



Economic Research Institute
for ASEAN and East Asia

1st East Asia Investment Forum

Kuala Lumpur, 24 August 2015

What does RCEP mean for business?

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Outline

1. Review of ASEAN's FTAs
2. Review of AFTA, ASEAN+1 FTAs
(Goods, Services, and Investment)
3. What does RCEP mean for business?

1. Review of ASEAN's FTAs

FTA-Trade Coverage Ratios

Proportion of trade with FTA partners in total trade (%)

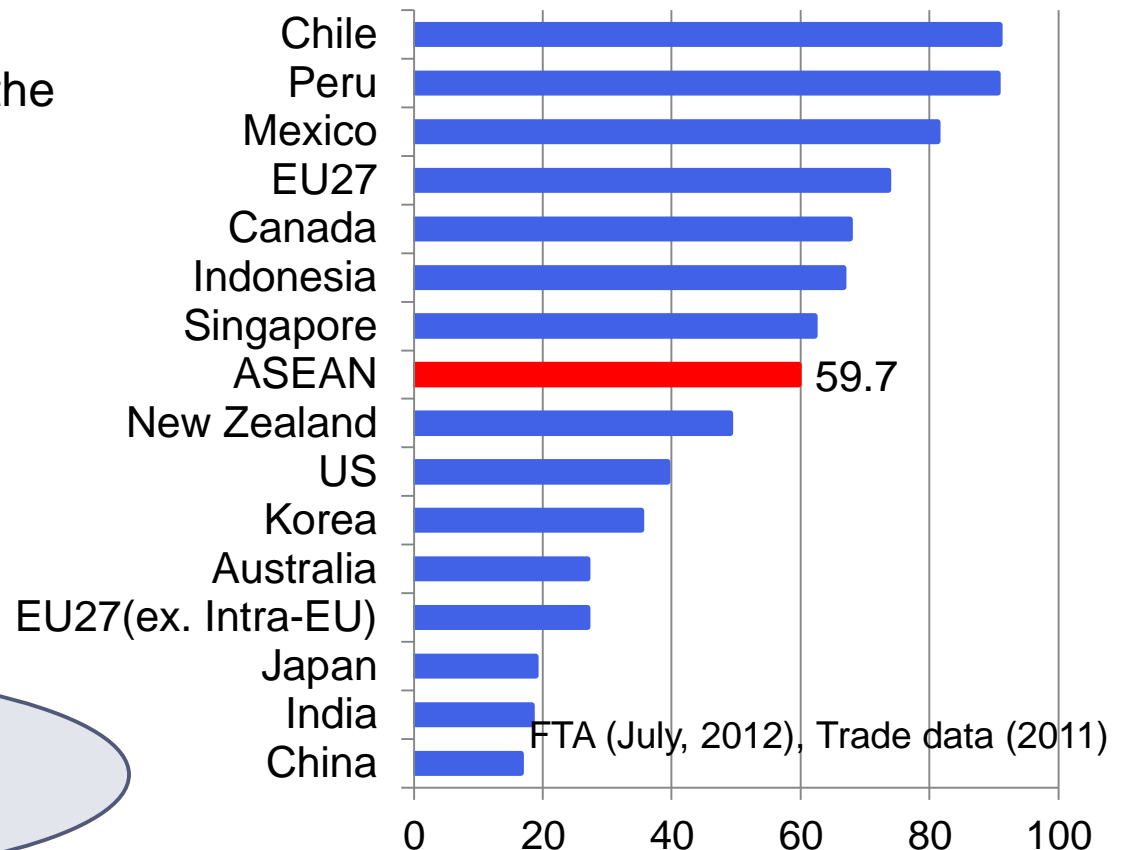
The 16-East Asian countries

69 FTAs out of 126 FTAs in the world

ASEAN: 6 regional FTAs

AFTA, ASEAN+Aus and NZ
ASEAN+China,
ASEAN+India,
ASEAN+Japan,
ASEAN+Korea

RCEP is currently in the process of negotiations



1. Evaluation of the use of existing FTAs

The use of FTAs in ASEAN countries (2013): Survey based analysis

FTAs	Firms using FTAs for Exports (% of exporting firms)	Firms using FTAs for Imports (% of importing firms)
FORM D (AFTA-ATIGA)	51.5%	39.4%
FORM E (ACFTA)	25.6%	38.7%
FORM AK (AKFTA)	20.0%	12.3%
FORM AANZ (AANZFTA)	13.8%	5.4%
FORM AJ (AJCEP)	6.6%	3.3%
FORM AI (AIFTA)	10.8%	9.6%
FORM A (GSP)	42.0%	16.5%

Source: The Use of FTA in ASEAN (ERIA study, forthcoming, 2015)

Note: The summation of the use of FTA COOs does not necessarily add up to 100% as not all of firms use FTAs and one firm may have more than one FTA and non-FTA COOs.

1. Evaluation of the use of existing FTAs

The main reasons for a relatively low use of FTAs in ASEAN:

► **Small** benefit margins of FTAs

Benefit – Costs

3-5% tariff margins – FTA COO Costs of 3.4% (Cadot and Ing, 2014)

Moreover, as tariff rates are getting lower, the number of **non-tariff measures** is perceived to be increasing.

► **Limited** information about FTAs

60% of respondents claim

Source: The Use of FTA in ASEAN (ERIA study, forthcoming in 2015). A collaborative work between ERIA and ASEAN Business Advisory Council.

2. Trade in goods

	ASEAN- ANZ	ASEAN- China	ASEAN- India	ASEAN- Japan	ASEAN- Korea	Average
Brunei	99%	98%	85%	98%	99%	96%
Cambodia	89%	90%	88%	85%	91%	89%
Indonesia	93%	92%	49%	91%	91%	83%
Lao PDR	92%	97%	80%	86%	90%	89%
Malaysia	97%	93%	80%	94%	92%	91%
Myanmar	88%	94%	77%	85%	92%	87%
Philippines	95%	92%	81%	97%	90%	91%
Singapore	100%	100%	100%	100%	100%	100%
Thailand	99%	93%	78%	96%	95%	92%
Viet Nam	95%	92%	79%	94%	89%	90%
Australia	100%					
China		95%				
India			79%			
Japan				92%		
Korea					90%	
New Zealand	100%					
Average	96%	94%	80%	93%	93%	

Notes: Tariff elimination on HS-6 digit based on HS2007 version.

Source: ERIA FTA Mapping Study, 2015

2. Trade in Services

	AFAS(8)	AANZFTA	ACFTA(2)	AKFTA
Brunei	0.30	0.18	0.04	0.09
Cambodia	0.45	0.53	0.40	0.40
Indonesia	0.58	0.30	0.11	0.19
Lao PDR	0.39	0.26	0.05	0.08
Malaysia	0.45	0.33	0.21	0.21
Myanmar	0.42	0.25	0.08	0.06
Philippines	0.30	0.26	0.20	0.15
Singapore	0.42	0.46	0.40	0.35
Thailand	0.60	0.36	0.27	NA
Viet Nam	0.44	0.48	0.38	0.34
ASEAN (average)	0.44	0.34	0.21	0.21

Australia	0.52
New Zealand	0.53
China	0.34
Korea	0.31

Note: (a). Hoekman index measures degree of commitments in the services sector. 1: liberalised and 0:closed (the government has no commitments for liberalisation). (b). ASEAN has no agreements in the services sector with India. (c). Japan has services chapters included in its bilateral FTAs with 7 ASEAN countries

2. Investment

	Liberalization	Protection	Facilitation	Promotion
ACIA	●	●	Article 25	Article 24
ASEAN-AU-NZ	●	●		
ASEAN-CHN	●	●	Article 21	Article 20
ASEAN-KOR	●	●		

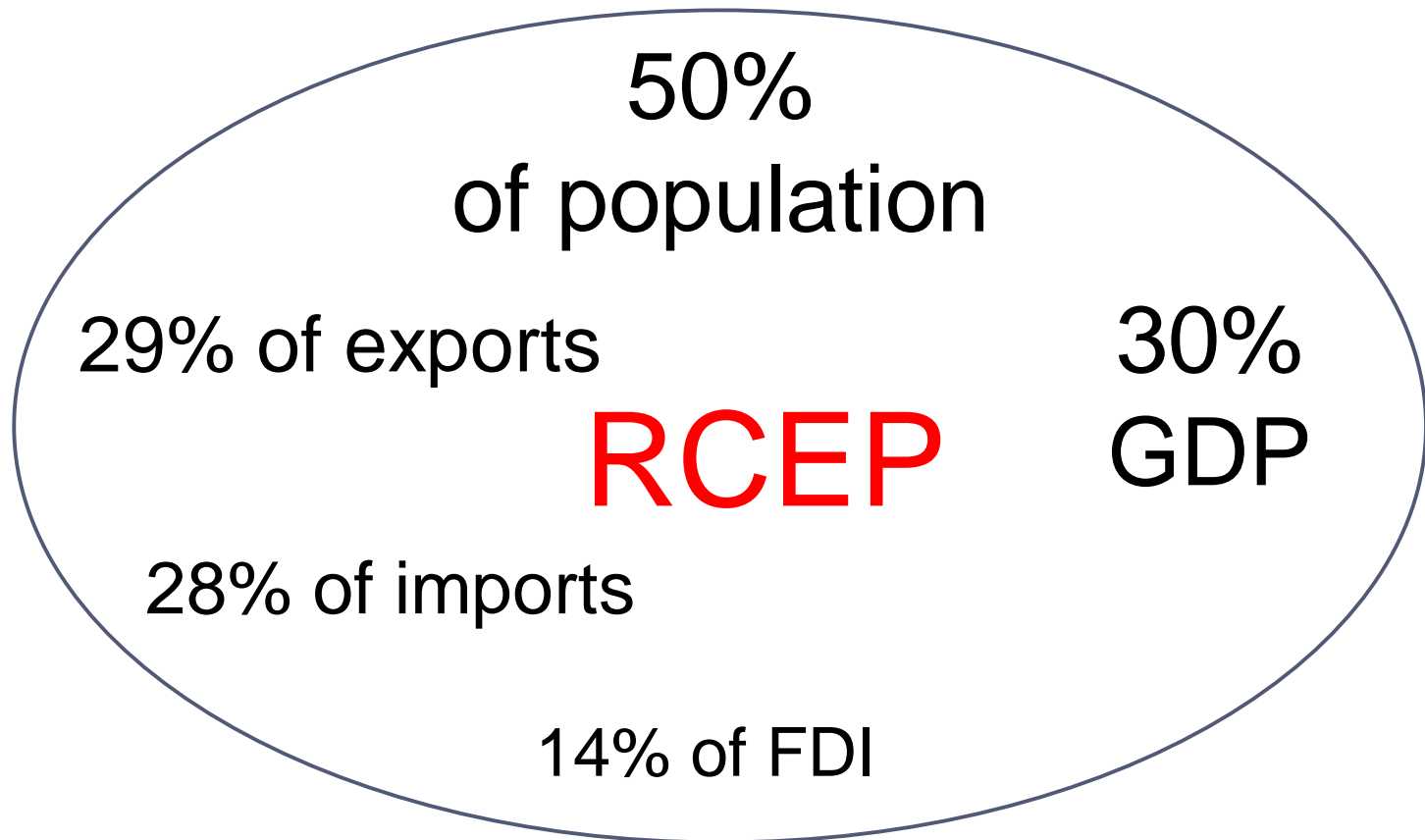
Note:

1. ● means the agreement contains article(s) or provision(s)
2. The ASEAN-India Investment Agreement and the ASEAN-Japan Investment Agreement were concluded in 2012 and December 2013, respectively, but have not yet been signed.

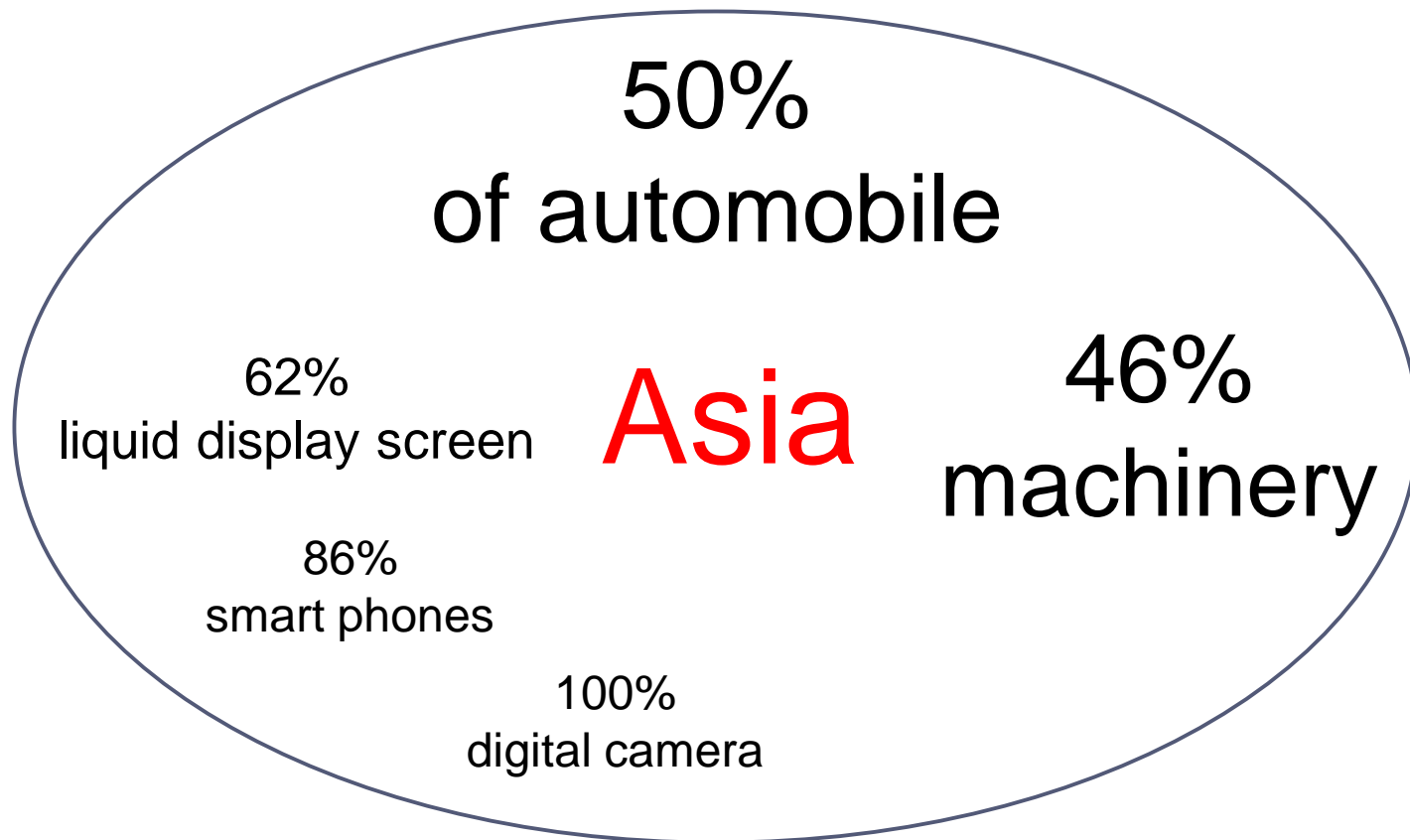
Source: Ing, Lili Yan and Chandra Triputra (on-going work on FDI restrictiveness index of ASEAN)

3. What does RCEP mean for business?

RCEP countries' contribution to the world



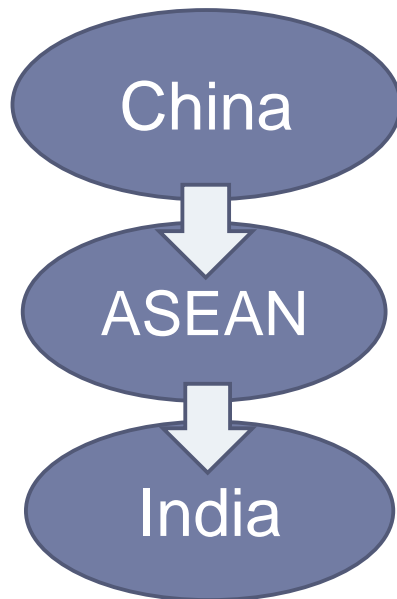
3. What does RCEP mean for business?



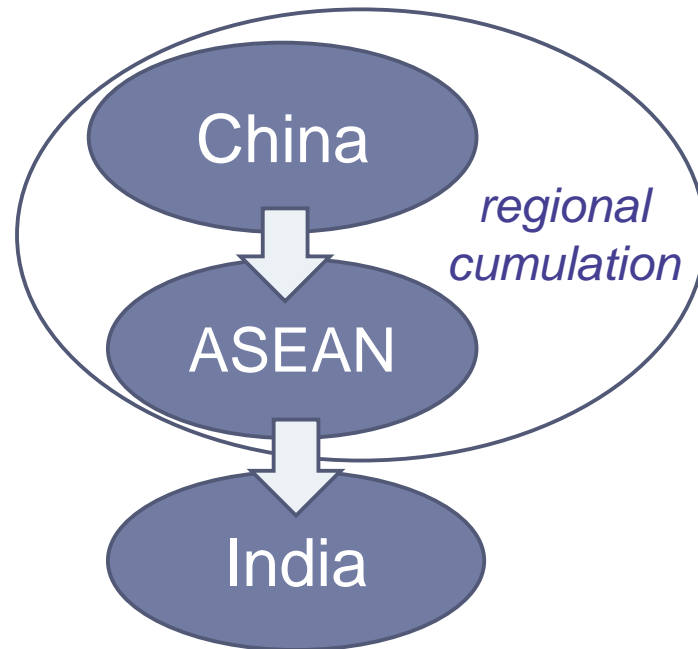
Source: Hiratsuka (2013) based on Trade in Value added analysis and ERIA Staff calculations for machinery based on World Input Output data [accessed in August 2014]

3. What does RCEP mean for business?

The existing
ASEAN+1 FTAs



RCEP



RCEP enables business operating in ASEAN to enjoy preferential rates by using *regional cumulation* of RCEP members (eg. using imports from China, producing in ASEAN and exporting to India, Australia or other RCEP members). RCEP members: the ASEAN-10, Australia, China, India, Japan, Korea and New Zealand

3. What does RCEP mean for business?

RCEP could be an attractive route if and only if ...

Competitive region

Trade in Goods

Set a motivated yet feasible level of tariff elimination w/ a common concession with limited deviation

Simplified RoOs

Improve NTM transparency

Trade in Services

Adopt a formula-based approach as a reference

Priority sectors: logistics, finance, telecommunication and business services

Investment

Adopt 4 pillars of Protection, Liberalisation, Facilitation, Promotion

Adopt a single negative list

Improve clarity in investment procedures & inquiry handling



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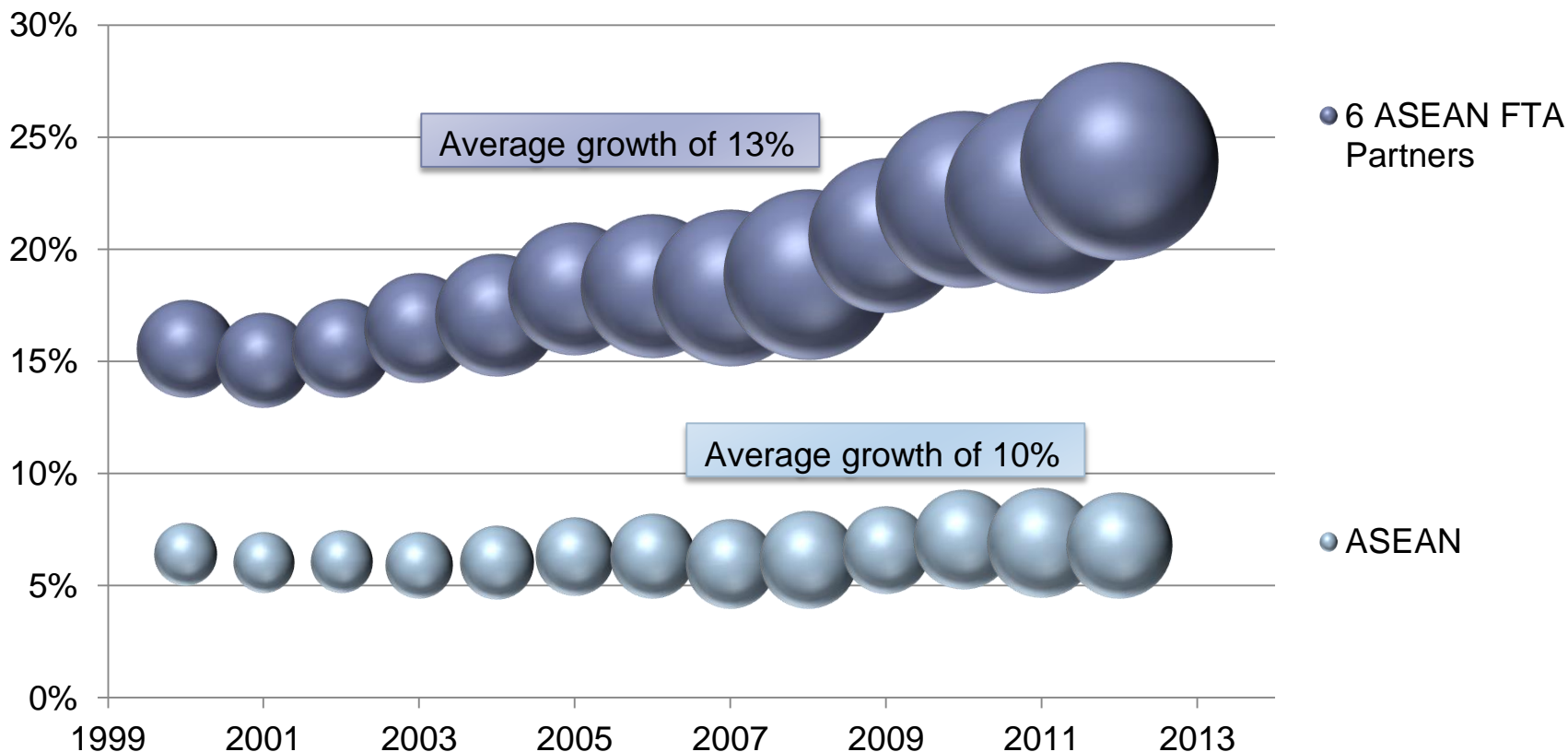
Appendix



1. Recent trends in trade in goods

Trade in Goods of ASEAN and its 6 FTA Partners

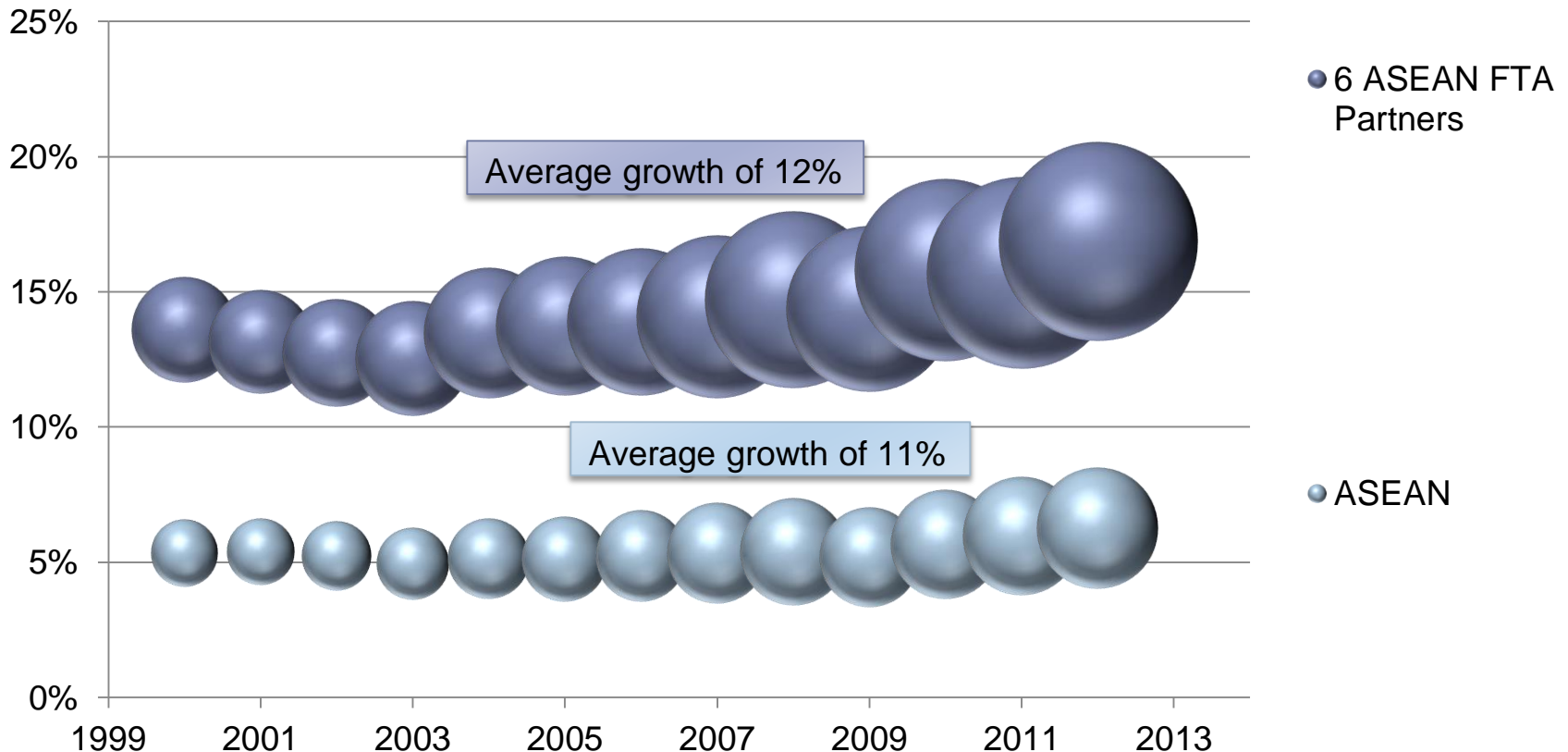
Share of world's
trade in goods



1. Recent trends in trade in services

Trade in Services of ASEAN and its 6 FTA Partners

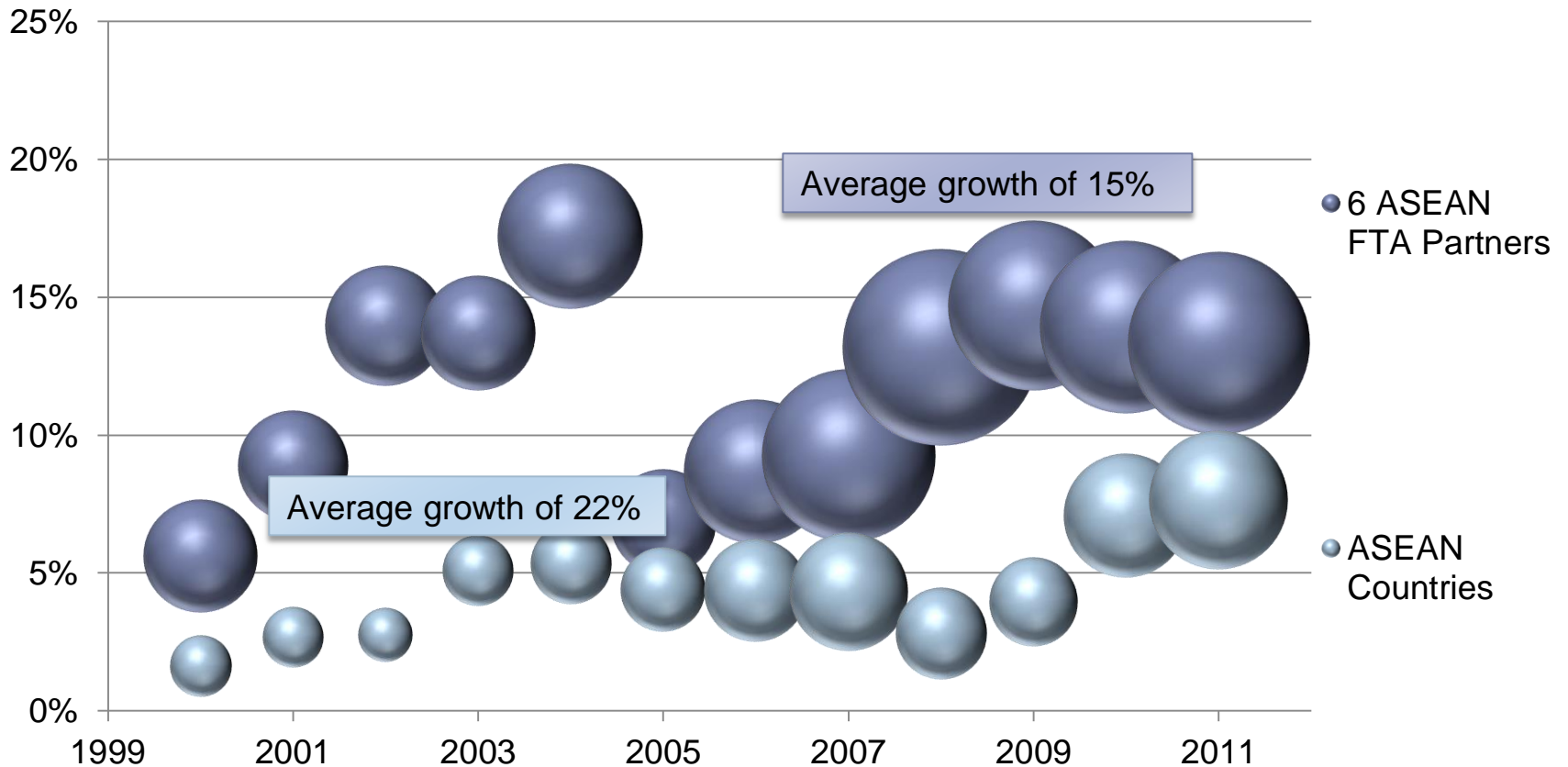
Share of world's
trade in services



1. Recent trends in FDI

Total FDI in ASEAN and its 6 FTA partners

Share of total
world's FDI



2. Trade in Goods

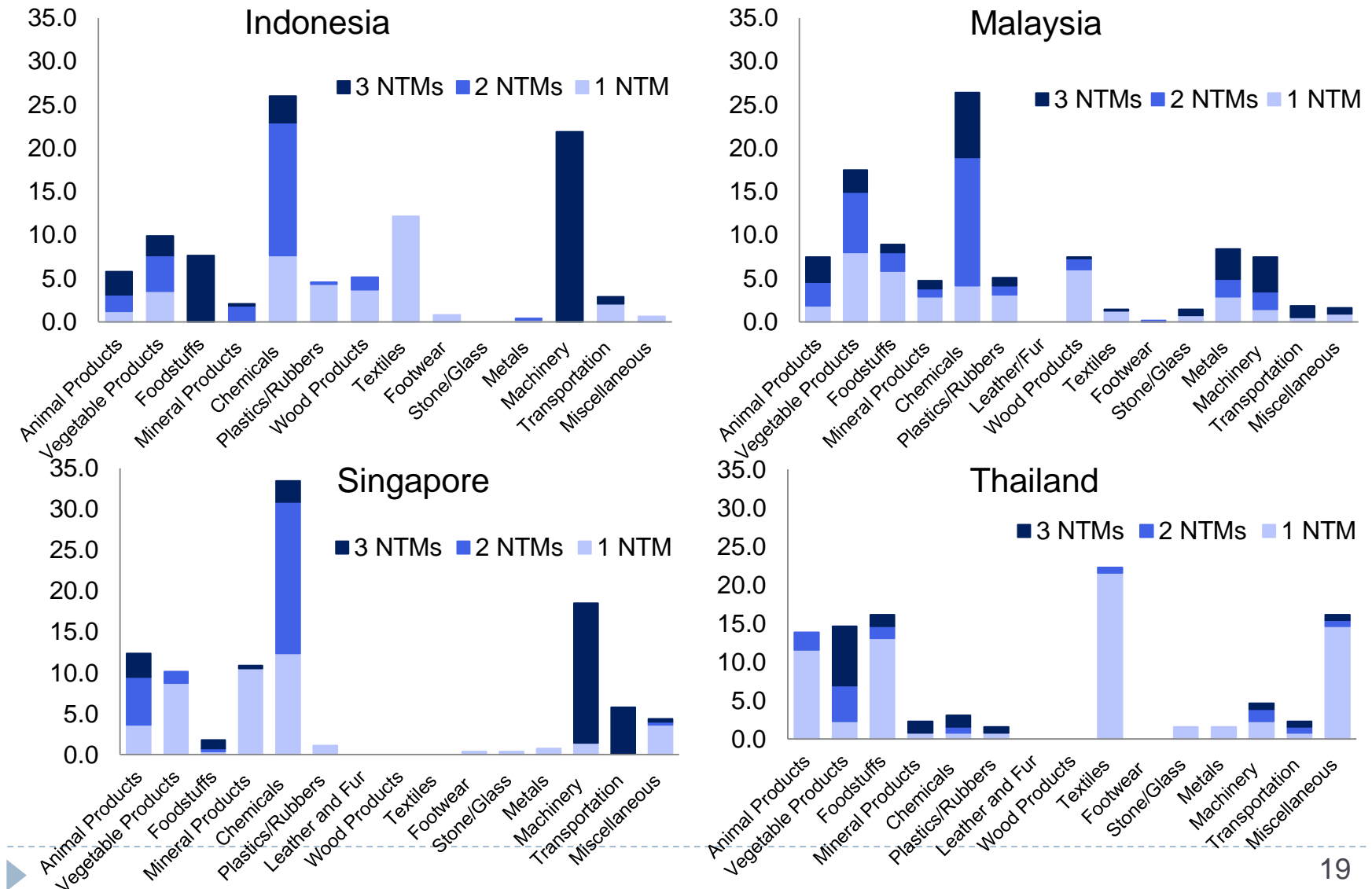
Beyond tariff elimination...

a. NTMs

- The incidence of NTMs in a number of RCEP members is moderate in comparison with other regions of the world. The estimated ad-valorem equivalents also seem comparable with other countries (Cadot, Munadi and Ing, 2013).
- Improve NTM transparency and alert mechanism for all RCEP members. It should not follow traditional “notify-negotiate-eliminate” approaches but instead to bring the issue to the country level and imbed them in regulatory-reform agendas in the effort to improve trade and investment climate.

2. Trade in Goods

b. NTMs: percentage of tariff lines subject to NTMs

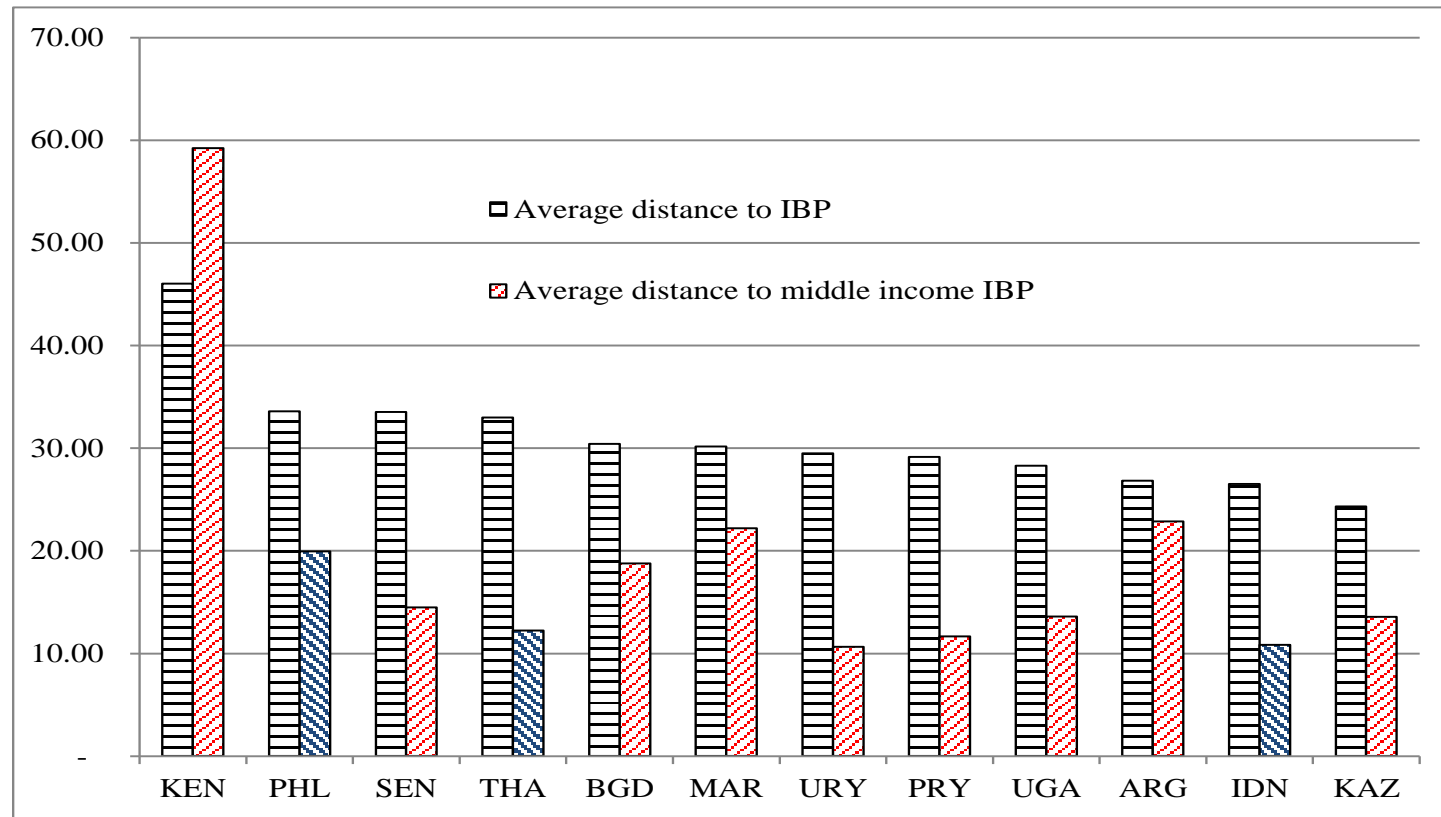


Source: Cadot, Olivier, Ernawati Munadi and Lili Yan Ing (2013)

2. Trade in Goods

Beyond tariff elimination...

- b. NTMs:** The findings show that the incidence of NTMs in ASEAN is moderate in comparison with other regions of the world



2. Trade in Goods

Beyond tariff elimination...

b. Rules of Origin

- There is a significant convergence among ATIGA, AANZFTA, AKFTA and AJCEP (Medalla, 2011)
- Generalise alternate rule (e.g., RVC40 or CTH) with harmonised product specific rules

2. Trade in goods

C. ROO: Frequency by type of ROOs use in ASEAN+1 FTAs

ROO type	ATIGA	AANZFTA	ACFTA	AIFTA	AJCEP	AKFTA
Single Rule or stricter						
WO	185	294	8		3	458
CC		248	1		735	61
CTH		107			137	4
CTSH					8	
RVC(<40)						36
RVC(40)	149	68	4659		219	22
RVC(>40)						6
RVC(35)+CTSH				5224		
CC with exception*		3			258	
CTH with exception*		10			20	
Various**		43				3
Sub-total	334	773	4668	5224	1380	590
% share in total	6.4%	14.8%	89.4%	100.0%	26.4%	11.3%
"RVC(40) or CTH" or more flexible						
RVC(40) or CTH	2679	2204	122		3057	4076
RVC(40) or CTH or Specific Process Rule		24				
RCV(40) or CTSH	756	1072			33	61
RVC(40) or CTH or [RVC(35)+CTSH]	136	195				
RVC(40) or CTH or Textile Rule	347	6				
Sub-total	3918	3501	122	0	3090	4137
% share in total	75.0%	67.0%	2.3%	0.0%	59.2%	79.2%
Other "or" rules						
RVC(40) or CC or Textile Rule	463					
RVC(40) or CC	453	583	7		126	487
Various***	56	367	427		628	10
Sub-total	972	950	434	0	754	487
% share in total	18.6%	18.2%	8.3%	0.0%	14.4%	9.3%
Total # of 6-digit HS(2002) Lines	5224	5224	5224	5224	5224	5224

Note: HS 2002 base.

WO- wholly obtained; CC- change in chapter; CTH- change in tariff heading; CTSH- change in tariff subheading; RVC- regional value content.

*Exception varies, from sourcing of materials to process.

**e.g. CTH + RVC(40), CC + RVC(40), CC + Textile Rule.

***e.g. [RVC(40)+Textile Rule] or CC, RVC(>40) or CTH.

Source: Medalla, 2015

2. Trade in Goods

Beyond tariff elimination...

c. Trade Facilitation

Trade facilitation++ in RCEP

- Development of a single window, improvement in customs clearance, repository of NTMs and trade regulations, and others

2. Trade in Services

Beyond liberalisation in services sectors ...

- a. Adoption of a formula-based approach and set motivated levels of ambition
- b. It is not only about increasing levels of liberalisation in services sectors; it is more on how to stimulate trade in goods and investment: logistics, finance, telecommunication and business services

2. Investment

	Agreements	Signed	Entry into force
ACIA	ASEAN Comprehensive Investment Agreement	26-Feb-09	29-Mar-12
ASEAN-AU-NZ	Chapter 11 of The Agreement Establishing The ASEAN-Australia-New Zealand Free Trade Area	27-Feb-09	1-Jan-2010: Australia, Brunei, Malaysia, Myanmar, Philippines, New Zealand, Singapore and Viet Nam 12-Mar-2010: Thailand 4-Jan-2011: Cambodia and Laos 10-Jan-2012: Indonesia
ASEAN-CHN	Agreement on Investment of the Framework Agreement on Comprehensive Economic Co-operation between the Association of Southeast Asian Nations and the People's Republic of China	15-Aug-09	1-Jan-10
ASEAN-KOR	Agreement on Investment under the Framework Agreement on Comprehensive Economic Cooperation among the Governments of the Member Countries of the Association of Southeast Asian Nations and the Republic of Korea	2-Jun-09	Jun-09

Note: The ASEAN-India Investment Agreement and the ASEAN-Japan Investment Agreement were concluded in 2012 and December 2013, respectively, but have not yet been signed.

2. Investment

Country policies and practices are typically more open than what countries commit to in agreements. RCEP should aim for more openness as well as a transparent single negative list.

Region/ Economy	Mining, oil & gas	Agri & forestry	Light manf	Telecom	Elec Tricity	Banking	Insurance	Transport	Media	Const, tourism & retail	Healthcare & waste mgmt
China	99.5	100	75	49	85.4	62.5	50	69.4	0	100	85
India	100	50	81.5	74	100	87	26	59.6	63	83.7	100
Japan	100	100	100	83.3	100	100	100	39.8	60	100	50
Korea	100	100	100	49	85.4	100	100	79.6	39.5	100	100
New Zealand	-	-	-	-	-	-	-	-	-	-	-
6 Countries	99.9	87.5	89.1	63.8	92.7	87.4	69.0	62.1	40.6	95.9	83.8
Brunei	-	-	-	-	-	-	-	-	-	-	-
Cambodia	100	100	100	100	85.7	100	100	69.8	100	100	100
Indonesia	97.5	72	68.8	57	95	49	80	49	5	85	82.5
Laos	-	-	-	-	-	-	-	-	-	-	-
Malaysia	70	85	100	39.5	30	49	49	100	65	90	65
Myanmar	-	-	-	-	-	-	-	-	-	-	-
Philippines	40	40	75	40	65.7	60	100	40	0	100	100
Singapore	100	100	100	100	100	100	100	47.4	27	100	100
Thailand	49	49	87.3	49	49	49	49	49	27.5	66	49
Vietnam	50	100	75	50	71.4	65	100	69.4	0	100	75.5
ASEAN	72.4	78.0	86.6	62.2	71.0	67.4	82.6	60.7	32.1	91.6	81.7

Source: Ing, Lili Yan and Jean Christophe Maur, 2014 based on Investment Across Border [accessed on 19 December 2013] and ACIA. This measures the present state of the laws and policies, rather than the country's commitment to liberalize, now or at some point in the future

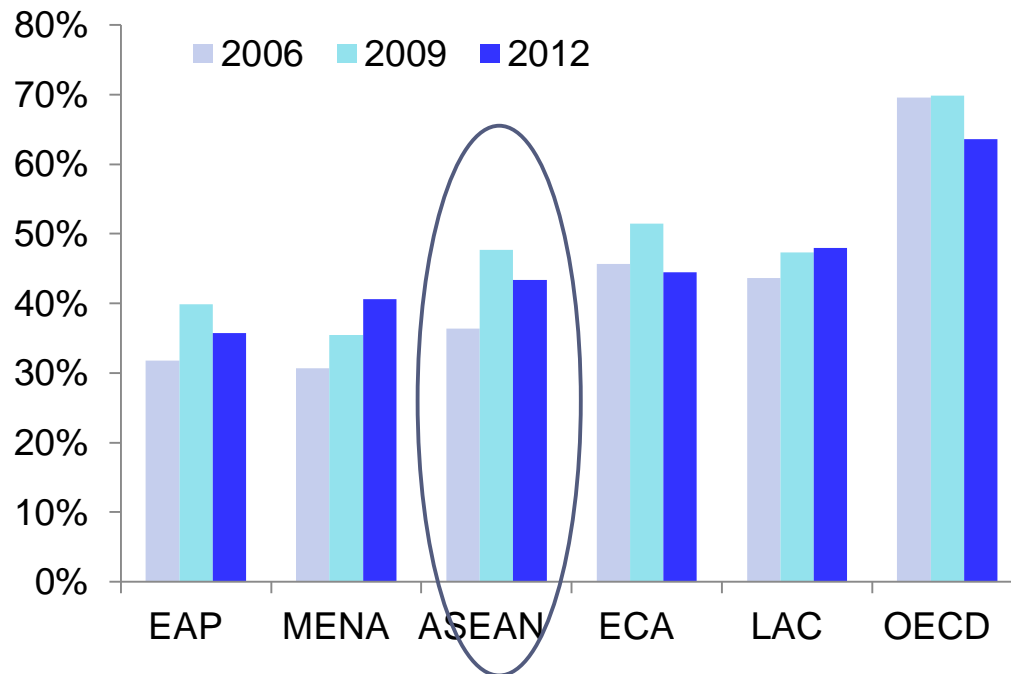
2. Investment

Beyond protection...

- a. Adoption of 4 pillars of Protection, Liberalisation, Facilitation and Promotion
- b. Adoption of a negative list (and improvement in clarity in mechanism of approval and rejection)
- c. RCEP is a good avenue to improve Facilitation and Promotion, particularly in investment procedures and inquiry handling

2. Investment

Global Investment Promotion Best Practices: RCEP members are faring relatively better compared to East Asia Pacific and Middle East and North Africa countries, yet still lags behind Eastern Europe and Central Asia, Latin America and OECD countries.



RCEP is a good avenue to improve Facilitation and Promotion, particularly in *investment procedures* and *inquiry handling*

3. Note for us: Challenges for RCEP

► Trade in Goods

- A number of countries have neither bilateral nor regional FTAs among them; 6 bilateral missing links among the +6 countries
- Trade liberalization rates vary among the participating countries Australia, New Zealand (100%), China (94.7%), Japan (91.9%), Korea (90.5%) and India (78.8%)

► Trade in Services

- Need to focus on the priority sectors that could boost trade in goods and investment

► Investment

4 ASEAN Investment agreements: ACIA, AANZ, AK, AC investment agreements, the ASEAN-India Investment Agreement and the ASEAN-Japan Investment Agreement were concluded in 2012 and Dec 2013, respectively, but have not yet been signed.