

Delighted to join the Habibie Centre and guests for a discussion about the RCEP and the implications this might have for New Zealand and other partners of ASEAN.

It's important to bear in mind, the broad context for regional trade policy development. The first best option for trade liberalisation is the WTO. Unfortunately the latest negotiating round has made little progress in recent years. This has spurred regional and bilateral efforts to improve the rules governing trade.

In our region, in addition to the RCEP, the TPP is proceeding well. New Zealand supports both processes, which we view as complementary – both will lead to improved trade arrangements. While each process has different membership, the countries that belong to both negotiations provide a bridge and the fact that many negotiators are working on both processes will help ensure there is a degree of complementarity between them.

An important difference is that RCEP is ASEAN led, so ASEAN centrality is at the core of the negotiation. We welcome that. It demonstrates the value that ASEAN can deliver in regional processes. While the negotiation will be challenging and the 2015 timeframe is very tight, we hope that ASEAN leadership can get us across the line.

Both the TPP and RCEP take the region towards the long cherished APEC dream of a Free Trade Agreement for the Asia Pacific. They might also spur along the WTO negotiations.

The previous speakers referred to ambiguity in the open access clause of RCEP. My personal view is that this is elegant ASEAN drafting. It leaves open some room for interpretation in light of what happens in the negotiation.

On the question whether an economy has to have an FTA with ASEAN before it can enter RCEP, I accept that one interpretation is that this may be necessary. On the other hand, if RCEP is a high quality agreement it might be worth considering whether there is a need for a two step process consuming a lot of time and resource. It might be more efficient for all to consider RCEP as the entry point.

On the question around Hong Kong and Taiwan as prospective members of the RCEP negotiation, there are other countries and groups that might also be interested: the EU, United States, Russia and Canada are ones that come to mind.

As for how the “one China policy” might affect ASEAN ambitions to negotiate with Hong Kong and Taiwan, New Zealand's view is that it is possible to have a strict “one China policy” and to negotiate FTA's with other WTO members. Of course, the process has political aspects also and every step must be handled carefully.

Turning to my prepared remarks:

RCEP has the potential to create a robust and growing economy in ASEAN, making ASEAN a far more attractive trade partner and investment destination for the rest of the world.

- RCEP encompasses nearly 30% of global trade and, nearly 50% of world population and combined GDP of US\$20 trillion. Huge potential to affect world economy.
- RCEP is ASEAN centred and directly linked to the single-market ambition of the AEC.
- RCEP currently only covers goods, services and investment, but likely to cover Intellectual Property (IP) and Competition Policy (CP) also in near future, both recognised in the Blueprint as essential to building a competitive economic region. IP, CP and ecotech are identified in the guiding principles as chapters to be concluded under RCEP are no less important in building regional integration.
- Other chapters such as Government Procurement (GP) should also be part of RCEP. GP offers big opportunities for businesses. PPP can potentially be promoted with the right approach to GP.
- RCEP also has potential to significantly enhance institutional connectivity of ASEAN (as required under the Master Plan), if it addresses “behind the border” issues such as regulatory cooperation.
- RCEP offers the best hope for using regional food markets to enhance food security. Open markets matter for food security, anti-trade policies result in too much production in developed world, not enough in developing world, this results in enormous welfare losses
- As identified by ADB Institute Working Paper (April 2013), ASEAN in order to stay as central player in wider regional economic development needs to be seen “as the driving force of Regional Economic Integration.”

ASEAN is surrounded by some huge economic players, its ability to compete internationally will have a direct effect on its future economic growth. RCEP will be key to enhancing this competitiveness but it depends on whether RCEP can:

- Be a trigger for structural reform: One example is the scope for RCEP to revitalise agricultural sectors in ASEAN, at present agricultural markets still protected, making them uncompetitive and inefficient. Only becoming internationally competitive will ensure its long-term survival. There are other examples too; this is one that’s particularly obvious.
- (NZ has much expertise to offer in building a competitive agricultural sector but such assistance will be ineffective in face of structural constraints of a protected market.)
- Provide greater ease of doing business. ASEAN’s current FTAs with the +6 are really individual FTAs e.g. the ASEAN –China FTA really a Cambodia/China FTA plus Thailand China FTA etc. RCEP will potentially provide a single schedule for any business when trading with the 16 members.
- (People forget that Small and medium sized businesses are the main beneficiaries of FTAs, if RCEP sticks to a single schedule then the ease with which businesses will be able to do business with all RCEP members will increase dramatically.)
- Provide the foundation for international companies to view ASEAN as one market and thus support ASEAN’s own vision of itself as an Economic Community. The ability to operate more effectively and easily throughout ASEAN will increase ASEAN’s attractiveness as a business partner and investment location.

RCEP will also be a key tool in ASEAN achieving its goal of regional economic integration but this is dependent on RCEP being a high-quality and comprehensive agreement:

- Agricultural structural reform, key to integrating regional food supply chains, will only be possible with elimination of agricultural tariffs and NTBs

- Actually achieving better outcomes than all the separate FTA +1 agreements combined, otherwise it will be just another noodle in the noodle bowl.
- A single schedule of commitments that applies to all participants, without a single schedule the whole utility of RCEP needs to be questioned. Fundamentally important to regional integration.
- RCEP currently only covers goods, services and investment . To become an agreement that works to achieve true regional integration it will need to expand into IP, competition policy and potentially other areas. It needs to address “behind borders” issues, such as costly border procedures and unnecessary regulation
- As identified in ADBI Working Paper (April 2013), removal of NTBs central to achieving genuine single market and attracting FDI.
- This is very important, e.g. ERIA research shows that a 1% drop in behind border costs will result in a US\$22.8 billion increase in intra-ASEAN trade.
- ASEAN experiencing significant economic growth but only strengthened connectivity (through a high-quality agreement) will make this sustainable.
- Compare ASEAN with Latin America: a NZ company does not set up in Chile with a view to operating in Brazil or even Argentina as well. If a business can establish itself in Jakarta but just as easily operate in other ASEAN countries too, this is a tremendous incentive for investment in ASEAN. This requires not only elimination of customs barriers but harmony in competition policy and other regulatory areas.

RCEP is not only about free trade, it's also a pathway to improved domestic governance. A high quality, comprehensive RCEP that embraces ecotech will result in trade and regulatory policies that converge, such convergence will produce higher-quality trade practices and regulation that achieves public policies at the lowest economic cost.

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