

## Regional Comprehensive Economic Partnership

### ERIA RESEARCH INSTITUTE NETWORK



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## RIN STATEMENT

### “Regional Comprehensive Economic Partnership”

*Research Institute Network*<sup>§</sup>

#### Introduction

The Research Institute Network (RIN) of the Economic Research Institute for ASEAN and East Asia (ERIA) welcomes and supports the decision of the Leaders at the 21st ASEAN Summit in Phnom Penh in November 2012 to launch negotiations to conclude a Regional Comprehensive Economic Partnership (RCEP).

RCEP will provide a framework within which business can use the region’s resources to best effect in generating higher living standards and welfare for the region’s people.

Because of the prevailing uncertainties of the world economy and the threat of rising protectionist pressures in recent years, it is in the interests of both East Asia and the world as a whole that East Asia should be the engine of growth for the world economy. Immediate progress and timely conclusion of the Regional Comprehensive Economic Partnership (RCEP), as endorsed by ASEAN Leaders at the 21st ASEAN Summit in Phnom Penh, 19 November 2012 is a major step in this direction, giving the ASEAN Economic Community (AEC) an appropriate regional and global setting while also promoting living standards and welfare in the region itself.

#### Characteristics of RCEP

1. RCEP should be designed so as to develop and deepen an integrated production base in East Asia, and to be open to the rest of the world.

- The modalities by which RCEP is developed should follow the precedent of the ASEAN

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Economic Community in being guided by the “ASEAN way”, given an assurance of commitment to realising the agreed objectives by being based on consensus.

- The design of RCEP should be genuinely forward-looking, and in particular should take full account of facilitating effective operations of international production networks. RCEP should therefore seek an optimal outcome in all aspects of regional integration.
- RCEP should acknowledge the different levels of development of participating economies and provide flexibility in adjustment paths towards agreed end-points, along with appropriate processes for research-informed peer review.
- RCEP should have an open accession clause, and a welcoming stance towards processes that allow the participation of any ASEAN FTA partner which chooses not to participate immediately, and any other external economic partner.
- RCEP should build on all existing ASEAN + 1 FTAs and not retreat on any provision for integration which already exists.
- Tariffs on substantially all goods, particularly on materials and intermediate goods, should be eliminated. Priority should be given to tariff elimination on products of most interest to least-developed ASEAN members.
- RCEP should seek to supplement liberalization of services under GATS and the ASEAN + 1 FTAs. Liberalization in services should be prioritized in sectors that contribute to or take advantage of the formation and development of regional production and distribution networks which contribute to strengthening East Asia’s link with the global production chains. All sectors and modes of supply should be included in negotiations.
- In addition to the AEC five priority service sectors, air transport, e-ASEAN, healthcare, tourism, and logistic services, RCEP should also focus on transportation, distribution, telecommunication and financial services to expedite the construction of “regional supply chains” in East Asia. RCEP should achieve a high level of investment liberalization, including national and most-favoured-nation treatments with minor exceptions. The four pillars of promotion, protection, facilitation and liberalization should be included.
- RCEP should be accompanied with economic cooperation on enhancing three kinds of “connectivity”, i.e., physical connectivity, institutional connectivity, and people-to-people connectivity, among member economies.
- Trade facilitation should be promoted through RCEP with reference to the ASEAN’s experience. This includes assisting SMEs to benefit from RCEP whether or not through membership of international production networks.
- RCEP should promote domestic regulatory reforms which ensure that regulators consider regional interests. Transparency should always be fostered.
- Intellectual property rules in RCEP should promote innovation as part of economic integration, and be supported by cooperation in the utilization, protection, and enforcement of intellectual property rights.
- RCEP should discourage the imposition of nontariff measures which unreasonably

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discriminate against imports and thus have non-tariff barrier effects. All measures affecting trade must be well-defined, with considered tradeoffs between facilitating and liberalizing trade and promoting objectives such as consumer safety or optimal adjustment to best use of domestic skills and resources.

2. RCEP should promote economic cooperation that has the character of “learning together” so as to maintain momentum towards its overall objective. RCEP should be designed so as to be user-friendly and business-friendly
  - Each member should have a simple tariff concession schedule that applies commonly to all partner countries, rather than having a complicated format, for example, with bilateral commodity-by-commodity reciprocity.
  - Business-friendly product specific rules of origin and the procedure of obtaining certificates of origin in RCEP should be established by choosing the most liberal and business-friendly rule among existing FTAs in East Asia.
  - RCEP should be accompanied with economic cooperation for enlightening firms, particularly small- and medium-sized enterprises, on the practices of taking advantage of the RCEP scheme.
  - An “Accumulation rule”, which plays a central role in maximizing the potential benefits from region-wide FTAs, should be included.
  - Special and Differential treatment for CLMV countries should be on the basis of a longer transition period, instead of a lower threshold to avoid inefficiency and misallocation of scarce resources.

### Conclusion

To maximize its benefits to all of ASEAN, East Asia and the world, RCEP should be consistent with WTO rules, particularly the General Agreement on Tariffs and Trade and General Agreement on Trade in Services, and should include comprehensive coverage of WTO plus issues. It should be genuinely “twenty-first century” and “leading edge” in facilitating regional production networks, using structural reforms to ensure that those networks and economic integration in general promote living standards and welfare in and among all member economies. It should extend existing ASEAN + 1 FTAs, and be open to accession to new members with minimal and positive additional discussions. It should deepen cooperation among members, ensuring that cooperation is not an assembly of disparate projects but a process of “learning together” which helps participation in integration and economic and social progress.

## Theoretical Background

RCEP is beneficial for the regional and the world economy. The objective of RCEP is to attain a comprehensive and mutually beneficial economic partnership agreement that is expected to involve deeper engagement and improvement over the existing ASEAN FTAs with Dialogue Partners. There are a large number of papers that simulate the economic impacts of ASEAN++ FTAs (e.g., Ando, 2009; Park, 2006; Plummer and Wignaraja, 2006) and find positive impacts of ASEAN+3/6 FTA on not only ASEAN+3/6 countries but also a large portion of the rest of the world.

It has been well known that the international production and distribution networks have been established and have become a basis of the existence of such networks (e.g., Athukorala, 2005; Kimura, 2006). The production and distribution networks are one of the most important sources on the East Asian economic growth in the recent decades and help achieve narrowing development gaps at the same time. Therefore, it is natural to design RCEP so as to further develop and deepen integrated production base, resulting in accelerating the economic growth because the establishment of production and distribution networks among a larger number of countries makes the networks more vigorous and efficient.

To sustain and develop further integrated production base, RCEP should be designed as follows. First, it obviously has to reduce or eliminate tariff rates, particularly those imposed on products related production networks such as intermediate goods, although international production networks also involve novel links among cross-border flows of goods, investment, services, know-how and people. A form of international production and distribution networks in East Asia is production process-wise vertical division of labor. This phenomenon might be called “the 2<sup>nd</sup> Unbundling”, while “the 1<sup>st</sup> Unbundling” is the phenomenon that the division of production and consumption transcends national boundaries (Baldwin, 2012a, 2012b). The reduction of those rates encourages more active international transaction of intermediate goods among member countries, resulting in the development of regional networks. Second, as is well known, such a division of labor is possible in the case of low service-link costs, which are costs for connecting remotely-located production blocks. Thus, the trade/investment liberalization in services related to service-link activities contributes to the development of regional production and distribution networks (Findlay, 2011). Third, physical transport costs occupy one of the important components in service-link costs, so that the enhancement of geographical/physical connectivity is important. Fourth, the service-link costs include not only tariff rates and physical transport costs but also various kinds of barriers such as non-tariff barriers or “behind the border” barriers (RIN, 2012). The reduction of those kinds of barriers also plays a role in enhancing “institutional connectivity” and “people-to-people connectivity”, and deepening the regional production and distribution networks. Fifth, as is shown in Kimura (2006), since both multinational enterprises and local firms have played a most important role in forming the production and distribution networks, RCEP should achieve a high level of investment liberalization.

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Meanwhile, RCEP should be designed to be user-friendly. On the one hand, the style of tariff concession must be simplified. As pointed out in Baldwin (2008), the “reciprocal tariff rate treatment” is an extremely complicated style of tariff concession (see, for example, Annex 2.6 in ACFTA). Also, the schedule of tariff elimination *per se* is different according to country pairs, for example, in the case of AIFTA. Such tariff concession depending on country pairs raises costs for the use of an RCEP scheme and discourages firms to use it. Each member should have the identical tariff concession against the other members.

On the other hand, compliance with rules of origin (ROOs) is always a key issue in exploiting the preferential tariff scheme. Due to the costs for such compliance, some firms are not able to use the FTA scheme in their trading. Several studies attempt to quantify those costs (e.g., Cadot and de Melo, 2007; Francois et al., 2006; Hayakawa, 2011). One such, a survey paper, Cadot and de Melo (2007), concludes that these costs range between 3% and 5% of final product prices. As a result, only the large-sized firms can enjoy the use of preferential tariff schemes (Bureau et al., 2007; Demidova and Krishna, 2008; Takahashi and Urata, 2010). In order to enable small- and medium-sized enterprises to use the preferential tariff scheme, RCEP should be designed as follows. First, it should set product specific rules in RCEP to the most liberal and business-friendly rules among existing FTAs in East Asia. Second, it should enlighten firms about the practices of utilizing the RCEP scheme, particularly the practice of certifying ROOs. Third, particularly in region-wide FTAs, accumulation rules play an important role and enable firms to more easily comply with ROOs through allowing the accumulation of other member countries’ originating products. Indeed, some academic papers find positive trade creation effects of accumulation rules (Estevadeordal and Suominen, 2008; Park and Soonchan, 2009; Augier, Gasiorek, and Tong, 2005).

Even with a business-friendly and user-friendly RCEP, there should be positive efforts to minimize the costs of adaptation and co-operation to increase capacity to participate, conceived as part of a general narrowing of development gaps between and within participating economies.

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- To support ERIA’s research activity through providing ERIA with country information and research findings from individual countries and giving advice to ERIA’s research theme and policy recommendations;
- To encourage the dissemination of ERIA’s research outcome to policymakers and political leaders who implement policy as well as opinion leaders in the countries;
- To support ERIA’s capacity building programs;
- While ERIA will seek the best available talent for its research activities, it will look especially for participation from within members of Network.

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