



**Asia-Pacific
Economic Cooperation**

2015/SOM3/DIA2/014
Session 2

Impact of Mega-FTAs on the APEC Region: Research Institute Perspective

Submitted by: Korea Institute for International Economic Policy (KIEP)



**Dialogue on Regional Trade Agreements and Free
Trade Agreements
Cebu, Philippines
2 September 2015**

Impact of Mega-FTAs on the APEC region: Research Institute Perspective

APEC SOM Dialogue
September 2, 2015

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Global Trade Paradigm

■ WTO and MTS

- Languishing DDA negotiations: Bali package and the future
 - Plurilateral negotiations: TiSA, ITA, EGA



■ Proliferation of FTAs and RTAs (New Regionalism)

- Mega-FTAs among huge, advanced countries: TTIP (US-EU), Japan-EU FTA
- RTAs in the Asia-Pacific region: TPP, RCEP, CJK FTA, and (FTAAP?)
- New rules of international trade

■ Expansion of Global Value Chain (GVC)

- Expansion of global production network and GVC
 - Rules of origin (ROO): Spaghetti bowl effect

Mega-FTAs and RTAs

	Negotiation rounds	Ratio relative to the world (%)	
		Nominal GDP (2011)	Trade volume (2012)
CJK FTA	8 rounds	21	18
RCEP	9 rounds	29	29
TPP	19 rounds +	38	26
TTIP	10 rounds	45	41
EU-Japan FTA	11 rounds	32	35¹⁾

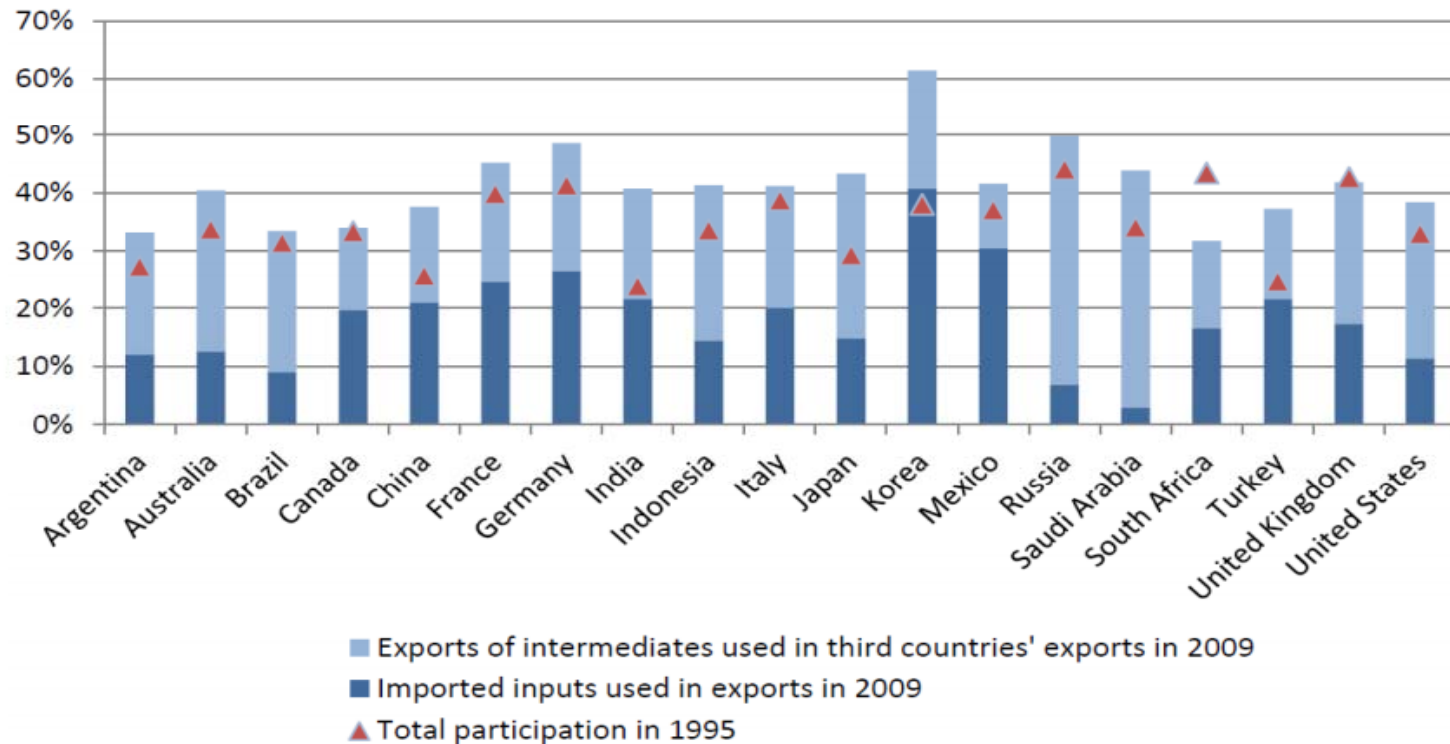
Note 1): 44% if intra-EU trade is excluded from the world trade

Sources: Petri (2013), Kim (2013), World Bank, UN Comtrade Yearbook, USTR

International Integration of Production:

GVC expansion

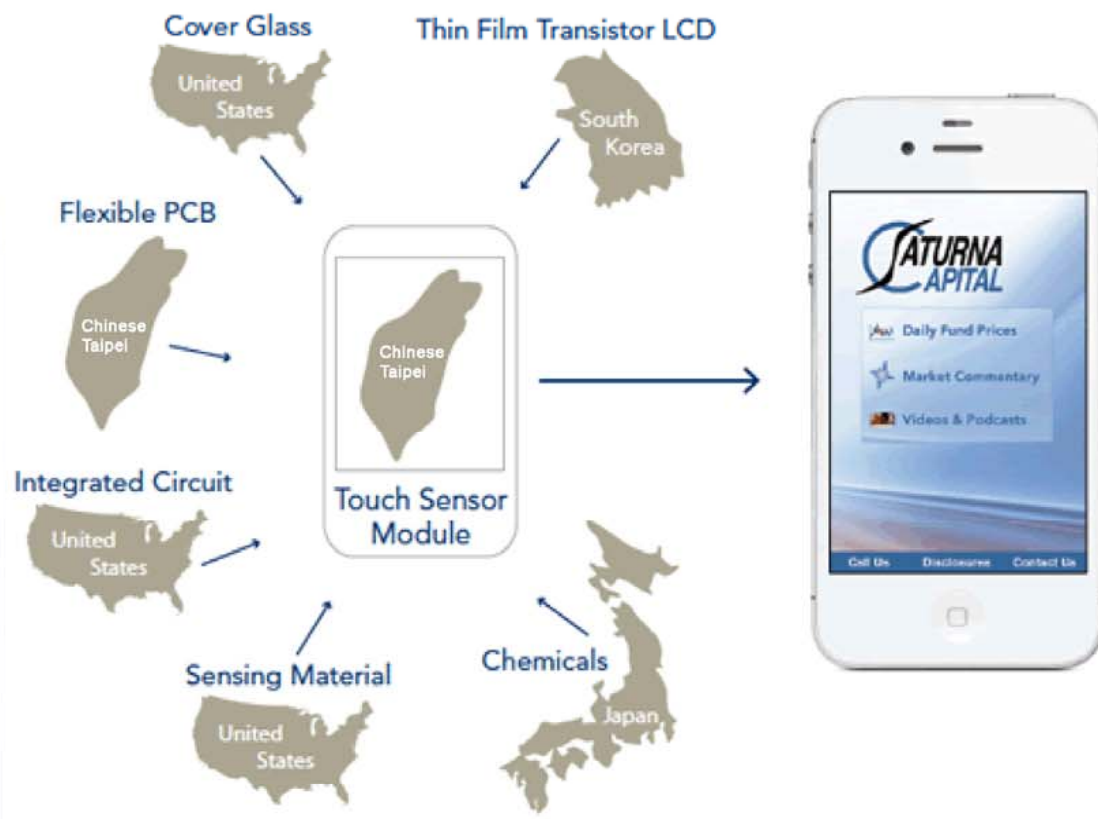
Figure 2. Vertical specialization (G20), 1995 vs. 2009



Source: OECD (2013).

GVC and Value Added: i-phone case

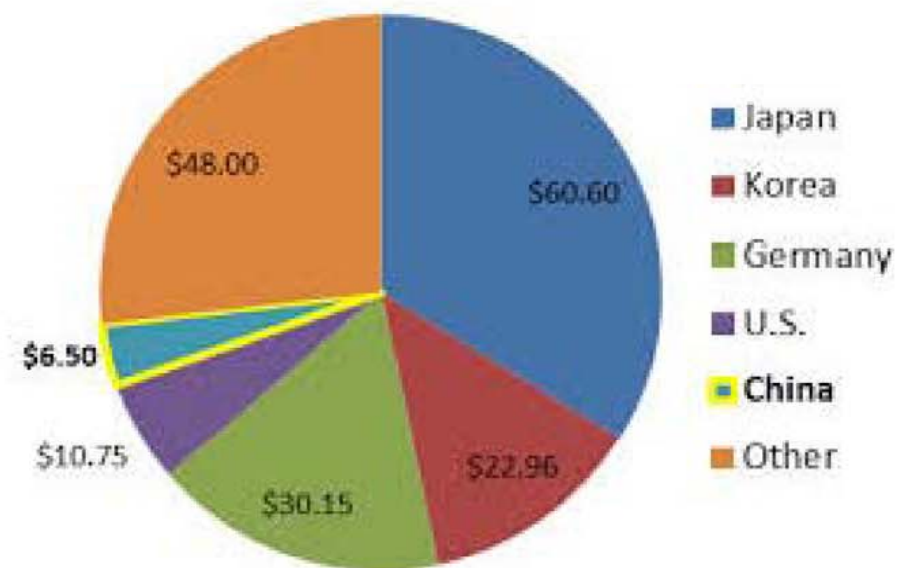
iPhone Touch Sensor Module Supply Chain



Source: Saturna Research



■ i-Phone value added by country



Implications for AE and EM

Advanced economies are:

- Implementing policies to attract back their corporations (onshoring) for employment considerations
- Becoming cautious in signing off on new trade deals concerned that agreements are not fully implemented (through domestic regulations)
- Pursuing WTO plus to ensure level playing field vis a vis EM corporations who are thought to benefit from government indirect support

Emerging markets are:

- Having second thoughts on GVCs given their value added are marginal and with limited tech transfers
- Feeling the pinch of inefficiencies hidden in their economic systems
- Facing capacity constraint in reforming their respective systems
- Coping with continuous inflows of labor for whom jobs have to be created (potential tension with the first point)

21st Century Trade Features

- **New trade issues**
 - Emergence of E-Commerce (internet access, taxation), IPR (longer patent lives), competition, environment (level playing field) and labor (standards)

- **Other politically sensitive issues**
 - SOEs (competition, subsidies), government procurement, investment and ISDS

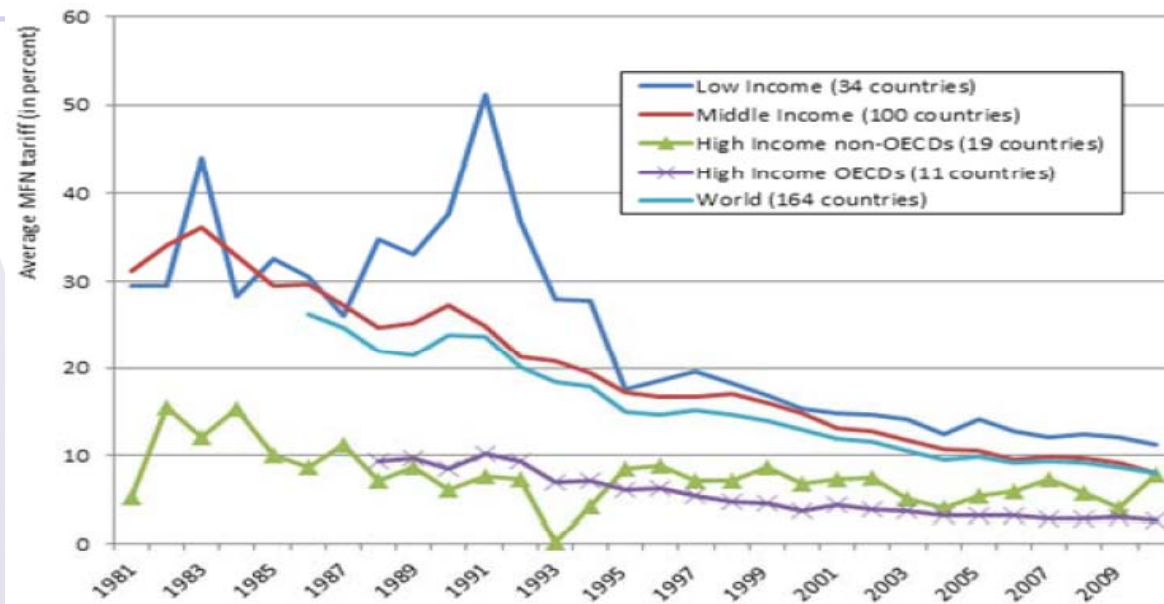
- **Non-tariff barriers (NTBs) rather than tariffs more critical**
 - Rules and regulations (transparency)

- **Dichotomy in issues and interests by development level (?)**
 - Services, investment, IPR for the advanced countries
 - Development, manufacturing and technology for developing countries

- **The rise of a mega-trader: China**
 - G2 issues: global imbalance and currency issues
 - ❖ Trade in value added

Declining Tariffs and Rising NTBs

Average MFN Tariffs by Income Group



Source: World Bank

NTBs

- Trade remedies, TBT, SPS
- WTO TBT notifications record high (2012, 2013)



***Mega-FTAs and
REI Architecture
in the Asia Pacific***

■ TPP Negotiations (12 APEC member economies)

- Under the leadership of the US, TPP is the most substantial trade pact in the Asia-Pacific region.
- Aiming for a template for the 21st century trade agreement: high standard, tariff elimination without exception, scope of rulemaking obligations

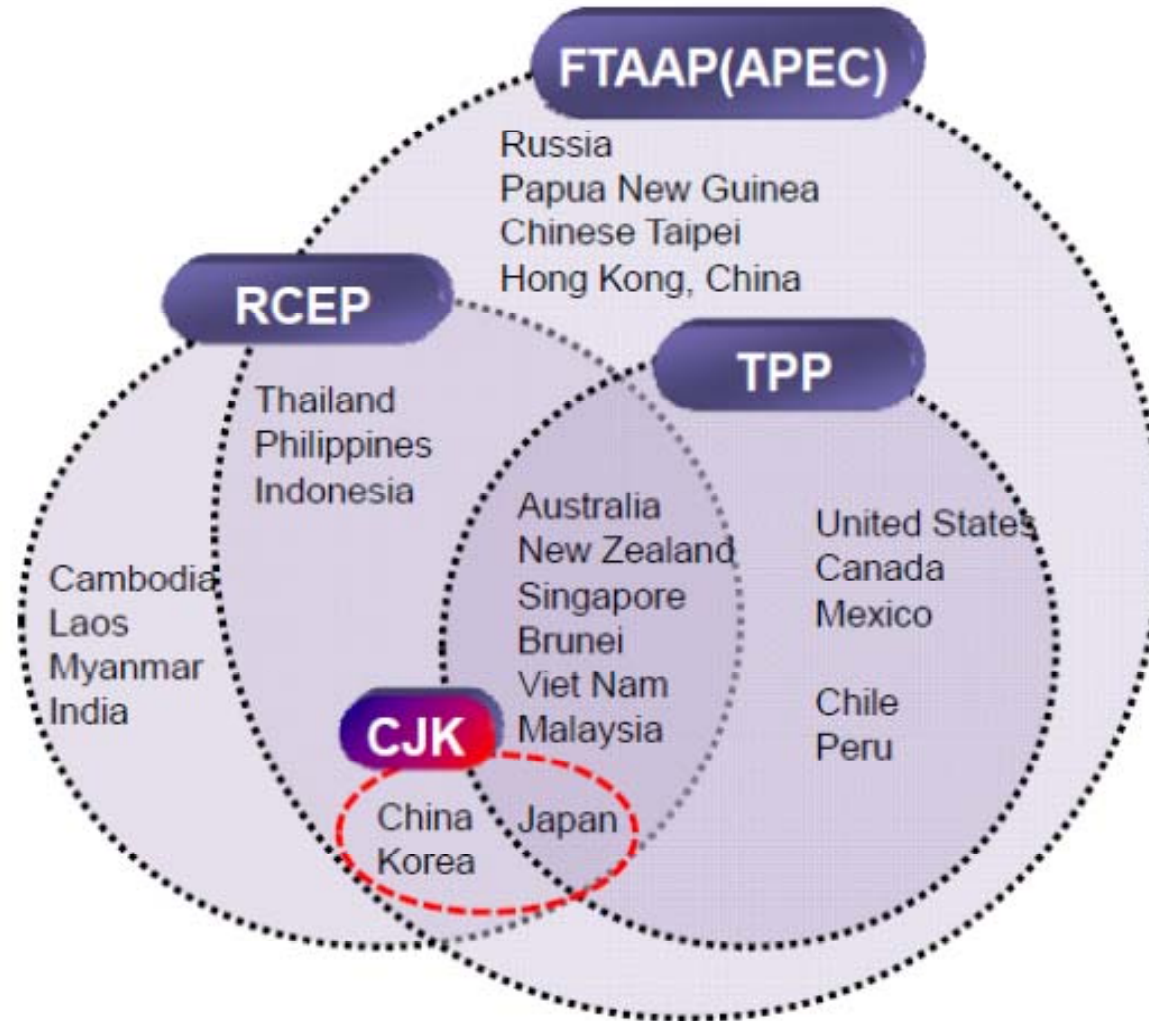
■ RCEP (ASEAN + 6(CJK, Australia, New Zealand, India))

- Asian track: slower pace compared to TPP
- Not as high standard as TPP; development gaps

■ FTAAP

- Including all 21 APEC member economies (**both US & China**)
- The Beijing Roadmap for APEC's Contribution to the Realization of the FTAAP

Configuration of Asia-Pacific REI



Income Gains from Alternative Agreements (2025 estimates)

Alternative Template	GDP Baseline	TPP	RCEP	FTAAP-17	FTAAP-21	FTAAP-21	TPP	RCEP	FTAAP-17	FTAAP-21	FTAAP-21
		<i>TPP</i>	<i>RCEP</i>	<i>TPP</i>	<i>TPP</i>	<i>RCEP</i>	<i>TPP</i>	<i>RCEP</i>	<i>TPP</i>	<i>TPP</i>	<i>RCEP</i>
<i>Billions of US dollars, 2007 prices</i>						<i>Percentage changes</i>					
Americas	24,867	101.7	2.5	468.0	452.3	228.5	0.4	0.0	1.9	1.8	0.9
Canada	1,978	8.7	-0.1	33.2	31.4	14.3	0.4	0.0	1.7	1.6	0.7
Chile	292	2.5	0.0	7.8	8.6	2.2	0.9	0.0	2.7	3.0	0.7
Mexico	2,004	9.9	2.8	91.1	76.3	43.0	0.5	0.1	4.5	3.8	2.1
Peru	320	3.9	0.0	8.4	7.7	2.5	1.2	0.0	2.6	2.4	0.8
United States	20,273	76.6	-0.1	327.6	328.2	166.6	0.4	0.0	1.6	1.6	0.8
Asia	34,901	125.2	627.0	1442.1	1653.4	947.2	0.4	1.8	4.1	4.7	2.7
Brunei	20	0.2	1.2	1.7	1.4	0.6	0.9	5.8	8.4	7.1	3.2
China	17,249	-34.8	249.7	808.6	837.1	520.6	-0.2	1.4	4.7	4.9	3.0
Hong Kong	406	-0.5	46.8	-1.9	118.8	51.6	-0.1	11.5	-0.5	29.3	12.7
India	5,233	-2.7	91.3	-29.3	-37.1	-20.6	-0.1	1.7	-0.6	-0.7	-0.4
Indonesia	1,549	-2.2	17.7	82.0	60.3	26.1	-0.1	1.1	5.3	3.9	1.7
Japan	5,338	104.6	95.8	237.3	233.1	154.2	2.0	1.8	4.4	4.4	2.9
Korea	2,117	-2.8	82.0	136.3	132.7	97.7	-0.1	3.9	6.4	6.3	4.6
Malaysia	431	24.2	14.2	45.4	44.7	16.5	5.6	3.3	10.5	10.4	3.8
Philippines	322	-0.8	7.6	30.6	22.5	11.2	-0.2	2.3	9.5	7.0	3.5
Singapore	415	7.9	2.4	27.1	26.5	-0.7	1.9	0.6	6.5	6.4	-0.2
Chinese Taipei	840	-1.0	-16.1	-31.5	83.8	30.5	-0.1	-1.9	-3.8	10.0	3.6
Thailand	558	-2.4	15.5	64.9	43.7	19.2	-0.4	2.8	11.6	7.8	3.4
Vietnam	340	35.7	17.3	71.9	81.1	37.9	10.5	5.1	21.2	23.9	11.2
Other ASEAN	83	-0.4	1.6	-1.1	4.6	2.4	-0.4	1.9	-1.3	5.5	2.9
Oceania	1,634	10.7	21.7	41.3	39.4	17.4	0.7	1.3	2.5	2.4	1.1
Australia	1,433	6.6	19.8	34.1	32.5	15.3	0.5	1.4	2.4	2.3	1.1
New Zealand	201	4.1	1.9	7.2	6.9	2.0	2.0	0.9	3.6	3.4	1.0
Others	41,820	-14.1	-6.8	-43.4	213.4	122.0	0.0	0.0	-0.1	0.5	0.3
Europe	22,714	-3.7	5.1	0.9	-40.9	-23.9	0.0	0.0	0.0	-0.2	-0.1
Russia	2,865	-1.4	-5.3	-8.8	339.5	199.3	0.0	-0.2	-0.3	11.9	7.0
ROW	16,241	-9.0	-6.6	-35.5	-85.2	-53.4	-0.1	0.0	-0.2	-0.5	-0.3
WORLD	103,223	223.4	644.4	1908.0	2358.5	1315.1	0.2	0.6	1.8	2.3	1.3
<i>Memorandum</i>											
TPP (12)	33,045	285.0	155.1	892.8	878.6	454.5	0.9	0.5	2.7	2.7	1.4
RCEP (16)	35,290	137.4	617.9	1516.8	1490.2	882.4	0.4	1.8	4.3	4.2	2.5
APEC (21)	58,951	239.2	553.0	1973.0	2517.1	1410.7	0.4	0.9	3.3	4.3	2.4

Source: results from model described in Petri et al. (2012).

Notes: FTAAP is simulated using 17 and 21 member groups as described in the text. The templates indicated represent those projected for TPP and RCEP.

Beijing Roadmap to FTAAP

■ The Beijing Roadmap for APEC's Contribution to the Realization of the FTAAP

- Launch a “**collective strategic study**” on issues related to the realization of the FTAAP. (by the end of 2016)
- Increase **transparency** of existing and recently concluded RTAs/FTAs by advancing work under the APEC Information Sharing Mechanism on RTAs/FTAs.
- Continue **capacity building** activities in pursuit of the FTAAP under the Action Plan Framework of the 2nd Capacity Building Needs Initiative (CBNI).
- Pursue the FTAAP with a step-by-step, consensus-based approach, and affirm our commitment to the eventual realization of the FTAAP **as early as possible**. (2025?)



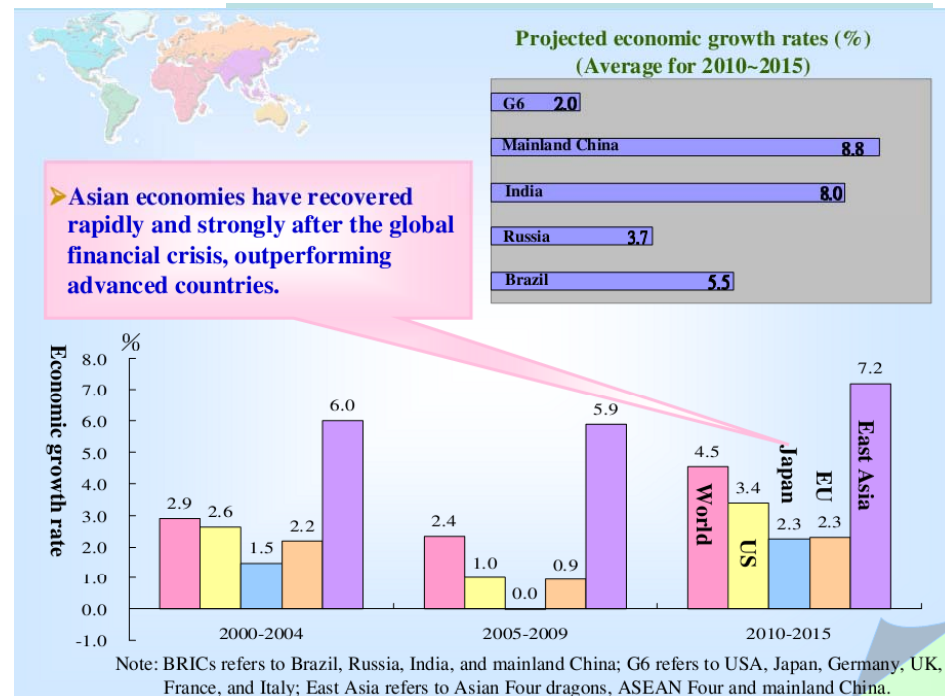
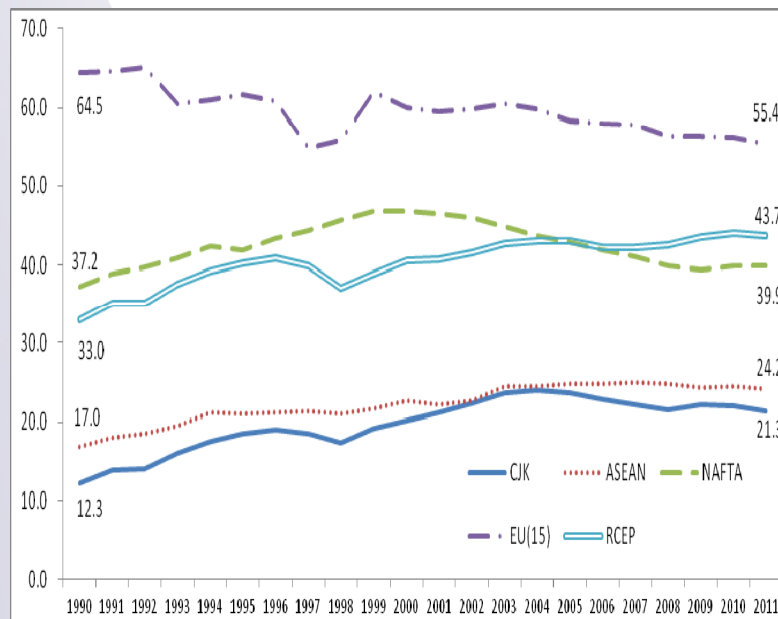
Pathways toward REI in the Asia-Pacific

Benefits of REI in the Asia-Pacific

New engine for economic growth

- Providing a legal framework to secure “de facto” integration
 - High intra-regional trade → Market-driven economic integration
- Fast growing markets and huge trade opportunities
 - New driving force of sustainable economic growth
 - Economies of scales
 - Increasing competition

Shares of Intra-regional Trade



Compatibility?

- **TPP and RCEP have different standards, coverage, and time horizons**
 - **7 overlapping participants: Australia, Brunei, Japan, Malaysia, New Zealand, Singapore, Vietnam**

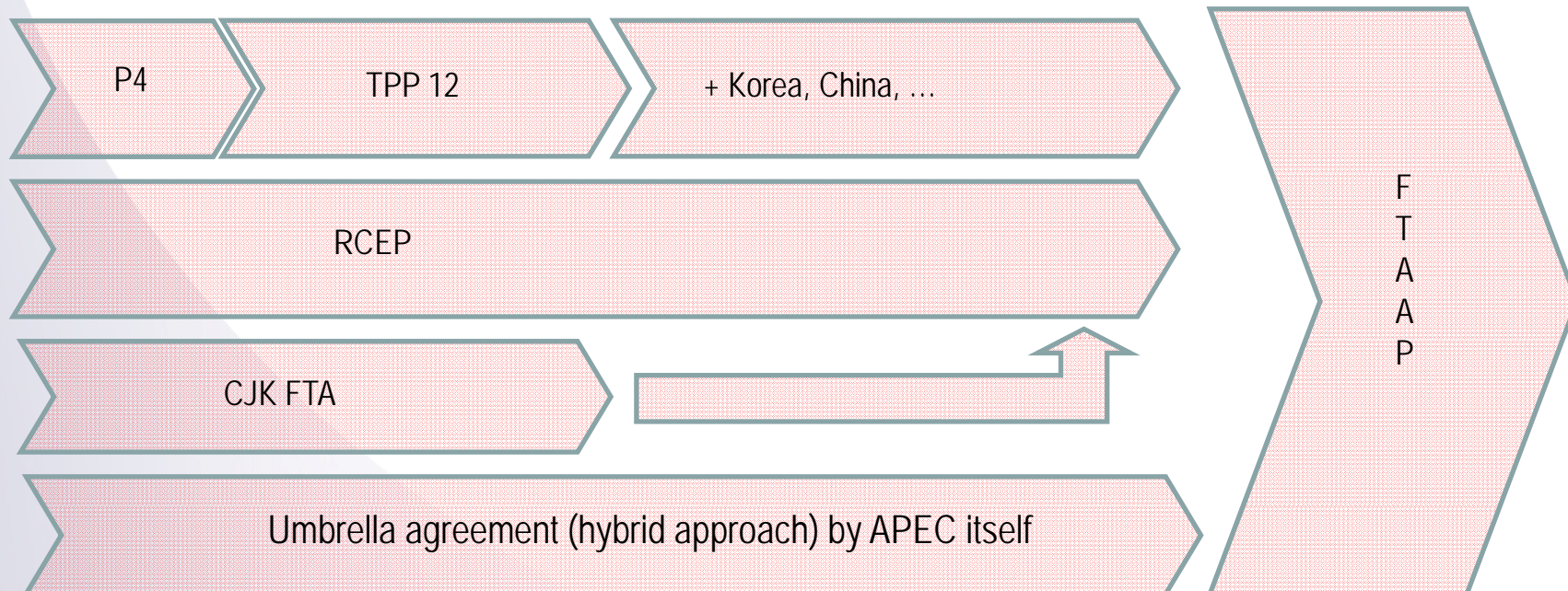
TPP vs RCEP

TPP	RCEP
Subset of APEC	APEC-plus (non-APEC like India)
Complete by 2015?	Complete by 2015 ?
Covering wide variety of both traditional issues and WTO plus (beyond WTO) issues	More focus on traditional market access issues, less on 'WTO plus' with exceptions such as Special & Differentiated treatment (SDT)

Complementarity?

- Several ways toward Regional Economic Integration
 - Consolidation of TPP and RCEP? almost impossible
 - ➔ **“Umbrella agreement”** proposed by Petri (2014)
 - FTAAP in between TPP and RCEP
 - Similar to the hybrid approach proposed by Schott (2014)

Possible pathways to Asian Economic Integration



Proliferation of FTAs and the Spaghetti Bowl Effect

- **Diverse and complex rules of origin (ROO) are identified as one of the major obstacles in FTAs.**
 - **ROO have become one of the major issues in international trade with the proliferation of FTAs and RTAs.**
 - **Costs of ROO become larger as the number of FTAs increases.**
 - **Complex ROO deter utilization of FTAs.**

- **Harmonize and simplify provisions of ROOs, and create a regime-wide ROO**
 - **Need to enhance transparency, simplicity, consistency and flexibility of ROO first.**
 - **It will facilitate the implementation of FTAs in the region.**
 - **Increase the utilization rate by the private sector, especially by SMEs.**

Korea's Perspective

- **Korea established as an FTA hub**
 - **11 FTAs with 49 countries in effect including US, EU, ASEAN and India**
 - **4 FTAs signed including China**
- **Korea's priority after Korea-China FTA?**
- **Korea engages in all the regional integration initiatives but TPP.**
 - **Korea is in CJK, RCEP, FTAAP (through APEC).**
 - **Korea showed interest in TPP but not yet announced to enter.**
 - **Several outstanding issues regarding TPP both domestic and external**
 - **Eventually, Korea will join TPP; the question is when and how.**
- **Korea supports REI efforts and will actively participate in regional initiatives.**
 - **REI and Korea's role as a middle-rank power in the Asia-Pacific (lynchpin across the Pacific through KORUS FTA and Korea-China FTA?)**

Challenges and Opportunities

■ Challenges

- **Negotiations within RTAs: development gaps and different systems**
- **Domestic politics and regional geopolitics**
- **Economic benefit of REI vs. political tension**
- **Incorporating all the different economic objectives:**
 - ❖ **GVC expansion and asymmetric impacts across economies, income groups, and enterprises (MNEs and SMEs)**
 - ❖ **income inequality and economic growth (trickle-down effect, ripple effect)**

■ Opportunities

- **New sources of economic growth: greater market access and efficiency gains through REI and GVC**
- **Necessary rules for the changing global trading environment**
- **Stimulus for MTS (WTO)**



Thank you!