OCTOBER 2019

# WILL RCEP BE WORTH THE WAIT?

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Will the Regional Comprehensive Economic Partnership (RCEP) be concluded this year? Officials hope to announce its completion in two weeks' time at the ASEAN Summit in Bangkok. It's about time RCEP was wrapped up – negotiations have been running for 7 years now. And it's a good time to do so. Greater certainty in the global trading system is sorely needed. But just what will be concluded? What will RCEP be?

RCEP's size and economic importance are often stated. Including 16 nations (10 ASEAN nations, China, Japan, Korea, Australia, New Zealand and India), comprising 30 percent of world GDP and a market of 3.5 billion people, it will be the world's largest free trade agreement (FTA). But will it deliver benefits? Will RCEP work for business?

As a general rule, businesses trade, not governments. Governments make the rules, but businesses move goods and services (and data) across borders. So FTAs – which are agreements between governments - need to work for businesses, in order to benefit trade.

[1] Cadot 2006
[2] FY 2018 Survey on the International Operations of Japanese Firms - JETRO Overseas Business Survey, March 7 2019, at https://www.jetro.go.jp/ext_images/en/reports/survey/pdf/ja-firms2018.pdf

Whether they do so depends on the rules they create, the degree and scope of market opening they deliver, and the ease with which they can be used. Today where modern FTAs span a wide range of economic activity and where there is a growing network of multiple agreements among trading partners, several elements are key.

First, simple and liberal rules of origin (RoO) which are consistent among agreements are essential to support trade and investment across manufacturing supply chains. RoO matter if businesses are to secure the benefits of FTAs. They impact on export and investment decisions of firms that operate across markets. Complex origin requirements and procedures tend to deter investment or divert it to other FTA markets with more liberal rules. This is becoming increasingly important as traditional trading patterns are put under pressure, more FTAs are negotiated and production shifts to the most efficient markets.

Moreover, restrictive RoO create business costs that undo benefits of the FTA at the firm level. Studies have shown that the more restrictive the RoO, the lower the FTA utilisation rate.[1] For example, JETRO reports that just 48 per cent of Japanese companies exporting to FTA partner countries were using Japan's FTAs to do so. Over 60 per cent of these companies complained about the RoO and administrative burden involved.[2]  An FTA with too much complexity for too little benefit is not a usable agreement.

Second, more open regulatory frameworks for services and investment are needed to provide business certainty and drive greater trade activity. Today trade is as much about investment and services as goods.

Businesses are increasingly establishing in foreign countries to trade goods and services. As trade expands and supply chains are further integrated (or disrupted), investment decisions become more strategic. Similarly, services are now important as inputs to the production of other traded goods and services, and as a source of foreign direct investment. The multiple ways in which they are traded mean they impact on the movement of goods, services and data across borders.

But regulatory barriers to services and investment are still generally high (compared to trade in goods) among many RCEP members. Previous FTAs have not gone far enough to reduce them, with some exceptions. The Comprehensive Progressive Trans Pacific Partnership (CPTPP), as well as many of Australia's bilateral FTAs, have reduced barriers to services trade and provide for protection for investments.

Third, trade now also relies on the free movement of data across borders. Regulation of e-commerce is a new area modern trade agreements must address.

RCEP will have all the elements of a modern trade agreement. It will not be as ambitious as the CPTPP but market access improvements on existing FTA arrangements are expected. Legally binding commitments for liberalisation of investments will be included — a first for many RCEP parties and they will be structured in a more transparent way, a benefit for businesses. Also new for many parties in an FTA will be disciplines on e -commerce and data.

In aggregate, the potential benefits are large. But it's the details that matter. Officials are working furiously to finalise them before the end of October. It's no secret that market access negotiations with India are proving difficult. It is seeking to limit market opening for 'sensitive products' like dairy and textiles.

It is more important to get it right than to get it done this year. There is no point having an agreement that is difficult for the private sector to use. Nor does the global trading system need 'just another FTA'. Right now it needs robust frameworks to support more liberal trading conditions, create greater certainty of investments and facilitate improved integration of regional value chains.

If RCEP delivers this, then it will be an agreement that is worth the wait.