

RCEP AND THE FUTURE OF ASIAN FREE TRADE AGREEMENTS: A PHILIPPINE PERSPECTIVE

by *Jovito Jose P. Katigbak*

In December 2016, Philippine Trade Secretary Ramon M. Lopez expressed the country's decision to put its full weight behind the Asian trade pact Regional Comprehensive Economic Partnership (RCEP) after President Rodrigo R. Duterte criticized the Trans Pacific Partnership (TPP) agreement by highlighting the restrictive nature of its provision on intellectual property rights covering pharmaceuticals.¹ The decision to back RCEP can also be viewed as a vital component of the Duterte administration's foreign policy objective which mainly focuses on realizing economic integration in Asia.

More importantly, the Philippine government's willingness to enter into large trade deals like the RCEP with advanced Asian economies outlines two key insights on how it perceives the trajectory of free trade agreements (FTAs) in the region. Firstly, FTAs will expand to cover non-trade aspects of economic cooperation. Secondly, China will play a very critical role in determining the direction of Asian FTAs but fair treatment must be afforded to all member economies.

TPP 'dead in the water', RCEP to the fore?

The emergence of RCEP as the bastion of the new wave of Asian FTAs has been accelerated by the seemingly weak support for the ratification of the TPP, particularly within the US. This has led Prime Minister Shinzo Abe to remark on Japan's possible shift to RCEP if the TPP does not gain sufficient ground. The US and Japan are champions of the agreement as the TPP cannot enter into force without the ratification of six members of the 12 signatories, including the two countries. Malaysia and Australia have already recalibrated their thrust from TPP to RCEP even before US President Donald Trump formalized the country's withdrawal from the TPP in January 2017 by signing an executive order. At the APEC 2016 Summit, Peru and Chile likewise conveyed their intention to join the RCEP, according to a senior member of the Chinese delegation.²

The RCEP was launched in November 2012 and currently has sixteen parties composed of ten Association of Southeast Asian Nations (ASEAN) Member States (AMS) plus its six FTA partners, namely: Australia, China, India, Japan, South Korea, and New Zealand. As of 2013, RCEP covered 3.4 billion people and a total of USD 21 trillion in terms of Gross Domestic Product (GDP).³ Unlike the TPP, RCEP does not include specific chapters on the environment, government procurement, state-owned enterprises, transparency and anti-corruption. Negotiating parties to the RCEP agreed instead to focus on vital areas such as elimination of tariffs in goods and services, investment flows, technical cooperation, protection of intellectual property, small and medium-sized enterprises (SMEs), promotion of competition, and dispute settlement mechanism. Sixteen rounds of negotiations along with several ministerial meetings have been held with the intention to conclude the agreement this year.

The Politics of RCEP

After the Obama administration launched the TPP and made it a centerpiece of the U.S. rebalance policy to Asia, RCEP has been often pegged as a China-led initiative to counterbalance the TPP. However, the current pace and depth of the

pan-Asian trade deal suggest otherwise: its progress is incremental and the different demands and interests of its members are taken into consideration thereby underpinning ASEAN centrality. In this case, China is heavily engaged in RCEP by providing the necessary support and serving as a vocal proponent of deeper regional integration. Thus, RCEP should be considered as an ASEAN-led, China-backed trade pact.

Another issue is the apparent 'politically-motivated' exclusion of the US from RCEP. Many analysts perceive TPP and RCEP as rival trade agreements. Since China is not part of the TPP, it is seen as actively advancing RCEP to limit US influence on the future of Asian trade. This view is not entirely accurate because the main objective of RCEP is to harmonize the existing FTAs between ASEAN and all of its dialogue partners. Therefore, the US may join RCEP by securing a trade agreement with ASEAN as a first step. The Philippines finds itself in the thick of things as it assumes the ASEAN chairmanship for 2017. Hence, the conscious move to demonstrate the government's willingness to push for the conclusion of RCEP can be taken as a significant step in its pursuit of an independent foreign policy, which greatly revolves around its 'strategic shift' away from the US and toward China.

The Future of Asian FTAs

The scope of FTAs such as TPP and RCEP covers more than just trade. These 'next-generation' 21st century trade accords also include non-trade facets such as the environment, investment, intellectual property, competition policy, and dispute settlement. In this regard, FTA members are compelled to make the necessary domestic modifications for their accession or they risk losing out. Without the membership, states will have to withstand the exclusionary or trade diversion effects.

Furthermore, the recent clamor for the swift enforcement of RCEP illustrates a noteworthy observation: Asia is marching towards greater economic liberalization and regional integration despite the growing call and inclination to trade protectionism, especially in parts of the world where free trade and globalization are championed as enablers of development. As the US takes a step back in terms of its economic involvement and clout in Asia, China is expected to fill in the void and occupy its distinct standing in the evolving regional economic architecture. Even though momentum is presently building for mega-trade pacts, the possibility of a Free Trade Area of the Asia Pacific (FTAAP) actually materializing remains to be uncertain.

Is RCEP worth the Philippines' undivided attention?

Cororaton (2015) finds that the trade agreement has an overall positive impact on the country within the period 2014-2023.⁴ Specifically, Philippine exports to RCEP members will expand in sectors such as construction, transport and machinery equipment, and services; while rice and textile industries will experience contraction during the ten-year period. Further, commodity prices will decline, real household incomes will rise, and USD 2.4 billion worth of foreign direct investment (FDI) will be poured into the Philippine market. More importantly, poverty indicators as well as the GINI coefficient will decrease and an additional welfare of USD 4.5 billion can be reaped by the Philippine government.⁵

However, these figures should only be considered for what they truly are – mere projections. Being part of RCEP surely raises the confidence of the country's top leaders in their search for new sources of economic growth, but truly maximizing the benefits of this regional trade accord is a different task altogether. Experiences of Asian countries highlight the fact that capitalizing on external markets entails nurturing the internal markets to be open, fair, competitive, and conducive for all businesses.

For a developing country like the Philippines, taking full advantage of FTAs requires costs, trade-offs, and challenges that must be adequately addressed. Policy considerations include integrating specific FTA provisions into national and local development strategies and continuously disseminating and communicating relevant information on FTA mechanisms to firms, especially SMEs. Moreover, the government may offer support to SMEs for the effective utilization of FTAs and give assistance to local producers and workers who may be displaced. Lastly, enacting domestic

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structural reforms can help the government and the market to reap the projected benefits of FTAs. A key reform is amending the economic provisions of the 1987 Constitution which has been propelled by the emergence of a ‘supermajority’ in Congress and the possible convening of a constituent assembly this year. 🌸

Endnotes:

¹E.J.C. Tubayan, “Gov’t gearing up for RCEP, EU trade deal negotiations in 2017”, *BusinessWorld Online*, December 27, 2016, Tuesday, <http://www.bworldonline.com/content.php?section=Economy&title=gov&8217t-gearing-up-for-rcep-eu-trade-deal-negotiations-in-2017&id=138240> (accessed 29 December 2016).

²Reuters, “Asia, except China, laments Trump rejection of TPP, weigh ways to salvage pact”, *The Japan Times*, November 23, 2016, Wednesday, <http://www.japantimes.co.jp/news/2016/11/23/business/asia-except-china-laments-trump-rejection-tpp-weighs-ways-salvage-pact/#.WGtuTvI97IU> (accessed 3 January 2017).

³Caesar Cororaton, “Potential Effects of the Regional Comprehensive Economic Partnership on the Philippine Economy”, *PIDS Discussion Paper Series No. 2016-30*, August 2016, Taken from:<http://dirp3.pids.gov.ph/websitecms/CDN/PUBLICATIONS/pidsdps1630.pdf> (accessed 29 December 2016).

⁴*Ibid.*

⁵*Ibid.*

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