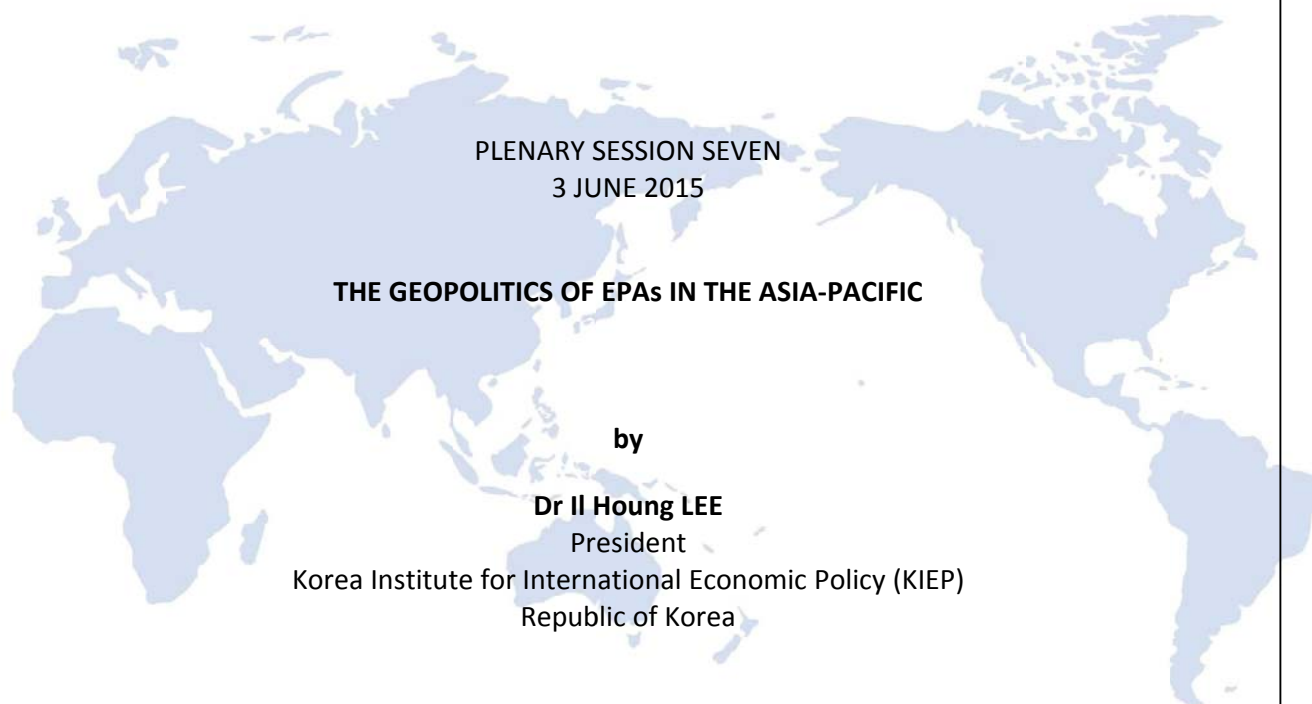




PS 7 (c)



#### SPONSORS



The Embassy of  
The People's Republic of China  
in Malaysia



NEW ZEALAND  
FOREIGN AFFAIRS & TRADE

# **REI Architecture and Issues in the Asia-Pacific**

**Session 7; 1-3 June 2015**

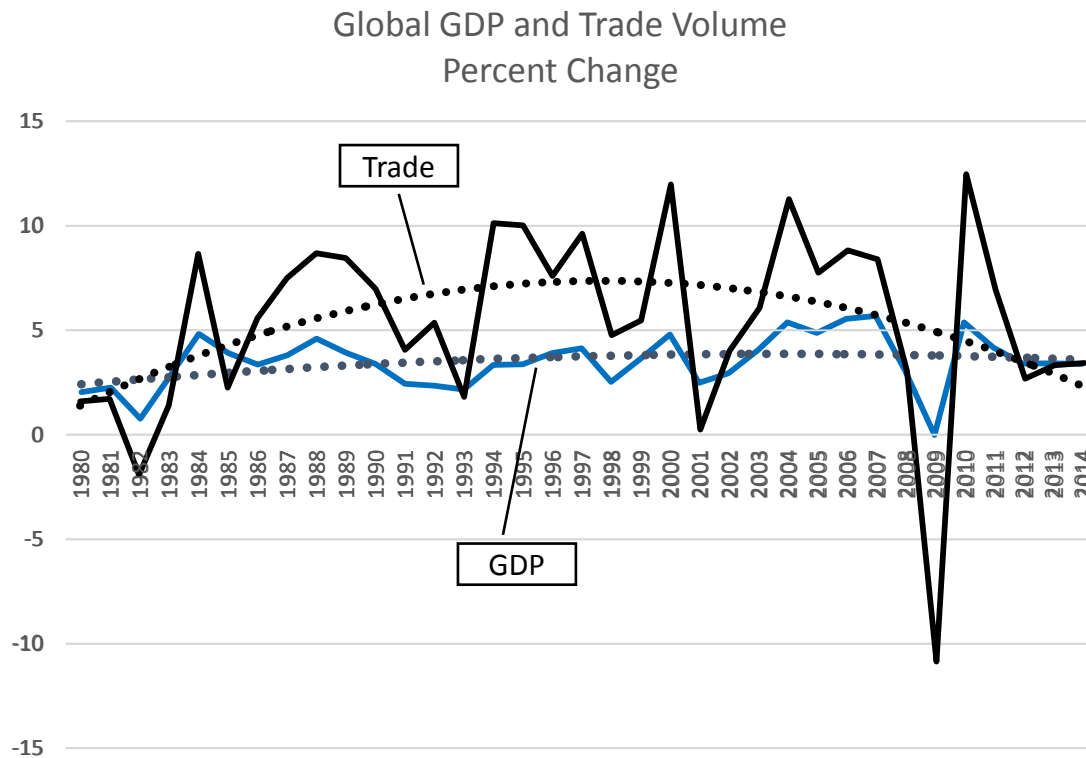
# Outline

## **State of Play and Global Trade Paradigm**

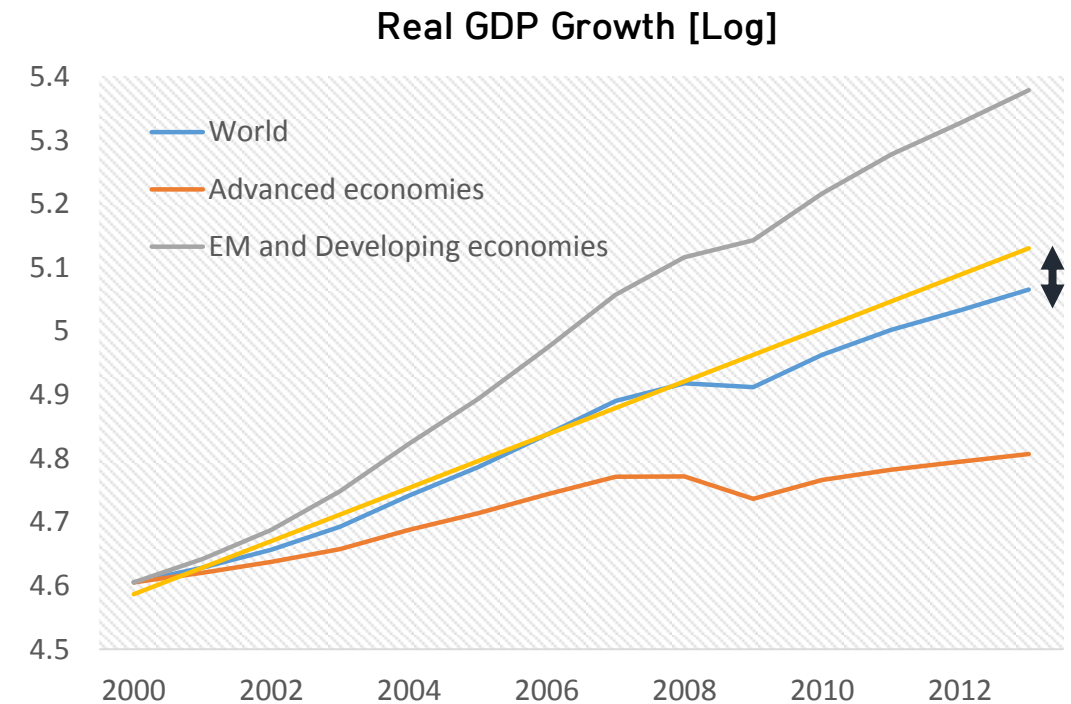
Economic and Political Considerations

Opportunities and Challenges

**Ratio of world trade volume to GDP growth was high [2:1 (past 20 years) → 1:1 (since 2008)]; but will face a decline in this ratio as well as a slowdown in GDP growth both in advanced and EM economies**

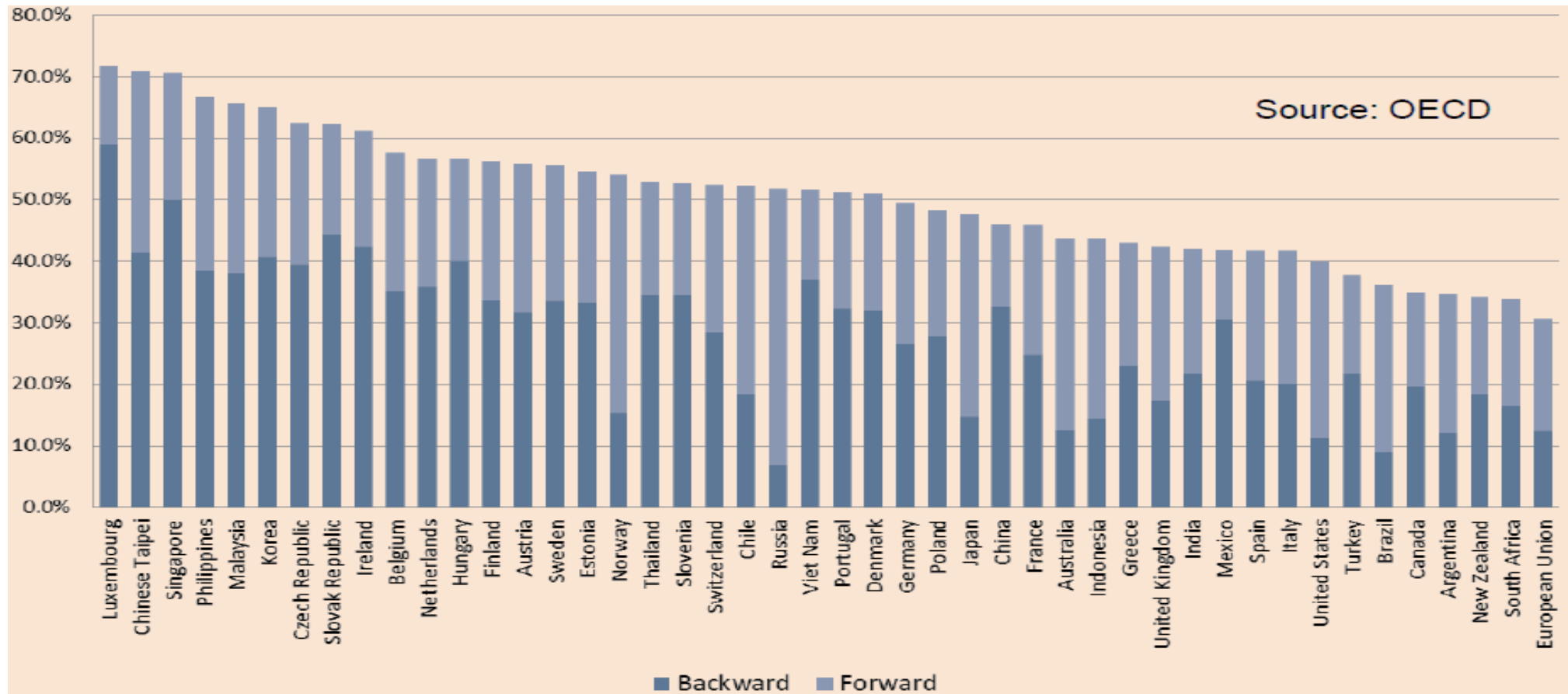


Source: World Economic Outlook and authors calculation



Source: World Economic Outlook(WEO), IMF

The trade boom partly reflected the rapid expansion of GVC participation worldwide. However, there are also concerns of Spaghetti bowl effect from diverse and complex ROOs



Note: Forward: exports of intermediates used to produce exports in receiving country  
Backward: imported inputs used in exports

FDI are motivated by GVCs, which in turn with growth of trade in general, has made employment more dependent on other countries' demand

Figure 3. FDI and GVC participation, developed and developing countries, 1990-2010

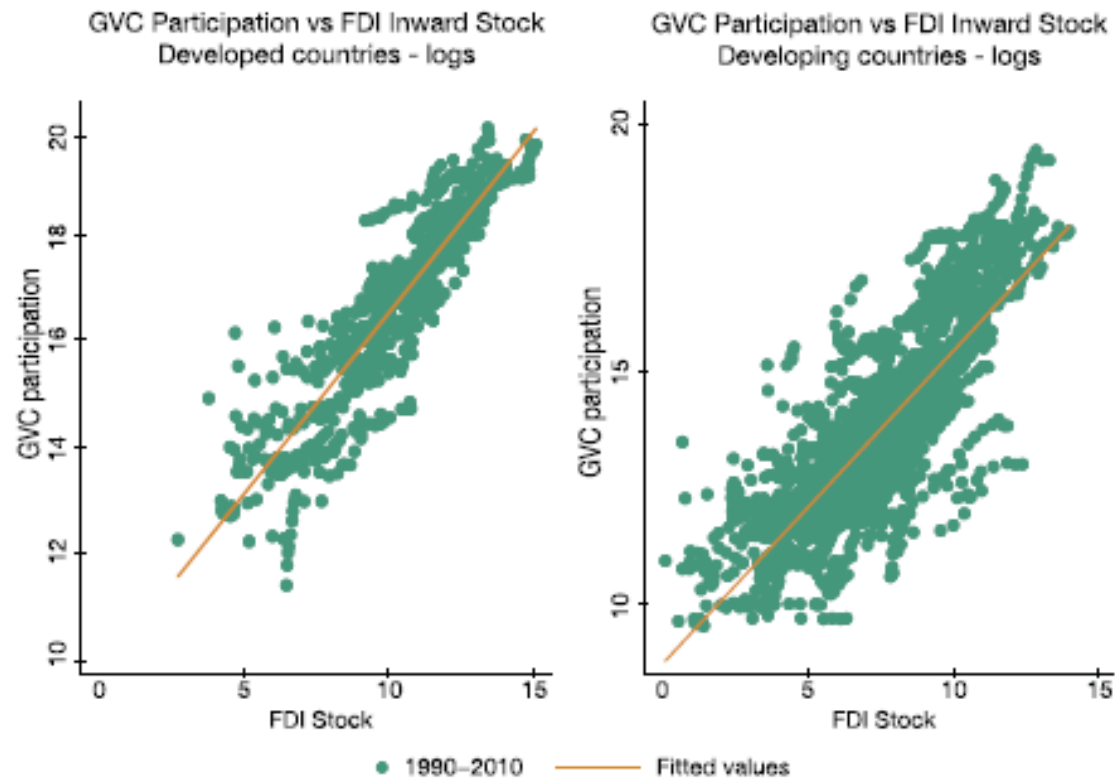
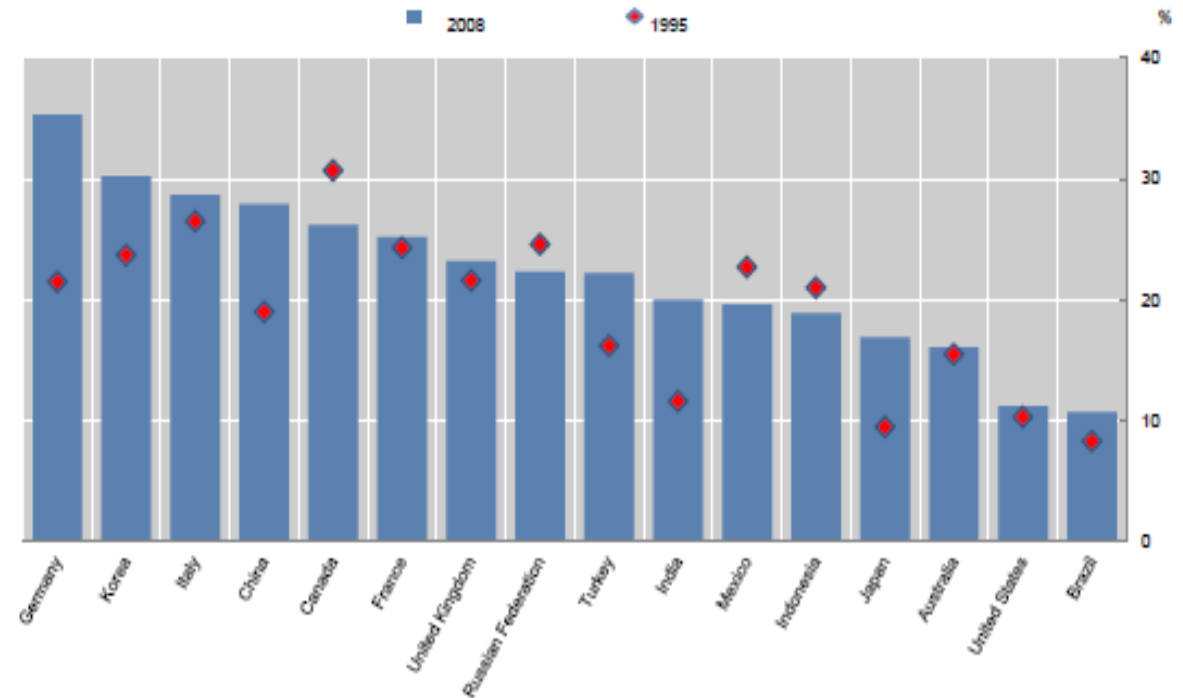
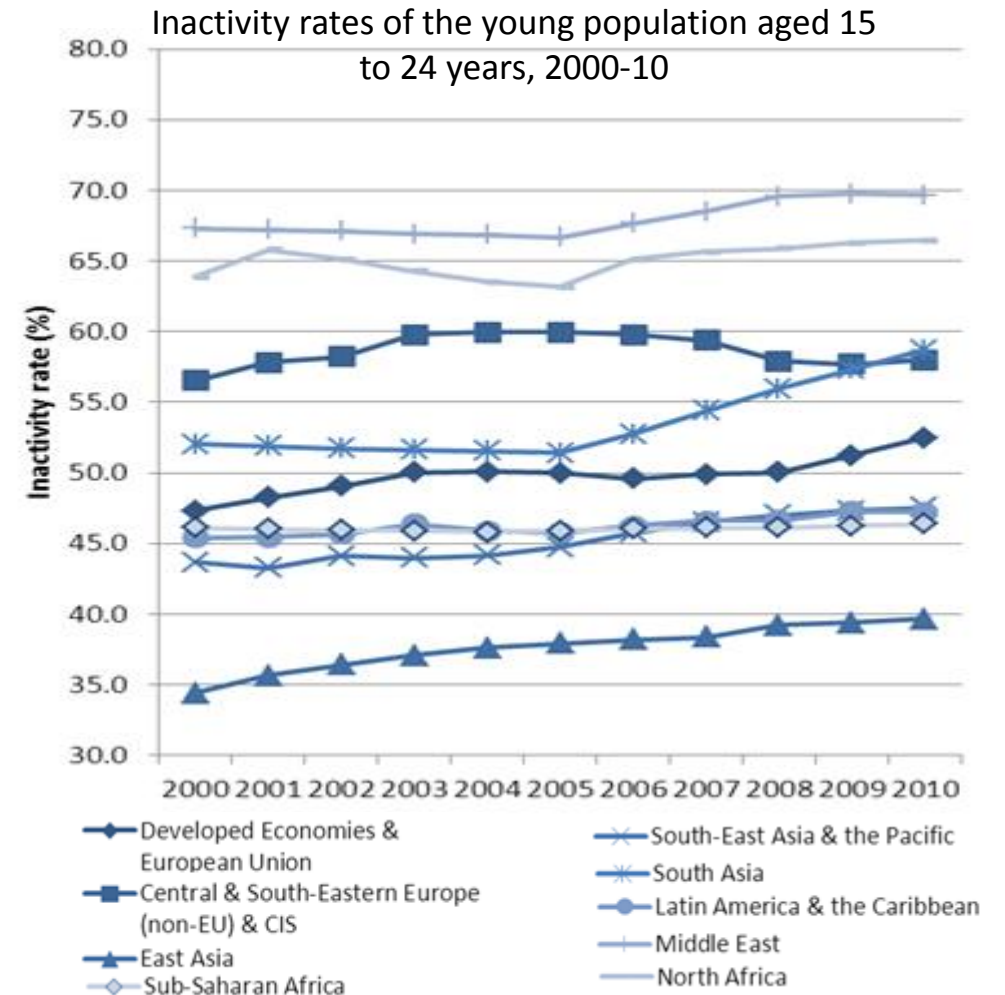
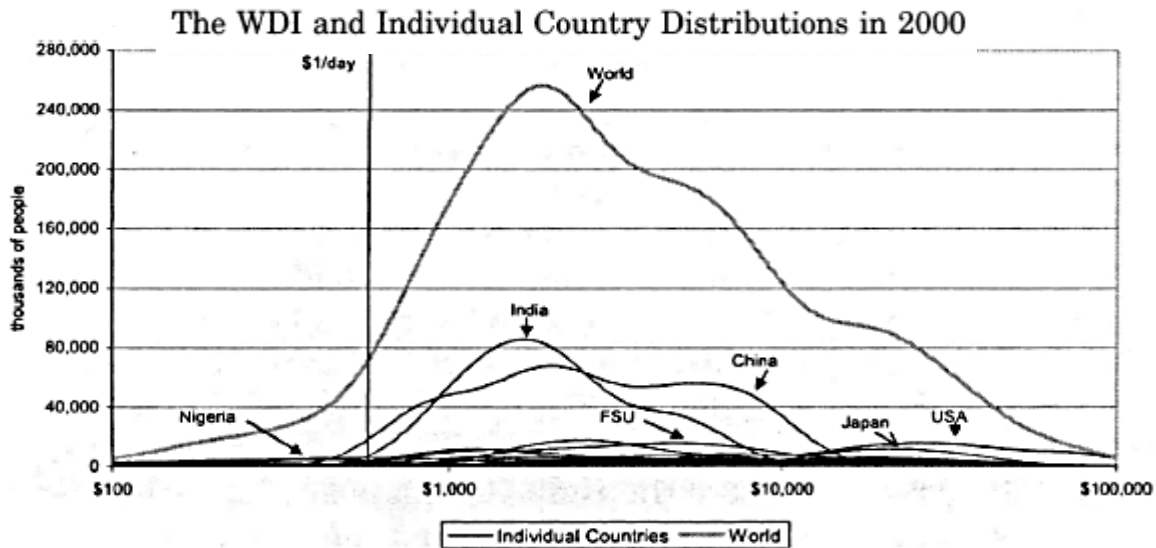
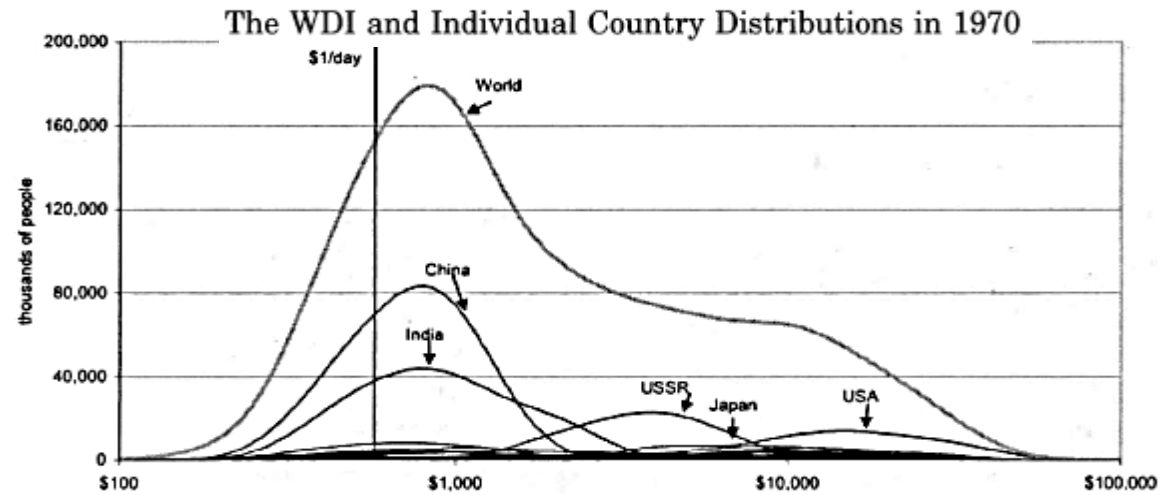


Figure 5. Jobs in the business sector sustained by foreign final demand, 1995 and 2008



Source: OECD Science, Technology and Industry Scoreboard 2013, based on OECD Inter-Country Input-Output/Trade-In-Value-Added (ICIO/TIVA) database.

# In fact, FDI flows have introduced a major shift in income levels and employment conditions across the world



## These developments (plus other factors) have implication on both advanced and emerging economies

### 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)

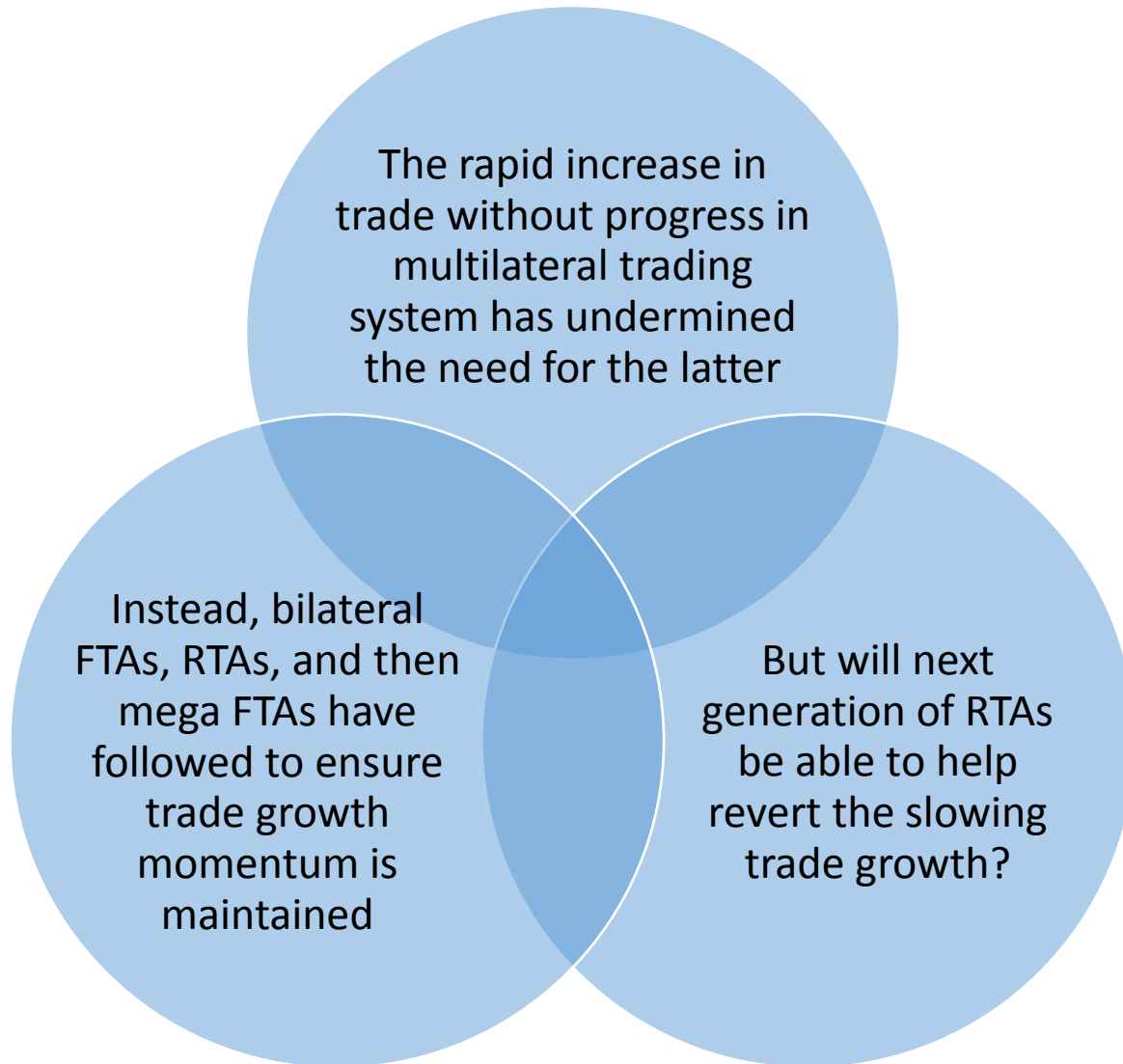
# Outline

State of Play and Global Trade Paradigm

**Economic and Political Considerations**

Opportunities and Challenges

# Global Trade Paradigm is evolving



## ■ WTO and Multilateral Trading System (MTS)

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

## ■ Proliferation of FTAs and RTAs (regionalism)

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

# Asia remains the most dynamic area with various trade system initiatives under discussions

## ■ TPP Negotiations (12 APEC member economies)

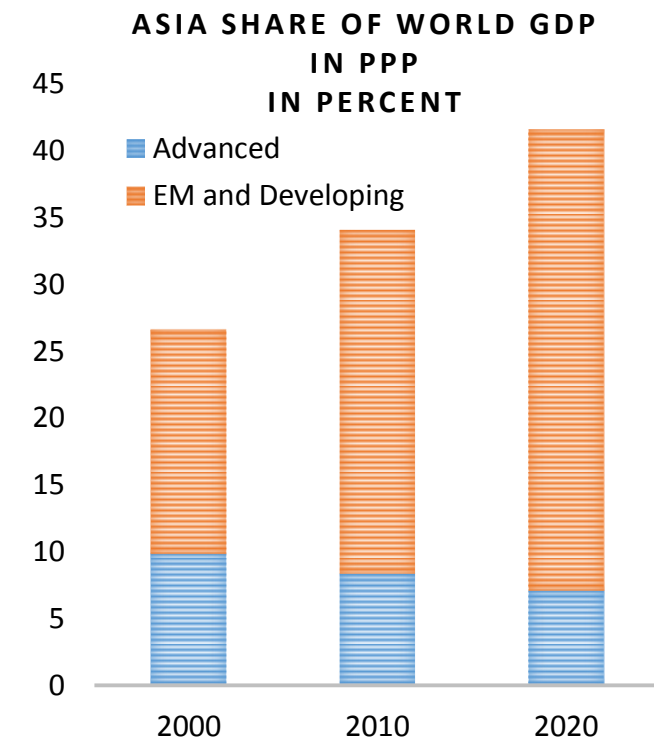
- High standard, tariff elimination without exception, adoption of rules and standards

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

- Not as high standard as TPP; but due regards to development gaps
- Tariff schedule and liberalization time line for services and investments remain difficult
- Lack of existing FTAs among participants such as China-India, China-Japan, or India-New Zealand also hinder progress

## ■ FTAAP (Including all 21 APEC member economies)

- The Beijing Roadmap for APEC's Contribution to the Realization of the FTAAP including through a “collective strategic study” and capacity building activities; a step-by-step, consensus-based approach with a tentative target of 2025(?)



Source: IMF, WEO

## Income Gains from Alternative Agreements (2025 estimates) are not negligible

Alternative Template	GDP Baseline	TPP <i>TPP</i>	RCEP <i>RCEP</i>	FTAAP-17 <i>TPP</i>	FTAAP-21 <i>TPP</i>	FTAAP-21 <i>RCEP</i>
<i>Billions of US dollars, 2007 prices</i>						
<b>Americas</b>	<b>24,867</b>	<b>101.7</b>	<b>2.5</b>	<b>468.0</b>	<b>452.3</b>	<b>228.5</b>
Canada	1,978	8.7	-0.1	33.2	31.4	14.3
United States	20,273	76.6	-0.1	327.6	328.2	166.6
<b>Asia</b>	<b>34,901</b>	<b>125.2</b>	<b>627.0</b>	<b>1442.1</b>	<b>1653.4</b>	<b>947.2</b>
China	17,249	-34.8	249.7	808.6	837.1	520.6
Hong Kong	406	-0.5	46.8	-1.9	118.8	51.6
India	5,233	-2.7	91.3	-29.3	-37.1	-20.6
Indonesia	1,549	-2.2	17.7	82.0	60.3	26.1
Japan	5,338	104.6	95.8	237.3	233.1	154.2
Korea	2,117	-2.8	82.0	136.3	132.7	97.7
Malaysia	431	24.2	14.2	45.4	44.7	16.5
Philippines	322	-0.8	7.6	30.6	22.5	11.2
Singapore	415	7.9	2.4	27.1	26.5	-0.7
Chinese Taipei	840	-1.0	-16.1	-31.5	83.8	30.5
Thailand	558	-2.4	15.5	64.9	43.7	19.2
Vietnam	340	35.7	17.3	71.9	81.1	37.9
Australia	1,433	6.6	19.8	34.1	32.5	15.3
New Zealand	201	4.1	1.9	7.2	6.9	2.0
<b>Others</b>	<b>41,820</b>	<b>-14.1</b>	<b>-6.8</b>	<b>-43.4</b>	<b>213.4</b>	<b>122.0</b>
Europe	22,714	-3.7	5.1	0.9	-40.9	-23.9
Russia	2,865	-1.4	-5.3	-8.8	339.5	199.3
ROW	16,241	-9.0	-6.6	-35.5	-85.2	-53.4
<b>WORLD</b>	<b>103,223</b>	<b>223.4</b>	<b>644.4</b>	<b>1908.0</b>	<b>2358.5</b>	<b>1315.1</b>
<i>Memorandum</i>						
TPP (12)	33,045	285.0	155.1	892.8	878.6	454.5
RCEP (16)	35,290	137.4	617.9	1516.8	1490.2	882.4
APEC (21)	58,951	239.2	553.0	1973.0	2517.1	1410.7

	Relative to the world [%]	
	Nominal GDP (2011)	Trade volume (2012)
<b>CJK FTA</b>	<b>21</b>	<b>18</b>
<b>RCEP</b>	<b>29</b>	<b>29</b>
<b>TPP</b>	<b>38</b>	<b>26</b>
<b>TTIP</b>	<b>45</b>	<b>41</b>
<b>EU-Japan FTA</b>	<b>32</b>	<b>35<sup>1)</sup></b>

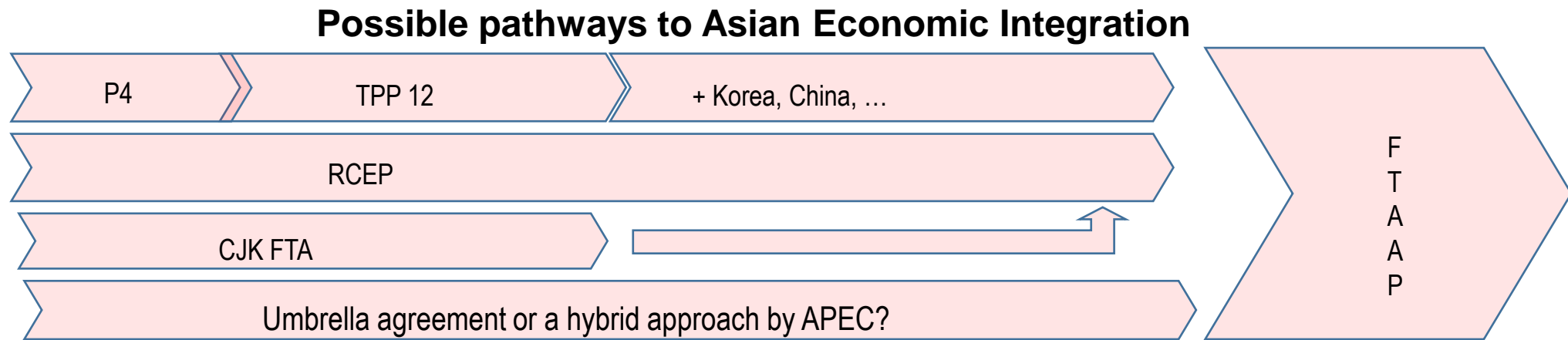
Note 1): 44% if intra-EU trade is excluded from the world trade

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

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.

The path, however, will be shaped by various economic and political considerations



**Political considerations:**

Unresolved history issues in Asia;  
Lack of political leadership in Asia;  
South China Sea disputes;  
Ambivalence about China's rise and India's potential economic influence;  
Tension between China's economic dominance and America's military primacy in Asia

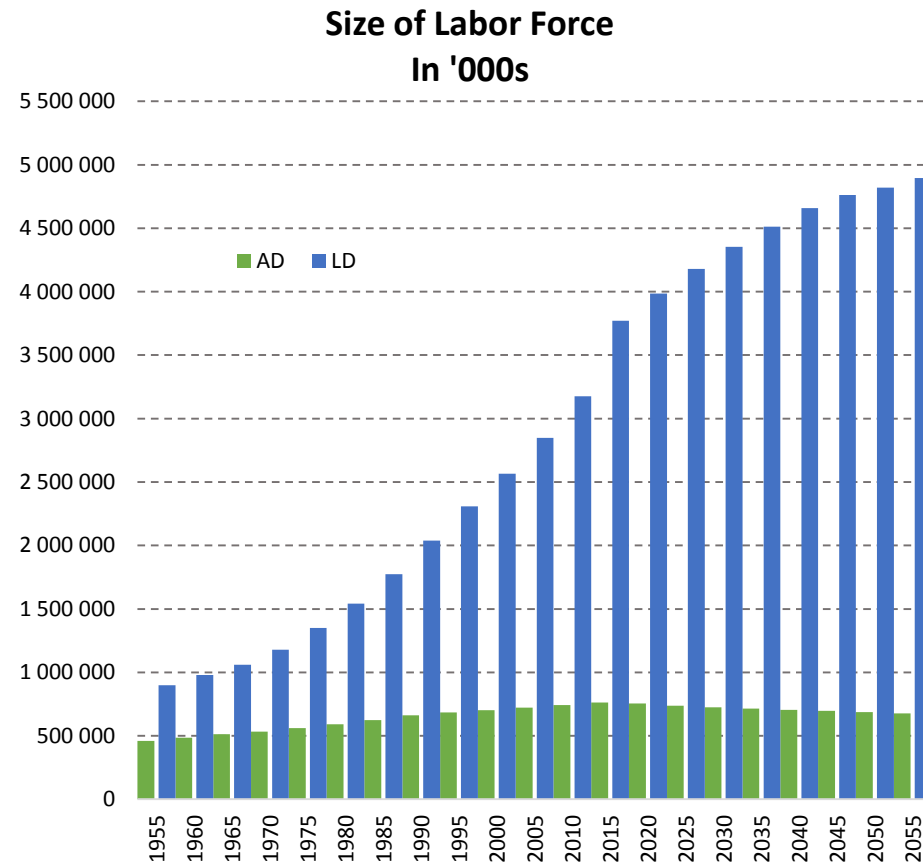
## Economic considerations (including for reasons noted earlier)

- **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
- **Proliferation of FTAs and Spaghetti bowl effects from diverse and complex ROOs**

Macroeconomic development considerations:

Job creation; aging; currency and imbalance; slowing global growth and the need for new engine of growth

# Global labor supply will continue to increase for the next few decades to come



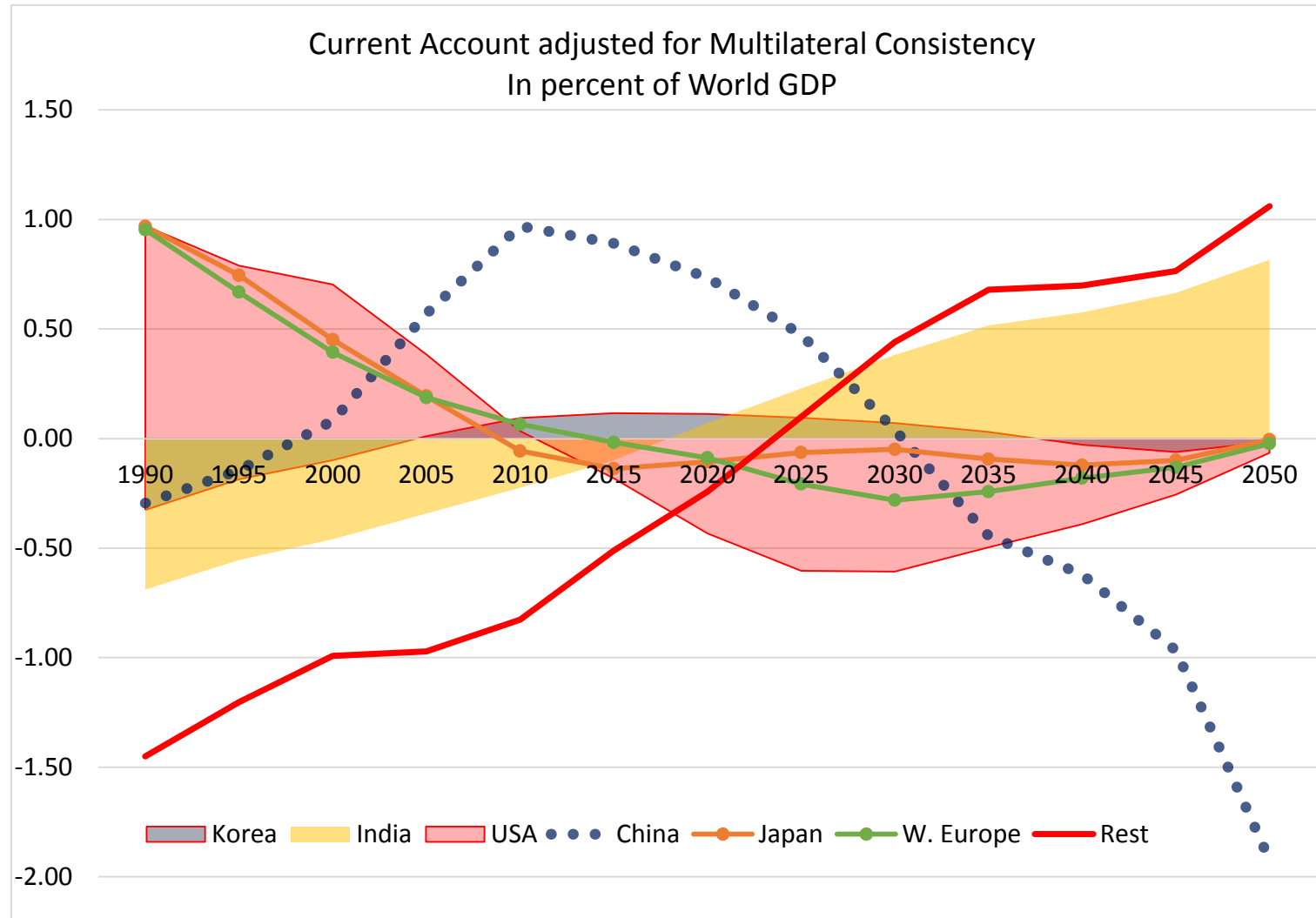
## Economic integration

Consideration  
will be given  
to creating  
sufficient jobs  
in individual  
countries

Tension  
between  
adopting  
international  
standards vs.  
maintaining  
respective  
country  
specific  
characteristics

Tension  
between  
efforts to  
invite FDI  
(GVCs) vs.  
nurturing  
domestic  
enterprises

## Aging will add another dimension to shaping the next generation of FTA deals, especially relating to investment



Countries in need to save will want to find assets to invest for future consumption in partner countries

# Outline

State of Play and Global Trade Paradigm

Economic and Political Considerations

**Opportunities and Challenges**

# Challenges and Opportunities

## ■ Challenges

- **Negotiations within RTAs: between developed and less developed countries and between different systems**
- **Domestic politics and regional geopolitics**
- **Economic integration and political tension: ensuring the benefit of economic integration dominates as to overwhelm political tension**
- **Incorporating all the different economic objectives**

## ■ Opportunities

- **New sources of economic growth**
  - ❖ **Greater market access and efficiency gains through regional economic integration and GVCs**
- **Dominance of REI over political tension**

## Principles to adopt

### Geopolitical differences

- Not necessarily agreeing but leaving aside

### Political ideology

- Open to differences but against imperialism or nationalism at the expense of another country
- Promote multilateralism

### Economic integration

- Avoid negative spillovers
- If possible, only Pareto gains (including through trade creation not trade diversion)





**Thank you!**