



MEGA FTAs PART 1 OF 2

A Powerhouse Merger in RCEP

HIGHLIGHTS

- This Report is the first of a two-part series that provides an overview of one of the two biggest and most active trade agreements currently in negotiation: the Regional Comprehensive Economic Partnership (RCEP). Together with the Trans-Pacific Partnership (TPP), RCEP is widely considered as a pathway to the Free Trade Area in the Asia-Pacific (FTAAP).
- The RCEP is a free trade negotiation composed of the 10 members of ASEAN, Australia, China, India, Japan, Republic of Korea, and New Zealand. In an effort to harmonize and converge existing ASEAN FTAs and partnerships with these six partner economies, ASEAN will pursue the RCEP to form an economic bloc composed of 3.4 billion people, with a combined GDP of \$21 trillion.
- The goal of RCEP is to achieve a “modern, comprehensive, high-quality and mutually beneficial economic partnership agreement.”
- The Philippines is projected to reap an additional income of \$7.6 billion in 2025 under RCEP. Similarly, an income gain amounting to \$16 billion will be attained by the country in 2025 if RCEP, or other regional FTA initiatives, leads to the successful FTAAP.

MBC Research Report is published by the Makati Business Club. Materials appearing in this publication may not be reproduced in any form or by any means without the prior consent of the Club. Permission must be requested in writing from the editors.

*Chairman*

RAMON R. DEL ROSARIO JR.

*Vice Chairmen*ROBERTO F. DE OCAMPO
JAIME AUGUSTO ZOBEL DE AYALA II*Treasurer*

AURELIO R. MONTINOLA III

*Trustees*CORAZON S. DE LA PAZ-BERNARDO
EDGAR O. CHUA
LANCE Y. GOKONGWEI
DORIS MAGSAYSAY HO
RICARDO J. ROMULO
TONY TAN CAKTIONG
WILFRED STEVEN UYTENGSU JR.*Executive Director*

PETER ANGELO V. PERFECTO

Deputy Director

MARC P. OPULENCIA

*Research by*MA. ROXANNE V. LU
Acting Research Programs Director
Email: roxanne.lu@mbc.com.ph*Design and Layout by*

ROMUALDO BENJAMIN F. DEL ROSARIO

*Copyright 2013*Makati Business Club
2nd Floor, AIM Conference Center
Benavidez Street corner Trasierra Street
Legaspi Village, 1229 Makati City, Philippines
Tel: 751-1137 to 38
Fax: 750-7405 to 06
Email: makatibusinessclub@mbc.com.ph
Website: www.mbc.com.ph

Since 2008, the World Trade Organization's (WTO) Doha Development Agenda, also known as the Doha Round, has hit an impasse over a number of major trade issues. Started in November 2011, the Doha Round aims to lower trade barriers and revise the rules for the international trading system in the areas of agriculture, services, and intellectual property. However, given the WTO's "all or nothing" system, the failure to reach consensus on the tough trade issues prevented progress even on matters that could have been easily resolved.

With negotiations stalled, economies sharing common desires to attain wider market shares and opportunities have since entered into bilateral and regional free trade agreements with each other, leading to the creation of contemporary negotiations. Regional blocs such as the Asia Pacific Economic Cooperation (APEC) and the Association of Southeast Asian Nations (ASEAN) are making significant progress in crafting their own comprehensive free trade agreements (FTAs) and expect to reach conclusion by 2013 and 2015, respectively.

This is the first of a two-part research report which provides an overview of and possible outcomes from the two biggest and most active trade negotiations strongly regarded as an interim arrangement towards a broader, region-wide Free Trade Area of the Asia Pacific (FTAAP): the Regional Comprehensive Economic Partnership (RCEP) and the Trans-Pacific Partnership (TPP) Agreement. At present, the Philippines actively participates in the RCEP negotiations, but not in the TPP, although it has expressed interest to join the latter.

ASEAN INTEGRATION

In 2003, ASEAN Leaders declared their shared vision of an ASEAN Economic Community (AEC) that would lead to regional economic integration by 2020, later accelerated to 2015. The goal is to establish ASEAN as a single market and production base that allows the free flow of goods, services, investments, capital, and skilled labor in the region, thus, making its economies more dynamic and competitive. As a guide towards the AEC, ASEAN Leaders adopted the AEC Blueprint in 2007, outlining required economic integration measures, implementation timelines, and a progress monitoring system via a scorecard.

Currently, ASEAN is polishing various areas of cooperation to strengthen the AEC. These areas include human resource development and capacity building, recognition of professional qualifications, closer consultation of macroeconomic and finance policies, trade financing measures, and enhancement of infrastructure and communications connectivity. Furthermore, it targets to develop electronic transactions through e-ASEAN, integrate economies to promote regional sourcing, and enhance private sector involvement in building the AEC.

For freer flow of goods, ASEAN's commitments and measures in attaining these were outlined in the ASEAN Trade in

Goods Agreement (ATIGA). Taking effect in 2010, the Philippines, under ATIGA, allowed duty-free imports from ASEAN member states (AMS) with the exception of sensitive products such as cassava, corn, grain sorghum, poultry, sugar, sweet potatoes, and swine, as proclaimed in Executive Order 850. Even then, rates have been brought down to 5% for most products. Rice and sugar, being highly sensitive goods, are the few remaining ones with tariff rates above 5%.

Regarding services trade liberalization (including finance services), the ASEAN Framework Agreement on Services (AFAS) was signed to guide member states in progressively reducing barriers to services supply and trade in the region. An ASEAN Minus X formula was adopted to encourage countries that are ready and willing to open its markets to proceed, while others can opt to join later. However, amidst a general agreement to liberalize services trade, thresholds in foreign equity participation in certain sectors remain a challenge. To illustrate, the AEC Blueprint mandates member nations to “allow for foreign (ASEAN) equity participation of not less than 51% by 2008, and 70% by 2010 for the 4 priority services sectors;¹ not less than 49% by 2008, 51% by 2010, and 70% by 2013 for logistics services; and not less than 49% by 2008, 51% by 2010, and 70% by 2015 for other services sectors.”

2013, setting the main principles of investment liberalization as follows:

1. Opening up of all industries for investment, with exclusions to be phased out according to schedule
2. Immediate granting of national treatment to ASEAN investors with few exclusions
3. Elimination of investment impediments
4. Streamlining of investment process and procedures
5. Enhancing transparency
6. Undertaking investment facilitation measures

With these commitments, ASEAN governments continue to work towards meeting targets set for 2015. As of April 2013, ASEAN Trade Ministers reported that 77.5% of measures under the AEC Blueprint have been successfully implemented. Commitments were also made regarding the services sector and movement of natural persons. However, measures due for implementation continue to face difficulties, specifically in connectivity (people-to-people, institutional, and infrastructure connectivity), domestic legislation of member countries, and the disparity in each AMS’ economic level. Despite these bumps, ASEAN trade ministers expressed confidence that the 2015 integration deadline will be met by the members. This pledge to implement the required measures on time is crucial, given that a smooth transition into the AEC is necessary towards the creation of a larger free trade area spanning ASEAN and its regional partners.

Table 1: Membership in Trade Agreements

ASEAN Population 581.4 M	RCEP Population 4.5 B	TPP Population 792 M
Brunei Darussalam	ASEAN (10)	Australia
Cambodia	Australia	Brunei Darussalam
Indonesia	China	Canada
Laos	India	Chile
Malaysia	Japan	Japan
Myanmar	Korea, Republic of	Malaysia
Philippines	New Zealand	Mexico
Singapore		New Zealand
Thailand		Peru
Vietnam		Singapore
		United States
		Viet Nam

Source: World Atlas, Population data 2012 estimates

In facilitating capital and investment flows in the region, ASEAN shares a unified goal of enhancing each AMS’ attractiveness as an investment destination through an open investment regime. To assist in this, the ASEAN Comprehensive Investment Agreement (ACIA) was signed on March

RCEP: HARMONIZING AND UPGRADING ASEAN+1 FTAS

In November 2012, the leaders of the 10 members of ASEAN with Australia, China, India, Japan, the Republic of Korea (hereafter Korea), and New Zealand, collectively known as ASEAN+6, endorsed the “Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership (RCEP).” With the objective of achieving a “modern, comprehensive, high-quality and mutually beneficial economic partnership agreement,” the RCEP negotiations cover the following areas: trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement, and other issues.

In essence, the RCEP is a free trade negotiation of ASEAN+6 which will create an economic bloc composed of 3.4 billion people and with a combined GDP of \$21 trillion.

In creating this economic bloc, the RCEP seeks to converge existing ASEAN bilateral FTAs with the six “plus-one” partner countries (see Table 2), with the goal of significantly enhancing current provisions to facilitate further easing of border controls and reduction of barriers. This move shall harmonize terms of trade among all trading partners, thereby eliminating the confusion arising from having too many bilateral trade agreements, commonly known as the “noodle bowl effect”. RCEP will also adopt the principle of a step-by-step liberalization in trade as implemented in the ASEAN Free Trade Agreement and in ASEAN+1 FTAs.

Although the 16 countries negotiating in RCEP have different levels of economic development and greatly vary in geographic size and population—as in the case of China with a population of 1.4 billion and a GDP of \$8.2 trillion, and the Philippines with its 90 million people and \$250 billion GDP—the RCEP offers flexibility to least-developed ASEAN member states through provisions on special and differential treatment to address socio-economic differences.

Also, despite the presence of economically-developed countries in the negotiations, ASEAN takes the leadership role in RCEP. That is, the agreements reached in ASEAN+1 FTAs form the baseline from which higher levels of tariff liberalization may be proposed. In fact, such high-level liberali-

“In essence, the RCEP is a free trade negotiation of ASEAN+6 which will create an economic bloc composed of 3.4 billion people and with a combined GDP of \$21 trillion”

zation is the expectation if the bloc truly wants to boost its economic power and influence. Currently, the level of tariff liberalization in ASEAN+1 FTAs can still be increased, while commitments in services liberalization have only few “WTO Plus” or “GATS Plus” elements.²

RCEP negotiations are ongoing, with the first round of negotiations beginning in May 2013. Although the process is expected to close by end-2015, realistic assumptions on the outcome of the RCEP talks can be made based on the RCEP Guiding Principles and the negotiating parties’ goal of reaching high-level commitments than originally pledged in ASEAN+1 FTAs.

Assuming that RCEP will reflect the components of the ASEAN+1 FTAs, a review of the details of its chapters is necessary. For this report, efforts towards the removal of tariffs and non-tariff barriers, clarification on rules of origin, and liberalization in trade in services will be analyzed.

TARIFF REDUCTION AND ELIMINATION

One of the essential components of an FTA is tariff reduction and elimination. The FTA mapping study prepared by the Economic Research Institute for ASEAN and East Asia (ERIA) in Table 3 shows that the Philippines has committed to eliminate tariffs in 93.1% of its products, on average, under varying transition periods for each ASEAN+1 FTA. Similarly, its ASEAN colleagues, Brunei, Cambodia, Malaysia and Thailand have made high commitments, averaging 95.9%, 90%, 92%, and 92.6%, respectively.

Table 2: Existing FTAs between ASEAN and ‘Plus-One’ Partners

ASEAN +1 FTAS	DATE SIGNED
China (ACFTA)	November 2002
Korea (AKFTA)	December 2005
Japan (AJCEP)	October 2003
India (AIFTA)	August 2009
Australia and New Zealand (AANZFTA)	February 2009

Source: World Atlas, Population data 2012 estimates

Meanwhile, in their commitment to ASEAN, China, Japan, Korea, New Zealand, and Australia have pledged to eliminate more than 90% of their tariff lines, while India committed to only 78.8%.

Looking at the Philippines in detail, the country has pledged to eliminate tariffs on 74.6% of its products to all of ASEAN and its FTA partners, and 24.4% of its products to some but not all of its partners. The remaining 1% represents products that are completely protected.

On average, 73.3% of ASEAN product markets have been committed for tariffs elimination for all partners, while products “protected to all” constitute only 0.9% of tariff lines. This means, ASEAN has opened up 99.1% of product markets to at least one FTA partner. Singapore, meanwhile, committed to eliminate tariffs on all its product markets to all of the “plus-one” partners.

China, Korea, and most ASEAN countries have reached their tariff targets for ACFTA and AKFTA in 2012, while some FTAs and the lesser-developed Cambodia, Laos, Myanmar, Vietnam (CLMV) group were granted more time to deliver on their commitments. However, given that Vietnam is part of the Trans-Pacific Partnership negotiations, it is possible that they will agree to heavier commitments which would then strengthen RCEP and reinforce the ASEAN Centrality of the Partnership.

Based on the existing level of tariff elimination pledges, the next course of action for RCEP members is to strive for a 95% tariff reduction applicable to all parties, and to aim for shorter tariff elimination target years. With a 95% target, even China, Japan, and Korea, with tariffs on 94.1%, 91.9%, and 90.5% of products, respectively, will need to increase its tariff commitments. Nevertheless, despite adjustments paving the way to greater liberalization among RCEP members, agricultural commodities shall remain widely protected.

To illustrate, in the ASEAN+1 FTAs, the Philippines demonstrated consistency in exercising high levels of protection to

its agricultural products. In the ACFTA, the Philippines' list of sensitive products include edible vegetables, as well as plastics and articles thereof, articles of apparel and clothing, and vehicles other than railway. Under the Japan-Philippines Economic Partnership Agreement, the Philippines excluded rice and salt in the tariff reduction commitments.

A longer list was placed by the Philippines under the Sensitive List and Highly Sensitive List for AKFTA, which includes live animals, meat and edible meat offal, fish and crustaceans, edible vegetables, coffee, tea, cereals, animal or vegetable fats and oils, coconut oil, preparations of meat, fish or of crustaceans, soap, as well as vehicles other than railway, articles of iron and steel, iron and steel, and plastics and articles thereof, among others. Under the AANZFTA, only less than 5% of the Philippines' tariff lines will have tariff protection by 2020, and these cover meat and livestock, fish, dairy products, grain, vegetables, mineral products, and pharmaceutical products.

Non-tariff Barriers are measures other than tariffs, normally imposed or sponsored by governments, used to protect domestic industries (e.g. import bans, complex regulatory environment, unjustified sanitary and phyto-sanitary conditions, "buy national" policy)

NON-TARIFF BARRIERS

Aside from monitoring and implementing tariff reductions based on the agreed schedules, ASEAN, through the ASEAN Trade in Goods Agreement (ATIGA), is also working towards removing non-tariff barriers that make it difficult for products to enter a market. Through these trade facilitation initiatives, ASEAN hopes to improve trade procedures and documentations of its members in the areas of e-commerce, customs, and technical and health standards. However, the challenge lies in the specifics, particularly in clearly defining what non-tariff barriers should be targeted.

Table 3: ASEAN+1 FTAs Tariff Elimination Commitments and Schedule

	AANZFTA	ACFTA	AIFTA	AJCEP	AKFTA	AVERAGE
Brunei Darussalam	99.2% (2020-2025)	98.3% (2012)	85.3% (2017-2020)	97.7% (2018)	99.2% (2012)	95.9%
Cambodia	89.1% (2020-2024)	89.9% (2018)	88.4% (2022)	85.7% (2023-2026)	97.1% (2018-2020)	90.0%
Indonesia	93.7% (2017-2020)	92.3% (2012)	48.7% (2017-2020)	91.2% (2018)	91.2% (2012)	83.4%
Laos	91.9% (2020-2024)	97.6% (2018)	80.1% (2022)	86.9% (2023-2026)	90.0% (2018-2020)	89.3%
Malaysia	97.4% (2020-2025)	93.4% (2012)	79.8% (2017-2020)	94.1% (2018)	95.5% (2012)	92.0%
Myanmar	88.1% (2020-2024)	94.5% (2018)	76.6% (2022)	85.2% (2023-2026)	92.2% (2018-2020)	87.3%
Philippines	95.1% (2020-2025)	93.0% (2012)	80.9% (2017-2020)	97.4% (2018)	99.0% (2012)	93.1%
Singapore	100.0% (2020-2025)	100.0% (2012)	100.0% (2017-2020)	100.0% (2018)	100.0% (2012)	100.0%
Thailand	98.9% (2020-2025)	93.5% (2012)	78.1% (2017-2020)	96.8% (2018)	95.6% (2017)	92.6%
Vietnam	94.8% (2020-2024)	n.a.	79.5% (2022)	94.4% (2023-2026)	89.4% (2018-2020)	89.5%
Australia	100.0%					
China		94.1%				
India			78.8%			
Japan				91.9%		
Korea					90.5%	
New Zealand	100.0%					

Source: Economic Research Institute for ASEAN and East Asia (ERIA)

Note: Date in parenthesis is date of entry into force

One such initiative is the establishment of the ASEAN Trade Repository in 2015. Aiming to improve transparency in intra-ASEAN trading, this will serve as an information portal of each ASEAN member states' (AMS) regulations on the flow of goods, including its label and product standards, entry requirements, and customs laws, among others. Regional trade regulatory information will be available as well.

The ASEAN Single Window is another initiative that will link together the AMS' National Single Windows by 2015. If successful, it will improve the speed of cargo clearance and ensure the security and reliability of the exchange of data and information between AMS government agencies. In addition, a "self-certification scheme," which would allow certified economic operators to self-certify the declaration

Table 4: Schedule of Removal of Non-Tariff Measures (NTM)

COUNTRY	SCHEDULE OF REMOVAL OF NTMS (IN THREE TRANCHES)
Brunei Darussalam, Indonesia, Malaysia, Thailand and Singapore	1 January of 2008, 2009 and 2010
Philippines	1 January of 2010, 2011 and 2012
Cambodia, Laos, Myanmar and Vietnam	1 January of 2013, 2014 and 2015

Source: ATIGA

of origin of goods, is being finalized by the ASEAN Secretariat. This scheme will eventually reduce the administrative burden and cost to traders applying for preferential tariff treatment for their export goods.

Such trade facilitation initiatives must be successfully implemented before ASEAN embarks on a larger trade liberalization deal with China, Japan, Australia, New Zealand, Korea, and India through RCEP. Accomplishing these critical regional integration efforts will facilitate smoother cross-border transactions with different markets and enable traders to maximize the benefits of harmonized ASEAN+1 FTAs.

RULES OF ORIGIN

Another integral component in RCEP talks is the harmonization of the multiple rules of origin (ROO) rooted from the ASEAN+1 FTAs. The 2011 enterprise survey conducted by the Asian Development Bank/ADB Institute covering China, Japan, Korea, Malaysia, the Philippines, Singapore, and Thailand, reveals that multiple ROOs hinder firms from utilizing, and therefore benefitting, from ASEAN FTAs. This "noodle bowl" situation raises transaction costs of SMEs and is, thus, a "future risk" to Asian enterprises. Meanwhile, export enterprises and large corporations, whose business strategies are sometimes hinged on benefits from FTAs, have

Rules of origin (ROO) are the criteria needed to determine the national source of a product. Their importance is derived from the fact that duties and restrictions in several cases depend upon the source of imports. The following are the methods applied in ASEAN +1 FTAs in determining product origin:

- Wholly-obtained (WO):** a product is produced in a single country
- Regional-value content (RVC):** a product includes a certain percentage of originating content (e.g., 40% of product content produced in an ASEAN member state)
- Change in tariff classification (CTC):** the non-originating inputs of a product are substantially transformed in the countries that are part of the trade agreement
- Specific rule process (SRP):** whether prescribed processes have been undertaken in the production of the good in the preference-eligible exporting country

Sources: WTO Technical Information on Rules of Origin; European Centre for Development Policy Management

also expressed their concerns on the confusion from having multiple ROOs.

The ASEAN+1 FTAs apply four ways in determining product origin: Wholly-Obtained (WO), Regional Value Content (RVC), Change in Tariff Classification (CTC), and Specific Process Rule (SPR). One or a combination of these rules can be used in creating different variations of ROOs. The commonly used method is the "RVC of at least 40% or Change in Tariff Heading," adopted for ATIGA, AANZFTA, AJCEP and AKFTA which is deemed less restrictive than AIFTA, which requires dual ruling—that both RVC of at least 35% and Change in Tariff Subheading must be achieved.

All ASEAN+1 FTAs also allow back-to-back certificate origin, third country invoicing, and the accumulation of inputs from parties (provided it passes origin criteria). Although negotiations are still in its early stages, such terms can be expected to be espoused in RCEP.

SERVICES LIBERALIZATION

The ASEAN Framework Agreement on Services (AFAS), signed by the ASEAN Economic Ministers in December 1995, is a living agreement that formalized ASEAN members' integration commitment for services trade, and, as such, its provisions may serve as a possible benchmark for the RCEP talks.

However, liberalization of services trade is one of the most sensitive issues in any trade negotiation because of its direct relation to jobs. Given apprehensions on possible displacements in the job market in key services sectors, rules, regulations, and sometimes even constitutions have been

erected as barriers to prevent further liberalization. ASEAN addresses this area with caution by releasing new packages of the AFAS every year or so, with each new version setting broader commitments than the previous one. The ultimate goal is to remove restrictions to trade in all services sectors by 2015.

The AFAS rules are consistent with the rules and reporting system of the WTO General Agreement on Trade in Services (GATS), making it possible to compare the commitments made under GATS and the ASEAN+1 FTAs using the indexation method proposed by Hoekman in 1995. The method measures the commitment level of services liberalization by each country through 8 elements: the 4 modes of services trade, and national treatment for each of the 4 modes. For each of the 155 sub-sectors on services, the 8 aspects were measured using values ranging from “0” (unbound⁵ or no commitments to liberalize), “0.5” (limited but unbound), and “1” (fully liberalized).

Taking the average values by sub-sector and by element, and calculating the average value by country reveals that ASEAN members have less than 0.5 level of commitment in services liberalization (see Table 5)—that is, commitments made are generally “unbound.”

Table 5 also provides basis on what the “plus-one” partners could expect from RCEP. Under the AANZFTA, ASEAN’s average score in AFAS (7) is 0.33 (unbound) while Australia and New Zealand’s services liberalization commitments are

The Four Modes of Services Trade

Mode 1: Cross-border supply

Defined to cover services flows from the territory of one Member into the territory of another Member.

Mode 2: Consumption abroad

Refers to situations where a service consumer (e.g. tourist or patient) moves into another Member’s territory to obtain a service.

Mode 3: Commercial presence

Implies that a service supplier of one Member establishes a territorial presence, including through ownership or lease of premises, in another Member’s territory to provide a service.

Mode 4: Presence of natural persons

Consists of persons of one Member entering the territory of another Member to supply a service.

deeper, measuring 0.52 and 0.51, respectively. In harmonizing the ASEAN+1 FTAs, Australia and New Zealand will not gain anything from RCEP—a reversal in fact, if commitments on service liberalization are set lower than AANZFTA or even AFAS (7) commitments.

On the other hand, ASEAN’s average commitments is lower in ACFTA and AKFTA at 0.17 and 0.20, respectively—somewhat matched by partners with China’s 0.28 and Korea’s

Table 5: Commitment Level to Services Liberalization Based on the AFAS 7th Package and ASEAN+1 FTAs

	AFAS (7)	AANZFTA	ACFTA	AKFTA
Brunei Darussalam	0.23	0.18	0.05	0.08
Cambodia	0.41	0.51	0.38	0.38
Indonesia	0.36	0.29	0.09	0.18
Laos	0.34	0.24	0.02	0.07
Malaysia	0.34	0.31	0.11	0.20
Myanmar	0.36	0.26	0.04	0.06
Philippines	0.33	0.26	0.11	0.17
Singapore	0.39	0.44	0.30	0.33
Thailand	0.50	0.36	0.25	n.a.
Vietnam	0.38	0.46	0.34	0.32
ASEAN Average	0.36	0.33	0.17	0.20
Australia		0.52		
New Zealand		0.51		
China			0.28	
Korea				0.31

Source: Ishido, H.

Note: Hoekman Index was used in measuring the level of commitment

Table 6: Share of ASEAN Trade with Dialogue Partners

TRADE PARTNERS	SHARE OF ASEAN TRADE (in %)		
	1993	2000	2011
Intra ASEAN	19.2	22.0	25.0
Australia	2.1	2.3	2.5
Canada	0.8	0.6	0.5
China	2.1	4.3	11.7
EU-27	14.7	13.5	9.8
India	0.7	1.3	2.9
Japan	20.2	15.3	11.4
Korea, Republic of	3.1	3.9	5.2
New Zealand	0.3	0.3	0.3
Pakistan	0.2	0.5	0.3
Russia	0.1	0.2	0.6
USA	17.6	16.1	8.3
Others	19.0	19.8	21.4
TOTAL	100.0	100.0	100.0

Source: ASEAN Secretariat Website

0.31. If RCEP will use the AANZFTA or AFAS (7) benchmarks, China and Korea, including other FTA partners with no services component in their FTA with ASEAN, will have to prepare for deeper commitments to open its services market to ASEAN and vice versa.

ECONOMIC PROSPECTS

In the past 10 years, the combined GDP of ASEAN countries increased by almost 170% and currently stands at \$2.3 trillion. In 2012, ASEAN GDP growth was at 5.2%, led by the above-6% expansion of the Philippines, Thailand, and Indonesia. The IMF World Economic Outlook projects ASEAN to post a 5% to 6% growth rate annually for the period of 2013 to 2017.

ASEAN member nations also maintain strong trade relations with each other. Table 6 shows the increasing share of intra-ASEAN trade from 19.2% in 1993 to 25% in 2011. There is also a significant increase in ASEAN trading from \$430 billion in 1993 to \$2.4 trillion in 2012. Likewise, exports and imports also increased remarkably, both from \$223.3 billion and \$429.9 billion to \$1.3 trillion and \$1.2 trillion, respectively, for the same period. These figures reveal the increasing influence of the ASEAN market as a global trading bloc.

For the Philippines, in particular, the ASEAN bloc is a big and influential trading avenue with a total trade value of \$23.6 billion in 2012. Singapore, Thailand, Malaysia, and Vietnam are among the country's top 15 trade partners with a potential to grow substantially with the fulfillment of the AEC in 2015.

Similarly, the RCEP could result to an increase in trade with the Philippines' major trading partners, Japan, China, and

“The Philippines is projected to reap an additional income of \$7.6 billion in 2025 under RCEP”

Korea, as well as with the other three RCEP partners, India, Australia, and New Zealand. Trade relations with these six countries strengthened in the past five years despite the 2009 bump from the Asian crisis.

Last year alone, Japan absorbed \$9.9 billion of the Philippines' exports and also supplied \$6.4 billion of its import

Philippine AFAS 7th Package Commitments

In terms of Modes 3 and 4, many of the sub-sectors in this list remain 'unbound,' with particular limitations on market access and national treatment.

- Business services
- Computer related services
- Research and development services
- Real estate services
- Rental leasing without operators
- Other business services
- Communication services
- Telecommunication services
- Audiovisual services
- Construction and engineering related services
- Distribution services
- Retailing services
- Environmental services
- Health related and social services
- Tourism and travel related services
- Recreational, cultural and sporting services
- Maritime transport
- Rail transport services
- Road transport services
- Pipeline transport
- Services auxiliary to all modes of transport
- Services related to the supply of energy
- Services related to power generation
- Religious services

Source: ASEAN Secretariat website

Graph 1: Philippines Total Trade with ASEAN and ASEAN+1 Partners, 2008-2012

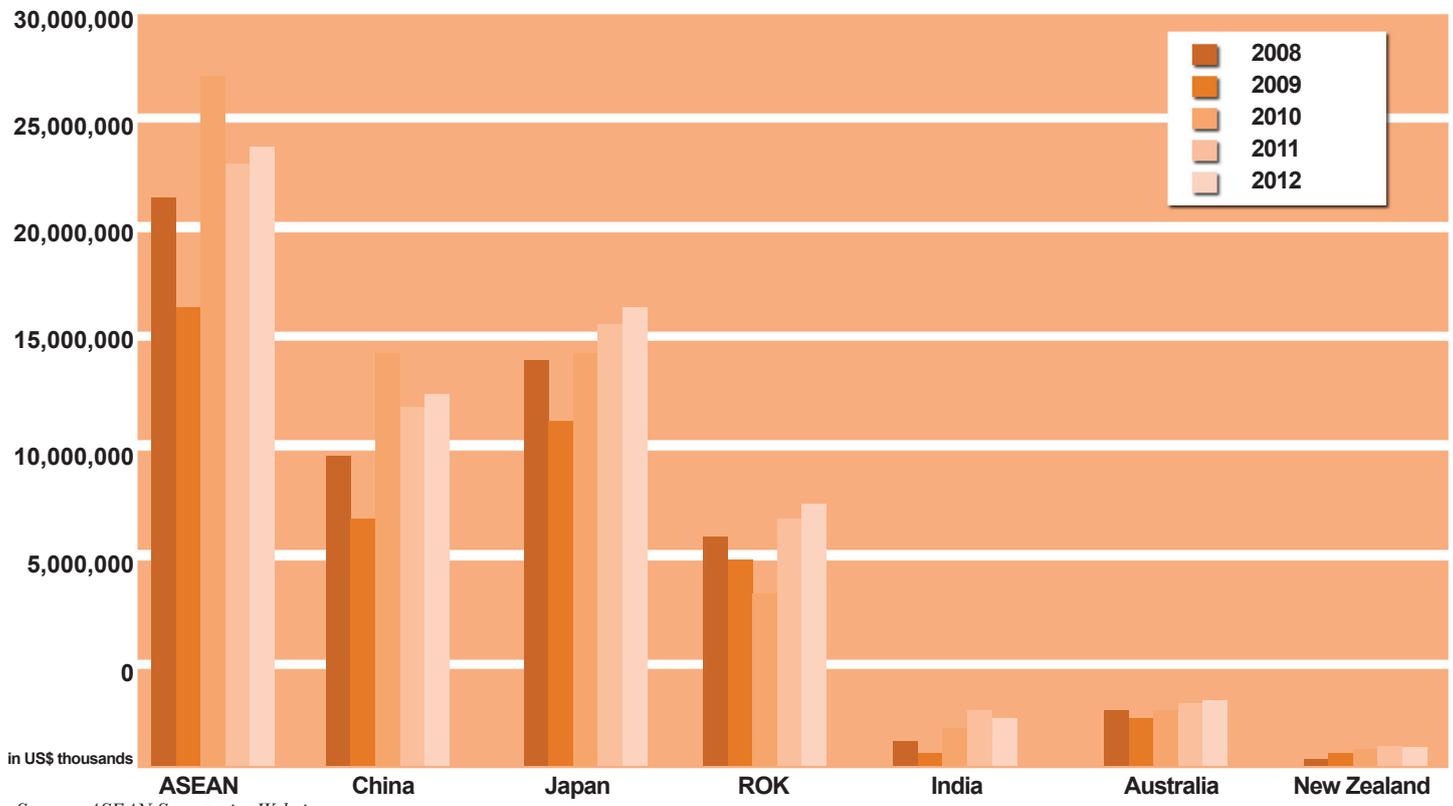


Table 7: Income Gains under RCEP and FTAAP

TRADE PARTNERS	GDP (\$ 2007 BILLION) 2025	INCOME GAINS IN 2025 (\$ 2007 BILLION)	
		RCEP	FTAAP
ASIA	34,901	627.0	1354.3
Brunei	20	1.2	1.1
China	17,249	249.7	678.1
India	5,233	91.3	-29.5
Indonesia	1,549	17.7	38.0
Japan	5,338	95.8	228.1
Korea	2,117	82.0	129.3
Malaysia	431	14.2	38.4
Philippines	322	7.6	15.9
Singapore	415	2.4	13.6
Thailand	558	15.5	27.4
Vietnam	340	17.3	72.9
Other ASEAN	83	1.6	3.1
OCEANIA	1,634	21.7	32.1
Australia	1,433	19.8	26.4
New Zealand	201	1.9	5.8
REST OF THE WORLD	41,820	-6.8	162.0
WORLD	103,223	644.4	1,921.7

Source: Petri, Plummer; Zhai (2012)

needs, making it the country's largest trading partner, capturing 14% of total trade. China, the Philippines' third-largest trading partner, exported \$6.7 billion worth of goods to the Philippines and imported \$6.2 billion of Philippine products, good for 11% of total trade. Korea, meanwhile, captured almost 7% of total trade, posting \$7.4 billion worth of total exports and imports.

OUTWARD-LOOKING ASEAN

The move to harmonize and upgrade the six ASEAN+1 FTAs through RCEP will require both economic and political considerations. A broader economic goal of openness and regional integration must be adopted by all member economies if they aim to reach a comprehensive free trade agreement that would qualify as a stepping stone for a Free Trade Area in the Asia-Pacific (FTAAP). Strong political will to execute the vision of an open and competitive region, on the other hand, must be shared by the ASEAN leaders as well.

As a first step towards this bigger target, each ASEAN member state needs to implement its tariff and non-tariff commitments made under ACIA, ATIGA, and AFAS for an easier and more transparent flow of goods, services, and investments within ASEAN. Non-tariff barriers must also be effectively removed, and efforts to align and connect National Single Windows into an ASEAN Single Window must be achieved to encourage FTA utilization and to reduce costs of trade.

In a 2013 simulated impact study on policy scenarios for ASEAN+1 FTAs conducted by Itakura, it was revealed that all ASEAN member states will reap the benefits of FTAs entered into by ASEAN as a whole. It further shows that positive economic impact is higher as geographical coverage of these FTAs expand (as in the case of RCEP), with the combination of complete tariff elimination over time, reduction of ad valorem equivalents of service trade barriers by 20%, and the decrease of logistics time by 20%.

Table 7 shows a calculation prepared by the Peterson Institute for International Economics (PIIE) estimating income gains of ASEAN member states and its partners under RCEP. Asia, as a whole, is expected to post an income gain of \$627 billion in 2025. The PIIE estimates show that China will be the biggest "winner" in this deal with a potential to earn \$249.7 billion. Meanwhile, the Philippines is projected to reap an additional income of \$7.6 billion in 2025 under the Partnership. But as Asia expands its reach to other Asia-Pacific economies, such as with the US and Latin America, gains in Asia are expected to rise: \$1.4 trillion in FTAAP, as opposed to only \$627 billion in RCEP. Similarly, the Philippines could see an income gain of \$16 billion in 2025 if RCEP, or other regional FTA initiatives, leads to the successful FTA in the Asia-Pacific region.

In this sense, not only will a convergence in trade rules through RCEP address the "noodle bowl effect" in ASEAN+1 FTAs, such a high-quality and comprehensive free trade deal will also result to actual economic gains

for RCEP members. Furthermore, pursuing a wider Free Trade Agreement in the Asia-Pacific promises a win-win solution for the community. However, at this point, it is best for ASEAN member states to first deliver on its commitments with each other. Only then can it proceed with RCEP, which will result in, ideally, deeper commitments to open markets for goods, services and investments, including coverage on competition, intellectual property and environmental laws. This will send a message that an ASEAN-led free trade agreement is, indeed, a force to be reckoned with. ■

Notes

¹Air travel, healthcare, e-ASEAN, and tourism.

²Additional and higher commitments not found under the WTO's General Agreement on Trade in Services (GATS) to which all Asean member states are signatories.

³“Unbound” refers to cases wherein an Asean member states wishes to remain free, with no legal binding on schedules on commitments made.

Sources

A Brief on the Philippines' and ASEAN Free Trade Agreements. http://philippinesintheworld.org/sites/default/files/A%20Brief%20on%20the%20Philippines'%20and%20ASEAN%20Free%20Trade%20Agreements_Feb%202010.pdf

ADB-PECC Conference on “Strategies to Enhance Competitiveness and Facilitate Regional Trade and Investment in Services.” Hong Kong, China, 1-3 June 2011. ASEAN Secretariat Paper entitled ASEAN Integration in Trade in Services: Development, Challenges, and Way Forward

ASEAN to meet 2015 integration deadline, say ministers. Debbie Too. 11 April 2013. Brunei Times. <http://www.bt.com.bn/business-national/2013/04/11/asean-meet-2015-integration-deadline-say-ministers>

ASEAN website. <http://www.asean.org/communities/asean-economic-community>

Fukunaga, Yoshifumi and Isono, Ikumo. Economic Research Institute for ASEAN and East Asia (ERIA). January 2013. Taking ASEAN+1 FTAs towards the RCEP: A Mapping Study. <http://www.iadb.org/intal/intalcdi/PE/CM%202013/11581.pdf>

Inter-American Development Bank. 2012. Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership. <http://www.iadb.org/intal/intalcdi/PE/CM%202013/11581.pdf>

Itakura, K. January 2013. Jakarta, Indonesia. “Impact of Liberalization and Improved Connectivity and Facilitation in ASEAN for the ASEAN Economic Community,” ERIA Discussion Paper 2013-01

The ASEAN Secretariat. January 2011. “Building an ASEAN Economic Community Together – Trade and Investment Made Simple” DVD