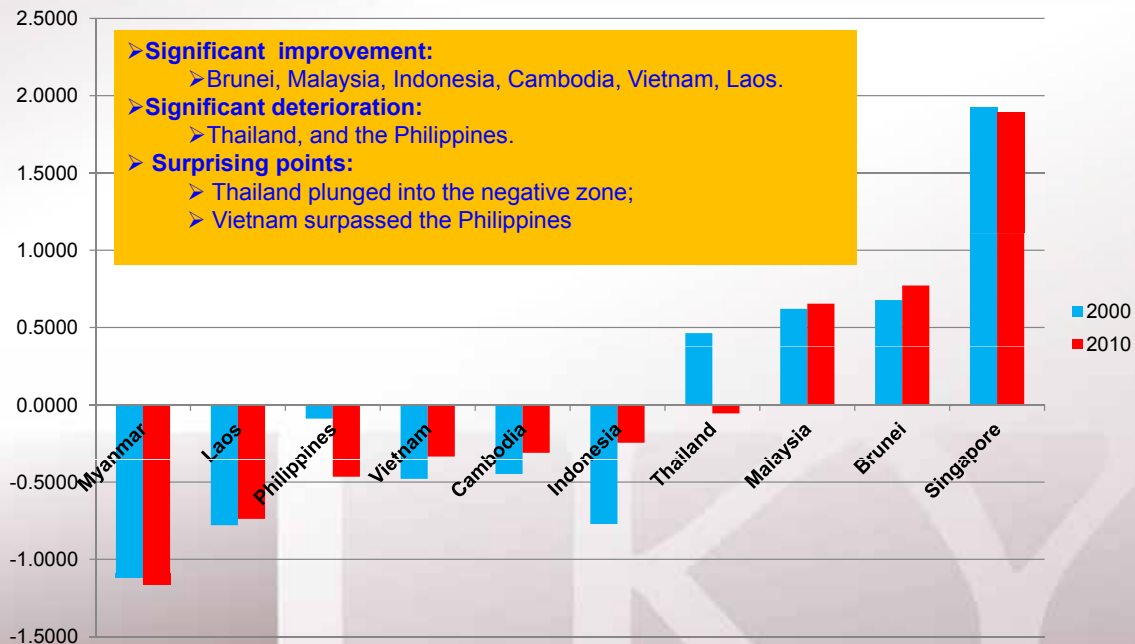


### II-Government and Institutional Setting - Government Policies and Fiscal Sustainability (GPFS)-

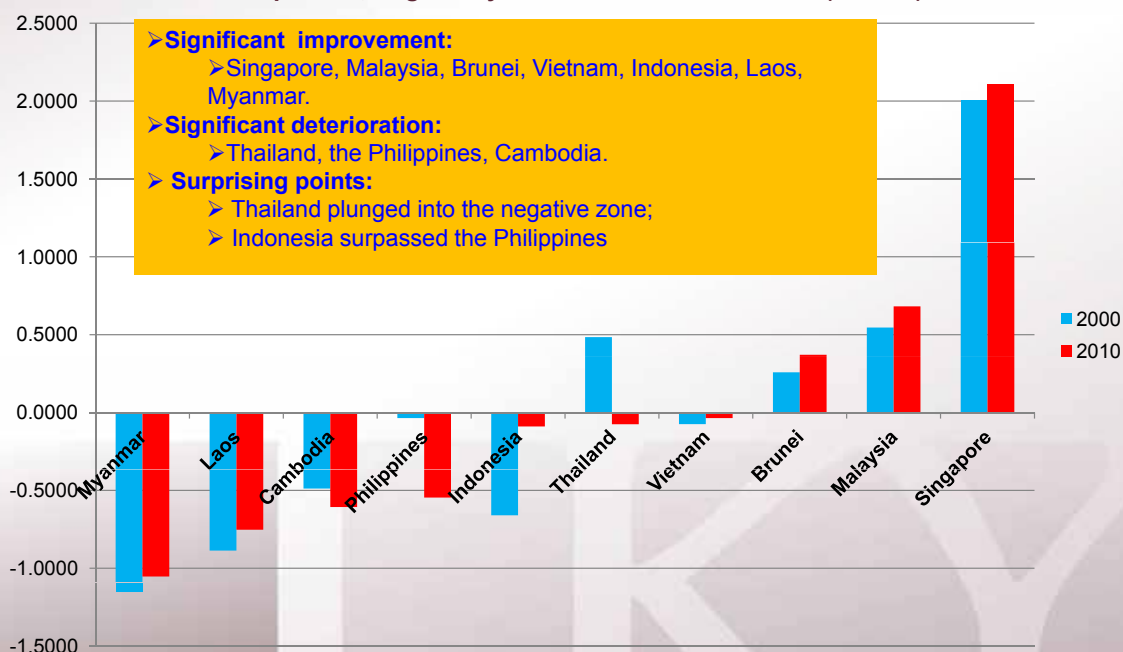


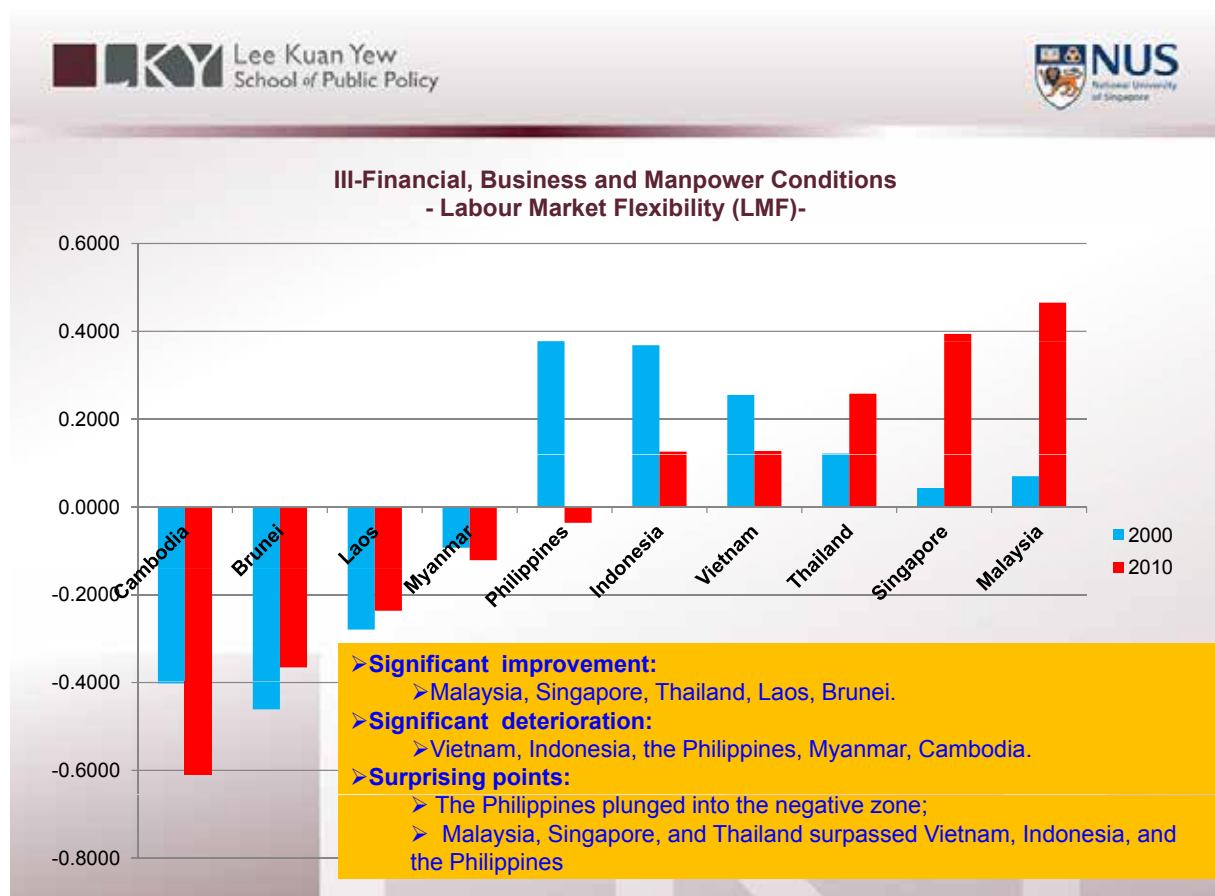
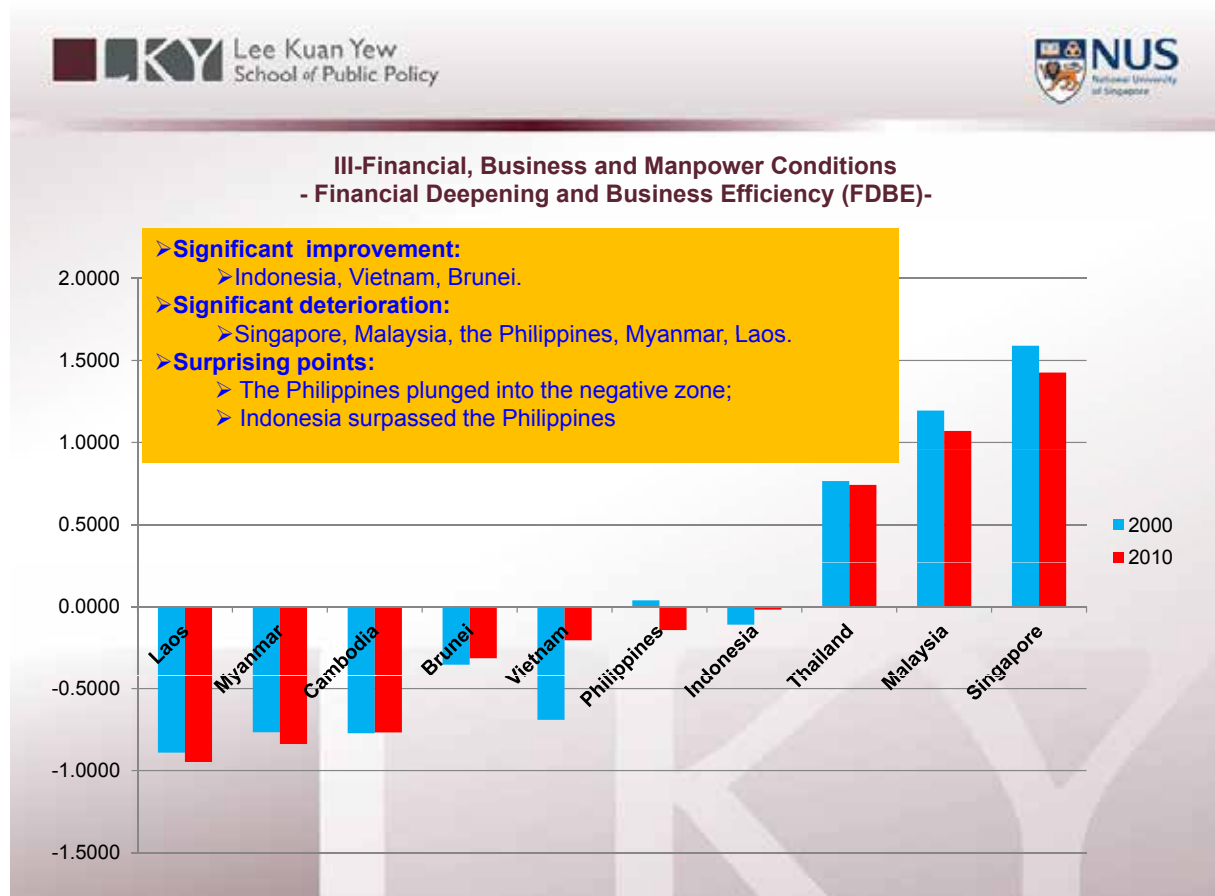


## II-Government and Institutional Setting - Institutions, Governance and Leadership (IGL)-



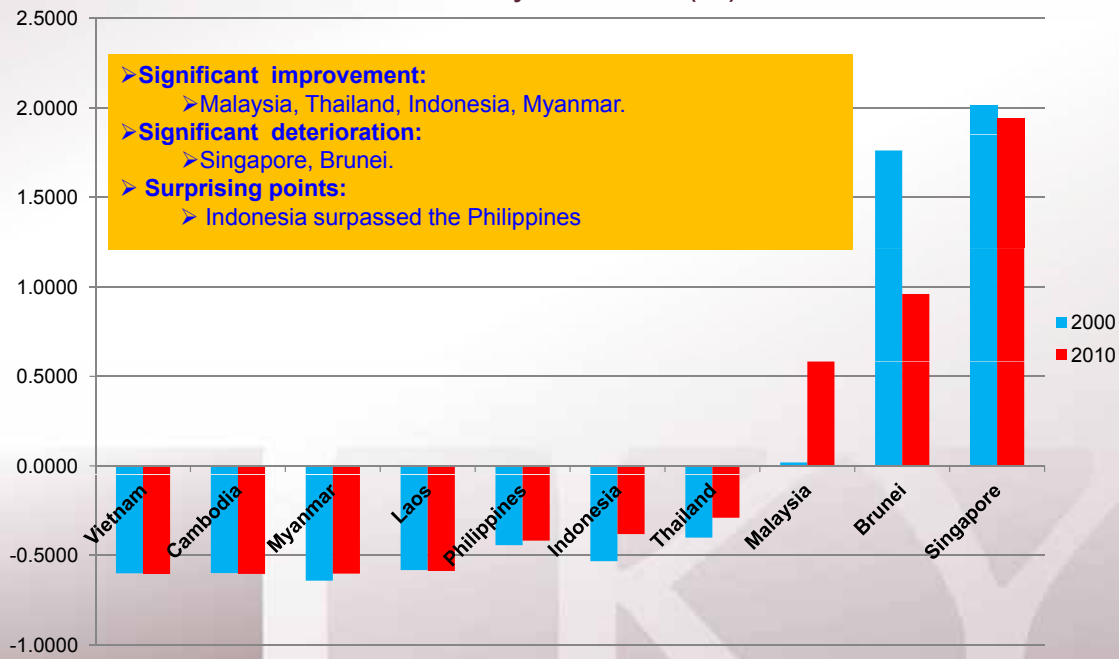
## II-Government and Institutional Setting - Competition, Regulatory Standards and Rule of Law (CRSRL)-



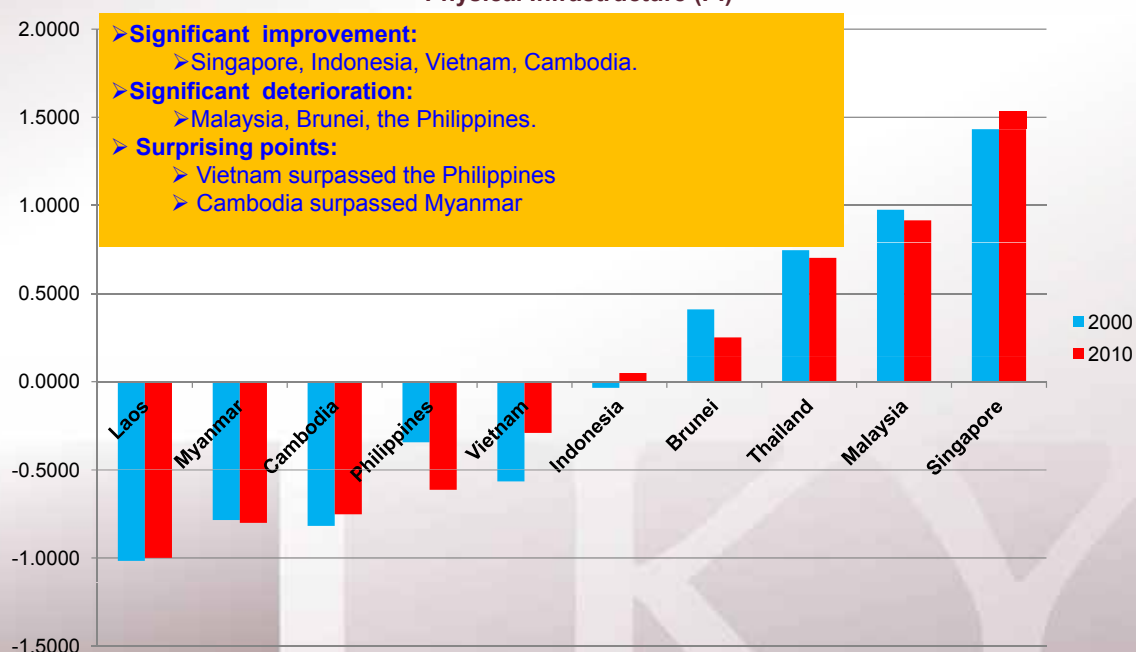


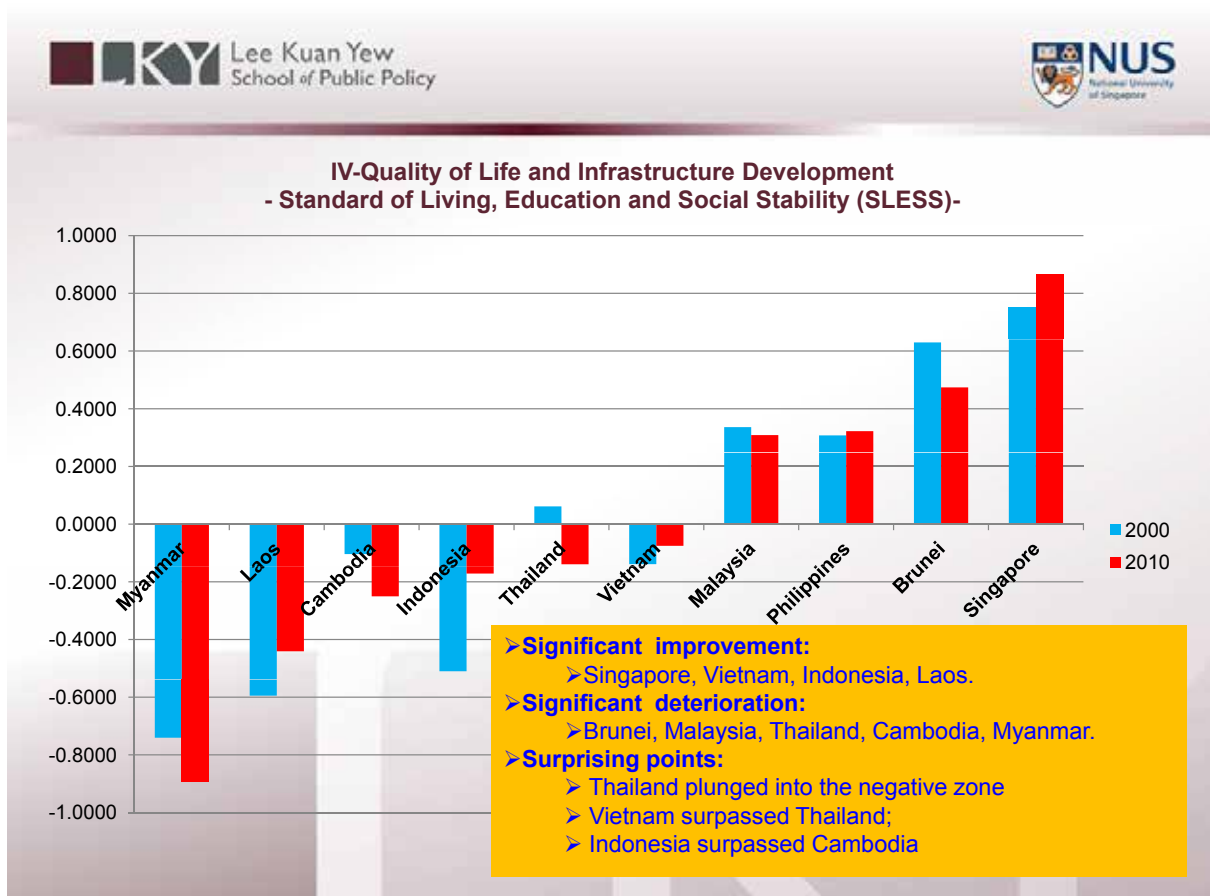
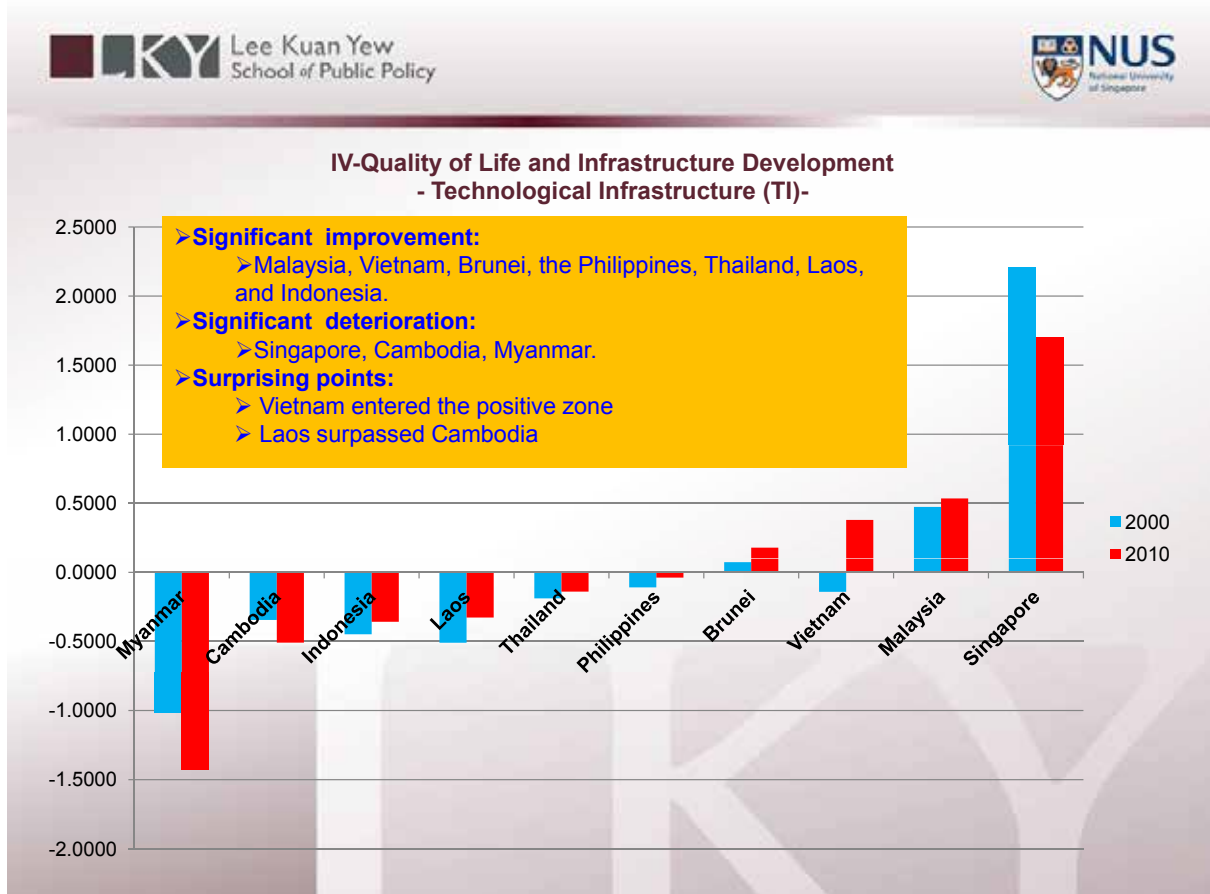


### III-Financial, Business and Manpower Conditions - Productivity Performance (PP)-



### IV-Quality of Life and Infrastructure Development - Physical Infrastructure (PI)-

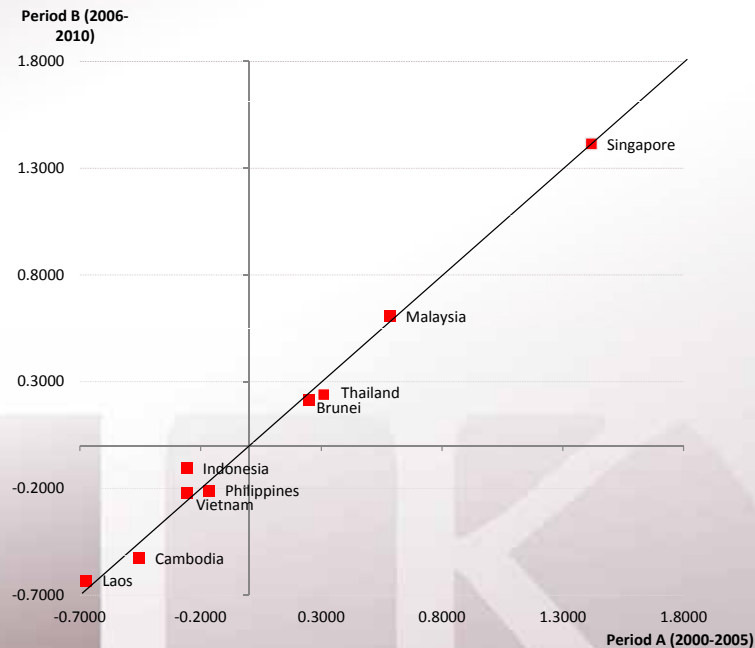




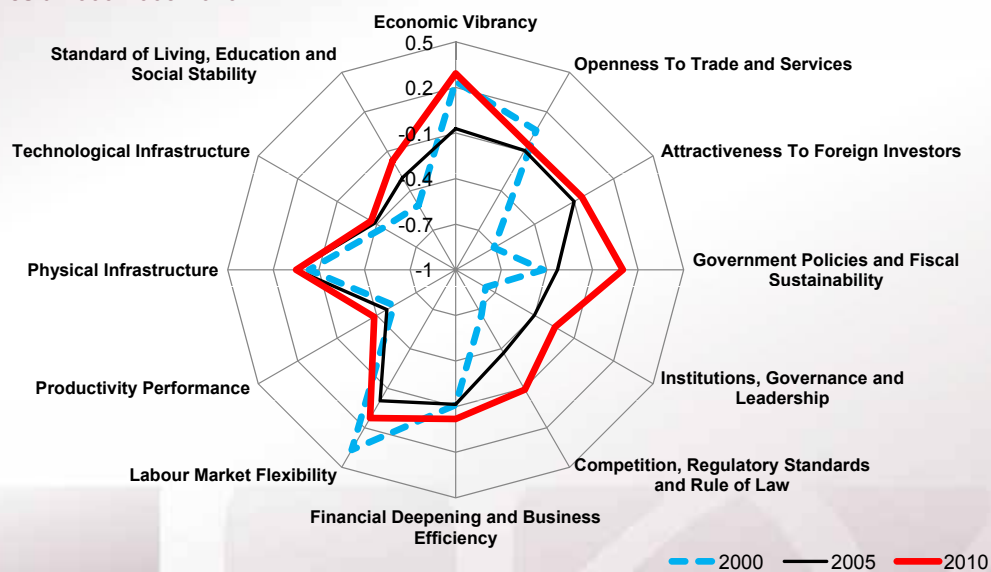


## Overall Competitiveness: 2006-2010 versus 2000-2005

### A Case Study: Indonesia surpassed the Philippines in 2006-2010

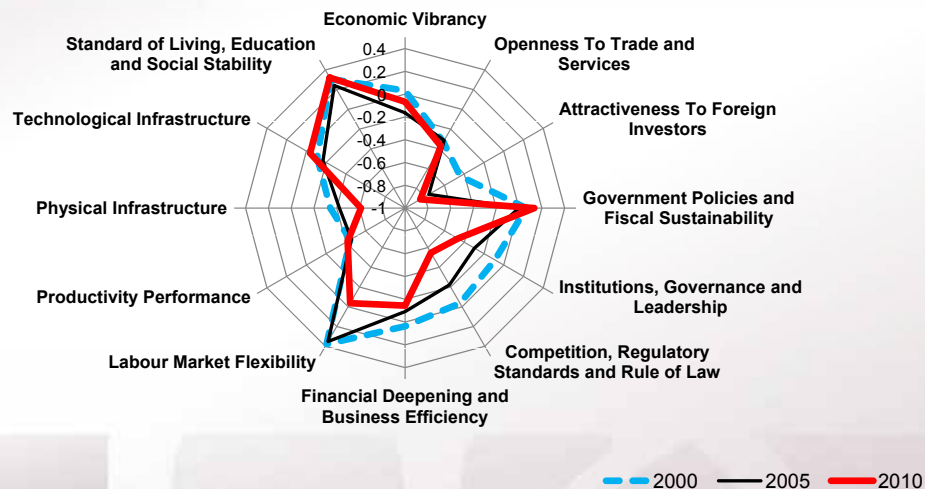


### Indonesia 2000-2005-2010



- Indonesia consistently improved its competitiveness on most sub-environments over 2000-2010, especially AFI, GPFS, IGL, CRSRL, FDBE, PP, PI, TI, and SLESS.
- OTS and LMF worsened between 2000 and 2005 but improved between 2005 and 2010
- All 12 sub-environments improved between 2005 and 2010

### Philippines 2000-2005-2010



- Philippines' competitiveness declined on most sub-environments, especially, EV, AFI, IGL, CRSRL, FDBE, LMF, and PI.
- The country's competitiveness slightly improved on GPTS, TI, and SLESS.

## Presentation outlines

1. Introduction: GDP of world major economies & flying geese theory
2. Competitiveness Ranking: Methodology framework
3. Competitiveness Ranking: Results and discussion
4. **Emerging policy issues**
  - **Regional integration**
  - **China-ASEAN connectivity**
  - **Japan-ASEAN Connectivity**
5. Growth strategies: Global growth engines and strategic direction for promoting growth
6. ASEAN-related FTAS, Singapore-related FTA and Conclusion



## ASEAN ECONOMIC INTEGRATION

The ASEAN Economic Community (AEC) 2015 is an economic integration framework which aims to promote regional economic integration of all 10 ASEAN nations by 2015 with free movement of goods, services, investment, skilled labor and freer flow of capital. AEC envisages the following key characteristics:

- (a) a single market and production base
- (b) a highly competitive economic region
- (c) a region of equitable economic development, and
- (d) a region fully integrated into the global economy

AEC areas of cooperation: human resources development; capacity building; recognition of professional qualifications; closer consultation on macroeconomic and financial policies; trade financing measures; enhanced infrastructure and communications connectivity; development of electronic transactions through e-ASEAN; integrating industries across the region to promote regional sourcing; enhancing private sector involvement in building of AEC. Majority of some 500 opinion leaders in the region surveyed by PECC, think the AEC will succeed.

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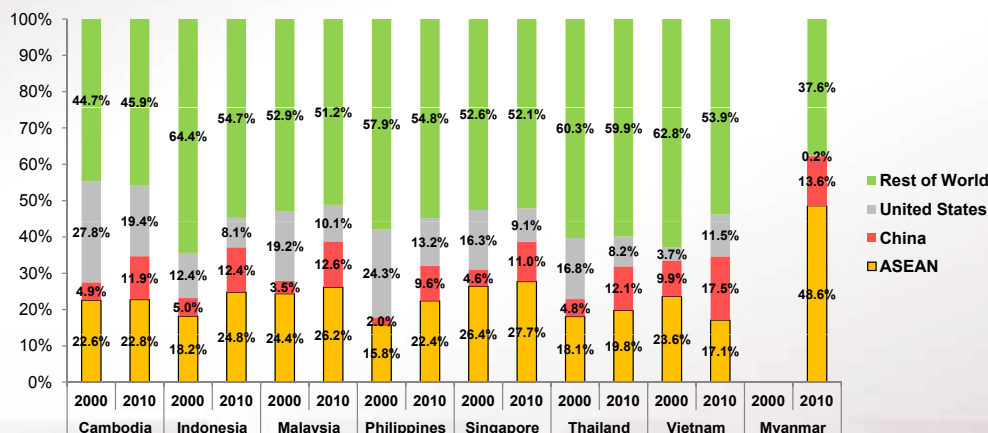
## Engines of growth among ASEAN-5 (2000-10)

	Indo	Mal	Phil	Spore	Thai
Indo	1.31	0.09	0.03	0.13 (0.17)	0.06
Mal	0.15	1.23	0.06	0.33 (0.49)	0.16 (0.20)
Phil	0.01	0.03	1.07	0.03	0.02
Spore	0.26 (0.16)	0.30 (0.43)	0.07	1.18	0.15 (0.22)
Thai	0.14	0.18 (0.24)	0.07	0.21 (0.39)	1.27

Note: figures in brackets refer to the period 1990-99

### Regional Integration

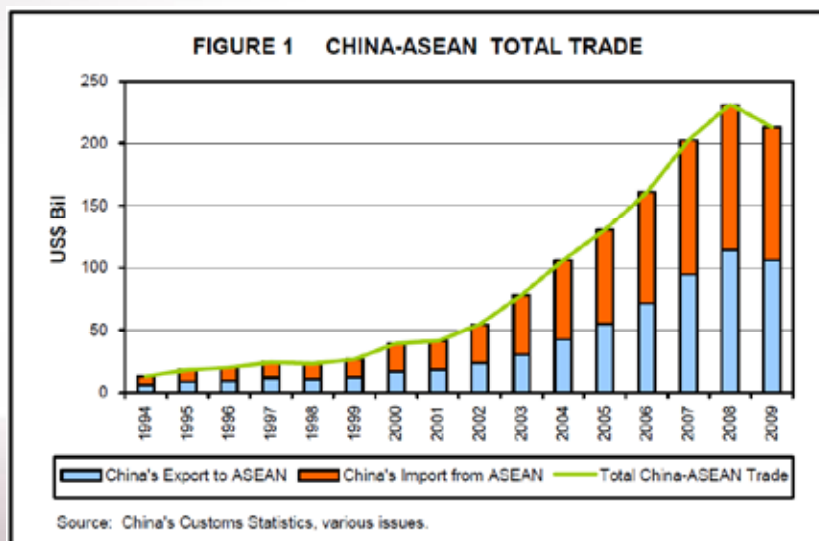
Merchandise Trade Structure: 2010 vs. 2000



Source: Vu (2013)

- The ASEAN accounts for about 20-25% of the total trade with the world of each ASEAN country.
- The ASEAN trade integration tended to deepen from 2000 to 2010 but not at a rapid pace.
- China has become increasingly important trade partner for all the ASEAN countries from 2000 to 2010. In 2010, China surpassed the US as a major trade partner for Indonesia, Malaysia, Singapore, Thailand, Vietnam, and Myanmar.

### China-ASEAN Integration



Source: Tong Sarah Y. & Chong Siew Keng, Catherine. China-ASEAN Free Trade Area in 2010: A Regional Perspective, <http://www.eoi.nus.edu.sg/BB519.pdf>, retrieved on 28 March 2013.



## China-ASEAN connectivity versus Japan-ASEAN connectivity

- China-ASEAN connectivity was further highlighted by President Xi Jinping in the 2013 APEC Leaders' Meeting held in Bali. Essentially it expresses China's desire to spread and share her robust economic growth with ASEAN by way of infrastructure development and investment, opening up of the lucrative Chinese market for ASEAN neighbors to further promote people-to-people, institutions and physical infrastructure connectivity. Thus the announcement of Asia Infrastructure Investment Bank by China as a way of resolving and releasing production bottlenecks in ASEAN, thereby to diversify investment channels of China's foreign exchange surpluses and promoting internationalization of Reminbi.
- Japan-ASEAN connectivity was much more intense during the 1980s but gradually fizzled out in early 1990s due to her economy inertia and as Japanese MNCs relocated her value-added production supply chains network to China, attracted by her competitive labor cost, infrastructure efficiency and larger domestic Chinese market. However, given the recent island dispute between the two countries, the latest Japanese connectivity to ASEAN is precisely to reestablish the production value-added supply chain network from China to Indonesia, Philippines, Malaysia, Vietnam and even Myanmar. In 2011, Japan sent 11.3% of her FDI to ASEAN and account for 40% of Thailand's FDI.

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## China-ASEAN connectivity at national and regional levels

- The Master Plan on ASEAN Connectivity (MPAC) was unveiled in October 2010 in Hanoi, Vietnam, which aims to facilitate the enhancement of regional connectivity.
- An ASEAN Connectivity Coordinating Committee (CCC) has been established to coordinate and oversee the implementation of the MPAC.
- China has been more active than ASEAN in this endeavour. While the Chinese government is in charge of pushing China-ASEAN connectivity, Yunnan and Guangxi are most active in proposing strategies and projects.
- To release her production bottlenecks, ASEAN badly needed physical infrastructure development and investment in terms of highway, speed trains and bridges across islands with competitive longer-term funding, although linkages by way of airport and seaport can also be further strengthen.

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### China-ASEAN Connectivity: Collaboration Framework

MAIN AGREEMENTS/MOUs BETWEEN CHINA AND ASEAN ON CONNECTIVITY		
Time	Name of Agreement	Remarks
Nov '04	Memorandum of Understanding on China-ASEAN Cooperation	Establish long-term goals
Jul '05	Facilitation of the Cross-border Transport of Goods and People in GMS	-
Sep '07	Plan of China-ASEAN Transport Cooperation	Initiated by China
Oct '07	Joint Statement on China-ASEAN Port Development	Support port development and cooperation in the region
Nov '07	Agreement on China-ASEAN Maritime Transport Cooperation and Framework for China-ASEAN Aviation Cooperation	-
Mar '08	Vientiane Plan of Action for GMS Development (2008-2012)	Accelerate building GMS corridors into multinational transport access
2009	China-ASEAN Transport Cooperation Strategy and Rules of Lancang-Mekong Shipping Fee Memorandum of Understanding on China-ASEAN Maritime Consultation Mechanism and Contingency Plans of Lancang- Mekong River	-
Nov '10	Navigation Emergencies ASEAN-China Air Transport Agreement and its Protocol 1	Designated airlines from ASEAN and China can fly to each other's inter- national airports with full third and fourth freedom rights

Li and Lye (2011, Table 1)

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### China-ASEAN Connectivity: Projects and Implementation Progress

YUNNAN'S PROJECTS WITH ASEAN		
Time	Project/Proposal	Remarks
1989	China-Myanmar Land and Water Transport Channel to connect Junming- Boashan-Ruili-Bhamo-Yangon, extending to the Indian Ocean	Agreement fell through but road from Ruili to Bhamo has been improved.
1998	Greater Mekong Sub-region (GMS) Ministerial Conference proposed building three vertical and two horizontal economic corridors	Yunnan's proposed "GMS Economic Corridors Forum" became a regular feature since 2008, and aims to transform transport corridors into economic corridors.
1999	Sub-regional Cooperation among Bangladesh, China, India and Myanmar (BCIM)	BCIM Forum became an annual affair from 1999. The plan is for Yunnan to strengthen its links with Myanmar in order to extend its linkages with India and Bangladesh.
April 2000	China, Laos, Myanmar and Thailand signed the "Upper Lancang-Mekong River Quadripartite Commercial Navigation Agreement"	To give ships of the four countries the freedom to navigate between China's Simao (in Yunnan) and Laos' Luang Prabang. Chinese government invested USD5 million to improve the navigation channel in Laos and Myanmar.
2004	China-Myanmar oil and gas pipeline proposed.	Pipeline is to enhance China's energy security and allow China access to the Indian Ocean through construction of parallel road and rail links. Construction began in June 2010, expected to be completed in 2013.
2007	Concept of "Third Asia-Europe Continental Bridge".	Continental bridge of 15,000km spanning 21 countries in three continents was proposed by experts and scholars in Yunnan. It was actively promoted by Yunnan government, but thought to be too ambitious by Beijing.

Li and Lye (2011)

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## China-ASEAN Connectivity: Projects and Implementation Progress

GUANGXI'S PROJECTS WITH ASEAN		
Time	Project/Proposal	Remarks
2004	"Two Corridors and One Ring"	"Two Corridors" refers to the "Kunming-Lao Cai-Hanoi-Hai Phong-Quang Ninh" corridor and the "Nanning-Lang Son-Hanoi-Hai Phong-Quang Ninh" corridor while the "One Ring" refers to the Northern Gulf Economic Zone. This covers China's provinces of Yunnan, Guangxi, Guangdong and Hainan and 10 northern coastal cities in Vietnam.
2005	Nanning-Huu Nghi Quan highway opened to traffic	First highway connecting China and an ASEAN country, and is touted as the most convenient one
June 2006	Pan-Beibu Gulf economic cooperation strategy "One Axis, Two Wings" China-ASEAN regional cooperation strategy comprising the Pan-Beibu Gulf economic cooperation, GMS cooperation and Nanning-Singapore economic corridor	This extends beyond China and Vietnam to neighbouring Thailand, Malaysia, Singapore, Indonesia, Philippines and Brunei Guangxi attaches more importance to "One Axis, Two Wings" strategy and the Nanning-Singapore economic corridor, causing Vietnam's resentment and affecting the progress of the Nanning-Singapore economic corridor.
2009	Nanning-Hanoi (Gia Lam Station) international passenger train was put into use.	This made Nanning the second city after Beijing to have an international passenger train link.

Li and Lye (2011)

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2. Competitiveness Ranking: Methodology framework
3. Competitiveness Ranking: Results and discussion
4. Emerging policy issues
  - Regional integration
  - China-ASEAN connectivity
  - Japan-ASEAN connectivity
5. **Growth strategies: Global growth engines & strategic direction for promoting growth**
6. ASEAN-related FTAs, Singapore-related FTAs and Conclusion

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### Growth Strategies: Global growth engines and strategic directions for promoting growth

- Embracing globalization: international integration, regional integration, and domestic market integration
- Making vigorous efforts on building good governance
- Investing in human capital and promoting entrepreneurship
- Improving business environment and pushing for structural change
- Seizing the opportunities brought about by the ICT revolution

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### Growth Strategies The Importance of the Major Economic Powers on Growth of ASEAN

#### Relative Importance of US versus China as an Engine of Growth for ASEAN-5

Period	Ratio
<b>1980-89</b>	<b>9.17</b>
<b>1990-99</b>	<b>4.30</b>
<b>2001-09</b>	<b>1.53</b>
<b>2010-19</b>	<b>*0.65</b>

\* Figure projected assuming a linear trend for the natural logarithm of the ratio.

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### Growth Strategies

#### The Importance of the Major Economic Powers on Growth of ASEAN

##### Relative Importance of EU versus China as an Engine of Growth for ASEAN-5

Period	Ratio
<b>1980-89</b>	<b>4.49</b>
<b>1990-99</b>	<b>2.41</b>
<b>2001-09</b>	<b>1.02</b>
<b>2010-19</b>	<b>*0.51</b>

\* Figure projected assuming a linear trend for the natural logarithm of the ratio.

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### Growth Strategies

#### The Importance of the Major Economic Powers on Growth of ASEAN

##### Relative Importance of China versus Japan as an Engine of Growth for ASEAN-5

Period	Ratio
<b>1980-89</b>	<b>0.31</b>
<b>1990-99</b>	<b>0.71</b>
<b>2001-09</b>	<b>1.88</b>
<b>2010-19</b>	<b>*4.52</b>

\* Figure projected assuming a linear trend for the natural logarithm of the ratio.

**China's importance as a major engine of growth for ASEAN countries has been rapidly increasing**

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### Growth Strategies

#### The Importance of the Major Economic Powers on Growth of ASEAN

##### Relative Importance of US vs. China as an Engine of Growth for ASEAN-5 in 2000-2010

Country	Ratio
<b>Malaysia</b>	<b>1.69</b>
<b>Philippines</b>	<b>1.59</b>
<b>Thailand</b>	<b>1.57</b>
<b>Indonesia</b>	<b>1.47</b>
<b>Singapore</b>	<b>1.34</b>

Source: Tan et al (2012, Table 9)

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### Growth Strategies

#### The Importance of the Major Economic Powers on Growth of ASEAN

##### Relative Importance of US plus Japan vs. China as an Engine of Growth for ASEAN-5 in 2000-2010

Country	Ratio
<b>Malaysia</b>	<b>2.18</b>
<b>Philippines</b>	<b>2.14</b>
<b>Thailand</b>	<b>2.16</b>
<b>Indonesia</b>	<b>2.20</b>
<b>Singapore</b>	<b>1.74</b>

Source: Tan et al (2012, Table 11)

The US and Japan, however, remain important engines of growth for ASEAN countries

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## Growth Strategies

### The Importance of the Major Economic Powers on Growth of ASEAN (from Tan et al., 2013)

- ASEAN should strategically balance the rising overdependence on China.
  - The key network linkages with the most future potential are: India-Indonesia-Singapore, Australia-India and Japan-Indonesia-Singapore. ASEAN should aim to increase trade and investment linkages with these countries.
- ASEAN should manage US participation in the Asian regional economic grouping.
  - US is still the most important engine of growth for all the Asian economies (except Chinese Taipei and Hong Kong). The active participation of the US in APEC, East Asian Summit as well as taking a leading role in the Trans Pacific Partnership (TPP) would be critical in ensuring that this major engine of growth continues to remain seriously engaged in Asia.
- RCEP as an alternative to ASEAN-centric path.
  - An alternative ASEAN-centric path to greater regional trade and economic integration is known as Regional Comprehensive Economic Partnership (RCEP), which is an ASEAN plus three framework supported by China, Japan and South Korea. Indonesia as an emerging middle economic power is likely to play a active role.

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### ASEAN-related Free Trade Agreements (FTAs)

1. ASEAN FTA: predecessor CEPT signed 1992; AFAS ASEAN Framework Agreement in Services signed 1995; ATIGA ASEAN Trade in Goods Agreement signed in 2010
2. ASEAN-Australia-New Zealand FTA – ratified in 2011
3. ASEAN-China FTA: goods trade agreement implemented 2005; services trade implemented in 2007, investments implemented in 2010 and CLVM to comply by 2015
4. ASEAN-India FTA: implemented on Aug 2011
5. ASEAN-Japan FTA: All signatories except Indonesia have ratified and implemented the AJCEP since 2008
6. ASEAN-Korea FTA: ASEAN-6 + Korea eliminate tariffs for 90% of all products in 2010.
7. New TBC ASEAN-Europe FTA: FTA talks concluded in Dec 2012 bet Singapore-EU, to be implemented within 5 years; talks on-going between EU and Malaysia, Thailand & Vietnam

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### Singapore-related Free Trade Agreements (FTAs)

As of May 2013, Singapore has signed 18 FTAs with 24 trading partners or groups of countries. They are:

- 1) ASEAN FTA (AFTA): CEPT 1992; services agreement 1995; goods agreement in 2010
- 2) ASEAN-Australia-New Zealand FTA (AANZFTA): 2011
- 3) ASEAN-China FTA (ACFTA): goods agreement in 2005; services in 2007 and investments in 2010
- 4) ASEAN-India (AIFTA): 2011
- 5) ASEAN-Japan (AJCEP): 2008
- 6) ASEAN-Korea (AKFTA): 2010
- 7) Singapore-Australia (SAFTA): 2003
- 8) China- Singapore (CSFTA): 2009
- 9) Singapore-Jordan (SJFTA) : 2005

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## Singapore-related FTAs

- 10) Singapore-India Comprehensive Economic Cooperation Agreement (CECA) - 2005
- 11) Japan- Singapore Economic Partnership Agreement (JSEPA) – 2002
- 12) Korea- Singapore FTA (KSFTA) – 2006
- 13) ANZSCEP (Agreement between New Zealand & S'pore on Closer Economic Partnership- 2001
- 14) Panama-Singapore (PSFTA) – 2006
- 15) PeSFTA (Peru-Singapore FTA) – 2009
- 16) European- Singapore Free Trade Association FTA (ESFTA) consist of Switzerland, Liechtenstein, Norway and Iceland – 2003
- 17) Trans-Pacific Strategic Economic Partnership (TPSEP): This is the original version of the TPP which consist of 4 nations namely Brunei, Chile, New Zealand and Singapore. It became effective in 2006
- 18) United States-S'pore FTA (USSFTA) – effective in 2004
- 19) Latest FTA: S'pore-EU FTA (talks concluded in Dec 12; FTA to be implemented by 2018) , S'pore's exporters of electronics, pharmaceuticals and processed food industries stand to benefit the most.

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## Benefits of FTAs to ASEAN & Singapore

- FTAs are highways that help connect Singapore & ASEAN members to major economies & new markets. With FTAs, exporters and investors stand to enjoy benefits like tariff concessions, preferential access to certain sectors, faster entry into markets and Intellectual Property protection.

An integral part of Singapore's trade architecture, our network of 18 FTAs is designed to position Singapore as an integrated manufacturing centre in this region; promote R & D in our knowledge-based economy and drive the services sector.

- Singaporean firms can choose to take advantage of whichever FTA, Singapore or ASEAN has signed which offers the best terms for their industry, to trade with other countries.

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### Challenges & Opportunities for ASEAN in Global FTAs

- The ASEAN-10 Competitiveness Ranking provides a valuable policy framework for:
  - Assessing the current competitiveness of each of the 10 ASEAN economies
  - Providing valuable insights for each country to enhance its competitiveness
- ASEAN countries should be more proactive in deepening regional integration and enhancing regional connectivity
- ASEAN should strategically balance the rising overdependence on China and encourage the American and Japanese participation in the Asian regional economic integration

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### Challenges & Opportunities for ASEAN in Global FTAs

**Risks of a Divided World between Pro-USA & Pro-China camps? ASEAN members forced to choose sides? Total obsolescent of WTO?**

#### • Trans-Pacific Partnership (TPP) Agreement

**TPP under negotiation between 12 countries: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, USA & Vietnam. Talks scheduled to end 2013. 4 ASEAN nations are in it. TPP aims to be a 21<sup>st</sup> Century 'Gold Standard' FTA covering all aspects of modern trade such as IP protection, investor-state arbitration etc. Cambodia, Costa Rica, Japan, Laos, Philippines & Chinese Taipei expressed interest to join.**

**TPP perceived to be US- pushed FTA; requires much deeper economic liberalization; China is not part of TPP. 11-nation will cover market 40% bigger than EU. TPP calls for free movement of almost everything (such as labour rights protection, SOEs reform, total tariff elimination with no exemptions given to sensitive sectors) except free labour movement.**



## Challenges & Opportunities for ASEAN in Global FTAs

### • Regional Comprehensive Economic Partnership (RCEP)

The RCEP is an FTA under negotiation between ASEAN members and ASEAN's FTA partners. There are 16 countries involved namely: the 10 ASEAN states, Australia, China, India, Japan, Korea and New Zealand. Over 3 billion people are included, making up 45% of the world's population with a combined GDP of over US\$ 17 trillion (one-third of the world).

RCEP generally perceived to be a Chinese-pushed response to the TPP; USA is not part of the RCEP. If successfully implemented, RCEP could become the largest FTA in the world outside the WTO itself. As in the TPP, ASEAN & Singapore stand to benefit from the RCEP as well and any country interested can express interest to join.

Singapore does not take sides and always befriend any country or organization friendly to us. This would be the best long-term strategy. 69

## Regional tension and political agenda involving major economies could derail regional economic integration

- Further momentum of China-Japan-Korea Free Trade Agreement (CJK-FTA) is unlikely in the near future and one is not too optimistic in the medium term either, but in the longer-run who knows?
- TPP as it evolved from the original P-4 FTA initiated by Singapore in 2006 currently have more than 12 members committed or interested in. However, TPP so far has been overshadowed by political agenda and unlikely to move forward meaningfully given the difficulty of China to join such an "high quality" FTA, however this should not discourage China to be "in negotiation before concluding it" as economies such as Vietnam and Japan do possess serious difficulties too in compliance to the "high quality".
- Japan proposed Comprehensive Economic Partnership in East Asia (CEPEA) so as to play an active leadership role in East Asia which in fact is FTA of ASEAN 3+3 (i.e. India Australia and New Zealand) where all 16 members are members of the East Asian Summit; meanwhile China has taken keen initiative in discussion pertaining to East Asia Free Trade Agreement (EAFTA) where government officials are engaged in the discussions under the four working groups.

### WHY it may be more realistic to move from RCEP to FTAAP to better reflect balanced regional interests?

- RCEP can be seen as a compromise when China and Japan jointly proposed in August 2011 ASEAN to set up three working groups in goods, trade in services and investment.
- Hence ASEAN proposed in November 2011 an ASEAN-Led Regional Comprehensive Economic Partnership (RCEP) which was affirmed by leaders from East Asia Summit in April 2012.
- RCEP could be the most realistic pathway to Free Trade Area of the Asia-Pacific (FTAAP) which would be the most widely supported approach since USA, China and Japan (and surely Chinese Taipei too !) are included. Other interested potential members such as India and other smaller economies would surely be welcome.
- As Indonesia recovers steadily since 2005 as a rising middle power after her economic set back in Asian financial crisis of 1997, the importance of Indonesia is noticed especially in view of the recent rising regional tensions over territory sovereignty amongst some members of ASEAN and China.

### Further momentum for RCEP: Leadership plus and harvesting the low lying fruits through a positive list

- Momentum for RCEP can be further enhanced with leadership from China, Japan and Korea as leadership for these countries have argued strongly on connectivity with ASEAN, assuming the ASEAN centric approach will be respected.
- Given the different stages of economic development for participating economies, it would be good if two-tier track can be pursue or bi-lateral variation can be allowed between economies.
- There are areas of low lying fruits which RCEP can considered as follows for quick negotiation:
  - a. Capacity building is critical for upgrading of economies including in handling foreign direct investments and repositioning of production value-added supply chain networks;
  - b. Infrastructure development and investment should be pushed through financial service liberalization whereby RMB can become the vehicle currency for financing as it benefits ASEAN with lower financing cost and diversifying investment channels for economies with foreign exchange surpluses such as China, Japan, Korea, Chinese Taipei, Hong Kong and Singapore;
  - c. Food security and food processing are also highly critical for ASEAN as part of her export drive;
  - d. Environment standards especially on air, water and forestry do have some urgency for adoption;
  - e. Market accessibility for SMEs amongst ASEAN Plus members are paramount for regional economic integration;
  - f. E-commerce, E-government and Ease-of-doing business should be quickly concluded;
- Negative list with items which members of RCEP are less prepared include the following:
  - a. State-owned-Enterprises or government-linked companies;
  - b. Intellectual property rights; c. Labour standards; d Capital controls and capital account liberalization.



# TPP vs RCEP: Competitor or Complements\*

■ Kenichi Kawasaki

Consulting Fellow, Research Institute of Economy, Trade and Industry (RIETI)\*\*

## Abstract

The Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP) will be complements each other rather than the competitor of the other. According to the estimates of the economy-wide impacts of tariff removals and the reductions of non-tariff measures (NTMs) using a Computable General Equilibrium (CGE) model of global trade, the income gains of the Asia-Pacific Economic Cooperation (APEC) economies as a whole will account for 1.2 per cent of regional GDP by the TPP, 1.0 per cent by the RCEP, and 4.3 per cent by the Free Trade Area of the Asia-Pacific (FTAAP). Meanwhile, larger economic benefits will be expected from NTMs reductions in addition to tariff removals. Moreover, in many countries of Association of South-East Asian Nations (ASEAN) and others, contributions by own initiatives are much larger than by trade partners including China. It is suggested that domestic reforms are essential to enjoy macroeconomic benefits from international Economic Partnership Agreements (EPAs).

## I. Introduction

The progress of bilateral and multi-lateral regional Economic Partnership Agreements (EPAs) has accelerated since the beginning of this year. The three largest advanced economies – the United States (US), the European Union (EU) and Japan – have launched negotiations on a giant triangle EPAs. In Asia-Pacific, the first round of formal negotiations on the Regional Comprehensive Economic Partnership (RCEP) was taken place in May. Japan has joined the Trans-Pacific Partnership (TPP) negotiations in July.

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The views expressed in the paper are solely those of the author, and do not present those of the Research Institute of Economy, Trade and Industry (RIETI) and other institutes the author has been affiliated to.

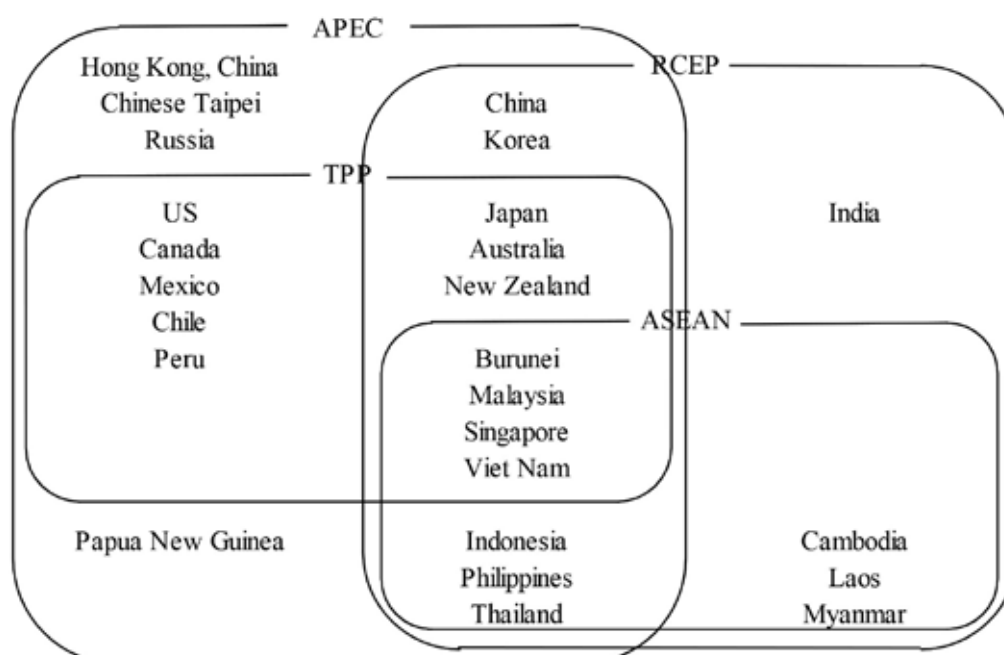
\*\* Also Senior Fellow, National Graduate Institute for Policy Studies (GRIPS), and Adjunct Fellow, Japan Institute of International Affairs (JIIA)

The frequently asked question in the recent framework of the Asia-Pacific EPAs has been “whether the TPP and the RCEP are the competitor of the other or the complements each other?” The brief answer to this question will be complements rather than competitors. It is generally expected that the wider the members of regional EPAs, the larger the macroeconomic benefits. Both the TPP and the RCEP will be the key elements of achieving the eventual goal of forming the Free Trade Area of the Asia-Pacific (FTAAP). Two may compete each other from the perspectives of geopolitical interests but will result in complementary economic benefits.

That said, the current frameworks of the TPP as well as the RCEP are missing one of the two largest economies in Asia-Pacific each other. The roles of the US in the TPP and China in the RCEP for generating economic benefits have been concerned about both in geopolitics and economics. The purpose of this paper is to discuss the relative significances of EPAs in Asia-Pacific in a quantitative manner using a Computable General Equilibrium (CGE) model of global trade based on the most updated version of global trade and trade protection database. This paper will look at the break down of economic benefits from EPAs by contributing economies.

Leaders of the TPP negotiations have announced a “common vision to establish a comprehensive, next-generation regional agreement that liberalizes trade and investment and addresses new and traditional trade issues and 21st-century challenges” for the purpose of “forging close linkages among their economies, enhancing their competitiveness, benefitting their consumers and supporting the creation and retention of jobs, higher living standards, and the reduction of poverty in their countries.” The reductions of non-tariff measures (NTMs) will be the significant elements of future agreements. This paper will try to estimate the economic impacts of NTMs reductions in addition to those of tariff removals.

**Chart 1 The Asia-Pacific integration framework**





## II. The Developments of the Asia-Pacific Production and Trade

In addition to the movements of global trade liberalization, regional efforts have been made through Regional Trade Agreements (RTAs) and bilateral Free Trade Agreements (FTAs). There are several regional agreements existing in the Asia-Pacific Economic Cooperation (APEC) economies, which include following. Association of South - East Asian Nations (ASEAN) has been a core of those EPAs in East Asia (Chart 1).

- North American Free Trade Agreement (NAFTA) came into force in 1994
- China – ASEAN Free Trade Agreement came into effect in 2005 on goods and 2007 on services respectively
- Japan ASEAN Comprehensive Economic Partnership Agreement came into force in 2008
- Korea-ASEAN Free Trade Agreement completed in 2009
- ASEAN – Australia – New Zealand Free Trade Agreement (AANZFTA) signed in 2009
- Trans-Pacific Strategic Economic Partnership Agreement (P4 Agreement) between New Zealand, Brunei, Chile and Singapore concluded in 2005

Moreover, the RCEP negotiations have started in May this year following the developments of two FTAs in East Asia, one the East Asia Free Trade Agreement between ASEAN – China, Japan and Korea (EAFTA), and two the Comprehensive Economic Partnership in East Asia (CEPEA) covering ASEAN, Australia, China, India, Japan, Korea, and New Zealand. Japan has joined the TPP negotiations in July as the twelfth member, which is the expansion of the P4 Agreement that the US, Australia, Peru, Viet Nam, Malaysia, Canada and Mexico have joined earlier.

The APEC economies have been the fast growing regions in the world. The region's total GDP shares have been rising to more than 50 per cent in 2010 (Table 1). The TPP economies share around 40 per cent in the world having the largest economy of the US, which shares more than 20 per cent in the world and more than 50 per cent in the TPP economies. Meanwhile, the RCEP economies share around 30 per cent in the world having China and Japan each shares around 10 per cent and India and three ASEAN countries those are not the APEC member economies.

The exports and imports of the APEC economies also share higher ratios in the world (Table 2). However, in comparison with those ratios in terms of GDP, the trade ratios are somehow lower. This may be the reflections of lower trade ratios in the larger economies such as the US, China and Japan. Higher trade ratios are common features in the smaller APEC economies.

**Table 1 GDP of the Asia-Pacific economies**

	GDP (USD bil.)		World Share (%)	
	2007	2010	2007	2010
Both TPP and RCEP Economies	5,881	7,463	10.6	11.8
Japan	4,356	5,489	7.8	8.7
Brunei	12	12	0.0	0.0
Malaysia	187	247	0.3	0.4
Singapore	178	227	0.3	0.4
Viet Nam	71	104	0.1	0.2
Australia	946	1,244	1.7	2.0
New Zealand	132	140	0.2	0.2
Only TPP Economies	16,768	17,481	30.1	27.7
US	14,029	14,499	25.2	22.9
Canada	1,424	1,577	2.6	2.5
Mexico	1,035	1,035	1.9	1.6
Chile	173	216	0.3	0.3
Peru	107	154	0.2	0.2
Only RCEP Economies	6,558	9,866	11.8	15.6
China	3,494	5,930	6.3	9.4
Korea	1,049	1,015	1.9	1.6
Indonesia	432	708	0.8	1.1
Philippines	149	200	0.3	0.3
Thailand	247	319	0.4	0.5
Cambodia	9	11	0.0	0.0
Laos	4	7	0.0	0.0
Mymmar	20	45	0.0	0.1
India	1,153	1,630	2.1	2.6
Other APEC Economies	607	664	1.1	1.1
Hong Kong, China	207	224	0.4	0.4
Chinese Taipei	393	430	0.7	0.7
Papua New Guinea	6	10	0.0	0.0
Russia	1,300	1,487	2.3	2.4
TPP Economies	22,649	24,945	40.7	39.5
RCEP Economies	12,439	17,329	22.3	27.4
APEC Economies	28,628	33,781	51.4	53.5
World	55,685	63,180	100.0	100.0

Sopurce: IMF Data and Statistics

**Table 2 Trade of the Asia-Pacific economies**

	Exports (USD bil.)	Imports	Exports World Share (%)	Imports
Both TPP and RCEP Economies	1,396	1,313	9.4	8.6
Japan	742	709	5.0	4.6
Malaysia	196	148	1.3	1.0
Singapore	205	184	1.4	1.2
Viet Nam	53	64	0.4	0.4
Australia	167	174	1.1	1.1
New Zealand	33	34	0.2	0.2
Only TPP Economies	2,153	2,956	14.6	19.3
US	1,366	2,226	9.2	14.5
Canada	415	414	2.8	2.7
Mexico	273	245	1.8	1.6
Chile	69	51	0.5	0.3
Peru	30	21	0.2	0.1
Only RCEP Economies	2,235	2,018	15.1	13.2
China	1,223	989	8.3	6.5
Korea	405	408	2.7	2.7
Indonesia	129	107	0.9	0.7
Philippines	73	67	0.5	0.4
Thailand	177	149	1.2	1.0
Cambodia	6	6	0.0	0.0
Laos	1	2	0.0	0.0
India	222	290	1.5	1.9
Other APEC Economies	799	639	5.4	4.2
Hong Kong, China	143	134	1.0	0.9
Chinese Taipei	278	226	1.9	1.5
Russia	377	278	2.6	1.8
TPP Economies	3,550	4,269	24.0	27.9
RCEP Economies	3,632	3,330	24.6	21.7
APEC Economies	6,355	6,628	43.0	43.3
World	14,779	15,321	100.0	100.0

Source: GTAP database 8.1

### III. The Impacts of EPAs in Asia-Pacific

#### 1. The Levels of Trade Protection

The impacts of tariff removals and NTMs reductions through the implementation of EPAs can more or less be determined by actual trade structures and the magnitudes of those policy measures, in addition to the comparative advantage of the sectors among regions, which is suggested to be a key factor in

standard trade theory. The magnitudes of import protection in terms of import tariff and NTMs in this study are shown in Table 3.

**Table 3 Import protection by the Asia-Pacific economies**

	Tariff (%)			NTMs (%)			
	Agr	Mfg	Ave	Agr	Mfg	Ser	Ave*
Both TPP and RCEP Economies	10.3	1.9	2.8	28.0	7.6	9.6	9.7
Japan	13.1	0.8	2.3	23.6	3.8	6.2	6.2
Malaysia	7.8	3.1	3.5	44.8	22.1	23.9	23.8
Singapore	0.2	0.0	0.0	52.3	12.7	14.0	14.5
Viet Nam**	12.4	10.3	10.5	28.9	9.6	11.5	11.8
Australia	2.0	3.8	3.6	28.8	4.2	6.0	6.1
New Zealand	1.3	2.5	2.4	23.0	7.3	9.7	9.3
Only TPP Economies	3.2	1.3	1.5	15.5	3.9	4.7	4.9
US	1.7	1.2	1.2	14.8	3.3	4.4	4.3
Canada	9.3	1.0	1.8	11.4	2.4	3.3	3.3
Mexico	3.7	2.4	2.5	26.1	12.3	13.6	13.6
Chile	1.5	1.5	1.5	17.2	1.3	2.5	2.6
Peru	6.6	5.6	5.7	22.5	2.9	6.9	5.7
Only RCEP Economies	14.4	5.1	5.7	10.5	3.9	3.7	4.2
China	5.2	4.2	4.2	6.1	5.1	5.2	5.2
Korea	23.5	3.4	4.7	0.6	0.1	0.1	0.1
Indonesia	5.9	3.1	3.4	11.5	0.5	1.3	1.7
Philippines	10.9	2.8	3.6	34.3	15.4	18.0	17.3
Thailand	12.2	4.8	5.3	24.9	0.6	2.5	2.2
Cambodia**	14.1	10.5	10.9	28.9	9.6	11.5	11.8
Laos**	7.0	8.1	8.0	28.9	9.6	11.5	12.1
India	52.9	12.0	13.8	26.2	4.8	5.5	5.7
Other APEC Economies	10.5	4.3	5.0	19.0	5.4	6.6	6.8
Hong Kong, China	0.0	0.0	0.0	20.3	0.8	1.3	2.4
Chinese Taipei***	9.0	2.4	2.8	23.6	3.8	6.2	5.0
Russia	14.4	8.1	9.1	16.9	9.2	10.4	10.4
TPP Economies	5.6	1.5	1.8	19.7	5.0	6.4	6.4
RCEP Economies	12.4	3.9	4.6	20.9	6.5	8.3	7.7
APEC Economies	7.1	2.4	2.8	17.4	4.7	5.7	5.8
World	6.0	2.3	2.7	n.a	n.a	n.a	n.a

Source: GTAP database 8.1 & Worls Bank (2012)

\* Recalculated using the trade weights in the GTAP database.

\*\* NTMs are assumed to be the average of Indoensia, Malaysia, Thailand and the Philippines.

\*\*\* NTMs are assumed to be equal to Japan.



Trade liberalization has widely been promoted in the world economy during the last several decades. However, according to the most updated version of the GTAP database,<sup>1</sup> an import tariff of around 2.7 per cent remained in world trade on average in 2007 and 2.8 per cent in the APEC economies, respectively.<sup>2</sup> By the economies, trade barriers are lower in North America and free trade is mostly realized in Hong Kong, China; and Singapore. However, higher tariff is still observed mainly in developing and emerging economies. Tariff levels are shown to be higher in the RCEP economies on average than in the TPP economies. By the commodities, tariff is higher in primary products and food (“Agr” in Table 3) than the rest of manufacturing products (“Mfg”).

According to earlier studies including Ecorys (2009) and Copenhagen Economics (2010), NTMs have been defined as “all non-price and non-quantity restrictions on trade in goods, services and investment, at federal and state level. This includes border measures (customs procedures, etc.) as well as behind-the-border measures flowing from domestic laws, regulations and practices.” They induce additional costs for foreign producers and therefore increase the cost of cross-border trade.

The levels of the ad valorem equivalents (AVEs) of NTMs<sup>3</sup> are indicated to be two to three times higher than tariff in the APEC economies in general. By the economies, NTMs are higher in several ASEAN countries, Mexico and Russia, which includes Singapore who has no tariff. Those averages in the RCEP economies are also higher than in the TPP economies but the relative differences are smaller than tariff. By the commodities, NTMs are much higher in agricultural products than manufacturing products.

## 2. Policy Scenarios

Following several scenarios of the Asia-Pacific EPAs are studied in this paper. The impacts of the TPP, the RCEP and the FTAAP are compared. Moreover, the impacts of NTMs reductions are studied in addition to those by tariff removals.

- |             |  |
|-------------|--|
| Scenario 1: | Tariff removals in the RCEP                      |
| Scenario 2: | Tariff removals and NTMs reductions in the RCEP  |
| Scenario 3: | Tariff removals in the TPP                       |
| Scenario 4: | Tariff removals and NTMs reductions in the TPP   |
| Scenario 5: | Tariff removals in the FTAAP <sup>4</sup>        |
| Scenario 6: | Tariff removals and NTMs reductions in the FTAAP |

1 Tariff data in this paper are derived from the current GTAP database 8.1 as they are, without any modification. They are expressed in the form of ad valorem equivalent (AVE) tariff. After the update of the database in the version 8.0 released in March 2012, serious data issues were addressed in the version 8.1 released in February 2013. Major changes/fixes have been found for tariff imposed by China, Korea and to some extent, Switzerland. Simulations studies using the 8.0 database might have been overestimated the impacts of tariff removals in China and Korea due to significantly higher tariff data; those were revised downward in the 8.1 database.

2 It may be noted that this figure is weighted by the actual volume of imports. If the import volume of certain products with higher import protection is smaller, the average level of import protection in this measurement would be calculated to be somewhat lower.

3 The data on the AVEs of NTMs are guided by the Overall Trade Restrictiveness Index (OTRI) in the World Bank (2012), which summarizes the trade policy stance of a country by calculating “the uniform tariff that will keep its overall imports at the current level” when the country in fact has different tariffs for different goods. Those in service sectors are assumed to be at the average of goods sectors in this paper. See Kee, Nicita and Olarreaga (2009) for its empirical methodology.

4 In these FTAAP simulations, it is assumed that the APEC economies would remove tariff from the APEC economies only but not from non-member economies. This assumption is different from the APEC spirit of “open” trade liberalization, in which tariff would also be removed from the rest of the APEC economies as well.

In the case of tariff removals, import tax is mechanically assumed to be eliminated by 100 per cent without any exemptions. On the other hand, the “actionability” of NTMs reductions<sup>5</sup> was assumed to be 50 per cent guided by Ecolys (2009).<sup>6</sup> “Actionability” is the degree to which NTMs or regulatory divergence can potentially be reduced (through various methods). Moreover, the magnitudes of “spill-over effects” are also assumed to be 50 per cent.<sup>7</sup> Many of the NTMs relate to differences in regulations, which mostly cannot be altered on a purely bilateral basis. Once addressed, they will improve market access for the third countries as well. Therefore, to a large extent, NTMs reductions operate on a most favored nation (MFN) basis. This means 25 per cent NTMs reductions to non-member economies.

### 3. Simulation Outcomes

According to conventional simulations by a CGE model of global trade, EPA measures, including tariff removals and NTMs reductions, will stimulate trade by lowering the prices of tradable goods. This will result in increases in the national output of exporting countries while increasing access to the market of trading partners. Meanwhile, domestic production resources—land, capital, labor, and intermediate inputs—will be used more efficiently in importing countries, in particular, when domestic distortions, including those due to trade barriers, are reduced. These combined effects—one from foreign markets and the other from the domestic market—are expected to result in the expansion of production and an increase in income and welfare. In addition, economic benefits would be expanded by dynamic impacts through capital formation mechanisms and productivity improvements. Although negative impacts due to trade diversion effects and the terms of trade effects are suggested by theoretical studies, empirical analyses, including model simulations, have generally indicated macroeconomic benefits from EPAs.

However, a common criticism has often been that a standard CGE model focuses on evaluation of static efficiency improvements, and therefore the dynamic effects among production, income, and savings and investment are not captured. In fact, concerning the dynamic impact of trade liberalization, the growth effects through productivity gains and capital accumulation have been pointed out. In this paper, certain dynamic aspects are studied in the model simulations.

One deals with the dynamic aspects of capital formation by modifying the standard version of the GTAP model. Two mechanisms are considered in this paper. First, the important “dynamic” effects of

5 The possible trade cost cut reducing NTMs are composed of two parts. One is the trade cost part, which represents the costs associated with differences in regulation between the two countries, whose key feature is much closer to a tax. Two is the rent cost part, which represents the price increase that results from the market segmentation induced by the differences in regulation. These differences reduce competition from imported products in domestic markets and increase prices for domestic products. The ratio between the trade cost and rent cost parts are broadly assumed to be 50 per cent each in this paper judging from the empirical studies shown in EC (2012). The levels of NTMs in Japan are estimated to be 4.9 per cent in trade cost part and 4.3 per cent in rent cost part on sector average respectively. Those in EU are estimated to be 4.4 per cent in trade cost part and 3.1 per cent in rent cost part.

6 Actionability levels are presented to be ranging between from 39 to 66 per cent in the US according to sectors and from 35 to 70 per cent in the EU.

7 EC (2012) has assumed that 65 per cent of NTMs reductions yield benefits for third countries, while 35 per cent of any reductions deliver a strictly bilateral benefit. On the other hand, Japan and Canada (2012) has assumed moderate spill-over effects.



capital accumulation are introduced<sup>8</sup> into the standard static model. The initial increase in income is assumed to increase savings (a fixed share of additional income is saved) and investment. The induced savings and investment (larger capital stock) in turn link to production capacities and cause a further increase in income. Second, the trade balance is endogenously determined and international capital movement is allowed. It is assumed that the expected rate of return on capital would be equalized among the regions.

In addition to these, pro-competitive productivity growth effects<sup>9</sup> are also investigated in the model simulation. It is assumed that productivity of domestic industries would increase to compensate for the lower import prices. Such a rate of productivity increase is set as equal to the rates of change in import prices weighted by a share of imports over total production, including domestic goods.

Income gains from the Asia-Pacific EPAs measured in terms of changes in Equivalent Variation (EV) are shown in Table 4 as per cent of regional GDP in 2010. The APEC economies as a whole will be benefited both from the TPP and the RCEP and those income gains are larger from the FTAAP, which account for 2.3 per cent of GDP from tariff removals and 4.3 per cent from tariff removals and NTMs reductions. The wider the EPAs are in terms of participants and trade policy measures, the larger the economies benefits are.

The relative size of income gains from EPAs depends to a large extent on the degree of trade liberalization<sup>10</sup>, i.e., the degree of protection prior to the implementation of EPAs. As shown in Table 3, there tends to be more scope to liberalize trade in the developing and emerging APEC economies, they would benefit more from the Asia-Pacific EPAs. In terms of per cent of GDP changes in EVs, several ASEAN countries such as Malaysia, Singapore, the Philippines, Thailand, and Viet Nam are suggested to enjoy relatively larger gains. Meanwhile, the advanced and larger APEC economies such as Japan and the US are not likely to experience significantly larger gains. Trade liberalization is expected to correct income differentials among the economies.

8 See Francois, McDonald, and Nordstrom (1996) for the methodology to implement this mechanism into the GTAP model. They explore the interaction between trade policy and capital accumulation in the GTAP model. According to the growth theory, a medium-run growth or accumulation effect induces additional savings and investment, which yields more output. In general, a permanent shock to the GDP is translated into a shock to the steady-state level of capital. The magnitude of this effect crucially depends on the assumed underlying saving behavior. Under the assumption of a fixed saving ratio, the change in steady-state capital stock is proportionate to the change in the steady-state level of GDP.

9 For examples, see Itakura, Hertel, and Reimer (2003) regarding earlier studies to incorporate productivity linkages in general into the GTAP model simulations, and Ianchovichina, Binkley, and Hertel (2000) for incorporating pro-competitive productivity effects into a CGE model with an assumption of imperfect competition. On the other hand, Zhai (2008) has introduced the Melitz (2003) theoretical framework with the firm heterogeneity in contrast to traditional CGE models based on Armington (1969) assumption, and incorporated the dynamic effects of trade liberalization on the "extensive margin" of trade, that is, exports by companies not involved in international markets before trade liberalization. However, those empirical analyses would be issues for future studies including the development of the solid statistics on the numbers of domestic and international firms.

10 It must be noted that the outcomes of model simulations may vary according to macroeconomic assumptions and closures. These variations are suggested not just in terms of magnitudes but also in directions. See, for example, Kawasaki (1999) for a diagnostic analysis of such model sensitivities in the case of simulations on the impact of trade liberalization. Relatively larger macroeconomic benefits are estimated in developing economies when the dynamic aspects of capital formation and pro-competitive productivity growth effects are incorporated.

**Table 4 Income gains from the Asia-Pacific EPAs**

	TPP12		RCEP		FTAAP	
	Tariff	+NTMs	Tariff	+NTMs	Tariff	+NTMs
Both TPP and RCEP Economies	0.9	3.0	2.3	4.9	2.8	5.4
Japan	0.8	1.6	1.7	2.8	2.1	3.2
Malaysia	3.0	20.6	6.2	27.5	6.0	28.3
Singapore	1.0	14.0	3.6	18.2	3.3	18.8
Viet Nam	9.9	20.1	17.7	31.0	15.6	30.0
Australia	0.5	1.9	2.7	4.7	3.9	5.9
New Zealand	1.6	5.1	2.8	6.9	3.4	7.8
Only TPP Economies	0.1	1.3	-0.2	0.0	1.0	2.4
US	0.1	0.8	-0.2	0.0	0.8	1.7
Canada	0.4	2.2	-0.1	0.3	0.6	2.7
Mexico	0.5	7.3	-0.3	-0.2	3.4	11.1
Chile	0.3	1.6	-0.1	0.8	0.8	3.2
Peru	0.8	1.6	0.0	0.4	0.3	1.6
Only RCEP Economies	-0.3	-0.4	3.0	5.0	3.5	5.3
China	-0.3	-0.4	1.8	3.4	4.1	6.0
Korea	-0.2	-0.6	5.6	6.4	6.3	7.1
Indonesia	-0.3	0.1	3.7	5.8	2.5	4.6
Philippines	-0.3	-0.9	4.8	18.3	5.3	19.9
Thailand	-0.8	-0.2	8.8	12.9	8.7	12.7
Cambodia	-1.0	0.0	12.3	21.6	-12.4	-11.3
Laos	0.0	0.3	4.8	9.8	0.1	0.5
India	-0.2	-0.2	4.2	6.2	-1.2	-1.2
Other APEC Economies	-0.1	0.0	-0.5	0.0	3.3	6.5
Hong Kong, China	-0.1	1.0	0.1	2.0	2.6	7.1
Chinese Taipei	-0.2	-0.8	-2.5	-3.6	6.6	10.0
Russia	-0.1	0.1	0.0	0.8	2.5	5.4
TPP Economies	0.4	1.8	0.6	1.5	1.5	3.3
RCEP Economies	0.3	1.1	2.7	4.9	3.2	5.4
APEC Economies	0.2	1.2	1.0	2.1	2.3	4.3
World	0.1	0.6	0.6	1.4	0.9	2.1

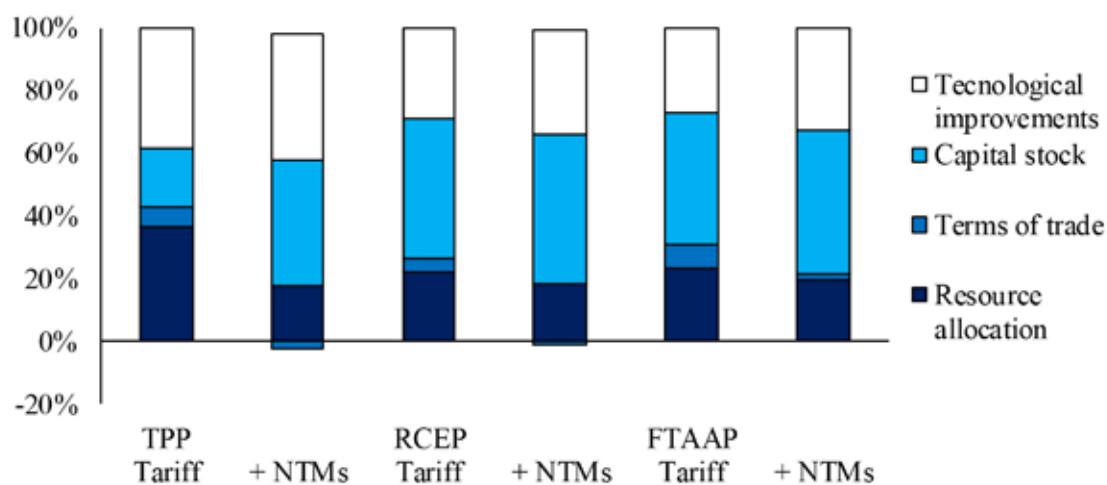
Source: Author's simulations

The macroeconomic benefits from NTMs reduction are estimated to be generally larger than tariff removals. Moreover, they are relatively significant in such developed economies, though it is less important in many developing and emerging economies. This is primarily because of the relative degree of price changes due to tariff removals and NTMs reductions discussed above. That said, it is indicated that there are larger rooms for income gains from NTMs reductions than the removals of tariff those have already been lower as a result of the past developments of trade liberalization.



The members of both the TPP and the RCEP economies will be benefited from the TPP and the RCEP. On the other hand, the only TPP member economies will be benefited from the TPP but not necessarily from the RCEP. Meanwhile, the only RCEP member economies will be benefited from the RCEP but not from the TPP. It is essential to participate in EPAs to enjoy those benefits rather than waiting “free rider gains” without joining EPAs. Trade diversion effects are clearly suggested in the case of tariff removals those are applied to the members of EPAs in preferential basis. Spill-over effects of NTMs reductions may also benefit the third economies but those magnitudes will be limited.

**Chart 2 Sources of income gains from the Asia-Pacific EPAs**



Source: Author's Simulations

Those impacts of the TPP and the RCEP are typically highlighted in the following four economies in light of the memberships of the two EPAs.

- In Japan (both the TPP and the RCEP economy), the higher levels of achievement in the TPP including NTMs reductions will generate sizable income gains. Meanwhile, larger income gains are potentially be expected from the RCEP expanding growing and wider Asian markets. Complementary benefits from the FTAAP will be large participating in both the TPP and the RCEP.
- The US (only the TPP economy)' income gains from the TPP will dominantly be given by the NTMs reductions rather than tariff removals. On the other hand, income losses are expected from the RCEP in particular by tariff removals due to trade diversion effects. Much larger economic benefits are expected from the FTAAP than the TPP.
- China (only the RCEP economy) will lose from the TPP both by tariff removals and NTMs reductions. Large income gains are expected from the RCEP, in which tariff removals are suggested to be still important elements. Further income gains will be generated from the FTAAP expanding the members of the EPAs.

- Chinese Taipei (other APEC economy) will lose both from the TPP and the RCEP due to trade diversion effects. Those income losses are suggested to be larger from the RCEP reflecting closer linkages to the neighboring East Asia economies. Significant economic benefits are expected from the FTAAP joining the framework of EPAs in Asia-Pacific.

Chart 3-A Contributions to the income gains of the TPP

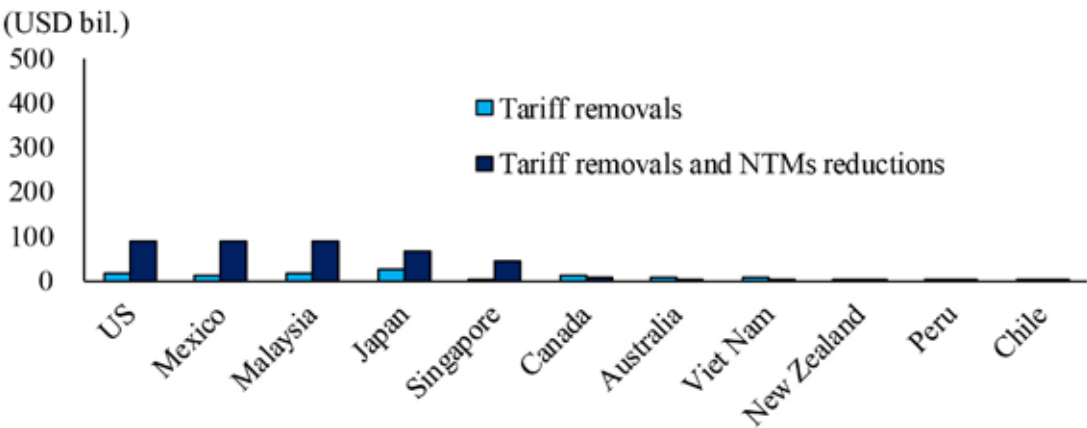


Chart 3-B Contributions to the income gains of the RCEP

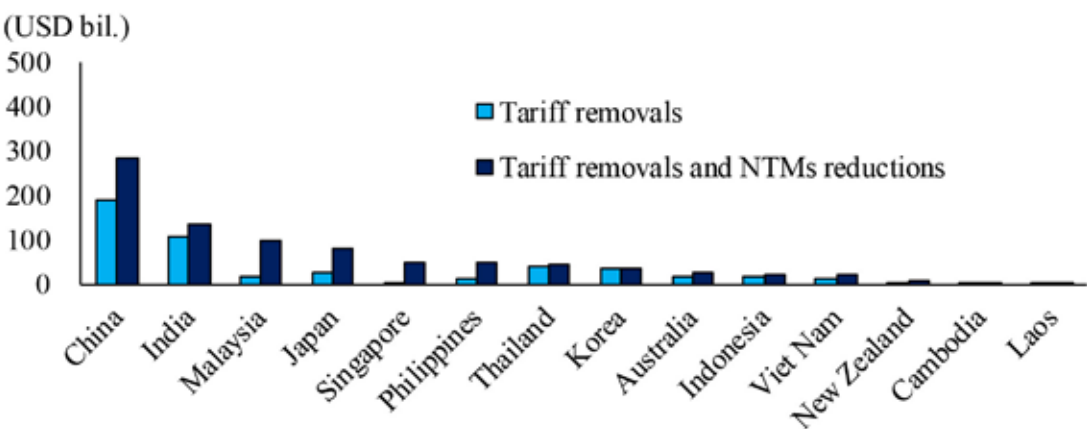
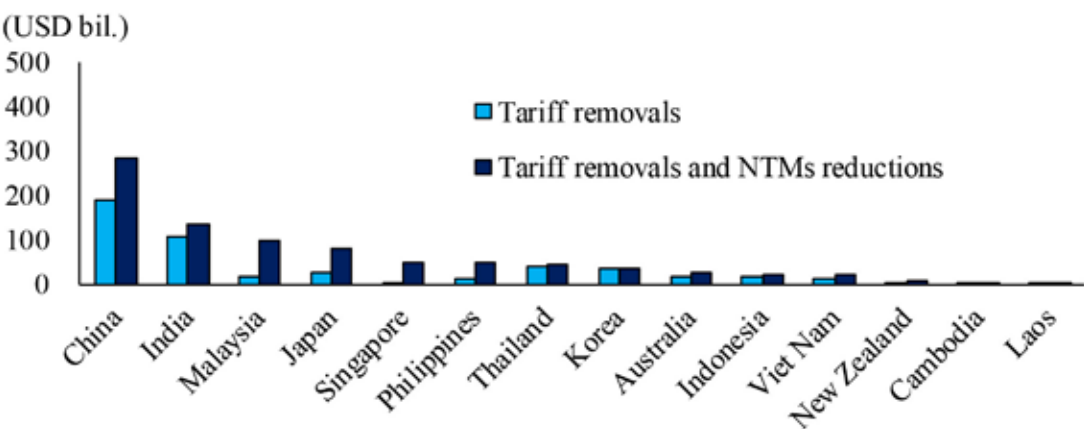


Chart 3-C Contributions to the income gains of the FTAAP





Breaking down the income gains of the APEC economies as a whole from tariff removals and additional NTMs reductions, as shown in Chart 2, the sources of those macroeconomic benefits are shown to be somewhat different among several policy scenarios studied in this paper. In the case of tariff removals, income gains from more efficient resource allocation will relatively be larger than the case NTMs would additionally be reduced; in those cases income gains from technological improvements will relatively be larger. On balance, income gains from the dynamic effects of technological improvements and the expansion of capital stock are shown to be much larger than the statistic effects of more efficient resource allocation and the improvements of terms of trade.

## IV. Key Contributors in the Asia-Pacific EPAs

There are major four groups of economies existing in Asia-Pacific from the perspectives of the memberships of the TPP and the RCEP. The relative significance of income gains from the two EPAs have been concerned about in addition to geopolitical interests. Income gains of the both the TPP and the RCEP economies from the RCEP are estimated to be larger than those from the TPP in the current versions of model simulations.

However, it must be noted that the current study would overestimate the impacts of tariff removals in particular form the RCEP assuming 100 per cent trade liberalization. The agreements may allow exemptions from tariff removals to some extent. According to Fukunaga and Kuno (2012), tariff removals agreed in the existing ASEAN EPAs are on average 91.3 per cent in terms of tariff lines of HS2007 version, on 6-digit base. The corresponding tariff concession rates in ASEAN+ EPAs are pointed out to be 94.1 per cent in China, 91.9 per cent in Japan, 90.5 per cent in Korea and 78.8 per cent in India, while 100.0 per cent in Australia and New Zealand. Moreover, remaining commodities may much more significantly be protected by higher tariff than average. Therefore, income gains from existing EPAs will likely be far smaller than around 90 per cent of those from full tariff removals.<sup>11</sup>

On the other hand, the TPP has aimed to achieve the higher ambitious levels of tariff removals. Depending on the agreements, those impacts may be closer to the current estimates assuming full tariff removals.<sup>12</sup> In addition, the achievement in NTMs reductions would also be expected to be larger than the RCEP. The relative significance of income gains from the TPP may not relatively be so smaller than those from the RCEP.

That said, policy makers may still be concerned about who in the Asia-Pacific economies would be a key driver of generating macro economic benefits in the region. The income gains of the Asia-Pacific

11 According to the estimates in the Cabinet Secretariat (2010) of the Japanese government, Japanese real GDP would be boosted by 0.66 per cent from full tariff removals between Japan and China. This is compared with 0.36 per cent when China would exempt the tariff removals of autos and Japan would exempt five sensitive commodities (rice, wheat, beef dairy products, and sugar) those share 6.5 per cent in terms of tariff lines.

12 Petri, Plummer and Zhai (2012) has assumed tariff would be removed by 96 per cent in the TPP based on an average of five recent US agreements and P4, and by 90 per cent in the ASEAN+3 (China, Japan and Korea) EPA based on the ASEAN EPAs.

EPAs in those EPAs economies as a whole are broken down by the contribution of the EPAs measures of those member economies in Chart 3-A for the TPP, Chart 3-B for the RCEP, and Chart 3-C for the FTAAP respectively.

- Income gains from the TPP will be driven by the US, Mexico and Malaysia, in particular by the NTMs reductions. Singapore will still significantly contribute by the NTMs reductions, though tariff may no longer be cut. On the other hand, the contribution of Japanese tariff removals will relatively be large among the TPP economies.
- China will be a key driver of income gains from the RCEP. This position will be followed by India, who is not the members of the current APEC economies. Contribution of NTMs reductions by Malaysia, Singapore and the Philippines will also be sizable.
- All in all, China will generate the largest income gains from the FTAAP. This position will be followed by Russia;<sup>13</sup> who is neither the member of the TPP nor the RCEP, and then the US.

Moreover, income gains of the individual APEC member economies are broken down between those by own policy measures and those by the rest of APEC member economies in Chart 4. In Japan, the US, Australia and New Zealand, larger benefits will be given by their trade partners. In China and Russia, contributions by own policy measures and those by partners will almost be equal each other. However, in many ASEAN countries, Canada, Mexico and Peru, contributions by own initiatives will be much larger than by partners. It is suggested that domestic reforms are essential to enjoy macroeconomic benefits in those countries.

Further break down of those contributions are looked at in the selected APEC economies in Chart 5.

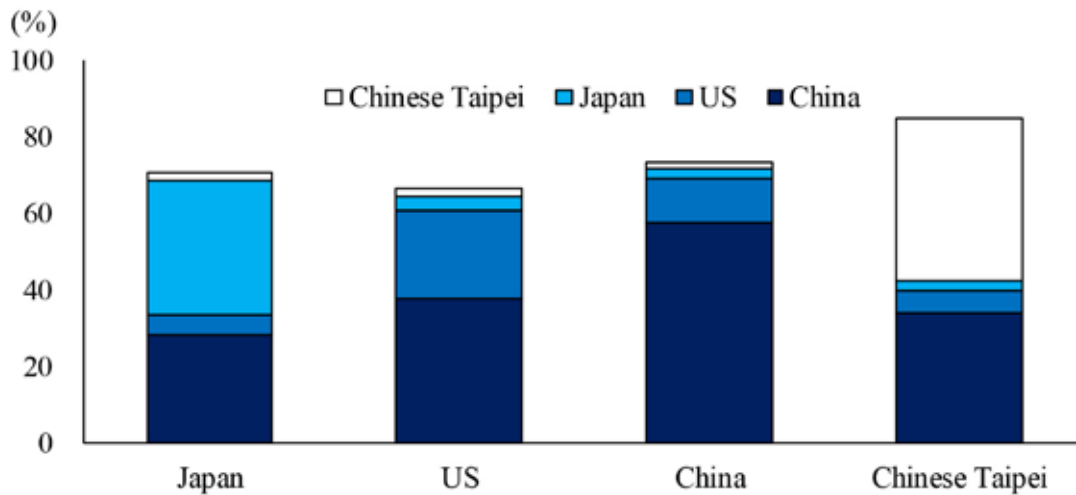
- Japanese income gains will firstly be given by Japanese own tariff removals and NTMs reductions. The contribution of China will also be significant. Therefore, it may be worth joining the RCEP in addition to the TPP.
- The US' income gains will firstly be given by the Chinese policy measures. Though the US' own contribution will be large enough, it may be recommended to extend the areas of EPAs to East Asia including China.
- Chinese income gains will primarily be given by own policy measures. It is essential to remove tariff and reduce NTMs either in the RCEP or in the FTAAP. Contributions by trade partners both in the TPP and the RCEP will be limited.
- Chinese Taipei's income gains will much largely be generated by the EPAs policy measures of China rather than the US and Japan. That said, those will more importantly be driven by own policy measures.

<sup>13</sup> Seriously higher net export tariff is suggested in Russia by the recent versions of GTAP database, which results in larger income gains through the removal of those tariffs.



These structures vary across the APEC member economies, which may be the interest of policy makers prioritizing the framework of EPAs.

**Chart 5 Contributions to income gains by the economies**



Source: Author's simulations

## V. Summary and Conclusions

In this paper, the impacts of EPAs in Asia-Pacific were quantitatively analyzed using a CGE model of global trade. The impacts of NTMs reductions are studied in addition to those of tariff removals.

It is estimated that the income gains of the APEC economies as a whole would account for 1.2 per cent of regional GDP from the TPP, 1.0 per cent from the RCEP, and 4.3 per cent from the FTAAP. The TPP and the RCEP will be complements each other rather than the competitor of the other toward the establishment of the FTAAP.

By the economies, the developing and emerging economies are suggested to enjoy relatively larger gains from EPAs in comparison with developed economies and, therefore, income differentials among the economies are expected to be corrected.

Breaking down the source of macroeconomic benefits of the Asia-Pacific EPAs by the policy measures of the APEC member economies, it is shown that the contribution by China would be the largest. That said, in many ASEAN countries and others, contributions by own initiatives will be much larger than by trade partners including China.

Meanwhile, larger economic benefits are expected from NTMs reductions in addition to tariff removals. It is suggested that domestic reforms are essential to enjoy macroeconomic benefits from international EPAs.

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