

## Foreword

The Regional Comprehensive Economic Partnership (RCEP) presents a historic opportunity for East Asia to deepen cooperative commitment to the reforms that are needed to secure its future as a dynamic centre of higher than average global growth and regional prosperity in an open international economy. This ambition is important to all regional economies. RCEP policy leaders can move boldly—and expeditiously—to form an agreement that entrenches and substantially deepens the openness of their economies that has historically underpinned economic growth in the region. This is a time for leadership at all levels and strategies that are focused on the potential of economic cooperation to lift growth, not from defensive negotiating positions seeking to maintain the status quo that will serve only to undermine the welfare of future generations.

The conception of RCEP is a process rooted in the ASEAN Economic Community (AEC), and ASEAN's regional and global ambition can drive RCEP towards an ambitious set of commitments in trade and investments. RCEP success is an essential element in building ASEAN centrality.

The Guiding Principles for the RCEP provide the foundation upon which to construct an agreement: consistency with rules of the General Agreement on Tariff and Trade and the World Trade Organization; significant improvement on the ASEAN+1 agreements (which will continue to apply); facilitation of trade and investment; flexibility for developing and least-developed countries; open accession clause to enable participation by other economic partners; technical assistance and capacity building through economic cooperation; and parallel negotiations in goods, services, investment, and other areas.

This book represents a first important step in the analysis of a number of the issues that confront the shaping of cooperative policies that will be needed to underpin future East Asia economic integration.

The book begins with an estimation of the effects of RCEP, although these estimations focus on the narrower trade liberalisation dimension of the proposed agreement rather than its important economic cooperation dimensions. It compares the experience of liberalisation under free trade agreements elsewhere in the region with the

challenge facing RCEP countries, and draws attention to the problem of restrictive arrangements for rules of origin (ROOs) for realising the benefits of regional engagement in value-adding production networks.

In this context, building the capacity for open engagement in commodity trade is only part of the story. In value chain the link between services trade and openness to foreign investment is crucial, as the argument in the book suggests.

To deepen East Asia integration and promote regional growth, RCEP will have to set an ambitious benchmark for liberalisation and market access. There is no point in concluding an unambitious agreement that does not address existing barriers to regional trade and adds real value to the existing ASEAN+1 agreements, simply for the sake of concluding an agreement. That would damage the region economically and undermine its political credibility. A comprehensive target for goods liberalisation—with a particular focus on areas where barriers to trade remain relatively high—must underpin the agreement. All RCEP economies can, for example, agree to eliminate tariffs on tariff lines covering 95 percent of current trade. While RCEP can make allowances for different levels of economic development among the participating countries, this can take the form of longer implementation times for developing and least-developed countries over a period of no more than 10 years for all countries other than the three least-developed countries which should have a longer period of up to 15 years: it would not mean less ambitious final targets for goods liberalisation.

This is one dimension of the East Asian integration strategy that makes the RCEP endeavour different from so-called mega-regional trade deals. Immediate commitments consistent with the ambitions of the Guiding Principles that underpin the ASEAN conception of RCEP can credibly offer significant improvement. Market access commitments can be anchored by common tariff concessions, with tariff elimination covering at least 95 percent of all tariff lines. While non-ASEAN countries could depart from 95 percent tariff line coverage in their initial offers to non-ASEAN partners, the goal must be for a common tariff commitment schedule with minimum deviations at the end of negotiations.

The gains to growth that can be leveraged from ambitious goods liberalisation are substantial, but the ability to realise these gains through effective participation in regional

value chain production depends importantly on appropriate ROOs. ROOs are an unavoidable part of preferential trade agreements; but strict and cumbersome ROOs will limit and divert trade, raise costs for firms, and impede the establishment and smooth functioning of regional value chains. If RCEP does not adopt steps to rectify the often overly complicated ROOs present in the ASEAN+1 agreements, it will dissipate the gains from any additional market access that derives from the commitment to liberalisation. For this reason, RCEP will need to commit to common ROOs that are simple, provide for full cumulation, and involve documentation requirements that are harmonised, as well as easy and inexpensive to comply with.

Regional supply chains also rely heavily on the free flow of capital. RCEP will therefore need to embrace wide-ranging liberalisation of foreign investment regimes. A negative list approach and coverage of the pre-establishment national treatment is the best way to accomplish this. While countries may have legitimate national interest reasons to limit investment into certain sectors, the overarching principle must be the free flow of foreign investment to stoke economic growth and facilitate technological transfer and the limitation of restrictions to specified sectors.

An equally ambitious approach is required on services liberalization. RCEP will have to provide a clear pathway to a negative-list approach in services liberalization. Services liberalization in RCEP therefore will have to be especially far-reaching in areas that are critical to the formation and deepening of global value chains.

East Asia integration cannot, in other words, be advanced successfully by an old-fashioned 20th century preferential trade agreement: rather, in its basic structure, RCEP will have to lead globally as a mechanism for enduring economic cooperation between member countries and non-members who are later prepared to sign on or partner. The RCEP membership represents global diversity and can set new global benchmarks. An overarching cooperation framework that encompasses all ASEAN+1 agreements and actively draws in other stakeholders, including business and researchers, will help integrate the region within itself and with the global economy at large.

RCEP can become the Asian economic cooperation forum to mobilise support for growth-promoting structural reform at the national level. Consistent with its Guiding Principles, RCEP needs to incorporate wide-ranging technical assistance for

least-developed and developing countries and economic cooperation among members. The cooperation agenda must be permanent and open to expansion, building on the experience in ASEAN+1 agreements. RCEP can agree to create abiding and sustainable mechanisms for cooperation between national policy institutions (for example, fiscal authorities, competition regulators, infrastructure authorities, investment authorities, and customs authorities). These links will facilitate an ongoing agenda of reforms aimed at regional regulatory cooperation that will form part of RCEP's work agenda. They will also help policymakers learn from experience around the region as they frame policies suitable to the circumstances of their own country. A strong agenda of domestic structural reform to promote competition, allocative efficiency, and growth can form an integral part of the RCEP agenda if the gains from cooperation are to be fully leveraged. Reform commitments made at an international level will help mobilise domestic engagement for policy change.

The principles for a basic agreement among RCEP members that includes commitments on goods, services, and investments and an agreed path for the implementation of RCEP and framework for economic cooperation are increasingly clear. Concluding an RCEP basic agreement at the end of 2015 that entrenches ambitious commitments is both feasible and would give RCEP momentum and credibility as a tangible step towards the high standard agreement that the region needs for the next stage of its growth.

The research which is at the core of this book and projects going forward that contribute to the effective implementation of the RCEP agenda will be crucial to the success and benefits of East Asian integration over the years ahead.

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