ASIAN TRADE CENTRE

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Panel III: Regional Economic and Trade Engagement

The trade and economic landscape in Asia is rapidly evolving. While there are many activities that I could mention, I will focus my testimony today on four regional trade arrangements: the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP); the Regional Comprehensive Economic Partnership (RCEP); a set of digital trade deals known as DEPA or DEAs; and the upcoming American-led Indo-Pacific Economic Framework (IPEF). I will attempt to explain how and why these agreements matter for Asia and describe some of the implications of this evolving regional architecture for the United States. I will conclude with a few brief suggestions about how craft an IPEF that best fits into a complex economic landscape.

Let me begin with the CPTPP. The CPTPP came into force in late December 2018 and now has eight active members: Australia, Canada, Japan, Mexico, New Zealand, Peru, Singapore, and Vietnam. The UK is in the middle of accession talks and hopes to be part of the group by the end of this year. Three additional formal letters of application were received last fall, from China, Taiwan, and Ecuador. South Korea's outgoing government pledged to submit an accession request this month.

There are three important items on the CPTPP agenda for this year: members must review the agreement; conclude accession negotiations with the UK; and decide on a process for addressing pending applications.

The original CPTPP rulebook and schedules were wrapped up in late 2015. Since then, members have embarked on a variety of other trade deals, including (as I will discuss in a moment) a range of new digital commitments. Some of these elements, particularly for digital trade, might be usefully brought into the CPTPP.

The agreement was originally designed as a "living" document, with the potential for regular updates. It has built-in commitments for reviews to help drive a process of looking at the rulebook and schedules to decide if any adjustments are needed. Although the original agreement had an ambitious and far-reaching electronic commerce chapter, for example, the rules in the CPTPP have already been incorporated into a range of other trade arrangements that now extend beyond what the CPTPP delivers. This includes topics like electronic invoicing; open government data; fintech, regtech or lawtech; and artificial intelligence. Hence there is scope for considering whether or not the CPTPP might be adjusted to incorporate some of these types of digital trade provisions (shown in the Table in the Annex).

Another area of potential adjustment might be found in the environment chapter as many CPTPP members may now be prepared to extend the scope of the coverage in this chapter to be more aligned with commitments made in other fora.

Overall, the CPTPP continues to set the benchmark for ambitious, high quality regional trade arrangements. It has delivered economic growth and provides companies with improved market access or lowered costs regardless of sector or size of company. The United States should find a way back into the agreement as quickly as possible. CPTPP benefits for members are key to understanding why other countries have already applied to join or are considering doing so.

Of all the candidate countries in line to potentially join the CPTPP, China's application has understandably sparked the greatest interest. China is serious about becoming a member. Government officials spent more than a year working on a comprehensive gap analysis and significant time in consultations with various affected ministries and agencies including visits to provincial offices.

Joining CPTPP would provide a new spark to economic growth and development within China. China-based firms would have access to member markets with better market access terms than in any other Chinese trade agreement. Chinese companies and consumers could also procure goods and services from CPTPP members more easily and, likely, at lower cost.

There are many who have argued that China "cannot" join the CPTPP because Chinese policies are too far out of alignment with CPTPP policies and practices or because other CPTPP parties will not let China into the agreement.

It is true that the CPTPP does not currently align with existing Chinese policies. However, some have argued that they want to join the agreement *precisely* because membership would force through some important reforms that might otherwise be difficult to implement. Current CPTPP members joined for similar reasons.

There are a few areas where the gap or disconnect between current Chinese practices and CPTPP rules are widest. These include digital trade rules, market access commitments particularly for all services and investment categories, state-owned enterprises (SOEs), and labor rights. This audience here today would likely add intellectual property rights protections and enforcement to this list.

While there is insufficient time to explore all these areas here today, it is perhaps important to note that even ambitious trade arrangements provide some flexibilities for members. The two key digital rules, to take one example, provide for free flow of data across borders and prevent data localization. However, these commitments also allow governments to maintain restrictions in the pursuit of legitimate public purposes.

Flexibilities like these are important for all members to have sufficient policy space to act in the national interest of their citizens. But they also can create concerns about how to define legitimate public purposes and would, in all likelihood, create challenges for CPTPP members dealing with China as well.

Hence, the decision to allow China to move towards accession to the CPTPP is not a simple one. There are several important decision points: when members agree to open a working party to address potential Chinese entry; during the negotiations over China's specific commitments in goods, services, investment, SOEs, business mobility, and government procurement; and at the end of talks when members must decide whether or not to accept China's accession package. Under current arrangements, acceding CPTPP members are not reopening the rulebook, nor are any existing country-specific schedules adjusted.

Making decisions around Chinese accession will be challenging for CPTPP members. China is the largest or second largest importer and exporter for every member economy. It represents a formidable economic competitor. Members may hope that alignment within CPTPP rules is better than dealing with Chinese competition outside of the CPTPP.

Many CPTPP members have now also had a decade of experience working with China as part of the Regional Comprehensive Economic Partnership (RCEP). RCEP is in force for Australia, Brunei, Cambodia, China, Japan, Korea, Laos, Malaysia, New Zealand, Singapore, Thailand, and Vietnam.

RCEP is another regional trade agreement. Although many of the commitments are less deep and less broad than CPTPP, the economic impact should not be discounted. RCEP will make it much easier to send goods, services, and investment around Asia. Firms are more likely than ever to create "in Asia, for Asia" strategies as the region becomes more economically intertwined.

Given the benefits on offer, such as lower tariffs or improved access and protection for services and investment, it will increasingly be harder to compete with firms in Asia for markets in Asia. As RCEP commitments deepen and as members upgrade and expand commitments over time, this trade agreement will become even more important.

RCEP members are meant to create a Secretariat to manage the agreement. There is also considerable economic aid being deployed to ensure effective implementation, especially among ASEAN's developing country members.

A trade agreement, like CPTPP or RCEP, is designed specifically to provide benefits to members that non-members do not receive. Firms that are excluded from both megaregional trade arrangements will not have the same competitive edge in member markets. It will, especially, be hardest for smaller firms outside Asia to sell goods and services to Asia. Even in the wake of Covid, Asian growth projections remain impressive.

American firms operating in and across Asia may still be able to leverage on CPTPP or RCEP benefits from their Asian footprint. But many are increasingly concerned that their home operations could be at a disadvantage and they may need to shift up sourcing of raw materials, parts, components, and suppliers to include more Asia-based firms in the future.

As the world becomes increasingly digital, having supportive digital trade rules in place will become ever more important. Fortunately for many American companies, Asia's digital rules currently follow the templates set down through the CPTPP, as shown in the Annex.

However, these original digital provisions are quickly being supplemented. Many Asian governments, including Singapore, Australia, New Zealand, and South Korea, have been enthusiastically signing digital trade deals, known as DEPA or DEAs. Most of the digital-only provisions go beyond the relatively limited commitments from the CPTPP.

Again, space and time limitations prevent a full summary of the differences, but it may be worth noting here that these digital-only arrangements contain three types of commitments: those that embrace "hard" or binding legal obligations, those that are cooperative in nature, and those captured through a Memorandum of Understanding (MOU) which are also cooperative in nature but designed to be even more flexible and adaptive than DEA arrangements.

Asian governments, as well as like-minded external partners like the UK, are also creating networks of DEAs. These DEAs could become a digital economy framework from the bottom up, building on the contributions of forward-looking middle powers in Asia.

Asia likes trade arrangements. An outward-oriented region is now rife with regional and bilateral commitments of all sorts.

To continue to be an important part of the conversations about future economic and trade developments, the United States must participate. It is not enough to make vague promises about what might be forthcoming. Asian governments appreciate clarity.
Whatever regional approach the US decides to choose will have to be attractive to counterparts.

The Indo-Pacific Economic Framework (IPEF) has the potential to be a useful vehicle for greater economic cooperation in Asia. The biggest challenge with IPEF will be designing an approach that meets American interests while still providing sufficient benefits for others to want to join IPEF.

This means that the US will need to think hard about how to balance demands for new rules and commitments, often in areas of less concern to Asia, with potential economic benefits. Without win-win outcomes, potential members will be less enthusiastic about joining. If new market access is not forthcoming, it may be especially hard to create shared enthusiasm for a set of priorities.

Digital trade is clearly an area of strong interest in the region. But note that not all Asian governments, or even all ASEAN governments, have similar ideas about how to address digital trade and economic regulations.

An IPEF focused on digital could be a useful addition to the rapidly expanding set of digital rules in the region. It should include provisions in at least six areas: open digital markets, data flows, consumer and business safeguards, digital trade systems including digital trade facilitation, next generation digital issues, and inclusive trade. Such a package could be attractive to some governments in Asia.

The trade and economic landscape, as noted at the outset, is already very crowded in Asia. The United States has largely been sitting on the sidelines and has opted out of one megaregional trade agreement. Re-engaging in the region is critically important, but it will not be easy. The US needs to rapidly clarify what it wants to achieve in IPEF and find ways to create win-win outcomes to draw in others. Otherwise, the United States will end up accommodating trade agreements that have already been set by others and accept a position of rule-taker rather than being an important rule-maker.