



ASIAN TRADE CENTRE

Asia's Response to Collapsing Consensus on Trade

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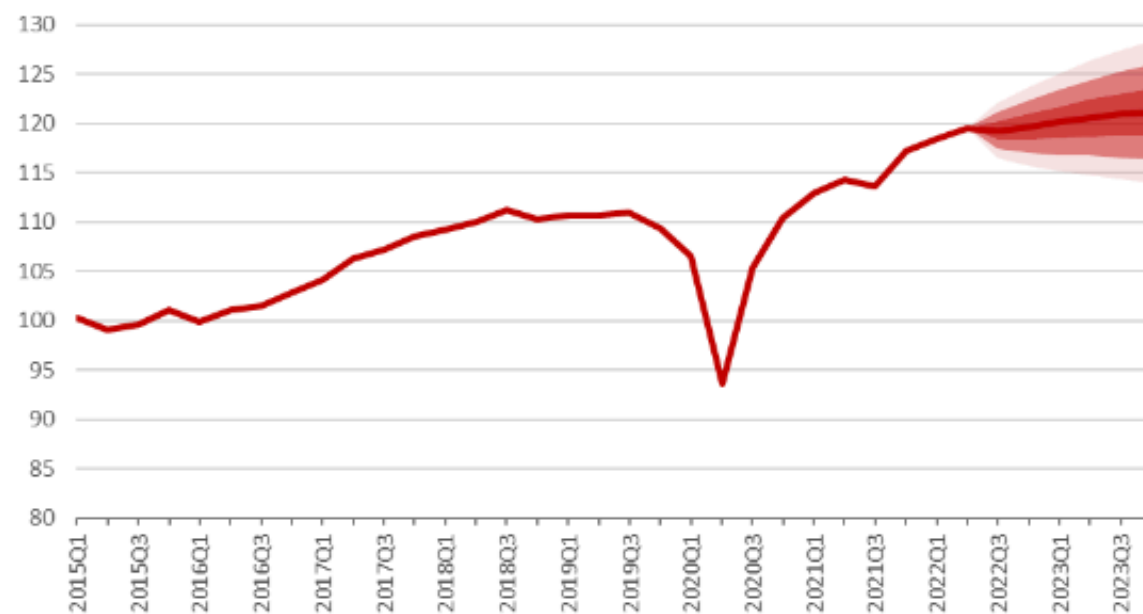


Significant Global Trade Disruption

- Growing pressure on global trade regime
 - Changes in attitude from largest trading partners
 - Less certainty over benefits of trade
- Enter COVID-19..
 - Sudden, sharp shifts in both supply and demand
 - Global impact
 - Rapid reset for businesses
- Governments under increasing pressure to protect local jobs (and still collect revenue) while keeping markets open
- Uncertainty over extent of “decoupling” between US and China
 - Some moves will have impact across much of Asia

Chart 1: Volume of world merchandise trade, 2015Q1-2023Q4

Seasonally-adjusted volume index, 2015=100



Note: Each shaded region represents a +/-0.5 standard error band around the central forecast.

Source: WTO and UNCTAD, WTO Secretariat estimates.

Collapsing Consensus on Trade

- At least three major challenges now for trade:
 - Collapse in global leadership with less enthusiasm from major players to support existing system
 - Rise in alternative approaches to managing trade, particularly using a range of new trade agreements which could have inconsistent or incompatible rules and commitments
 - Uncertainty over appropriateness of existing trade agreement models
- In short, while all trade deals build upon the “foundation” of the global trade regime at the World Trade Organization (WTO), this foundation now looking very shaky
- Everything built “on top” of WTO rules is therefore also at risk of collapse
- Solutions:
 - Entice bigger players to re-engage with WTO
 - Coalitions of “middle powers” to shore up system and create work arounds
 - Create network of trade agreements, preferably with similar model language or approaches

The Problems for Asia

- Given Asia's overall high levels of trade dependence, the risk of systemic collapse is a very serious problem
- Yet, still seems to be limited recognition of extent to which system has changed and the increasing likelihood that major players like the US will not return to old roles supporting existing structures and approaches
- Has meant slow process of shoring up defenses within WTO system
- While Asia has been enthusiastically negotiating and signing various trade deals, most fit past practices—comprehensive FTAs with individual chapters on goods, services, investment, IP, trade facilitation, dispute settlement, etc.
- Limited vision on how various existing FTAs could be combined to create something larger or if such a merger is even possible at all
- Newer models of trade arrangements still being developed, with few examples of implementation
 - Hard to assess potential impact at this point

Lack of US Leadership

- Part of the issue, clearly, is that the position of the United States has significantly changed vis-à-vis the value and virtue of trade and the importance of multilateral institutions
- Now seen more as a source of risk and dependence than a method of making a bigger pie for everyone
- Near zero willingness to tolerate anyone seen as “free riding” on system or US contributions
- Most forcefully articulated under Trump, but basically supported by Biden
- Bipartisan consensus in Congress on need for open markets has collapsed
 - Note, however, that PUBLIC support for trade in the US has never been higher
- Democrats traditionally worried over labor and environment, Republicans used to support free trade
 - Now less certainty over which party will support or oppose what policies
- Trade has been subsumed under national security and geopolitics
- Also missing: interest in what businesses think—collapse in connections between US Chamber, other big business organizations, Congress and White House
- Hopes that US will return to “normal” leadership role in near term also likely to be dashed

If Not US, Then Who?

- If the multilateral system not driven by US, then who else has ability and interest to shore up institution and structures?
- Europe? Maybe, but EU always has had fractious approach to trade by members
 - Loss of UK to Brexit has probably not helped EU's overall free trade ambitions
 - Europe much more concerned about labor, environment, sustainability, standards than liberalization and market competition
- China? Very contentious and uncertain that China wants a leadership role in WTO
- Japan? Could play extremely helpful role, but would require energy and enthusiasm
- Coalition of middle powers? So far, most likely as shown by efforts to start Joint Statement Initiatives, support alternative dispute system, consider new trade arrangements of all sorts outside of WTO
 - However, note that some important middle players like India and South Africa currently pushing counter agenda
- WTO operates by consensus and hard to see how to move system if key players not interested in playing anymore

How to Shore Up Support for Trade?

- If the system is not functioning well, is it possible to create a better climate outside the WTO? And, eventually, bring integration efforts back to the global level?
- Could be, but there are serious challenges
- Consider the Regional Comprehensive Economic Partnership (RCEP)
 - Now active for all 15 members
- RCEP was originally conceived as a way to knit together ASEAN's five existing ASEAN+1 agreements: with Japan, China, South Korea, and Australia/New Zealand
- But the five underlying agreements had different content: some had goods only, others goods/services/investment, AANZFTA had additional chapters
 - Even under trade in goods, different commitments and levels of tariff coverage
- Ultimately, took 8 years to negotiate RCEP and nearly all underlying ASEAN+1 elements substantially rewritten or replaced
- Key message: agreements crafted in one time period for one set of members may be unacceptable for future members at a later date

Problems of Adding Members

- For another example, consider the challenges adding new members to the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP)
 - Legal texts and existing schedules remain unchanged
 - Talks were about scheduling commitments for the UK on specific areas
 - Tariff cuts, tariff rate quotas, services and investment restrictions, which state-owned enterprises are to be exempt, specific categories of temporary transfer for services businesses, and government procurement
 - No current member required to modify their existing schedules, rules or regulations
- The United Kingdom accession talks took two full years
 - Difficulty satisfying current CPTPP member demands
 - Current members also starting to ask for substantive changes to texts, commitments
- Long process even after members thought they had been quite clear about process and expectations--still disconnects between members and accession candidates
- UK is not even likely to be most difficult accession candidate in queue—list now includes China, Taiwan, Costa Rica, Uruguay

Even When Done, Then What?

- Even if members in an agreement have alignment on the objectives, purpose, and intent with specific legal commitments, can be difficult to get implementation
- Implementation is especially hard for newer agreements on new topics
- Key example: growth of new digital-only trade agreements
- Two varieties active now:
 - Digital Economy Partnership Agreement (DEPA) with Chile, New Zealand and Singapore (accession candidates include South Korea, Canada, China)
 - Digital Economy Agreements (DEAs) between Singapore and Australia, South Korea, and UK
 - DEPA is completely stand-alone and includes a dispute settlement process while DEAs are intended to supplement or serve as an annex to an existing bilateral free trade agreement (FTA) and benefit from the promises made across the whole of the original deal, including dispute settlement
- Little activity so far on implementation of DEPA or DEAs and few good ideas on how, exactly, to turn promises into reality
 - Even regular committee sessions that were built into the text have not been held, or have been held irregularly or with haste and have resulted in limited output

Even Newer Topics Ahead

- Some governments attempting to craft new agreements
- Trade and gender: Australia and the UK has separate chapter
- Agreement on Climate Change, Trade and Sustainability (ACCTS) negotiations: led by New Zealand with Costa Rica, Fiji, Iceland, Norway and Switzerland
 - Early days, so too soon to say what it will look like
 - But drawing from APEC experience, could have commitments on tariff removal for environmental goods, improved access for environmental services, disciplines for fossil fuel subsidies, guidelines for eco-labeling schemes, and dispute settlement
 - 11th round of negotiations finished in late 2022
- Could imagine a stand-alone agreement for trade in critical goods/services/technologies/health
 - Note the excellent work done by UNESCAP including the model chapter for trade in times of crisis that could be easily added to any existing FTA agreement
- Something on supply chains possible?
- Other topics of interest to some countries?

IPEF as New Model

- If existing FTA agreements are no longer fit for purpose, can a new model be imagined?
- For the Americans, yes. Indo-Pacific Economic Framework (IPEF) with 14 members
- Divided into four pillars: tax and anti-corruption; supply chains; green infrastructure; and trade
- Note that “trade” pillar does not match traditional trade agendas:
 - Digital, environment, labor, inclusive trade, agriculture (but about agricultural practices not market access), regulatory practices, competition, trade facilitation, and technical assistance and cooperation
- IPEF more of a “framework” that outlines a future agenda for cooperation, particularly in some of the pillars
- Timelines are tight, with deliverables due as soon as May 2023
- What happens if IPEF is greeted with a yawn, particularly by businesses?
- Note possible overlaps with APEC

Asia Still Supports Traditional FTA Arrangements

- As entry into force of RCEP and expansion of CPTPP shows, Asian governments have continued to pursue market liberalization and economic coordination
- The European Union has been very active in the region
 - Agreements already in force with Singapore and Vietnam
 - FTA with New Zealand and Australia moving towards entry into force
 - Indonesia underway since 2016, conclusion possible in 2023?
 - Resumption of suspended FTA talks with Thailand, Malaysia possible shortly
- Asian governments have also been signing additional bilateral agreements
- Asia, especially ASEAN, regularly “update” existing trade agreements
 - Add new topics, broaden and deepen coverage
 - Some of these newer issues, like digital trade, increasingly slotted in as a type of “annex” to an existing FTA
 - Means that the structure of the FTA can be used to operationalize newer topics and to provide better overall coverage for members

Greater Urgency to Make Trade Secretariats Fit for Purpose

- So far, limited appetite for putting Secretariats into place to help manage complicated trade arrangements
 - Only in place for ASEAN, APEC
- RCEP meant to have Secretariat, but currently stuck in arguments over who and where
 - If global system faltering, having a decent set of staff supervising RCEP more important than ever
 - Needs to be separate from the ASEAN Secretariat to ensure different operations
 - Although coordination will be needed between the two
 - Will be key for both implementation and any future cooperation and collaboration on new rules for Asia for the future
 - Needs to also serve as focal point for development aid and capacity building for members
- CPTPP should **certainly** have a Secretariat—complicated arrangement with new members getting added needs full-time focus from at least some staff
 - Early discussions on TPP/CPTPP Secretariat squashed over APEC Secretariat worries
- Again, if the global system is faltering, critically urgent to get alternative locations up and running for holding range of important discussions related to future economic and trade relations

Trade in the Future?

- The trade system, which has underpinned widespread economic growth since the 1940s is increasingly under threat
- Not obvious how or when it might be stabilized
- Thus, alternative arrangements are becoming even more important
 - Asia has been, and will probably stay, at the forefront of developments
 - Trade-dependent region needs trade lanes to stay broadly open with lowered risks and greater certainty about future trade rules and regulations
 - Need structures in place to allow easier collaboration and dialogue between members on regular basis
- But risks are growing
 - Exclusion of some possible members
 - Some topics require systemic approaches or coordination between major players
 - Breaking into different “spheres”

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