

Asia Matters! Progress in Trade Policy Negotiations at the Asia Summits & the Reaction of the EU



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New Coalitions in Pursuit of Free Trade

The dynamics in global trade are fundamentally changing. The United States, which has been a champion of free trade and the multilateral trading system for decades, is now changing course in trade policy. US President Donald Trump is pursuing the idea of “America First”. He is willing to close the US market against allegedly unfair trading partners and to disregard the World Trade Organization (WTO) as the central institution for a rules-based international trading system.

This new protectionist US trade policy is worrying for the rest of the world. According to the Global Trade Alert, discrimination in the US against other G20 members jumped from January to June 2017 (under the Trump administration) from 150 instances to 189 instances, a rise of 26% compared to the same period in 2016 (*Will Awe Trump Rules? The 21st Global Trade Alert Report*, July 4, 2017).

However, the world does not wait for the US. In the Asia-Pacific region, trade liberalization is in full force. Major ongoing trade initiatives include the Regional Comprehensive Economic Partnership (RCEP), the Trans-Pacific Partnership including 11 countries (TPP11) and various bilateral and regional free trade agreements (FTAs). Particularly, China, Japan, and the Association of Southeast Asian Nations (ASEAN) are trying to position themselves as a hub in the spokes of multiple agreements in the region. As such, the Asian Development Bank (ADB) concluded in its latest report: “The trend of regional cooperation and integration (RCI) in Asia and the Pacific is gaining momentum, providing a buffer against the fallout from increasingly inward-looking policies around the world.” (*Asian Economic Integration Report 2017*, ADB, Manila, 2017).

RCEP Decision in Manila: Successful Conclusion in 2018?

The dynamic economies in Asia have realized that they can benefit from more intra-regional integration. One of the major Asian trade initiatives is the RCEP, which was launched in 2012 between the 10 ASEAN countries and their six FTA partners Australia, China, India, Japan, New Zealand and South Korea. The RCEP countries ([Chart 1](#)) account for almost half of the world population, 32% of global output, and around 29% of global trade.

On the sidelines of the 49th ASEAN Economic Ministers Meeting in Pasay City, Philippines, in September 2017, the fifth RCEP Ministerial

Meeting took place where the 16 ministers emphasized “the immense potential for the RCEP to serve as an engine for global growth”. They agreed on “Key Elements for Significant Outcomes by End of 2017”, with the purpose of finding more realistic landing zones to bring the negotiations to a successful conclusion in 2017 (RCEP Ministerial Meeting, *Joint Media Statement*, Sept. 10, 2017).

Accordingly, at the 20th round of RCEP negotiations in Incheon, South Korea, in October 2017, negotiators tried to make progress on the remaining issues and to narrow down the landing zones. But despite the strong economic and strategic incentive for this agreement, it is proving difficult to reach a balanced outcome as the countries differ widely in their levels of economic development. The participant countries still failed to agree on the degree of market access and the final number of tariff lines to be included.

Finally, on the sidelines of the 31st Leaders Meeting of ASEAN in Manila in November 2017, the heads of state and government of the 16 RCEP countries instructed the negotiators to intensify their efforts to conclude the RCEP negotiations in 2018 (*Joint Leaders’ Statement on the Negotiations for the Regional Comprehensive Economic Partnership (RCEP)*, Nov. 14, 2017). Due to existing differences, talks had to be postponed into 2018. However, this move proves that the RCEP countries are taking the negotiations seriously instead of just trying to finalize the deal in 2017, which marks the 50th anniversary of ASEAN.

The Successful Conclusion of the CPTPP (TPP11)

The most comprehensive trade agreement was the TPP, which was finally signed in February 2016 after years of negotiation among 12 Asia-Pacific countries, namely Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the US, and Vietnam. However, in January 2017, within days of taking office, Trump signed an executive order withdrawing the US from the TPP deal. This move disrupted the ongoing US trade agenda towards the Asia-Pacific region, which President Barack Obama had set in motion. After the initial “Trump shock”, the remaining 11 TPP countries agreed in May 2017 at the Asia-Pacific Economic Cooperation (APEC) Trade Ministers Meeting in Hanoi to save the agreement. Japan, together with Australia and New Zealand, now belonged to the countries which took over the leadership in order to achieve a high-standard trade pact in the Asia-Pacific region ([Chart 2](#)).

CHART 1

Members of the Regional Comprehensive Economic Partnership



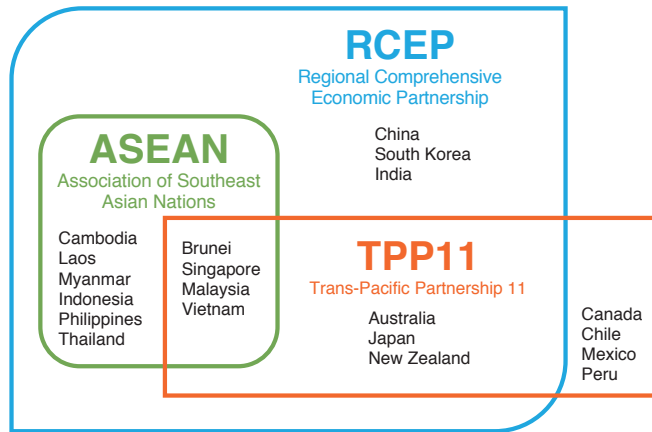
Source: Tiger7253, Wikimedia Commons

On the sidelines of the APEC Meeting in Da Nang, Vietnam, in mid-November 2017, the TPP11 countries reached an agreement on the “core elements” of the deal without the US, and decided to rename the agreement as the “Comprehensive and Progressive Agreement for Trans-Pacific Partnership” (CPTPP). The CPTPP encompasses

around 500 million people, 14% of global GDP and 15% of global trade. The aim is to keep the high standards which were negotiated with the US minus some changes. The majority of the deal, including all of the market access chapters, commitments on goods and services, and most of the investment provisions will be unchanged.

CHART 2

ASEAN FTA



Source: Compiled by Japan SPOTLIGHT based on the article.

The 11 countries suspended 20 provisions from the original deal, which relate mostly to intellectual property rights, and parts of the investment chapter (ISDS). Once the agreement enters into force, 95% of the tariffs on goods will be abolished. As such, the CPTPP is almost identical to the original TPP trade pact.

Finally, in January 2018, the CPTPP countries resolved the outstanding issues which were raised by Canada (mainly relating to automotive imports and cultural exceptions). The agreement will now be signed on March 8 in Chile. The CPTPP can enter into force after at least six members have ratified the treaty. This could already be next year.

European Priorities in Asia: EU-Japan Economic Partnership Agreement 2017

The US withdrawal from the TPP and the new protectionist US trade policy present an opportunity for the European Union to become an alternative trading partner for Asian countries and to advance its trade interests in the region. The EU is now trying to seize this opportunity. In its “Communication about a Balanced and Progressive Trade Policy” from September 2017, the European Commission emphasized that it wants to pursue deeper economic ties with the Asia-Pacific region, and to expand the alliance of partners committed to progressive rules for global trade (*A Balanced and Progressive Trade Policy to Harness Globalisation*, European Commission, Brussels, 2017). EU Trade Commissioner Cecilia Malmström confirmed that many TPP countries were also approaching the EU after the retreat of the US and that the EU was redoubling its efforts to achieve closer economic relations with all of them, either through an existing trade deal, or by preparing or negotiating a comprehensive FTA.

The Economic Partnership Agreement with Japan is the most important trade initiative for the EU in the region. Japan is the EU’s second-largest trading partner in Asia and shares its goal of a deep and comprehensive trade agreement. When German Chancellor Angela Merkel and Japanese Prime Minister Shinzo Abe met in Hanover, Germany, in March 2017 to open the CeBIT trade show together, they emphasized that Germany and Japan were no longer arguing about free trade, open borders and democratic values (an indirect reference to the US and China). Instead, they were trying to increase free trade through the ambitious EU-Japan economic partnership agreement.

It therefore comes as no surprise that just prior to the G20 summit in Hamburg, the EU and Japan reached a political agreement in principle during the EU-Japan Summit on July 6, 2017. Finally, at the beginning of December 2017, both sides finalized the free trade deal. The EU and Japan stressed that the deal did not only have “considerable economic value” but was also of “strategic importance”. The agreement will eventually eliminate Japanese tariffs on European dairy imports, meat and wine, among other items. In return, the EU will abolish import tariffs on Japanese car exports. Japan also agreed to accept international standards in many sectors and to increase access to the public procurement market.

However, the difficult issue of the EU’s new permanent Investment Court system remains unresolved. Japan still wants to keep the ISDS system in place. Both sides agreed to negotiate separately on this issue.

Asia as New Hub for Trade Liberalization

Asia is becoming the hub of trade liberalization at a time when multilateral trade liberalization in the context of the WTO Doha Round has failed (no results at the 11th WTO Ministerial Conference (MC11) in Buenos Aires) and the US has resorted to a more protectionist trade policy. The conclusion of the CPTPP and the ongoing RCEP negotiations prove that globalization is still alive in the Asia-Pacific region and that comprehensive trade liberalization is still possible, even without the US.

The EU is well advised to participate in these developments. The regional trade strategy of the EU towards ASEAN countries failed in 2007 and the EU is now pursuing multiple bilateral deals in the region, the most important one with Japan. This shift in trade focus from the West (US, Transatlantic Trade and Investment Partnership (TTIP)) to the East is a step in the right direction for the EU to avoid the danger of being left behind.

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