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# Asia-Pacific Megaregional FTAs: Fostering Global Supply Chains?

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# New Context for Trade

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- “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
  - Trade in tasks plus geographic dispersion



# Research on GVCs Still New

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- Much that we still do not know about GVCs
- Evidence patchy, anecdotal, fragmented
- But, new input-output tables and new case studies revealing different data patterns
  - Double counting of much trade
  - Revised figures for many, esp developing countries
  - Huge role of services (40-70% of total value)
- Thinking about trade in value added terms may be more sensible way to go in future



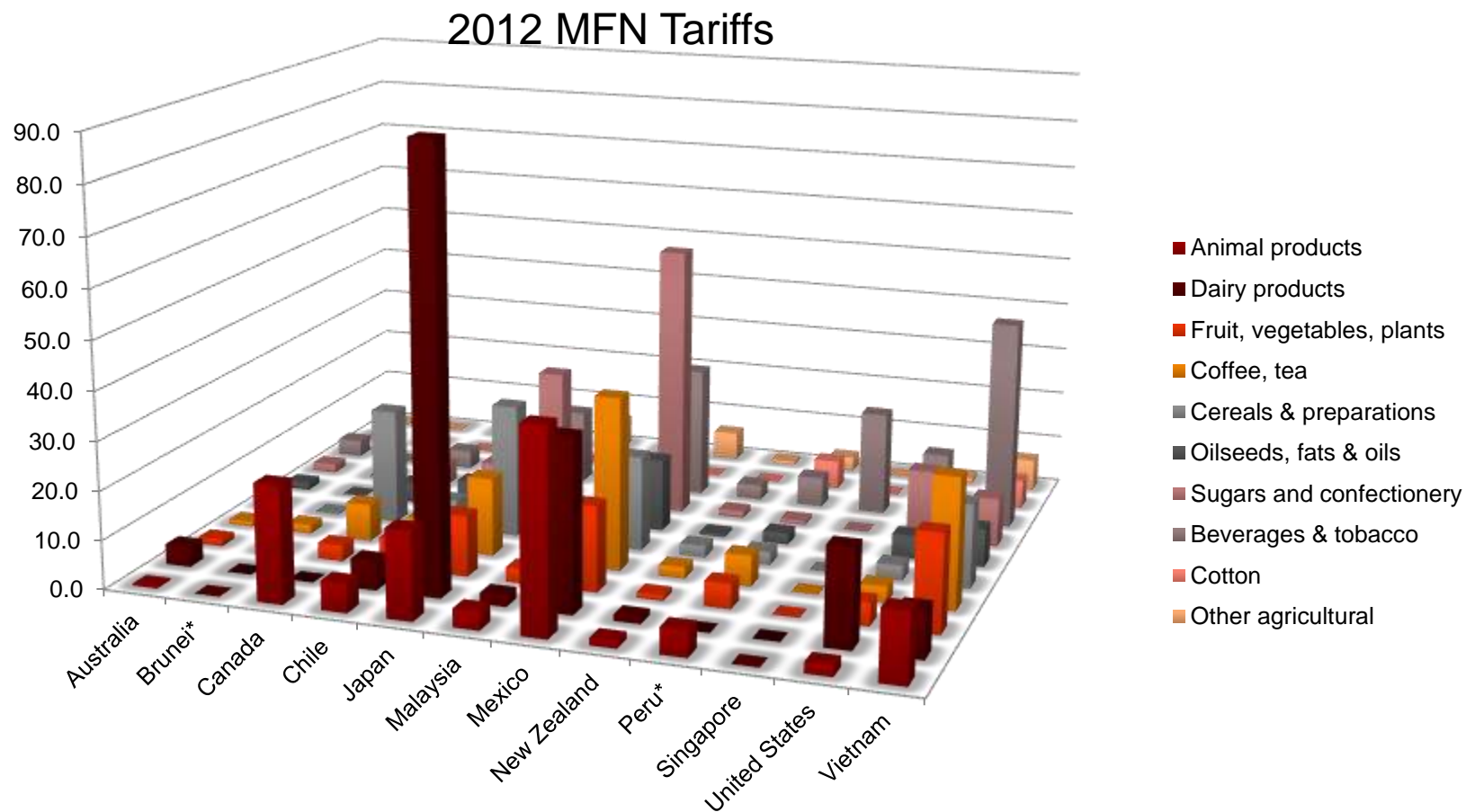
# New World Collides with Old Rules

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- 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



# Example: TPP Members Agricultural Tariffs (Minus Canadian and Malaysian Dairy Peaks)\*



# Rise of Megaregional Trade Agreements

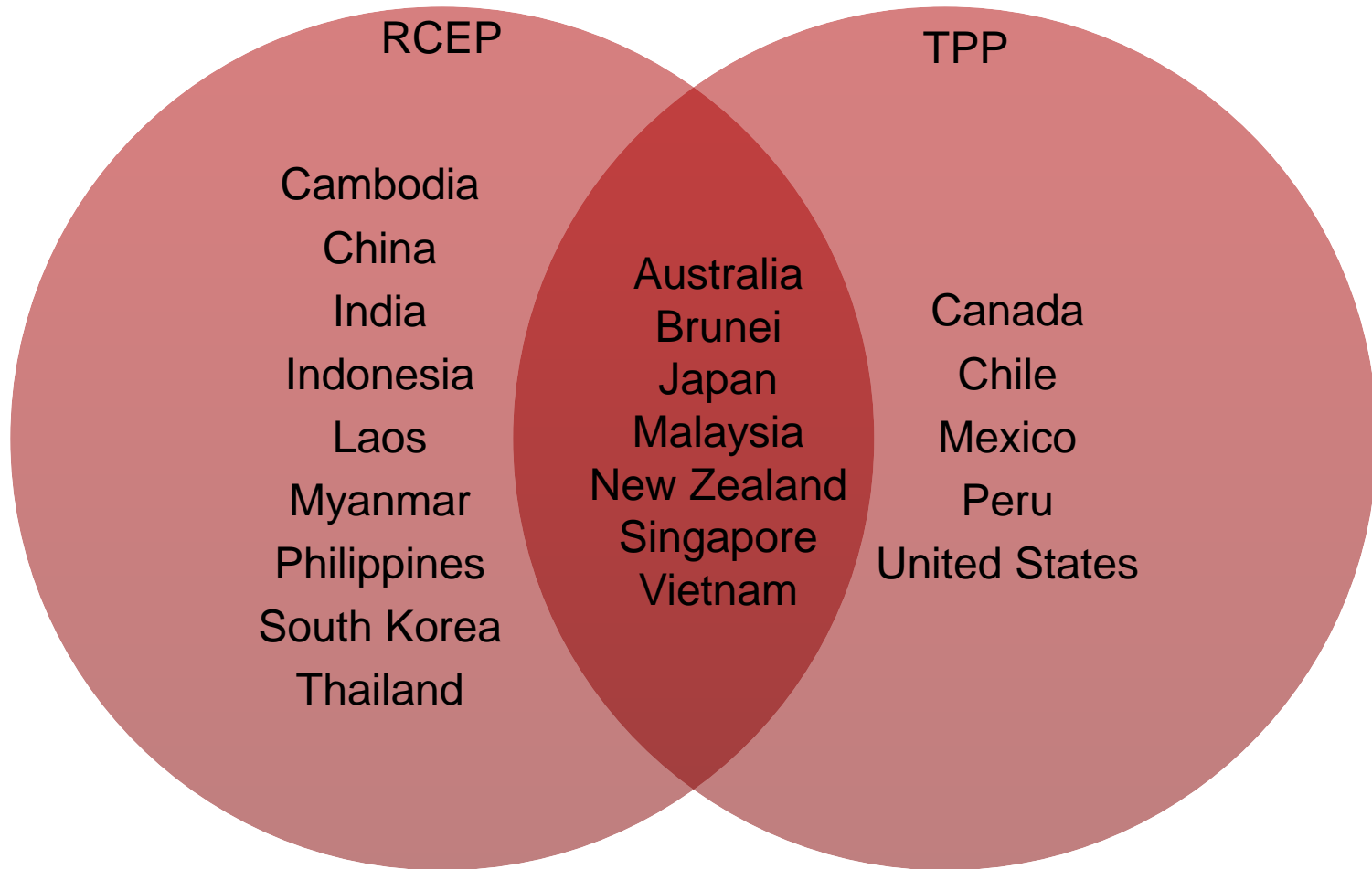
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- Best scenario to dealing with GVCs: global rules
- But World Trade Organization (WTO) is stuck
  - No significant new rules since 1993
  - Even Bali package on trade facilitation in limbo
- In GVC world, best benefits from largest deal
- Asian economies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



# TPP and RCEP: Overlapping Membership

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# Changing Trade Environment

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- 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 FTA deals mostly goods only
  - Not true for future, especially for TPP





# Trans-Pacific Partnership (TPP) Agreement

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- 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, 21<sup>st</sup> century” agreement
- Accession clause
  - Canada and Mexico in Dec 2012; Japan in July 2013
- Over two dozen full negotiating rounds held, starting in March 2010
- In the final stages—closure as soon as May 2015



# What's Different About the TPP?

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- 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

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- 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

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- 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, e-commerce, competition
- Allows special & differential (S&D) treatment



# RCEP Less GVC Friendly?

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- RCEP only 7 rounds, so hard to know end point
- But, RCEP will have less ambitious goods opening—maybe just 40-80% of tariff lines included for tariff cuts
  - Still scope for escalation, agriculture problematic
  - ROOs may be more business friendly
- Services and investment commitments light
  - Perhaps little or 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?

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- 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 larger and larger FTAs to handle problems
- Eventually, thicket of overlapping FTAs may drive everyone back to multilateral system to sort out mess



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