

New Development and Challenges in Asia-Pacific Economic Integration: Perspectives of Major Economies

Dr. Hank Lim



Outline:

New Development in Asia-Pacific Economic Integration
Trans Pacific Partnership (TPP)

Regional Comprehensive Economic Partnership

China-Japan-Korea FTA

ASEAN's Perspective on TPP and CJK FTA

Trans Pacific Partnership (TPP)

TPP has concluded 16th round of trade negotiations and the 17th round is scheduled to be held in Lima, Peru in May 2013. The current goal is to reach an agreement in time for the October 2013 APEC Summit in Indonesia.

For the deadline to be achieved, outstanding negotiating positions need to be tabled soon in order for political decisions to be made.

Decisions on key market access issues such as dairy, sugar and textiles and apparel may be dependent on the outcome of controversial rules negotiations such as IPR or state-owned enterprise.

Twenty one chapters in the agreement are under discussion.

The US is negotiating market access for goods, services and agriculture with countries with which it does not currently have FTAs:

- Brunei,
- Malaysia,
- New Zealand
- Vietnam

Negotiations are also being conducted on disciplines to IPR, trade in services, government procurement, investment, rules of origin, competition, labour, environmental standards and other issues.

Some topics such as state-owned enterprises, regulatory coherence and supply chain competitiveness break new ground in FTA negotiations.

Perspectives of Major Economies

The United States' Perspective:

The TPP serving strategic goals of US trade policy is the leading trade policy initiative of the Obama Administration and as well as a major manifestation of the Administration's "pivot" to Asia.

If concluded, TPP may serve to shape the economic architecture of the Asia-Pacific region by harmonizing existing agreements with US FTA partners, i.e attracting new participants and establishing regional rules on new policy issues facing the global economy, possibly providing impetus to future multilateral liberalisation under the WTO

China's Perspective

TPP is considered as the US's trade policy and strategic objective to “discipline” China's economic and strategic interest and influence in Asia and having the element to “contain” China's economic and military rise and its leadership role in East Asia regional economic integration.

China frequently suggests that numerous provisions of the TPP are designed to make it difficult for China to participate and actually aim to achieve the goal of excluding China, despite the Obama Administration declared policy intention that the promotion of TPP is designed to apply pressure on China to follow the rules of international trade.

Therefore, China vigorously supports ASEAN-initiated Regional Comprehensive Economic Partnership (RCEP) and China-Japan-Korea FTA as China can achieve its twin objectives of East Asia regional economic integration without confronting the US directly and achieve East Asia economic integration through RCEP.

China also accords high trade policy priority to promote China-Japan-Korea FTA. Realistically, China-Korea FTA would be concluded first as South Korea has already an FTA with US and therefore having less external pressure from the US. The negotiation process of CJK is complicated as China and Japan have to delicately balance and manage their domestic politics due to heightened territorial dispute in East China Sea.

TPP is interpreted as divisive to East Asia economic integration as China, Korea, India and Indonesia are not part of TPP negotiating countries.

Japan's Perspective

On 15 March 2015, Prime Minister Abe announced that Japan will enter TPP negotiating round. However, it is unclear when Japan would be able to join the negotiation? Is it in the 17th round scheduled in Lima, Peru in May 2015 or beyond?

It is possible that by the time Japan enters TPP negotiations, the main agenda of the 29 chapters under TPP negotiations would have been completed.

In entering the TPP negotiation, the Abe Administration does not have a full consensus among ruling coalition parties as the agriculture issues are important to LDP's political constituency.

Japan is also strongly supporting ASEAN-initiated RCEP and has agreed to start negotiation with China and Korea on CJK FTA.

It is to be seen how Japan would balance its trade policy priority between TPP, RCEP and CJK FTA.

Joining TPP trade negotiations is a very important economic and political decision as Japan is embarking a major economic restructuring and revitalization of its decade-long slow growth economic trajectory. Japan's commitment in TPP can be a catalyst to a much needed domestic economic reform.

At the same time, supporting RCEP is also important as Japan supports strongly ASEAN economic integration and East Asia through a comprehensive economic partnership agreement (CEPEA) which now takes the form of RCEP.

China and South Korea are very important economically to Japan as the three major economies constitute more than 70% of East Asia GDP and there is enormous potential to benefit from economic integration through CJK.

China, Japan and South Korea have officially agreed to start negotiations in 2013.

Regional Comprehensive Economic Partnership (RCEP)

The US's Perspective

The US is not interested to participate in ASEAN-led RCEP as it considers not a “comprehensive and high standard” FTA.

The broad political and business spectrum in the US is solely interested in pursuing TPP as it anchors US's economic, political and strategic objectives through the full extent of TPP's 29 chapters under negotiations.

As a super military and economic power, the US is accustomed to be a leader and not a follower in any major international and regional negotiations.

China's Perspective

China has strongly endorsed RCEP as it fits extremely well with China's economic and strategic objectives in East Asia.

ASEAN-initiated RCEP is based on the concept of "ASEAN Centrality" (default hub).

As this stage of its development, China may feel more comfortable that East Asia economic integration is managed through ASEAN.

The conclusion of RCEP negotiations is scheduled at end of 2015, coinciding with the completion of the ASEAN Economic Community (AEC) objective of a single market and production base.

The conclusion of RCEP could be delayed but the RCEP completed date does not matter to China as much as it is to ASEAN.

Japan's Perspective

Japan has also strongly endorsed RCEP as the objective of RCEP fits to its national objective as ASEAN provides the width and breath of Japan's economic and strategic space in view of the rising China.

Japan will facilitate the process of RCEP negotiation through a more flexible negotiations and by focusing more on trade and investment facilitations and economic cooperation aspect of RCEP.

The inclusion of India, Australia and New Zealand is also augur well for Japan's broad trade policy in the Asia Pacific region.

Japan would adopt a “two track” trade policy by joining TPP and RCEP trade negotiations simultaneously.

TPP is considered as having upper-bias and RCEP has downward-bias mode of economic integration. At this point, it is difficult to conceptualize the convergence of TPP and RCEP process.

China-Japan-Korea FTA

The US's Perspective

The priority of the US trade policy in the Asia Pacific region is to complete the TPP successfully.

This would serve as the US's objective for the APEC-led FTAAP and probably the template for the multilateral trade negotiations.

TPP is the corner-stone of the US trade policy and the embodiment of its broad strategic interest in the Asia Pacific region.

The conclusion of CJK would side track the US of its increasingly vital linkage to the East Asia economic dynamism and its important ally of Japan and South Korea.

China's Perspective

CJK FTA would be a vital strategy to “dock-in” with ASEAN-led RCEP and the ASEAN Economic Community to complete East Asia economic integration.

Realistically, China expects to complete China-Korea FTA first before progressing wider toward CJK as Japan is under pressure domestically and regionally to give priority to TPP first.

Despite China's territorial dispute with Japan, there is a wide consensus to proceed and complete CJK trade negotiations. However, the reciprocal sentiment is not clear on CJK in Japan.

Japan's Perspective

Japan officially has agreed to start trade negotiation on CJK.

The issue is the structure, scope, time and speed of the CJK negotiations.

Under the Abe Administration, the tendency is to give policy priority to TPP, rather than CJK.

CJK FTA could be used as a leverage against undue pressure from the US to put everything without exception on the table for liberalization under the existing TPP mode of negotiations.

ASEAN's Perspective on TPP and CJK

ASEAN's policy focus is to complete the ASEAN Economic Community by 2015.

At the 20th ASEAN Summit in April 2013 in Bandar Seri Begawan, Brunei, ASEAN Leaders agreed to start RCEP negotiations in May 2013.

On TPP, there is no collective policy consensus. Singapore, Brunei, Malaysia and Vietnam are in TPP negotiations.

Indonesia is the key ASEAN member states which has no intension to join TPP so far, while Thailand and the Philippines are not quite clear of their official position on TPP, although Thailand has indicated its interest in TPP when President Obama visited Thailand late last year.

The completion of CJK FTA is conceptually important for the overall East Asia economic integration as it would facilitate RCEP trade negotiations and “dock-in” with the ASEAN Economic Community.

If the ASEAN Economic Community and RCEP are successfully completed as scheduled by 2015, they would enhance the concept of ASEAN’s centrality.

The AEC is progressing well and the way forward for RCEP negotiations is to integrate the ASEAN Plus One FTAs with China, Japan, South Korea, India and Australia and New Zealand as there are many common elements that can be cobbled together through common tariffs, non-tariff barriers, cumulative rules of origin, trade in services, investment, trade facilitations, MRAs and other chapters.

THE END