

Accelerating the RCEP Process through Strengthening the APT Cooperation

Report of NEAT Working Group by NEAT China

August 2014, Beijing

Contents

1. Why the RCEP process needs to be accelerated?	2
1.1 East Asia is in urgent need of a region-wide trade agreement	2
1.2 Intensifying FTA activities outside the region put much pressure on East Asia	3
1.3 The RCEP is a currently optimal choice for East Asia to achieve its regional integration..	4
2. The potential benefits of the RCEP	4
2.1 Addressing the “noodle bowl” problem	4
2.2 Building up a highly liberalized and larger common market	5
2.3 Upgrading regional production networks and hence regional competitiveness	5
2.4 Gaining experience for merging into an international trading system of higher standard and larger membership	6
3. Progress of the RCEP negotiations: ambitions, achievements and challenges	6
3.1 Ambitions of the RCEP Negotiations.....	6
3.2 Achievements of the RCEP Negotiations.....	7
3.3 Challenges facing the RCEP Negotiations.....	8
3.3.1 The lack of cohesion	8
3.3.2 The complication of the negotiations	9
4. Suggestions on pushing forward the RCEP process through cooperation among the APT countries	11
4.1 Substantiating ASEAN’s centrality in the RCEP process	11
4.2 Advancing the parallel FTA negotiations in this region	12
4.3 Revitalizing the RCEP approach in the negotiations	12
4.4 Introducing the “Pilot Program” into the negotiations	13
5. Conclusion.....	14
Annex:	15
Table 1: Comparing the Regional Initiatives.....	15
Table 2: Intraregional Trade Share: 2000-2011 (%).....	15
Table 3: Trade interdependency Rate to Different Integration Arrangements.....	16
Table 4: Impact of regional trade liberalization on real GDP (%).....	17
Table 5: Tariff Elimination Levels by Country under the ASEAN + 1 FTAs	18
Table 6: WTO Plus in ASEAN+1 Free Trade Agreements (in terms of the Hoekman Index) 19	
Table 7: Distribution of Tariff Lines by Liberalization Status	20

The RCEP negotiations were launched by leaders from the ten ASEAN members and ASEAN's FTA partners (Australia, China, India, Japan, South Korea and New Zealand) on November 20, 2012. The negotiations present an opportunity as well as a challenge for the participating countries. It is an opportunity to consolidate the ever proliferating and overlapping sets of FTAs and form a region-wide FTA in East Asia. It is a challenge however because of the varying degrees of interests and levels of ambition of each of the negotiating parties, and the relative extent to which they seek to undertake commitments on liberalization and facilitation in trade and investment, and other issues.

With the scheduled concluding year 2015 approaching, there is now growing anxiety among the RCEP partners that the deadline is unrealistic and acknowledgement that the negotiations have so far gone virtually nowhere. The RCEP process is now in urgent need of building up momentum to help gain confidence and impetus for the negotiations to press ahead. It is very timely and appropriate for the APT countries to discuss the issue of the RCEP process. The reason is quite simple: The RCEP is beneficial to the APT countries and the APT countries are the pillar of the RCEP process. If the APT countries can reach consensus in some difficult areas and cement their shared views on what is needed to bring the RCEP negotiations to a close, we firmly believe, through our joint efforts, the blueprint of RCEP will be hopefully turned into reality rather than remain just a talk.

This report consists of five sections. Section one and two provide the background of the ongoing RCEP negotiations in terms of the necessity and potential benefits respectively. Section three unfolds the progress of the RCEP negotiations from the perspectives of ambitions, achievements and challenges. Section four tries to propose some suggestions on prompting the RCEP negotiations through cooperation among the APT countries. Last section is concluding remarks highlighting both the importance of APT cooperation and the RCEP's relationship with the TPP.

1. Why the RCEP process needs to be accelerated?

So far, the RCEP negotiations have completed five rounds of talks. Though details remain sparse, challenges can be imagined and outcome is still unpredictable. The RCEP process needs to be accelerated mainly due to the following three considerations:

1.1 East Asia is in urgent need of a region-wide trade agreement

East Asia has gone from a region with almost no FTAs to a region with too many to count. According to the ADB Asia Regional Integration Center's statistics¹, East Asia has seen a rapid increase in the number of FTAs since the beginning of the 21st century. Countries with numerous concluded FTAs (or EPAs) include Singapore (21), India (13), Japan (13), China (12), Malaysia (12), and Thailand (12). More FTAs are currently under negotiation.

This explosion of trade arrangements has developed without any organizational plan or guiding principles. The overlapping and complex FTA arrangements in East Asia lead to higher

¹ ADB: Asia Regional Integration Centre (ARIC), Free Trade Agreements, <http://aric.adb.org/fta-country>

cost of doing business in the region. In particular, the presence of different, multiple rules of origin is one of the troublesome components of the Asian “noodle bowl”, which also includes different, competing tariff schedules, exclusion lists, and rules and standards.

Most importantly, the existing regional initiatives have not yet achieved a fully liberalized region. There is much room for the RCEP to strengthen ASEAN and East Asia as a production base. The recent international financial crisis made it clear that East Asian countries need to work together to sustain regional growth and stability by addressing common challenges. The market-led economic integration has begun to require further liberalization of FDI and trade, and harmonization of policies, rules, and related standards, etc.

1.2 Intensifying FTA activities outside the region put much pressure on East Asia

The stagnated WTO Doha Round trade talks have encouraged many major economies to take FTAs as attractive and accessible alternatives. The new rules and disciplines underpinning the rise of supply-chain trade have been and continue to be written outside the WTO—primarily in deep RTAs¹. Efforts to harmonize these new rules and disciplines are taking place in mega-regionals (e.g. TPP and TTIP) and mega-bilaterals (e.g. EU-Japan) that are under negotiation or discussion. WTO-plus agreements and those addressing the Singapore issues are becoming more common throughout the world. These giant trading blocs of Europe and America might dominate rule-setting in the global trading system, thereby marginalizing Asia. Policymakers should realize the need for stepping up the pace of East Asian integration to improve international competitiveness.

Special attention should be paid to the developments in other competing regional initiatives, especially the TPP, which appears to be growing as an alternative hub for Asian FTA integration². The TPP agreement is a key component for the U.S. rebalancing strategy towards Asia. It would solidify US economic, political, and security links with the Asia-Pacific economies for future decades³. However, the political implication may be more straightforward. As an Asia Pacific Economic Cooperation (APEC)-centered initiative, the TPP is aimed at creating a highly liberal trade regime with comprehensive issue coverage. These initiatives could potentially impair the ASEAN Centrality if they move much faster than the RCEP process, and if they have much richer content than the RCEP⁴.

In addition, there have been a number of recent developments, indicating kind of momentum for the TPP rather than the RCEP. These include the announcement of the TTIP; Japan’s entry into the TPP; China’s statement that it is giving serious consideration to the TPP; and USTR’s signal that it will soon seek Trade Promotion Authority.⁵ If the TPP negotiations are concluded in advance of the RCEP, some of the dual members may have less desire to continue their efforts on

¹ Baldwin, R: “WTO 2.0: Global governance of supply-chain trade”, CEPR Policy Insight No.64, December, 2012.

² Lim, C.K., D.K. Elms, and P. Low, eds: “The Trans-Pacific Partnership: A Quest for a Twenty-first Century Trade Agreement”, Cambridge: Cambridge University Press,2012.

³ Gordon, B.K.: “Trading Up in Asia: Why the United States Needs the Trans-Pacific Partnership,” Foreign Affairs July/August, 2012.

⁴ Yoshifumi FUKUNAGA & Ikumo ISONO: “Taking ASEAN+1 FTAs towards the RCEP: A Mapping Study”, ERIA Discussion Paper Series, 2013-02.

⁵ Meredith Kolsky Lewis: “The TPP and the RCEP (ASEAN+6) as Potential Paths Toward Deeper Asian Economic Integration”, Asian Journal of WTO & International Health Law and Policy, Vol. 8, No. 2, pp. 359-378, September 2013. Available at: <http://ssrn.com/abstract=2385517>

the RCEP.

1.3 The RCEP is a currently optimal choice for East Asia to achieve its regional integration

ASEAN and its dialogue partners had been discussing for some time a wider arrangement in East Asia, partly prompted by the experience of the Asian Financial Crisis, a desire to be more self-reliant and a perception that regional trade was becoming more concentrated. There had been parallel tracks, with ASEAN+3 favored by China and ASEAN+6 favored by Japan. By 2009, two working groups had been set up to study the feasibility of these arrangements. In August 2011, China and Japan made a joint proposal for a regional FTA, which was incorporated into a concept that ASEAN leaders had already been developing—RCEP. The RCEP, characterized with “ASEAN Centrality”, is expected to demonstrate ASEAN’s leadership in bringing together its own ten members and external partners for economic growth, development and harmonization

With the absence of the bilateral FTAs between Northeast Asian economies, the RCEP, with larger membership, has provided an optimal platform for a regional integration scheme which will benefit all.

2. The potential benefits of the RCEP

As in other FTAs, a region-wide FTA in East Asia would provide extensive and far-reaching benefits, both economically and politically, for all the participating countries.

2.1 Addressing the “noodle bowl” problem

A unique economic rationale for a region-wide FTA in East Asia comes from the reduction of transaction cost. East Asia has seen a rapid increase in the number of FTAs among themselves as well as with non-regional countries since the beginning of the 21st century. This has already created a spaghetti bowl phenomenon. At present, there are at least 22 different ROOs (Rules of Origin) among ASEAN+1 FTAs, even after aggregating those that are similar but not the same. Only about 30 per cent of tariff lines across the ASEAN+1 FTAs share common ROOs. With bilateral agreements — the Japan-India FTA for instance — there are 12 types of ROOs, seven of which are unique from the ASEAN+1 FTAs¹. With differing rules of origin (ROOs) and tariff reduction/elimination schedules, the multitude of FTAs has already created a spaghetti bowl problem, increasing transaction costs of intra-regional trade and hence the costs of regional production networks, especially for SMEs in East Asia.

If a comprehensive agreement like RCEP can be reached, rules of origin could be rationalized and made more flexible, and be better administered through electronic means. In the area of investment rules, where no WTO agreement exists, the RCEP will promote easier FDI flows and

¹ Jayant Menon: “The challenge facing Asia’s Regional Comprehensive Economic Partnership”, AIIA Policy Commentary on “Pathways to the Same Destination? Free Trade Negotiations in the Asia-Pacific”, Number 14, June, 2013.

technology transfers by multinational corporations.¹

2.2 Building up a highly liberalized and larger common market

Another economic rationale resides in the scale of economy. The consolidated market size for RCEP (48% of the world population and 28% of the world GDP in 2011, as shown in Annex table 1) is large enough to create a positive trade creation effect and boost more inclusive economic growth in this region. The higher ratio of intra-regional trade among RCEP member economies of over 40% (as shown in Annex table 2) is another promising factor in expecting a large trade creation effect.

Many studies show that the RCEP would generate larger benefits than the TPP because it should cover the Asia's giant economies (China, Japan, Korea and India). As Annex table 3 shows, all the RCEP members except China has a higher trade interdependence rate with the RCEP than with the TPP. Annex table 4 shows that RCEP boosts more GDP growth than TPP, even for same countries participating in both RCEP and TPP. For instance, Vietnam will have an increase of 23.42% of real GDP from the success of the RCEP, while only 12.81% from the TPP. If successfully done by 2015, the RCEP as a grouping is likely to generate a GDP of US\$ 28 trillion (approximately 30% of the world).

2.3 Upgrading regional production networks and hence regional competitiveness

Regional production networking has become an integral part of the economic landscape of East Asia since the end of Cold War. Many factors have contributed to the formation of the production sharing in the region, such as MNCs' global integration strategy caused by the growing international competition, unit cost reduction incurred from the IT revolution and the openness and ease of policy environment in East Asia. Besides, continuous and rapid economic growth has made China an important link in the regional production system and formed a very unique "China model" concerning industrial structure.

However, in the wake of the recent financial and economic crisis, the global economy is now undergoing an era of restructuring and rebalancing, with the U.S. resolved in revitalizing its manufacturing amidst its shale oil "miracle", the EU effecting series of economic reforms, China shifting its growth pattern, and the world witnessing rising motley of regional trade agreements which is not the best way to organize world trade. All these developments put great pressure on East Asia to maintain its competitiveness of the region's production networks.

Instead, the RCEP would play a critical role in promoting and reinforcing regional production networks by liberalizing and facilitating both trade and investment, and even by tackling behind-the-border issues relevant to supply chains and production networks.

¹ Ganeshan Wignaraja: "Why the RCEP matters for Asia and the world", East Asia Forum 2013.

2.4 Gaining experience for merging into an international trading system of higher standard and larger membership

At present, economic integration in East Asia is quite shallow, referring to the extent of liberalization in trade and investment, and coverage of issues included in the existing miscellaneous FTAs. However, the launch of TPP and TTIP has released a very important signal that the world trade might evolve in a quite opposite direction, in which high liberalization in all sectors and new rules concerning issues like IPRs, competition policy, government procurement, labor, and environment, will all be introduced comprehensively and substantially.

The RCEP, serving as a gangplank for East Asia to meet the challenges posed by the ever changing world trade system, has provided an ideal vehicle for the region to practice reaching a relatively high standard, but not too high to deter the potential parties (mainly developing countries), trade agreement, which will surely gain the region very precious experience to aim at more ambitious trade arrangements in the future.

It seems that the RCEP is also being negotiated with the possibility in mind that it could be expanded into an FTAAP. The simulation results in Annex Table 4 show that the impact of trade liberalization measured in terms of an increase in real GDP is the greatest when trade liberalization is undertaken on a worldwide basis, followed in a descending order by under the framework of FTAAP, ASEAN+6 (RCEP), ASEAN+3. It is important for these countries to pursue trade liberalization covering as many countries as possible, expanding the geographic coverage even to all over the world. So far, the RCEP will be the top priority for China and most developing countries in the region.

3. Progress of the RCEP negotiations: ambitions, achievements and challenges

The start of negotiations for the RCEP was declared by the ASEAN+6 leaders on the sidelines of the 21st ASEAN Summit in November 2012 in Phnom Penh, Cambodia. Since then, the ASEAN process has boarded on its own track.

3.1 Ambitions of the RCEP Negotiations

The RCEP is an ambitious FTA involving complex negotiations as expressed in its "Guiding Principles and Objectives for Negotiating the RCEP" (hereinafter called as Guiding Principles).

Objectives: The RCEP initiative aims to be an ASEAN-led process through which ASEAN would broaden and deepen its economic engagements with its FTA partners. Its vision is to be a modern, comprehensive, high-quality and mutually-beneficial economic partnership agreement among the ASEAN Member States and ASEAN's FTA partners. Negotiations commenced in early 2013 and aim to complete by end-2015.

Scope of Negotiations: The RCEP negotiations will cover trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement and other issues.

Guiding Principles: The RCEP negotiations are guided by the following principles: (1) being consistent with the WTO, including GATT Article XXIV and GATS Article; (2) having broader and deeper engagement with significant improvements over the existing ASEAN+1 FTAs, while recognizing the individual and diverse circumstances of the participating countries; (3) including provisions to facilitate trade and investment and to enhance transparency in trade and investment relations between the participating countries, as well as to facilitate the participating countries' engagement in global and regional supply chains; (4) including appropriate forms of flexibility including provision for special and differential treatment, plus additional flexibility to the least-developed ASEAN Member States, consistent with the existing ASEAN+1 FTAs, as applicable; (5) maintaining the validity of the existing ASEAN+1 FTAs and the bilateral/plurilateral FTAs between and among participating countries; (6) having an open accession clause to enable the participation of any ASEAN FTA partner that did not participate in the RCEP negotiations and any other external economic partners after the completion of the RCEP negotiations; (7) providing technical assistance and capacity building, building upon the ASEAN+1 FTAs, to the developing and least-developed countries participating in the RCEP to enable all parties to fully participate in the negotiations, implement obligations under the RCEP and enjoy the benefits from the RCEP; (8) conducting the negotiations on trade in goods, trade in services, investment and other areas in parallel to ensure a comprehensive and balanced outcome.

3.2 Achievements of the RCEP Negotiations

The negotiations have so far completed five rounds, with the first in Brunei in May 2013, second in Australia in September 2013, third in Malaysia in January 2014, fourth in China in April 2014, and fifth in Singapore in June 2014. The sixth round of talks is to be held in India in December 2014.

The negotiations began with the major areas of goods, services and investment, on which three Working Groups were established in the first round of talks. With the negotiations going broader and deeper in the subsequent talks, the new Working Groups on Intellectual Property, Competition, and Economic and Technical Cooperation commenced their work in the 4th round and the Working Group on Dispute Settlement was established in the 5th round of talks. To date, the scheduled seven working groups have all been in place and commenced their work. The participating countries have reached some preliminary consensus on a series of issues concerning the RCEP.

On trade in goods, the negotiations discussed the texts, modalities to be used for tariff negotiations and other issues relating Non-tariff Measures (NTBs), Trade Remedy, Standards, Technical Regulations and Conformity Assessment Procedures (STRACAP), Sanitary and Phytosanitary Measures (SPS) as well as on Customs Procedures and Trade Facilitation (CPTF) and Rules of Origin (ROO). **On trade in services**, the participating countries deliberated on the structure and elements of the services chapter, the approach to scheduling market access commitments and a number of other specific issues. **On investment**, the elements of investment chapter including investment modalities were discussed deeply. Progress has also been made on a range of issues concerning intellectual property, competition, economic and technical cooperation, and dispute settlement.

3.3 Challenges facing the RCEP Negotiations

Despite concrete progress in the previous rounds, the RCEP negotiations are facing challenges, which mainly reside in the lack of cohesion among the participating countries and the complication of the negotiations themselves.

3.3.1 The lack of cohesion

Any free trade agreement is a compromise from all the participating members. It will be easier to come to a compromise if there is high cohesion among the partners. However, in the RCEP negotiations, thorny issues which undermine the cohesion still exist, not only coming from countries directly involved in the negotiations, but also from other regionalism initiatives in the Asia-Pacific Region, and not only economically but also politically.

Firstly, ASEAN's centrality in the RCEP negotiations is not in full play. "ASEAN's centrality" is commonly recognized by all the participants and plays a flagship role in steering the direction of the RCEP process. However, this centrality might be eroded due to the fact that ASEAN's internal and external integration are less clearly sequenced but proceeding in parallel. Thus, ASEAN faces challenges: it has to develop external relationships even though its ability to make common policy is limited. As a result, the external trade policies of ASEAN members are not closely integrated. As an FTA rather than a customs union, ASEAN cannot set common tariffs.

So far as internal integration is concerned, there has been progress on the ASEAN Economic Community (AEC), but the project is not likely to meet its 2015 timetable. The ASEAN Summit in April 2013 declared that 259 measures or 77.54% of the AEC Blueprint had been implemented. But in any case, the remaining over 20 percent of measures will be especially challenging. The summit, therefore, recognized the need to develop a post-2015 program to continue progress on economic cooperation.¹ This prospect of ASEAN's internal integration will inevitably make the RCEP negotiations a mist, whose progress is highly dependent on the timely conclusion of the AEC Blueprint.

Secondly, different levels of economic development and trade liberalization in the RCEP countries are a substantial drag. The huge development gaps will naturally result in varied stances among the participating countries. A very informative study² shows there are wide variations in trade liberalization rates among the countries in ASEAN+1 FTAs.

In terms of trade in goods, as shown in Annex table 5: **Among the five ASEAN+1 FTAs,** the ASEAN–Australia/New Zealand FTA (AANZFTA) has the highest trade liberalization rate of 95.7%, while the ASEAN–India FTA (AIFTA) has the lowest rate of 79.6%. **Among the ASEAN countries,** Indonesia has the lowest trade liberalization rate of 83.4%, the remaining are arranged in descending order as follows: Brunei Darussalam (95.9%), Philippines (93.1%), Thailand (92.6%), Malaysia (92.0%), Cambodia (90.0%), Viet Nam (89.5%), Lao PDR (89.3%), and Myanmar (87.3%). **Among ASEAN's FTA partners,** Australia and New Zealand have the highest

¹ Chairman's Statement of The 22nd ASEAN Summit, <http://www.asean.org/news/asean-statement-communications/item/chairmans-statement-of-the-22nd-asean-summit-our-people-our-future-together>

² Shujiro Urata: "Constructing and Multi-lateralizing the Regional Comprehensive Economic Partnership: An Asian Perspective", ADBI Working Paper Series No. 449, December 2013.

trade liberalization rate of 100%, while India has the lowest trade liberalization rate of 78.8%. China has a rate of 94.1%, followed by Japan (91.9%) and the ROK (90.5%).

In terms of trade in services, only the ASEAN–China, the ASEAN–Korea, and the ASEAN–Australia/New Zealand FTAs contain commitments in trade in services. Among them, as shown in Annex table 6, Australia and New Zealand committed most, with substantially large additional commitments beyond their GATS commitments. The ROK’s and China’s commitments are significantly lower, with much smaller additional commitments under their ASEAN+1 FTAs. For the ASEAN countries, their additional commitments are high for AANZFTA while they are low for AKFTA and ACFTA, reflecting the reciprocal approach adopted in FTA negotiations. There exist wide variations in the level of commitment among the ASEAN countries, with Cambodia being the highest and Brunei Darussalam the lowest.

From the above, it’s self-evident that most of the RCEP countries have their own sensitive areas that are vulnerable to competition from joining RCEP. Accordingly, they will inevitably seek maximum protection for such areas in the negotiations, thus making the process more difficult. Furthermore, high-income countries like Japan, Australia and New Zealand would also like to seek broader coverage of new trade issues such as competition policy, environment and labor standards, which, once in place, will make the negotiation even more difficult. For the low-income countries, the promising benefits from the RCEP would seem less attractive because it is difficult for them to afford physical infrastructure and improve trade facilitation so that they are not really able to enjoy the benefits of smoother flow of goods and services across RCEP member countries.

Thirdly, political and strategic factors can impact the RCEP negotiations. The U.S. rebalance toward Asia, with both security and economic ambitions, is perceived as an external challenge to the RCEP. The U.S. led FTA—TPP, has enlisted seven of the RCEP members, including four ASEAN members—Brunei Darussalam, Malaysia, Singapore and Vietnam, and three non-ASEAN countries—Japan, Australia and New Zealand. The Republic of Korea, the Philippines and Thailand have also shown their interest in joining the TPP. Indeed, many countries’ movement towards the TPP can be explained at best in political rather than economic terms, reflecting the increasing strategic importance of the United States in the region. Therefore, they are trying to balance their security and economic interests by balancing between the RCEP and the TPP. Any competition between the TPP and the RCEP may lead to disunity within ASEAN, which may undermine the ASEAN’s centrality in the region. Especially in the short run, the two parallel negotiations add much pressure on human capital, budget and other country resources to the dual members. There is also a concern that if TPP negotiations are concluded ahead of the RCEP, some of the dual members may have less desire to continue their efforts on the RCEP.

Within East Asia, though it is encouraging to observe that China, Japan, and the ROK began trilateral FTA (CJK FTA) negotiations in March 2013, political tensions still exist. Having noted optimism, it is very important for the leaders to improve political relations in order to make progress on and to conclude the RCEP and the CJK FTA negotiations.

3.3.2 The complication of the negotiations

Technically speaking, FTA negotiations are quite tough and cumbersome with so many details to cover and different interests to accommodate. The RCEP negotiations are especially so with even more technical issues to be addressed at the table.

Firstly, negotiators must balance between “flexibility” and “high standards”. On one hand, the RCEP is envisaged to become the next generation of trade liberalization process. This means all the participants need to make substantial concessions on many issues to ensure the RCEP being a “respectable” FTA. On the other hand, the Guiding Principles also include some form of flexibility including provision for special and differential treatment, plus additional flexibility to the least-developed ASEAN Member States. Flexibility could be a boon or bane for the RCEP. While it could help break deadlocks and protect disparate national interests, it could also limit change or curtail progress in achieving greater liberalization. Flexibility, built on “ASEAN way” and differential treatment, may slow the progress.

Secondly, the absence of some important FTAs within RCEP members is another drag. The RCEP scheme is mainly based on bilateral free trade agreements (FTAs) among participating countries. In the absence of these important FTAs, including those between China and Japan, China and India, Japan and South Korea, and India and New Zealand, the RCEP negotiations could hardly make breakthrough any time soon.

Thirdly, to consolidate the existing five ASEAN+1 FTAs is never a technically easy task. Since these FTAs were signed and negotiated at different points of time and differs in terms of the way of negotiation, economic coverage and stages of implementation, consolidation may be just as difficult, if not more difficult, than simply starting from scratch.

One thing to note is that ASEAN+1 FTAs are currently not uniform in structure. For example, they not only use different tariff classifications for their tariff concessions but also use different schedules for their FTAs with different countries. A study¹ on the liberalization status for individual ASEAN countries reveals the difficulties in establishing a region-wide FTA. As shown in Annex table 7, it is only Singapore that does not have any problems in achieving a high level region-wide FTA. Other ASEAN member countries face difficulty in liberalizing a number of sectors. Indeed, the shares of “eliminated to all” in all products are low for many countries, Indonesia (46.0%), Cambodia (64.3%), Myanmar (66.6%), and Lao PDR (68.0%), indicating the possible presence of enormous obstacles in tariff elimination. Furthermore, the sheer number of ROOs and their lack of commonality across FTAs will also make the task of harmonizing and consolidating them much harder. Besides, trade in services and investment are not concluded for all ASEAN+1 FTAs either.

Fourthly, each negotiator has more or less to face a tough balance between its international requirements and domestic interests. Though trade liberalization is beneficial to the participating nation as a whole, income distribution effects across sectors still exist which will incur protectionism from those who lose. Breaking through these pressures will not be easy, and will require a stronger commitment to domestic reforms from all members, especially in terms of intensifying the job training and education programs, and providing sustainable and effective social safety nets for the affected workers.

¹ Shujiro Urata: “Constructing and Multi-lateralizing the Regional Comprehensive Economic Partnership: An Asian Perspective”, ADBI Working Paper Series No. 449, December 2013.

4. Suggestions on pushing forward the RCEP process through cooperation among the APT countries

As an important cooperative framework in East Asia, ASEAN plus Three (APT) have, in the past, played a crucial role in enhancing regional economic integration. At the time being, the RCEP process is at a crucial crossroad, indicating that a bit more push might hammer out an agreement to the long-run interests of all while a little relaxation might lead nowhere. In order to maintain and build up momentum for the negotiations, here are some suggestions on pushing forward the RCEP process through cooperation among the APT countries.

4.1 Substantiating ASEAN's centrality in the RCEP process

As the driver, ASEAN will continue to play its dominant role in carrying out the RCEP blueprint and the pace of RCEP negotiations is heavily dependent on how duly ASEAN exert its centrality influence. Therefore, to substantiate ASEAN's centrality in the RCEP negotiations should be the very first step.

First, the APT countries must strictly stick to the Guiding Principles in the RCEP negotiations, stipulating that "taking into consideration the different levels of development of the participating countries, the RCEP will include appropriate forms of flexibility including provision for special and differential treatment, plus additional **flexibility to the least developed ASEAN Member States**." To avoid the abuse of flexibility, it would be better that flexibility should only be extended to the least developed AMSs rather than all the members in the RCEP negotiations.

Second, in order to maintain credibility in creating common markets in the region, and bring additional and real gains for ASEAN countries, as the driver, ASEAN should set a clear goal of higher level of commitments for the RCEP negotiations while leave enough flexibility to the least-developed members. This may involve (1) aiming at a higher level than the contents of the current ASEAN+1 FTAs in terms of tariff, ROOs, trade facilitation, services, investment and economic cooperation; (2) introducing as many convergent rules as possible to all the chapters: common concessions in tariff structure; clear definition and approach in non-tariff barriers (NTBs); a general rule in ROOs; a region-wide approach in trade facilitation and economic cooperation; and fewer types of limitations in services regulation; (3) making the new framework more attractive than others, so that it can maintain the "ASEAN Centrality". This strategy is realistic only if ASEAN nations move quickly to build momentum in the RCEP negotiating process.

Third, the CJK countries should stand and work together to provide full support for the proposals put forward by ASEAN based on the Guiding Principles. The CJK countries should also contribute strong support to the realization of the AEC Blueprint and capacity building, especially human resource development and skill training in the least-developed AMSs. One of the most important areas will be infrastructure connectivity. Though lots of efforts have been made, the ASEAN region is still facing a huge financing gap in addressing its infrastructure needs. As the largest economies in this region, China, Japan and South Korea possess a high potential in financing the region's infrastructure connectivity. It is worthy to note that Chinese President Xi

Jinping has proposed, during his visit to Indonesia last year, to establish an Asian Infrastructure Investment Bank (AIIB) to offer financial support for infrastructure construction in developing countries in the region, including members of the ASEAN. To date, China has begun the practical work with a Working Group for the AIIB preparation in a bid to accelerate the process. China is also willing to welcome more countries to join the AIIB as founding members.

4.2 Advancing the parallel FTA negotiations in this region

Since the RCEP scheme is mainly based on bilateral free trade agreements (FTAs) among the participating countries, the absence of some important arrangements might be an obstacle. A more productive strategy for a smooth RCEP process is to see a streamlined trade agreements conducted in parallel with or even in advance of the RCEP.

One is to parallel the strategy for creating the AEC. Upgrading of the ASEAN Free Trade Agreement (AFTA) of the 1990s to the more comprehensive ASEAN Trade in Goods Agreement (ATIGA) was one of the first steps taken to implement the AEC, alongside a broader program including work to implement the Master Plan for ASEAN Connectivity.

Other FTAs like CJKFTA shall also be prompted. Involving the three largest economies in the region, the conclusion of CJKFTA will be an important boost for the further progress of RCEP. It will also be an important stabilizer for the trilateral political relations in the future. However, considering the geo-political and economic reality in this region, the endeavor will never be an easy task. Maybe advancing the bilateral FTA between China and Korea will bring about a breakthrough in the trilateral negotiations, with a trilateral investment treaty already in place.

Besides, China and Australia recently also agreed to accelerate talks about a free trade agreement (FTA). This will also be a backup for the RCEP process.

4.3 Revitalizing the RCEP approach in the negotiations

The RCEP takes a very unique approach in pursuing its goal: while introducing “significant improvements” over the existing agreements, this approach allows for differential treatment and different pathways for different economies. In this sense, the RCEP negotiations have actually adopted the ASEAN Way which stresses both consensus and flexibility (i.e. avoidance of strict reciprocity, hard legalization and rigid implementation time-frame) in pursuing regional cooperation. Now to expedite the negotiations, the RCEP approach needs to explore some new elements by innovating or generating some new explanations from the ASEAN Way in order to maintain its vitality.

In terms of the principle of consensus, the “ASEAN minus X” formula¹ can be adopted innovatively into the RCEP approach to overcome the “consensus paradox”. Excessive stress on consensus might result in a “race to the bottom” effect, where the lowest common denominator rules or the final agreement means nothing. To avoid this hazard, an innovated “RCEP minus X centered on ASEAN” rule might be a solution. The rule will work as follows: taking ASEAN as a bloc and the central partner, once ASEAN moves a proposal on the RCEP negotiations, if the

¹ Masahiro Kawai Dean: “ASEAN+3 or ASEAN+6: Which Way Forward?” Asian Development Bank Institute. Paper presented at the Conference on Multi-lateralizing Regionalism Sponsored and organized by WTO – HE, Co-organized by the Centre for Economic Policy Research (CEPR), 10-12 September 2007, Geneva, Switzerland.

majority (at least 4) of all the 7 partners second the motion, then the agreeing participating countries may proceed to do so without having to extend the commitments to non-agreeing participating countries. In doing so, proper flexibility will always be left to the least-developed AMSs, which means they may enjoy the benefits of the majority-agreed commitments during a transitional period while the non-agreeing, non-ASEAN participating countries cannot benefit from the early harvest until they make the same commitments. In this sense, by relaxing the too strict “consensus”, some of the RCEP goals can be firstly achieved within smaller range of membership.

In terms of the principle of flexibility, the RCEP approach needs to gain some binding ties among the participating countries by setting an explicit schedule for all the issues covered with sequential steps (timetable) for concluding the negotiations. For example, to successfully achieve trade facilitation, the RCEP should try to establish one ROO per one product. But if this is difficult to achieve in one go, then a co-equal approach should first be applied to all the products, followed by a gradual move to a one ROO per one product framework.

Therefore, The RCEP, rather than a single undertaking, should take a sequential approach with flexible membership and an explicit schedule, and be a phased-in arrangement that accommodates member countries at different levels of development.

4.4 Introducing the “Pilot Program” into the negotiations

While catering to the disparity among the 16 countries and providing special policies for the least developed members of ASEAN, the RCEP scheme could also consider selecting some areas as a priority “Pilot Program” on which consensus could be reached more easily, so that participating countries could enjoy the benefits as early as possible and will be willing to promote the follow-up deals. This will help gain momentum for the RCEP negotiations, and more importantly, avoid the risk that small and developing members superseded and made into an irrelevant actor behind the scene.

Such tangible functional cooperation in trade facilitation as harmonization of ROOs, facilitation of customs procedures, and FTA utilization can be a target for the “Pilot Program” since these areas are very basic foundations for trade liberalization and have relatively unanimous demand from all the parties.

Tourism can also be a target for an early step in service trade liberalization since each of the 16 members has her own distinct but abundant resources in tourism. An early liberalization and facilitation of tourism services in this region will surely bring about the development of local economies by prospering hotels, restaurants, travel agencies and so on and so forth.

There are also many areas to be explored in terms of economic and technical cooperation, which is also one of the issues covered by the RCEP negotiations. Cooperation in E-commerce, new energy and green industry, infrastructure connectivity, regional industry value chains, capacity building for the least developed countries, addressing trade imbalance, and financial and monetary cooperation can all be included in the “Pilot Program” as field trips for the RCEP process.

5. Conclusion

The RCEP should be prompted not only as an economic integration but also as a process towards the Community in the long run. However, the road ahead will not be smooth and is expected to be fraught with many economic and political obstacles. In conclusion, two things need to be highlighted.

One is the importance of APT cooperation. As the main pillar of the RCEP, the APT countries should continue their virtuous tradition in cooperation and work together to achieve more ambitious common goals under the RCEP. It may be reiterated that the APT initiative has indeed carried two indispensable core advantages for the larger RCEP endeavor. Politically, ASEAN centrality is supported by all the other six members of the RCEP, with the centrality of ASEAN further facilitating the future RCEP negotiation process. Economically, the APT initiative for economic integration has already made much practical progress in many areas such as financial cooperation as the APT economies are highly complementary with each other. Therefore, the APT process can be seen as a good foundation for the RCEP process. What we need is even stronger political will and commitments to RCEP.

The other is the relationship between the RCEP and the TPP. Competition is actually not the whole story. Most believe these two arrangements offer different approaches towards deepening economic integration in the Asia-Pacific region. The TPP requires much deeper economic liberalization from its members and contains provisions to protect labor rights, environment and intellectual property, reform state-owned enterprises and boldly eliminate tariff, while the RCEP places more importance on providing developing members with economic and technical cooperation to narrow the development gaps. Because of these differences, the RCEP and the TPP should complement each other rather than substitute one another. Furthermore, for the most part, the TPP and the RCEP offer benefits that are largely complementary—one focuses on deeper integration with the Americas, and the other on improved access to Asian markets. Indeed, these two frameworks can be considered as two different stages. Developing countries that cannot meet high requirements for the TPP membership may achieve economic development under the RCEP, and then may later join the TPP when they can pass the membership requirements. Therefore, RCEP and TPP can just be two complementary building blocks for the realization of the long-term objective of a Free Trade Area of the Asia-Pacific (FTAAP).

Annex:

Table 1: Comparing the Regional Initiatives

	Population (billion)		GDP (nominal, US\$ trillion)		GDP (PPP, US\$ trillion)	Merchandise Trade (US\$ trillion)
	2011	2015*	2011	2015*	2011	2011
RCEP	3.4 (48%)	3.5 (48%)	19.9 (28%)	26.2 (32%)	26.1 (33%)	10.1 (28%)
TPP	0.66 (9.4%)	0.68 (9.4%)	20.7 (29%)	24.4 (30%)	20.8 (26%)	7.8 (21%)
ASEAN	0.60 (8.7%)	0.64 (8.8%)	2.1 (3.1%)	3.1 (3.8%)	3.4 (4.2%)	2.4 (6.5%)
APT	2.1 (31%)	2.2 (30%)	16.5 (23%)	21.8 (26%)	20.7 (26%)	8.8 (24%)
CJK FTA	1.5 (22%)	1.5 (21%)	14.3 (20%)	18.7 (23%)	17.3 (22%)	6.4 (17%)
APEC	2.7 (40%)	2.8 (39%)	38.8 (56%)	48.5 (59%)	43.9 (56%)	17.6 (48%)
NAFTA	0.46 (6.6%)	0.47 (6.5%)	17.9 (26%)	21.1 (25%)	18.1 (23%)	5.4 (15%)
EU	0.50 (7.2%)	0.50 (7.0%)	17.6 (25%)	17.5 (21%)	15.8 (20%)	12.3 (33%)

Note: the numbers in the parenthesis give the percentage to the world; * implies IMF forecast.

Source: World Economic Outlook, IMF, October 2012 database; WTO Database; Citing Sanchita Basu Das(2013), RCEP and TPP: Comparisons and Concerns,

http://www.iseas.edu.sg/documents/publication/ISEAS%20Perspective%202013_2.pdf

Table 2: Intra-regional Trade Share: 2000-2011 (%)

	2000	2005	2010	2011
ASEAN	22.7	24.9	24.6	24.1
CJK	20.3	23.7	22.1	21.3
RCEP	40.6	43	44.1	43.8
TPP	48.1	43.5	39	38.6
APEC	72.2	69.5	67.1	66.1

Source: Sanchita Basu Das(2014), The Political Economy of the Regional Comprehensive Economic Partnership (RCEP) and the Trans-Pacific Partnership (TPP) Agreements: An ASEAN Perspective, http://www.iseas.edu.sg/documents/publication/Trends_2014_2.pdf

Table 3: Trade interdependency Rate to Different Integration Arrangements

	ASEAN+3		RCEP		TPP	
	2002	2012	2002	2012	2002	2012
Brunei	61.57%	74.99%	68.75%	91.99%	54.97%	62.32%
Cambodia	25.19%	48.11%	25.68%	49.37%	33.63%	38.64%
Indonesia	22.61%	25.83%	25.55%	29.04%	22.98%	19.08%
Laos *	-	84.50%	-	85.70%	-	-
Malaysia	85.25%	77.84%	91.79%	87.49%	89.13%	55.63%
Myanmar *	-	80.80%	-	90.50%	-	-
Philippines	39.89%	24.98%	42.09%	26.34%	52.40%	20.10%
Singapore	123.14%	131.28%	133.95%	148.22%	124.18%	83.09%
Thailand	48.62%	67.69%	52.35%	74.67%	52.61%	51.05%
Vietnam	48.94%	80.80%	54.40%	86.89%	37.87%	48.44%
China	14%	11.98%	14.96%	14.39%	17.77%	15.78%
Japan	6%	11.68%	7.10%	13.31%	6.94%	7.88%
Korea	20%	36.75%	21.72%	41.16%	22.30%	28.33%
Australia	15%	19.28%	17.10%	21.27%	15.07%	11.50%
India	4%	9.71%	4.05%	10.60%	5.17%	8.22%
New Zealand	13%	17.11%	22.52%	25.39%	23.78%	19.18%
USA	5%	6.52%	4.96%	7.17%	7.76%	8.87%

Note: Trade Interdependency Rate=Total Trade Value(Export and Import Value) of Country i to different integration groups/GDP of country i.

*: Data in 2010, From Lee, C. J. (2012), 'Moving toward an Integrated Regional FTA System in East Asia', cited in Zhang, Y., F. Kimura and S. Oum (eds.), Moving Toward a New Development Model for East Asia- The Role of Domestic Policy and Regional Cooperation. ERIA Research Project Report 2011-10, Jakarta: ERIA. pp.318.

-: Data unavailable.

Source: Calculated by the author. Trade and GDP data is from UNComtrade and WDI database respectively. Some of the ASEAN countries' trade data is not available in UNComtrade database.

Table 4: Impact of regional trade liberalization on real GDP (%)

	Worldwide	FTAAP	ASEAN+6	ASEAN+3	CJK FTA	TPP
Indonesia	4.71	3.64	3.69	3.00	-0.32	-0.36
Malaysia	12.34	9.43	8.27	7.53	-0.52	4.57
Philippines	6.00	6.07	4.60	4.42	-0.75	-0.39
Singapore	3.53	2.42	3.15	2.71	-0.42	0.97
Thailand	26.35	20.24	17.03	16.31	-1.19	-0.89
Vietnam	37.50	34.75	23.42	23.13	-0.50	12.81
China	7.35	5.83	3.43	3.16	2.27	-0.30
Japan	1.25	1.36	1.10	1.04	0.74	0.54
Korea	8.68	7.10	6.34	5.94	4.53	-0.33
Australia	2.46	2.08	2.44	-0.04	-0.11	1.16
India	8.39	-0.91	2.99	-0.29	-0.16	-0.22
New Zealand	4.86	3.80	2.29	-0.19	-0.24	2.15
U.S.	0.35	0.26	-0.07	-0.03	-0.05	0.09

Source: Kawasaki Kenichi(2011), Determining Priority Among EPAs: Which trading partner has the greatest economic impact? Research Institute of Economy, Trade and Industry.

Table 5: Tariff Elimination Levels by Country under the ASEAN + 1 FTAs

	AANZFTA	ACFTA	AIFTA	AJCEP	AKFTA	Average
Brunei	99.2%	98.3%	85.3%	97.7%	99.2%	95.9%
Cambodia	89.1%	89.9%	88.4%	85.7%	97.1%	90.0%
Indonesia	93.7%	92.3%	48.7%	91.2%	91.2%	83.4%
LAO PDR	91.9%	97.6%	80.1%	86.9%	90.0%	89.3%
Malaysia	97.4%	93.4%	79.8%	94.1%	95.5%	92.0%
Myanmar	88.1%	94.5%	76.6%	85.2%	92.2%	87.3%
Philippines	95.1%	93.0%	80.9%	97.4%	99.0%	93.1%
Singapore	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Thailand	98.9%	93.5%	78.1%	96.8%	95.6%	92.6%
Vietnam	94.8%	n.a.	79.5%	94.4%	89.4%	89.5%
Australia	100.00%					
PRC		94.10%				
India			78.80%			
Japan				91.90%		
Korea					90.50%	
New Zealand	100.00%					
Average	95.70%	94.70%	79.60%	92.80%	94.50%	

Notes: HS2007 version, HS 6-digit base. Data on Vietnam under the ASEAN-PRC is missing. Data on Myanmar under the ASEAN-PRC FTA is missing for HS01-HS08.

Trade liberalization rate (also namely tariff elimination coverage), is defined as the proportion of tariff elimination in total number of tariff lines (number of products).

Source: Fukunaga and Isono (2013), citing Kuno.

Table 6: WTO Plus in ASEAN+1 Free Trade Agreements (in terms of the Hoekman Index)

Country	AANZFTA		ACFTA		AKFTA		Average	
	Total	WTO+	Total	WTO+	Total	WTO+	Total	WTO+
Brunei	0.18	0.15	0.05	0.02	0.08	0.06	0.1	0.08
Cambodia	0.51	0.14	0.38	0.01	0.38	0.01	0.42	0.05
Indonesia	0.29	0.22	0.09	0.03	0.18	0.11	0.19	0.12
Lao	0.24	NA	0.02	NA	0.07	NA	0.11	NA
Malaysia	0.31	0.21	0.11	0.01	0.2	0.1	0.21	0.11
Myanmar	0.26	0.23	0.04	0.01	0.06	0.03	0.12	0.09
Philippines	0.26	0.17	0.11	0.02	0.17	0.08	0.18	0.09
Singapore	0.44	0.33	0.3	0.19	0.33	0.22	0.36	0.25
Thailand	0.36	0.12	0.25	0.02	NA	NA	NA	NA
Viet Nam	0.46	0.19	0.34	0.07	0.32	0.05	0.37	0.1
ASEAN Average	0.33	0.2	0.17	0.04	0.2	0.08	0.23	0.11
Australia	0.52	0.18						
China			0.28	0.04				
Korea					0.31	0.09		
New Zealand	0.51	0.26						

Note: “Total” means the score based on the simple average of the Hoekman Index derived from 155 sub-sectors.

“WTO Plus” is the difference between commitments under FTAs and those under the GATS, meaning “additional commitment” to the WTO commitment. As is shown, most countries have commitment levels of less than 0.5, meaning that the “unbound (no commitment)” is dominant overall.

Source: Shujiro Urata(2013), Constructing and Multilateralizing the Regional Comprehensive Economic Partnership: An Asian Perspective, ADBI Working Paper No.449.

Table 7: Distribution of Tariff Lines by Liberalization Status

Country	% of "Eliminated to All" Products	% of Depends on FTA" Products	% of "Protected to All" Products
Brunei Darussalam	84.1	15.9	0
Cambodia	64.3	35.3	0.4
Indonesia	46	52.8	1.2
Lao PDR	68	31.6	0.4
Malaysia	76	22.9	1.1
Myanmar	66.6	31.8	1.6
Philippines	74.6	24.4	1
Singapore	100	0	0
Thailand	75.6	24.3	0.1
Viet Nam	78.1	19.1	2.8
Average	73.3	25.8	0.9

Note: Those products that are subject to tariff elimination in all ASEAN+1 FTAs are classified under “eliminated to all,” while those products that are excluded from tariff elimination in all ASEAN+1 FTAs are classified under “protected to all.” Those products that do not fall under either “eliminated to all” or “protected to all” are classified under “depends on FTA.” In other words, those products that are subject to tariff elimination in some FTAs and are excluded from tariff elimination in other FTAs are classified under “depends on FTA.”

Source: Constructing and Multi-lateralizing the Regional Comprehensive Economic Partnership: An Asian Perspective, Citing Kuno.