
Asia-Pacific Megaregional FTAs: Fostering Global Supply Chains?

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New Context for Trade

- “Second unbundling” of global value chains
 - Drop in prices for transportation and telecomms
 - Search for appropriate labor inputs
- Locate exactly the right “slice” of chain in exactly the right geographic location
- Not just goods, but services too
- Not just fragmentation of parts and components, but fundamentally new way of doing business



Research on GVCs Still New

- Much that we still do not know about GVCs
- Evidence patchy, anecdotal, fragmented
- But, new input-output tables revealing different data patterns from before
 - Double counting of much trade
 - Revised figures for many, esp developing countries
 - Huge role of services (up to 45-50% of total trade)
- Trade in value added may be more sensible way to go in future



New World Collides with Old Rules

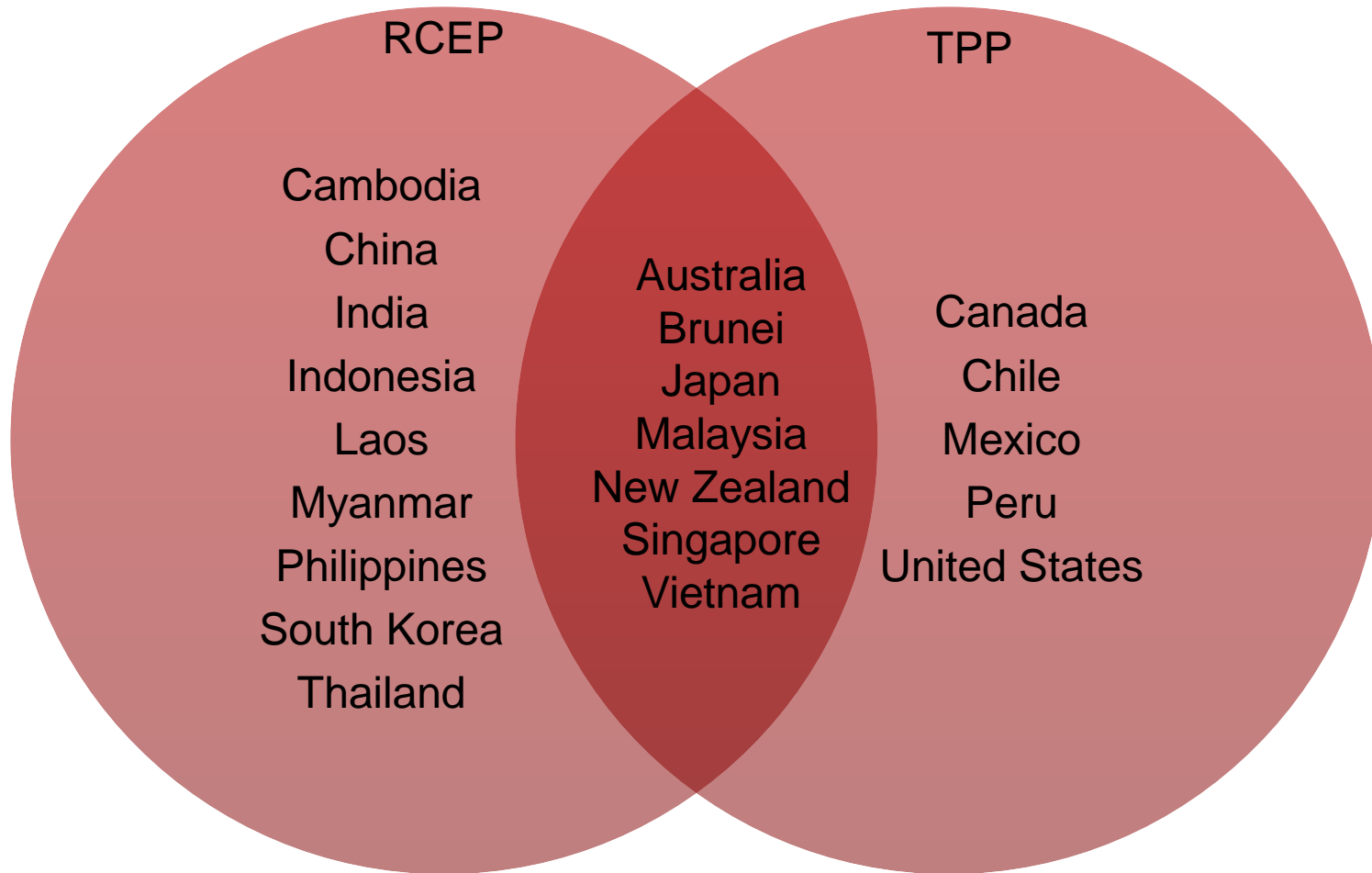
- Tariffs very problematic for GVCs—compounded for every border crossing
- Embedded tariffs can be high and amplification possible even in FTAs
- Tariff escalation hits GVCs as well, esp food
- Trade facilitation delays also compounded
 - Time, money, extra inventory costs
- Incompatible standards increasingly problem
- Such costs can be added to each and every part or component in chain as well

Rise of Megaregional Trade Agreements

- Best scenario to dealing with GVCs: global rules
- But World Trade Organization (WTO) is stuck
 - No significant new rules since 1993
 - Even Bali package on trade facilitation in limbo
- In GVC world, best benefits from largest deal
- Asian economies increasingly turning to FTAs
- Two biggest ones: Trans-Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP)



TPP and RCEP: Overlapping Membership



Changing Trade Environment

- With the near-conclusion of the TPP and serious negotiations in RCEP, landscape shifting
 - Nearly every Asian country is in the game now
- Despite previous bilateral FTAs, extent/depth of preferential trade not always significant
 - Electronics trade, for example, covered by WTO ITA
 - General tariffs low
 - Significant carveouts, especially for agriculture
- Existing deals mostly goods only
 - Not true for future, especially for TPP



Trans-Pacific Partnership (TPP) Agreement

- Twelve countries, three continents, diverse levels of economic development
 - Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States, Vietnam
- “High quality, 21st century” agreement
- Accession clause
 - Canada and Mexico added in Dec 2012
 - Japan in July 2013
- Over two dozen full negotiating rounds held, starting in March 2010

What's Different About the TPP?

- Lots of existing trade deals but the TPP:
- Is broader
 - Covers markets for *all* goods (including agriculture), services, investment, government procurement, e-commerce with meaningful promises for opening
- Is deeper
 - Has new rules for areas like intellectual property, food and food safety (SPS), standards (TBT), environment, labor, competition, customs, etc.
- Shared norms
 - Every member has same commitments (just longer timeframes for some members to implement deal)



Some TPP Rules for GVCs

- Goods rules mostly sensible
 - Tariffs to zero (90% on entry into force, rest mostly to 0 in 7-10 years)
 - No tariff escalation possible
 - Less helpful rules of origin (ROOs)
- Lots of trade facilitation (TF) measures
- Services and investment liberalization
- Some GVC-specific rules included
- First cut at harmonization of standards
 - Esp some rules for sanitary and phytosanitary (SPS)



RCEP

- 16 RCEP members: ASEAN and Dialogue Partners
 - Japan, Korea, China, India, Australia, New Zealand
- Building on 5 existing agreements (ASEAN+1)
- Original idea to combine all five FTA deals
- Leader' s statement: RCEP to include goods, services, investment, intellectual property, competition
- Allows special & differential (S&D) treatment



RCEP Less GVC Friendly?

- RCEP only 5 rounds, so hard to know end point
- But, RCEP likely to have less ambitious goods opening—not to zero on 100%, with carveouts
 - Still scope for escalation, agriculture problematic
 - ROOs may be more business friendly
- Services and investment commitments light
 - Many likely nothing beyond WTO promises
- Most of rest not included—standards, TF
- S&D treatment means not all covered either



Where Do We Go From Here?

- GVCs are here to stay
- Benefits can flow to developing countries and SMEs—plug into different slices of value chains that were not possible before
- Geographic dispersion likely to continue
- Therefore, growing business pressures for large r and larger FTAs to handle problems
- Eventually, thicket of overlapping FTAs may drive everyone back to multilateral system to sort out mess

