



The ASEAN Path: ASEAN Regional Comprehensive Economic Partnership (RCEP) **Services & Investment**

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The ASEAN Path: ASEAN RCEP

RCEP Scenario

- 16 countries involved
- 45% of world population - more than three billion people
- 1/3 of world GDP - with a combined GDP of around US\$ 17.23 trillion

Source: Factsheet on RCEP.
Ministry of Trade and Industry. Singapore, November 2012

RCEP

- MUST BE PLACED IN REALITY OF 21st CENTURY TRADE
- OFFERS BIG CHALLENGES
- RCEP CAN BRING BIG OPPORTUNITIES WITH VISION

3

NEW REALITY OF 21st CENTURY TRADE

1. Trade is being led by FDI flows.
2. Trade is more and more in INTERMEDIATES, not final goods; has resulted in pattern of GLOBAL VALUE CHAINS.
3. SERVICES are a critical component of trade and modern economies.
4. Biggest gains from trade liberalization will be from REDUCING BARRIERS TO SERVICES TRADE / LOGISTICS

4

1. Trade today is led by FDI

- Between 1985 and 2000, Asia's share of worldwide FDI inflows doubled from 10% to 20% and has remained high.
- ASEAN experienced faster FDI growth than East Asia (26% compared with 9%) in 2011.

Source: "From Trade in Goods to Trade in Tasks in East Asia"
(WTO and IDE-JETRO, 2011) and UNCTAD Investment Report 2012

5

Trends in FDI inflows in East Asia

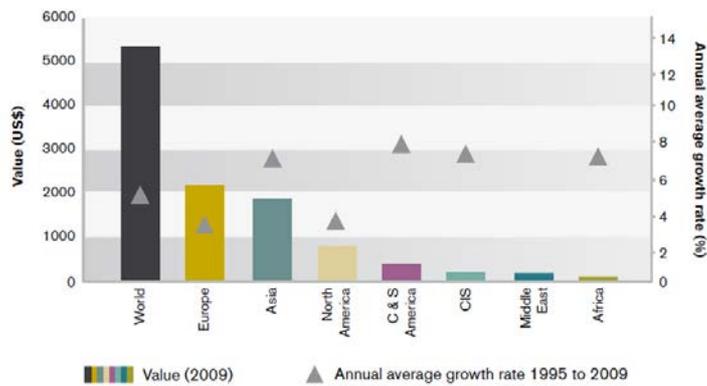
- Trends in FDI inflows in East Asia



- Why? Multinational companies off-shoring their business processes and other services
- Services-sector FDI worldwide reached some \$570 billion in 2011
- Trend for East Asia is increasing FDI inflows in services sectors (with the exception of Malaysia and Vietnam).

6

2. GROWTH OF EXPORTS OF INTERMEDIATE GOODS BY REGION 1995-2009



Asia is highly involved in goods GVC... But what happens with services GVC?

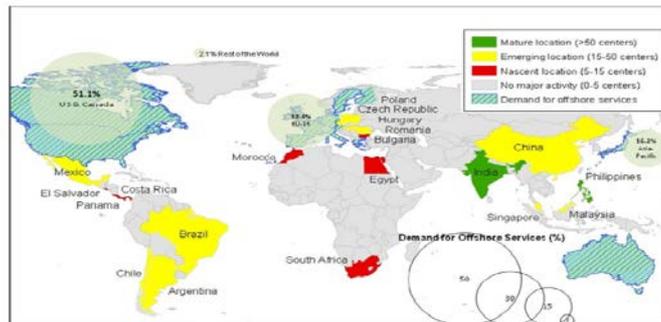
Sources: UN Comtrade Database and WTO estimates⁷

TRADE IN INTERMEDIATES HAS RESULTED IN GLOBAL VALUE CHAINS

- Global Value Chains / Supply Chains are main vehicle for trade in many regions of the world, especially East Asia
- Not one country but many countries involved in producing a single good – WTO “MADE IN THE WORLD”
- Has meant that participating in a supply chain matters – where one is located in terms of capturing value-added – at the higher or lower end – is important for development and growth
- Must take a holistic view of international production and trade –reflect this in trade agreements

8

Global Supply and Demand Centers for Offshore Services - GVCs



Source: CGGC, Duke University based on data from Everest and Datamonitor.

Source: Gereffi, G; Fernandez-Stark, K. "The Offshore Services Value Chain: Developing Countries and the Crisis". Center of Globalization, Governance & Competitiveness. Duke University. The World Bank Development Research Group, Trade and Integration Team. 2010.



How will ASEAN+6 be positioned as a region in the off-shoring services market?
As consumer or provider?

9

3. SERVICES ARE A BIGGER PART OF WORLD TRADE THAN UNDERSTOOD

NEW OECD – WTO DATA BASE ON TRADE IN VALUE ADDED

- Shows that **Services represent not 20 % of world trade, as formerly estimated but fully HALF of total trade – 50 % on average for OECD countries' exports**
- **Why? Because services add significant value to manufacturing and agricultural output**
 - Note: And this is only cross-border trade (modes 1 and 2), not the trade that comes from FDI (sales by foreign affiliates of firms abroad)
- Joint OECD-WTO Trade in Value-Added Initiative with data on trade in value-added for 58 economies (95% world output)
<http://www.oecd.org/industry/industryandglobalisation/measuringtradeinvalue-addedanoecd-wtojointinitiative.htm>

10

INDONESIA and VA Trade?

Indonesia: Main findings

- On a value-added basis, Indonesia exports to a broader set of countries than its main Asian trading partners. It produces inputs that are further processed in Japan and Korea and subsequently exported to third countries.
- Indonesia is well connected to global value chains in sectors such as machinery, electronics and textile products
- The services content of Indonesian gross exports is rather low (22%). Manufacturing industries use less services inputs than in other countries in the database.

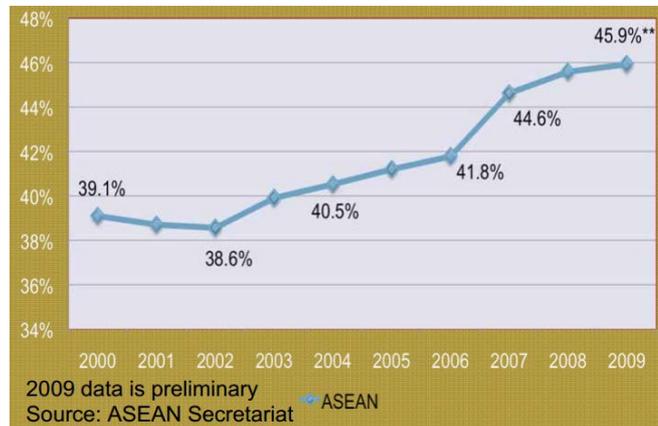
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SERVICES ARE INCREASINGLY CRITICAL to ASEAN ECONOMIES

- **Services increasing in importance on average in ASEAN in**
 - GDP
 - TRADE
 - FDI FLOWS

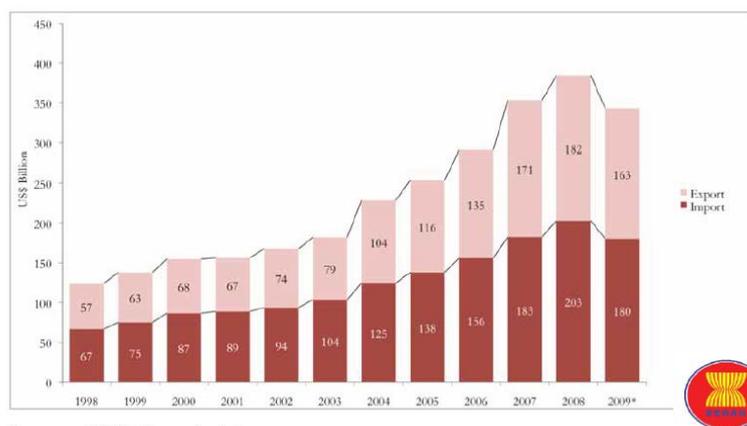
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➤ Growth of Services in ASEAN GDP



Source: Presentation "ASEAN Economic Integration on Trade in Services – A Case Study". WTO/UNESCAP Advanced Regional Workshop on the GATS and Services Negotiations. Kuala Lumpur, Malaysia, 4 -7 May 2010. Available at: http://www.unescap.org/tid/projects/gats10_s13.pdf 13

➤ Growth of Services in ASEAN Trade

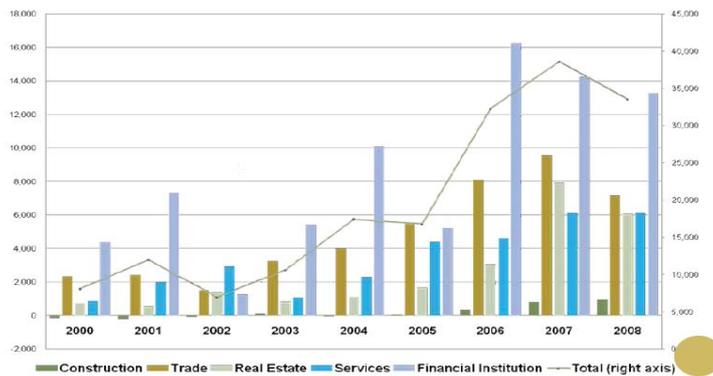


Source: Presentation "ASEAN Economic Integration on Trade in Services – A Case Study". WTO/UNESCAP Advanced Regional Workshop on the GATS and Services Negotiations. Kuala Lumpur, Malaysia, 4 -7 May 2010. Available at: http://www.unescap.org/tid/projects/gats10_s13.pdf 14

➤ Growth of Services in FDI to ASEAN

FDI IN SERVICES BY SECTOR

(IN US\$ MILLIONS)



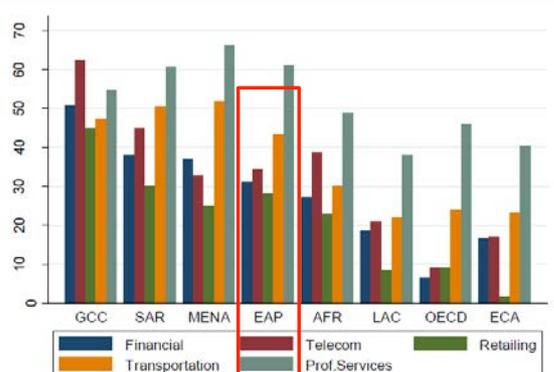
Source: ASEAN Secretariat Database

Source: Presentation "ASEAN Economic Integration on Trade in Services – A Case Study". WTO/UNESCAP Advanced Regional Workshop on the GATS and Services Negotiations. Kuala Lumpur, Malaysia, 4-7 May 2010.15 Available at: http://www.unescap.org/tid/projects/gats10_s13.pdf

4. BIGGEST BENEFITS FROM TRADE LIBERALIZATION NOT IN GOODS BUT SERVICES

- Tariffs not that important source of benefit from trade liberalization
- Benefits will come from reducing barriers to:
 - TRADE IN SERVICES
 - LOGISTICS IMPROVEMENT
- WHY?
 - BECAUSE RESTRICTIONS ARE HIGHEST IN THESE AREAS AND MOST STRONGLY AFFECT TRADE FLOWS

Regional Services Trade Restrictions Index (STRI)



Note: 103 countries included.

Note: The services trade restrictions index (STRI) at the regional level is calculated as a simple average of individual country's STRIs. The STRI in the cross-border air passenger transportation subsector comes from the QUASAR database of WTO (2007). Regional abbreviations: HNO – High income non OECD, SAR – South Asia, EAP – East Asia and Pacific, MENA – Middle East and North Africa, AFR – Sub-Saharan Africa, LAC – Latin America and Caribbean, ECA – Europe and Central Asia, OECD – High income OECD

As the STRI in East Asia is high



the potential gains will be significant

Source: Borchert, Ingo; Gootiiz, Batshur; Mattoo, Aaditya. "Policy Barriers to International Trade in Services. Evidence from a New Database". The World Bank Development Research Group, Trade and Integration Team. (2012)

Will Doha Round outcome help?

- **NO – NOT FOR SERVICES: DOHA ROUND:** Best offers submitted so far in services improve only slightly on Uruguay Round commitments (by about 13%) but remain on average **TWO TIMES MORE RESTRICTIVE THAN ACTUAL SERVICES POLICIES.** (World Bank study, Gootiiz and Mattoo, 2009)
- **RTAs MUST DO BETTER AND GO FURTHER**
- **But this requires vision : well designed agreements and political will**

Source: Cornish, M. and C. Findlay. (2011), 'Services Liberalization in the 'ASEAN Plus' Free Trade Agreements', in Findlay, C. (ed.), *ASEAN+1 FTAs and Global Value Chains in East Asia*. ERIA Research Project Report 2010-29, Jakarta: ERIA. pp.132-155.

Most Barriers to Services Trade “Behind the Border”

- **What type?**
 - Overall Regulatory Environment
 - Efficiency of Sector-specific Regulations
- **Barriers exist along entire SUPPLY CHAIN**
 - Logistics Barriers - Examples:
 - Transport Services; Air, Road, Rail, Maritime, Express Delivery / Courier Services
 - Ability to track consignments – business-related services
 - Distribution-related standards
 - Cargo handling; storage; warehousing; agency services

WEF-World Bank Report on Logistics / Supply Chains – January 2013

- Report shows that reducing supply chain barriers could increase global GDP and world trade much more than reducing all import tariffs
- **Finding: If all countries reduce supply chain barriers halfway to global best practice (Singapore), global GDP could increase by 4.7% and world trade by nearly 15%, much more than benefits from eliminating all import tariffs. In comparison, completely eliminating tariffs could increase global GDP by 0.7% and world trade by 10%.**

Source: WEF-WB-Bain Report on “Enabling Trade: Valuing Growth Opportunities”
<http://www.worldbank.org/en/news/2013/01/23/report-reducing-supply-chain-barriers-could-increase-global-gdp-6-times-more-than-removing-all-import-tariffs>

WHAT SUPPLY CHAIN BARRIERS?

- Those clogging the activities involved in producing and getting a product to consumers: Some relate to Border Administration; Most relate to SERVICES
 - A) **Customs Procedures; Import Licensing**
 - B) **Transport Services; Air, Road, Rail, Maritime, Express Delivery / Courier Services**
 - C) **Business-related services, example: ability to track shipments**
 - D) **Cargo handling; storage; warehousing; agency services**
 - E) **Distribution**

RCEP & Services: Moving Forward

Will the RCEP process allow for a stronger, higher level RTA ?

CHALLENGE FOR RCEP: TO FULFILL PRINCIPLES DECIDED BY LEADERS

1. Mandated to provide a “significant improvement” in liberalization of services / investment over the ASEAN + 1 Trade Agreements
 2. Mandated to agree upon 1 common Services Schedule for all ASEAN RCEP partners
- WILL REQUIRE:
1. VISION
 2. SERIOUS THOUGHT
 3. LEADERSHIP: Can Indonesia provide this?

SO.....RCEP NEEDS A VISION

- MUST have higher level of AMBITION than ASEAN Economic Community (mandated)
- SHOULD focus on an agreement that goes further than present RTAs and ENABLES TRADE
- Agreement that reflects the 21st century world of integrated production and trade and GVCs
- Agreement that is COMMERCIALLY MEANINGFUL for exporters
- Agreement that FOCUSES ON THE MOST SIGNIFICANT TRADE BARRIERS – those in services / logistics

HOW TO DO THIS? CHALLENGES

- FOCUS ON A **VISION OF INTEGRATED TRADE**
- Agreement that focuses on the most significant trade barriers – those in services / logistics
- Put emphasis on LOGISTICS
 - Trade Facilitation
- Put emphasis on SERVICES
 - Key **BACKBONE SERVICES** to be incorporated at high level of liberalization and commitment

CURRENT SITUATION IN RCEP: ASEAN + 1 RTAs - Services and Investment

- ASEAN-Australia and NZ FTA
 - Agreement on Trade in Goods, Services and Investment (2009).
- ASEAN-China FTA
 - Agreement on Trade in Services (2007) and Investment Agreement (2009).
- ASEAN-India FTA
 - Agreement on Trade in Services and Investment (completed in 2012). Trade in Goods Agreement (2009).
- ASEAN-Japan FTA
 - Agreement on Trade in Goods (2008).
- ASEAN-Korea FTA
 - Agreement on Trade in Services (2007) and Investment Agreement (2009)

All ASEAN + 1 RTAs recent - between 2007 and 2009, BUT.....

Liberalization of services/investment in ASEAN + 1 RTAs is very low: assessing restrictiveness of services modes

Table 1. Liberalization in 'ASEAN Plus' Free Trade Agreements: ODF Method

	ASEAN--China	ASEAN--ANZ	ASEAN--South Korea	ASEAN--Japan	ASEAN--India
Modes 1 and 2: Cross-border trade in services					
Simple average	0.457	0.420	0.531	0.081	0.109
Mode 3: Investment					
Simple average	0.354	0.538	0.502	0.120	0.120
Mode 4: Movement of people					
Simple average	0.046	0.277	0.123	0.046	0.046
	3 rd	1 st	2 nd	5 th	4 th
Total averages	0.286	0.412	0.386	0.083	0.092

Source: Author calculations.

Note: 0 is restrictive, and 1 is unrestricted

From the most liberalized to the most restrictive

Source: Cornish, M. and C. Findlay. (2011), 'Services Liberalization in the 'ASEAN Plus' Free Trade Agreements', in Findlay, C. (ed.), *ASEAN+1 FTAs and Global Value Chains in East Asia*. ERIA Research Project Report 2010-29, Jakarta: ERIA. pp.132-155.

Market Access: Services Schedules of Commitments of the ASEAN + 1 RTAs

- Cross-border trade in services accounts for most of the commitments
 - Mode 2 shows the most commitments
- Mode 1 and mode 3 have various country- and sector-specific commitments with respect to market access and national treatment
 - Mode 4 shows the least commitments
- Looking at the commitments by the same country under different RTAs, there is no convergence of its commitments with different ASEAN members and partners

There is considerable variation in the commitments undertaken (from the least to the most restrictive)



1. ASEAN-ANZ
2. ASEAN-Korea
3. ASEAN-China

Services Sectors included in Schedules of Commitments of three ASEAN + 1 RTAs

Services Sectors included in Commitments	ASEAN FTAs		
	Australia and NZ	China	Korea
Business services	X	X	X
Communication services: telecommunications	X		X
Construction and related services	X	X	X
Distribution services: wholesale, retail and	X		X
Educational services	X	X	X
Environmental services	X	X	X
Financial services	X		X
Health related and social services	X	X	
Tourism	X	X	X
Recreational, cultural and sporting services	X	X	X
Transport services	X	X	X
Computer and related services	X	X	X
Real Estate Services	X	X	

Possibility of consolidating these RTAs?

- **What is different among the three ASEAN RTAs?**
 - Different **Scopes**
 - Different coverage **of Commitments**
 - Chapter **Movement of Natural Persons** → only in ASEAN-ANZ FTA
 - ASEAN-China FTA has a positive list **approach** for trade in services, while the other two have a negative list approach (check)
 - **Cooperation** → covered only in ASEAN-China and ASEAN-Korea

Possibilities:

1. CONSOLIDATING RTAs at level of most comprehensive RTA – ASEAN – AUSTRALIA / NEW ZEALAND – use this as basis to converge the other RTAs upward -
 - Advantages: most extensive coverage of sectors and commitments
 - Mode 4 commitments
 - BUT still no deep disciplines on REGULATIONS
 - AND STILL MISSING many other things for behind the border that are key in 21st century world of trade and investmentOR.....

Possibilities:

- OR
2. START WITH FOCUS ON AN “ENABLING TRADE AGREEMENT”
 - Focus on liberalization commitments for Backbone Services : perhaps a negative list for cross-border and commercial presence obligations, with a positive list for other service sectors
 - Combine with disciplines on other key issues: Transparency; Regulatory Coherence; Competition Policy; Trade Facilitation; Movement of Professional Service providers

Questions raised by RCEP.....

- Will it allow ASEAN+6 to act as a platform to expand a broad regional participation in GVCs?
 - Or will each country continue to develop its own competitiveness (in intermediate goods, assembly, services, etc.) in order to build a national platform for participation in GVCs?
 - How does RCEP fit in with national service strategies?
 - Must think hard about going forward
- *Need for Indonesia to mainstream a “TRADE IN SERVICES” Policy into national agenda*

Thank You

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