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RCEP and Intra-ASEAN Trade

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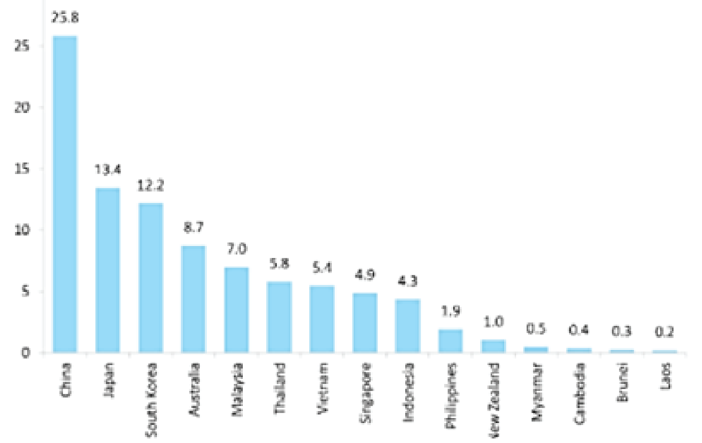
Boosting the share of intra-ASEAN trade has long been an important part of ASEAN's economic integration efforts. The ASEAN Economic Community established in 2015 is committed to increasing intra-ASEAN trade not only in terms of trade volumes but also as a proportion of total trade flows. Unfortunately, this percentage has remained stubbornly in the twenties for decades despite the reduction of tariffs between ASEAN member states. It currently rests at a quarter of total ASEAN trade, only about half the level of intra-European Union trade and worse when compared with intra-North American trade.

The signing of the Regional Comprehensive Economic Partnership (RCEP) at the ASEAN summit last month heralds an important achievement for ASEAN and some of its main extra-regional trade partners. How will RCEP affect intra-ASEAN trade?

RCEP's greatest trade-creating feature is the introduction of a common rule of origin (RoO) covering all members. This will reduce transaction costs and facilitate supply-chain management as a single certificate of origin will allow products to be shipped much more easily between all RCEP members. However, this standout RCEP feature may not increase the share of intra-ASEAN trade. Manufacturers in ASEAN states are more likely to take advantage of the harmonisation of rules of origin to export to their usual extra-regional trade partners (Fig 1).

Figure 1: Average potential gains in annual intra-zone merchandise, trade thanks to the RCEP common rule of origin (USD BN)



Sources: UNCTAD, World Bank, Allianz Research. Note: *Our results derive from estimations of average administrative cost savings related to the rule of origin, and import demand.*

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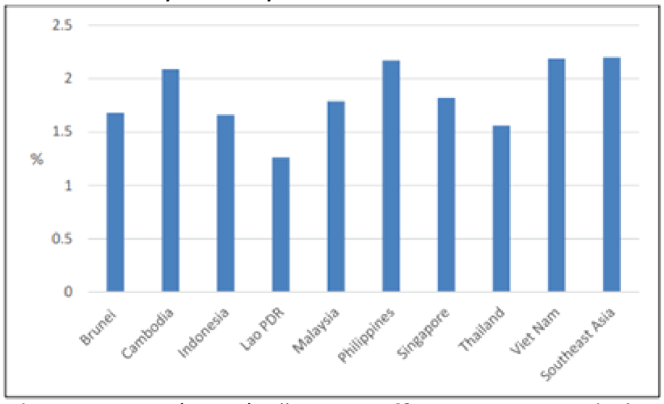
Another important factor that can be expected to change with RCEP is the treatment of non-tariff measures (NTMs). An NTM is a hindrance to trade justified by the imposing state as a necessary safeguard for the welfare of affected citizens. As tariffs are no longer a major issue among ASEAN member states and their RCEP partners, attention will be directed towards NTMs imposed by individual RCEP members. The number of NTMs among some of RCEP's members is high. During RCEP negotiations more than 5,000 notifications of technical barriers to trade were listed. Greater rationalisation can be expected as NTMs will be subject to common standards of safety, and sanitary and phytosanitary measures among others.

A reduction in these measures will reduce trade costs (Fig 2), which in turn will increase the volume of intra-ASEAN trade in goods. As a matter of priority, ASEAN should examine the discriminatory treatment of affected products, emphasise transparency in assessment procedures and work towards a convergence in standards. Tackling sanitary and phytosanitary measures, for instance, would include addressing norms related to discriminatory treatment of certain products, discrepancies in standards across markets and the lack of transparency in assessment procedures If this is done effectively, RCEP should help boost intra-ASEAN trade in goods.

Figure 2: Average cost reductions by country



Source: Knebel, C. and Peters, R. (2018). "Non-tariff measures and the impact of regulatory convergence in ASEAN", UNCTAD/ITCD/TAB/xx. United Nations, Geneva. Available at https://www.gtap.agecon.purdue.edu/resources/download/8863.pdf

RCEP gives a more solid foundation to consolidate trade facilitation reforms. Within the framework of this agreement, it will now be possible to arrive at some consensus on issues such as customs procedures, legal requirements and inspection processes at ports with a view to streamlining them. There are differing levels of sophistication in customs procedures and processes, the use of computerisation, and timelines within ASEAN. Consequently, it will be necessary to bring the differing levels of trade facilitation up to a desirable level of convergence. Only if progress is made on these fronts will it be possible to deepen intra-ASEAN trade.

ASEAN member states are increasingly positioning themselves within global value chains (GVCs). The greater participation of ASEAN member states in GVCs is another factor that will encourage trade in goods. RCEP should make ASEAN an even more attractive GVC location but only if adequate progress is made in the liberalisation of trade and investment.

Covid-19 gives ASEAN another lever to increase intra-ASEAN trade in goods. Undeniably, the pandemic has affected global value chains, transportation is hampered and demand for goods is reduced due to reduced household incomes. Nevertheless, regional economic cooperation efforts through and beyond RCEP must be made to overcome the obstacles to trade and investment, particularly by addressing the challenges to connectivity, trade liberalisation and facilitation. These measures will be all the more useful in the post-pandemic period in order to encourage the recovery and rebuilding of ASEAN member economies. As is well established, the flourishing of trade in goods can contribute immensely to growth, something that demands attention in rebuilding growth in ASEAN post-Covid.

There is much room for the deepening of trade in goods among ASEAN member states. This can be achieved only if the impediments to trade are minimised and trade costs reduced. The goal of increasing intra-ASEAN trade in goods will feature more importantly in the post-Covid-19 period when the importance of trade as a driver of growth will be felt more acutely. ASEAN has more work to do in encouraging intra-ASEAN merchandise trade.

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