



The Habibie Center

ASEAN Dialogue

**“Regional Comprehensive Economic Partnership:
Implications for ASEAN’s External Economic Relations
and Policies”**



Presentation and Discussion Report

Monday, 29 July 2013 at 15.30 - 17.30
The Habibie Center Building
Jl. Kemang Selatan no. 98, Jakarta 12560



DISCUSSION REPORT

ASEAN Dialogue: “Regional Comprehensive Economic Partnership: Implications for ASEAN’s External Economic Relations and Policies

The Habibie Center, Jakarta, Monday July 29, 2013

Introduction

On Monday July 29, 2013, The Habibie Center held an ASEAN Dialogue on “*Regional Comprehensive Economic Partnership: Implication for ASEAN’s External Economic Relations and Policies*” at The Habibie Center Building in Jakarta. The objectives of the ASEAN dialogue were: (a) to discuss the potential implications of RCEP¹ to ASEAN’s external economic relations and policies; (b) to gauge potential interest of existing strategic economic partners of ASEAN engage into the RCEP initiative, as well as the responses of the RCEP’s members to it; (c) to explore further potential opportunities and challenges in the potential expansion of the RCEP.

As such The Habibie Center was delighted to have H.E. Amb. David Taylor (New Zealand Embassy to the Republic of Indonesia), Mr. Yoshifumi Fukunaga (Economic Research Institute for ASEAN and East Asia) and Dr. Zamroni Salim (The Habibie Center/LIPI) take part in the ASEAN dialogue with Dr. Alexander C. Chandra (Trade Knowledge Network IISD) moderating.

This discussion report summarizes the key points of each speaker as well as the question and answer session that followed.

Mr. Yoshifumi Fukunaga (Economic Research Institute for ASEAN and East Asia)

Mr. Yoshifumi Fukunaga began by explaining the economic perspective of the RCEP and wanted to address the questions of: “Why RCEP is good for ASEAN?” and “Why ASEAN should pursue the RCEP?” Referring to the “Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership” (August 2012), he highlighted Principle No.2: “Significant improvements over the existing ASEAN+1 FTAs” and noted the objective of the RCEP: “[T]o achieve a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement among the ASEAN Member States and ASEAN’s FTA Partners.”

He then proceeded by highlighting a series of studies conducted by ERIA which compared different ASEAN+1 FTAs to demonstrate the potential value added by RCEP. Studies showed that not all of the ASEAN+1 FTAs provided a higher than 90% tariff elimination.² Similarly, when it came to Rules of Origins (ROO), studies showed that the ASEAN-China FTA (ACFTA) and ASEAN-India FTA (AIFTA) had relatively more stringent ROO compared to other ASEAN+1 FTAs. At the same time, in the area of service liberalization, studies also showed that some ASEAN+1

¹ The RCEP is an ongoing FTA negotiation between the 10 ASEAN countries and the ASEAN+6 countries of Australia, China, India, Japan, Korea and New Zealand. Started in 2013, negotiations are aimed to be concluded in 2015.

² For example, the ASEAN-Indian FTA (AIFTA) provided for only 78.8% tariff elimination from the Indian side and 79.6% from the ASEAN side.



FTAs provided only minimal “WTO plus” contents.³ Thus, Mr. Yoshifumi Fukunaga argued that among the many existing ASEAN+1 FTAs, there was still room for improvement which RCEP could help address. Mr. Yoshifumi Fukunaga then went on to explore the potential economic impact on GDP of the RCEP which through CGP model simulation results showed that economic loss could be prevented if ASEAN were to pursue the RCEP as the benefits were larger when compared to the coexistence of the ASEAN+1 FTAs or the coexistence of the ASEAN+1 FTAs and China-Japan-Korea FTA.

Turning his attention to the international relations perspective, Mr. Yoshifumi Fukunaga highlighted principle 6 of the “Guiding Principles and Objectives for Negotiating the RCEP” otherwise known as the “Open Accession Clause”. He noted the clause as stating:

“The RCEP agreement will also have an open accession clause to enable the participation of any **ASEAN FTA partner** that did not participate in the RCEP negotiations and **any other external economic partners** after the completion of the RCEP negotiations.”

“ASEAN FTA Partner” was currently understood to mean the ASEAN+1 FTA countries which were all part of the RCEP negotiations but he argued “any other external economic partners” was a new terminology whose meaning and potential was as yet unknown. Although it was stated that the Open Accession Clause was “subject to terms and conditions that would be agreed with all other participating countries”, the Guiding Principle remained silent on what those conditions were. Mr. Yoshifumi Fukunaga noted that Article 44 of the ASEAN Charter did not use external economic partner but instead adopted the terms, “Dialogue Partner”, “Sectoral Dialogue Partner”, “Development Partner”, “Special Observer”, and “Guest”. Thus the new terminology of “any other external economic partners” should mean something different to these terms. He speculated that the wording of “external economic partners” was a possible invention for the RCEP having in mind a future vision of RCEP. Here he suggested that it possibly referred to Hong Kong and Taiwan, picking up on the recent announcement by ASEAN that negotiations would be in place for an ASEAN+1 FTA with Hong Kong.

The question mark, however, revolved on the conditions for “any other external economic partners.” Mr. Yoshifumi Fukunaga suggested that there were two possibilities judging by the wording of the guiding principles. Since the guiding principles explicitly distinguishes the two wording of ASEAN FTA Partners and External Economic Partners then it followed that they meant two different things. He elaborated by asking: If the ASEAN+1 FTAs were fixed as of now would it mean future ASEAN+1 FTA partners count as ASEAN FTA Partners? If the latter was to include Hong Kong, then surely External Economic Partners would mean something different to ASEAN FTA Partners. If this was the case, it opened the possibility for others such as Taiwan to jump straight into the RCEP as an External Economic Partner without first becoming an ASEAN FTA Partner. Another possibility however was that ASEAN FTA Partner was meant to mean the current six ASEAN+1 FTA partners only. This view implied that the current six were fixed and Hong Kong would not become an ASEAN FTA Partner, even if it were to be an ASEAN+1 FTA Partner. Instead it would be considered as an External Economic Partner.

Based on these various possibilities, Mr. Yoshifumi Fukunaga took the personal view – based on conversations with officials from the Philippines – that ASEAN still required ASEAN+1 FTA

³ For example the “WTO plus” of the ACFTA was only 0.07 which meant it was still stringent.



partnerships first as a requirement to joining the RCEP. He explained the reasoning for this requirement based on the desire of ASEAN to maintain its ASEAN Centrality. In addition it would allow ASEAN to share a general understanding of ROOs, legal frameworks, etc. with future partners. Nevertheless, though an ASEAN+1 FTA pre-condition requirement may enhance ASEAN Centrality, it also posed challenges. Namely, it might make the pace of expansion slower; and open the way to a “two step negotiation” process which risked duplication and overlapping of negotiations.

Mr. Yoshifumi Fukunaga ended by asking whether Open Accession worked at all since other regional trade agreements did include such a clause, but it remained to be seen whether it was actually viable. He also wondered whether TPP (Trans-Pacific Partnership) and RCEP could be a convergence towards a FTA Asia-Pacific (FTAAP) as well as speculated on the possibility of ASEAN+1 FTAs expanding into other areas such as an Open Skies arrangement. In addition he highlighted the issue of an RCEP Secretariat, asking who would lead it and what would its relationship be with the ASEAN Secretariat?

Dr. Zamroni Salim (The Habibie Center/LIPI)

During Dr. Zamroni Salim's presentation, the questions of how ASEAN's RCEP could be enlarged and whether or not this required an ASEAN+1 FTA first was to be addressed. In particular, Dr. Zamroni Salim wanted to explore whether the constraints to RCEP enlargement were politically economic or economically political. In other words, was it possible for RCEP to expand to include Hong Kong, Macau and Taiwan among others as separate custom territories? Dr. Zamroni Salim noted that all three were members of the World Trade Organization (WTO) thereby making it possible for them to enter FTAs with ASEAN and even be part of any RCEP enlargement, but under the distinct condition of using their status as WTO separate customs territories.

However, he suggested that political constraints, in particular the One China Policy had posed challenges. If political constraints were ignored, and if only the economic possibility was considered, Dr. Zamroni Salim argued that according to WTO principles – especially Article 24 – there should be no barriers to Hong Kong, Macau and Taiwan being part of a future RCEP enlargement. Unfortunately, interpretations of WTO principles had been disrupted by political quarrels, namely the One China Policy. Dr. Zamroni Salim noted that Taiwan's FTAs were with countries that did not observe the political consideration of One China Policy. These included countries such as Panama, Honduras and El Salvador. This was in sharp contrast with ASEAN where almost all strongly applied the One China Policy.

Despite these points, Dr. Zamroni Salim felt that there was still the possibility of Taiwan, Hong Kong and Macau entering ASEAN+1 FTAs using their status of separate custom territories in accordance with the rules of the WTO which allowed all members to enter FTAs with one another. Indeed, WTO rules did not allow for WTO members to exclude one another from FTAs. Referring to the issue of preconditions required to become an RCEP negotiating partner and whether or not an ASEAN+1 FTA was first required, Dr. Zamroni Salim suggested that initiation of an ASEAN+1 FTA was necessary and initiative talks should begin to support the joining of Taiwan, Hong Kong and Macau to the RCEP based on economic/scientific arguments. Indeed Dr. Zamroni Salim noted that there was a sense of movement towards enlarging ASEAN's economic



external relations, highlighting the serious FTA talks between Singapore and Taiwan.⁴ Similarly, the ASEAN–Hong Kong FTA talks, which was initiated in 2010 is now making progress.

Turning his focus on the ASEAN RCEP itself, Dr. Zamroni Salim noted that the RCEP was to be an open comprehensive economic partnership. The emphasis on “open” meant it should be possible for the RCEP to enlarge, in accordance with the rules and principles of the WTO. Nevertheless Dr. Zamroni Salim reiterated that having an ASEAN+1 FTA was an important precondition. Lastly, he reached the main point of his presentation which revolved around the question of: How should/could Taiwan become involved in the negotiation processes in order to become an ASEAN+1 FTA partner and eventually part of the RCEP? He emphasized that Taiwan should remind the RCEP of the need to remain consistent with the WTO agreement. The RCEP should not be in contradiction with the WTO and thus should not be allowed to neglect newcomers and/or restrict the expansion of the RCEP. He also stated that as a first step, Taiwan, Hong Kong and Macau should first look to establish FTAs with ASEAN members. Here he suggested that they could follow the example of Japan who approached each ASEAN member-states individually in contrast to China which preferred to approach ASEAN as a collective (in terms of economic relations). He cited the way in which Japan first entered an FTA with Indonesia and other member-states before pursuing an ASEAN+1 FTA. In his final remarks, Dr. Zamroni Salim concluded that in ASEAN, there remained the political recognition that the One China Policy was a bar preventing certain WTO members from applying for the RCEP.

H.E Amb. David Taylor (New Zealand Embassy to the Republic of Indonesia)

Amb. David Taylor began by declaring New Zealand was very welcoming to FTAs, that it had many FTAs and was working on more. He made clear that for New Zealand, the WTO was still seen as the best place for economic relations, but there was a feeling that the WTO had not been able to achieve what it was supposed to over the many years of WTO negotiations. This had given rise to New Zealand’s desire to push the WTO process via the TPP and RCEP. The RCEP was regarded as an exciting process which he felt could work in parallel with the TPP. He highlighted the statement made by Singapore’s Minister of Trade the previous week who suggested that the RCEP could become the basis of a future FTAAP over time.

Amb. David Taylor argued that the RCEP concept was an elegant piece of ASEAN drafting; by leaving it open for ASEAN to decide if future RCEP negotiating parties had to first enter an ASEAN+1 FTA or not and whether its membership was open to a regional grouping of countries or not, the drafting had opened the door for a new way of doing things. However the ambiguity of the drafting would one day require exploring at an appropriate time in future. In particular, there were question marks over its future membership, process and decision making.

In terms of membership and open accession clause, Amb. David Taylor admitted that there had yet to be a conversation on how these would take place in practice. However, he suggested that it was equally possible that these decisions would be taken at the end of the day if and when there was a high quality agreement following the conclusion of the RCEP negotiations. On the likelihood that an ASEAN+1 FTA would be a pre-condition requirement, he suggested that setting an initial high benchmark would benefit ASEAN and the other RCEP members as it would

⁴ The Agreement between Singapore and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu on Economic Partnership (ASTEP) of 2010.



be far easier to enter the RCEP in a single undertaking rather than via a two-step negotiation. Amb. David Taylor agreed with Dr. Zamroni Salim that political issues needed to be worked around with China in order to allow Hong Kong, Taiwan and Macau to be part of the RCEP. He went on to assert that while New Zealand had indeed recently completed a FTA with Taiwan to complement the one it had with Hong Kong in 2010 and China in 2008, from the New Zealand perspective this was entirely in keeping with the One China Policy his country had observed since 1972.

Amb. David Taylor then moved on to discuss the expected implications of the RCEP. He noted that the RCEP had the potential to create a robust and growing economy in the ASEAN region and that it would make ASEAN more attractive as a trading partner and investment destination for the rest of the world. Amb. David Taylor highlighted that in 2030 the value of the RCEP grouping was expected to reach USD 50 trillion and in 2050 that figure would rise to USD 100 trillion. He also expressed his expectation that the RCEP would one day move beyond the areas of goods, service and investment to eventually cover issues such as intellectual property and competition policy in the near future. Other possible implications of the RCEP were the potential to significantly enhance the institutional connectivity of ASEAN, especially if it was able to address behind the border issues like regulatory cooperation. RCEP was also seen as the best hope to utilize regional food markets in order to enhance food security in the Asia Pacific region.

In addition, Amb. David Taylor agreed with the findings of the ADB (Asian Development Bank) Working Paper of April 2013 which had argued for ASEAN to be seen more as the driving force of regional economic integration. This, he felt, was an important point and was shared by Indonesia's Foreign Minister, Mr. Marty Natalegawa, who frequently called for ASEAN to prove that it deserved to be in the center of the regional process. RCEP was seen as part of the test for ASEAN to prove its capabilities to drive the region towards greater integration. Moreover RCEP was seen as crucial for ASEAN to increase its competitiveness but in order to do this, it was important that the RCEP trigger structural reform. It was crucial that the RCEP become a high quality and comprehensive agreement for it to be truly beneficial and so it was important that the RCEP must achieve better results than all the existing individual ASEAN+1 FTAs. Amb. David Taylor highlighted how the AANZFTA should be the standard for FTAs and that the RCEP needed to at the very least be at this level of standard.

Lastly, Amb. David Taylor suggested that the RCEP was not simply a free trade project but also had implications on improving domestic governance. A high quality RCEP would embrace eco-tech for example, and the convergence of trade and regulatory policies would lead to high quality trading practices, regulations and processes that encourage better public policies at the lowest costs. In summing up, Amb. David Taylor concluded that the RCEP would massively benefit ASEAN if it could address the various challenges to negotiate a high quality trade agreement. He added that the benefits would not be the reserve of ASEAN alone but also to others like New Zealand which was intrinsically linked. All in all, the RCEP had the potential to: support the AEC initiative, underpin the Asian century, provide a stepping stone towards a FTAAP, and to push along the WTO process.

Question and Answer Session

Question No. 1: Is it not the case that all the various FTAs and their expansions are making things more complicated for open trade in general? Does RCEP expansion make sense –



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economically, politically and strategically – for all the RCEP members involved? Could the RCEP really achieve its objectives of harmonizing all the existing ASEAN+1 FTAs to become the modern 21st century FTA it aspires to be?

Question No. 2: Where does Indonesia stand in the various FTA negotiations? The RCEP may provide additional value relative to the current ASEAN+1 FTA arrangements, but are we sure about the position of the Indonesian Government? There would likely be a number of issues in the background that concerned the Indonesian government that may become a stumbling block or bottleneck in the discussions.

Question No. 3: Does all these “alphabet soup” of economic agreements actually benefit the ordinary citizens of ASEAN or do they end up only profiting the elite? How do these economic agreements benefit normal citizens, if indeed they did?

Question No. 4: There is a lot of disparity that currently exists within ASEAN, such as the vast gap between Singapore and Myanmar for example. It is clear that there needed to be efforts to create a more level playing field, not only within ASEAN but also among the RCEP members. What it would mean for the poorer countries in ASEAN struggling with economic development? Also, if and when the EU decided it would like to participate in the RCEP who was it supposed to approach, to ASEAN first or directly to RCEP? Given the current complicated negotiations between RCEP partners, was there any chance that ASEAN or whoever took the lead in negotiations with the EU would actually have any room for manoeuvre, to negotiate anything?

Response: *The Habibie Center*

Mr. Yoshifumi Fukunaga asserted that Indonesia lay at the very core of the RCEP. He highlighted how the RCEP idea came during Indonesia’s chairmanship of ASEAN in 2011 and that it was Jakarta that drafted the ASEAN framework on the RCEP. Despite this, Mr. Yoshifumi Fukunaga conceded that there was a sense of opposition/fear among the Indonesian people towards FTAs and service liberalization. On disparity, Mr. Yoshifumi Fukunaga admitted that Myanmar was far less developed than Singapore but at the same time, the country was making a lot of improvements since changing its economic policies in 2011. He referred to ASEAN’s Initiative for ASEAN Integration (AIA) which although small in terms of budget, contained hundreds of initiatives. **Dr. Zamroni Salim** also added that for poor countries in ASEAN there were sectoral cooperation in areas such as food security, forestry and investment. However for technical capacity, ASEAN usually invited additional partners like China, Japan or Korea which were already providing technical assistant not only to the poor countries in ASEAN but also to Indonesia. On Mr. Yoshifumi Fukunaga’s point about service liberalization and tariff elimination, Dr. Zamroni Salim pointed out that poorer countries were usually given different, more lenient treatment.⁵ **Amb. David Taylor** also agreed that Indonesia was most definitely at the center of the RCEP process and added that though Indonesia faced its problems, it was no different to most other countries. On the question of who benefited from FTAs, he argued that the real beneficiaries of tended to be SMEs. The RCEP would make it simpler and easier for SMEs to operate, engage, export and trade by taking away the red tape. This would allow SMEs to grow,

⁵ While the original ASEAN6 had a target of less than 5% tariffs remaining, for the poorer countries the figure was 10-15%.



employing more people and so there was a trickle-down effect from FTAs. Amb. David Taylor also highlighted the fact most ASEAN Dialogue Partner had significant cooperation programmes with ASEAN. New Zealand for example has a 5 year program of cooperation with ASEAN worth NZD 142 million and that addressed a wide range of relevant areas. On the question of who the EU should approach, Amb. David Taylor suggested it was impossible to predict as we still do not know the outcome of the RCEP negotiations, how it would fit with EU policy, etc.

Question No. 5: When is the possible date of entry of the RCEP? What could be the wider impact of the RCEP on non-economic aspects given that in today's world it was difficult to separate politics and economics? Is there any space in the negotiation beyond shared economic cooperation?

Response:

Amb. David Taylor responded by saying the entry into force depended on the nature of the paragraphs in the agreement dealing with the subject. However, if it was similar to the AANZFT then it would depend on each country having completed their domestic provisions such as ratification by their parliaments. Once a threshold of national ratifications had been reached, then the agreement will have entered into force even as others continue to complete their domestic provisions. On the question of politics and economics, Amb. David Taylor remarked that he did not expect to see any political provisions included formally as the RCEP was a free trade agreement first and foremost. Nevertheless he was hopeful that some areas such as behind the border issues could be included which would lead to wider reforms. **Dr. Zamroni Salim** agreed with Amb. David Taylor and emphasized that the RCEP was essentially an economic cooperation and free trade agreement. However he noted that the RCEP did not only talk about the elimination of tariff and non-tariff barriers but also on cooperation in areas of investment, technical assistance and social development. In this sense, the RCEP could be seen as more of an "FTA plus". For **Mr Yoshifumi Fukunaga**, the simple answer to the question on the possible start date of RCEP was: "we do not know". Theoretically the earliest date would be January 1st, 2015 but as was already mentioned by Amb. David Taylor, there was a lot of ratification processes to go through. Moreover, he noted that there would normally be a transition period. With the ASEAN+1 FTAs there were typically a 10 year transition period, therefore even if the entry date was 2015 or 2016, the actual completion date will take some time. On the issue of political and economic aspects, Mr. Yoshifumi Fukunaga agreed with the others in not thinking that any political strategic component would be inserted into the negotiations. Nevertheless he maintained that in order to have successful negotiations, there needed to be a good political environment.

Question No. 6: What are the implications of having four ASEAN member-states being part of both the RCEP and TPP negotiations, especially in terms of the implications for the remaining ASEAN member-states not involved in the latter?

Response:

Mr. Yoshifumi Fukunaga detailed how the original members of TPP included Brunei and Singapore, with Malaysia and Vietnam later joining. He remarked that among the remaining ASEAN member-states not part of the TPP, none were likely to join except possibly Thailand. However, he frankly answered that he failed to understand why this should be an issue as the



ambitious contents of the TPP did not contradict what ASEAN was trying to do with the RCEP. **Amb. David Taylor** agreed by reminding the audience that in many cases negotiators for the TPP were the very same one working for the RCEP also. Thus, they were well informed of the processes in both the TPP and RCEP and moreover were able to communicate with the remaining ASEAN member-states outside of the TPP process, what was happening in the TPP and how it impacted the RCEP. He argued that countries that found themselves in both processes should be regarded as a potential bridge that could bring the RCEP and TPP together and converge into a possible FTAAP in future. **Dr. Zamroni Salim** highlighted how in international trade or FTAs, there was the concept of the “termite in the trading system” as coined by Jagdish Bahgwati. He warned that the involvement of some ASEAN countries in the TPP could be regarded as a “termite in the trading system.”

Question No. 7: What about the status of WTO, APEC and other classical existing trade organisations? How would TPP, RCEP and other FTAs impact these classical trade organizations? Could APEC end up being forgotten?

Question No. 8: How did the RCEP negotiation work in practice. How is ASEAN represented since there are so many interests involved?

Response:

Amb. David Taylor reaffirmed that the WTO, as a global process, will continue to exist. He suggested that movements at the regional level would all help to push the membership of the WTO to think more seriously and positively about change. He also stated that APEC was unlikely to disappear any time soon. On the question of how RCEP negotiations took place in practice, **Amb. David Taylor** noted that **Mr. Iman Pambagyo** (Director-General for International Trade Cooperation Ministry of Trade, Indonesia) had taken the lead in originally driving the RCEP from the ASEAN side and was still very much involved. As the current chair of ASEAN, Brunei was now taking the lead and he further added that ASEAN adopted a working collegiate to reach a single ASEAN position which resulted in a decent spirit in the negotiation room. **Mr. Yoshifumi Fukunaga** agreed with **Amb. David Taylor** by saying there was wide acceptance that the WTO laid at the foundation of everything. As all FTAs were based on the WTO, he argued that it would remain necessary to keep for the global level. **Mr. Yoshifumi Fukunaga** stated that the RCEP’s intention was to multi-lateralize all the existing bilateral FTAs in the region. He expressed his hope that this process of scaling up could be extended so that there was a multilateral agreement at the global stage – something the WTO was all about. He further added that the WTO remained necessary for areas such as dispute settlement. On APEC, **Mr. Yoshifumi Fukunaga** expressed his admiration, stating that APEC remained valid and important. He added that APEC allowed members to understand current trade issues and was also the source of innovative ideas. **Dr. Zamroni Salim** noted that there were now approximately 150 members of the WTO, so it was predictable that there would be many FTAs adding to the complexity of trade. He suggested that RCEP could be a possible approach to eliminating the “termites in the trading system.”

Question No. 9: How realistic was it that the RCEP would be achieved by 2015? **Response:**

Amb. David Taylor stated that ASEAN leaders had instructed for the RCEP negotiations to be finished by 2015 and they would do their best to finish it as soon as possible. However he also



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stated that it did not really matter when the RCEP negotiations were completed. He reminded the audience that when the ASEAN FTA was first made in 1990 there were as much as 5000 exclusions. This had been greatly reduced to 400 now and showed that it took time for members to be comfortable and confident to finally realize the benefits from FTAs. **Mr Yoshifumi Fukunaga** reiterated that the RCEP had prehistory of negotiations, discussions and academic reports and so consensus on trading issues were already being created. Nevertheless he agreed that 2015 was too ambitious for RCEP negotiations to be completed. This was all the more so given the challenges for discussion dispute settlements, intellectual property, etc. However he was hopeful that they could eventually be settled since there already existed a number of basis for discussing these issues such as in existing ASEAN+1 FTAs and in the APEC.

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