Understanding & preparing for TPP, RCEP and T-TIP

By James Mears

There is a lot of news in supply chain management today – from single window initiatives to secure supply chains to regional trade agreements. With each having its own set of obstacles and benefits, companies should not only weigh the costs against the benefits, but also consider the effect that these new policies, rules and agreements will have on their entire supply chain, including trade compliance.

In the last few years, regional trade agreements have taken a foothold in the trade compliance world. Currently there are three major regional trade agreements in negotiation or ratification – the Trans-Pacific Partnership (TPP), the Regional Comprehensive Economic Partnership (RCEP) and the Transatlantic Trade and Investment Partnership (T-TIP).

These regional trade agreements have the potential to open new markets, reduce trade barriers, and set a new and higher standard for all future trade agreements around the world.

Trans-Pacific Partnership (TPP)

"Establish a comprehensive regional agreement that promotes economic integration to liberalise trade and investment, bring economic growth and social benefits, create new opportunities for workers and businesses, contribute to raising living standards, benefit consumers, reduce poverty and promote sustainable growth;" (Preamble to the Trans-Pacific Partnership)

The preamble to the TPP immediately outlines the positive impact it would have once implemented – economic integration and liberalized trade and investment. Those are lofty goals, but then again, the 12 member countries (including Australia, Canada, Japan, Malaysia, Mexico, Peru, US, Viet Nam, Chile, Brunei, Singapore and New Zealand) form an alliance that represents 40% of total global trade. This one agreement is poised to set a new standard for all other trade agreements and to chart the course for the fastest growing markets in the world.

For countries in the Asia-Pacific region, TPP means an opening of new markets with reduced, if not eliminated, tariffs between countries where tariff rates were as high as 20% on some goods. TPP will also provide a steady boost to the member countries' imports and exports over the next 10-15 years. Most importantly, the TPP will remove some of the complexities seen now in a region where there is an influx of trade agreements with overlapping rules of origin, which make it difficult to claim benefits. For small, developing economies such as Viet Nam, the TPP holds the largest gains in terms of Gross Domestic Product (GDP) and total import/export volumes, and it creates a stronger position in the supply chain for companies located in those areas. For other countries, such as the US and Japan, the TPP stands to place them at the forefront of a burgeoning market with the ability to set the rules that all others will follow.

On the other side of the agreement are the new standards driven by the US. New standards around child-labor laws, intellectual property rights, and environmental actions are just a few that caused much debate during negotiations. Asia-Pacific member countries of the TPP will have to adjust their supply chains to meet more stringent requirements around the humanity, intellectual and environmental areas of the TPP.

The TPP still has a long way to go. All 12 member countries have passed the text of the TPP and are now in the ratification process. Most of these countries are in the midst of or just finishing major government elections, which could affect how quickly, or how cumbersome, the ratification process becomes.

Regional Comprehensive Economic Partnership (RCEP)
Also known as the Asian track, the RCEP is led by China and includes Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Viet Nam, Australia, India, Japan, Korea and New Zealand. Although originally expected to conclude in 2015, the RCEP is now scheduled for 2016, due to the number of negotiations still taking place.

According to a report by CNBC, South Korea's trade ministry released a statement in October, which estimated that the RCEP would create an economic bloc accounting for nearly 30% of the world's trade. Add in the 40% covered by the TPP, and there is little left for those not involved in either trade agreement. The goal of the RCEP is to bring the Asia-Pacific region together under one trade agreement. The calming of the "noodle bowl" effect is expected to open new markets by making origin requirements easier to meet and reducing the number of overlapping rules of origin. However, a major difference between the TPP and the RCEP is the Association of Southeast Asian Nations (ASEAN). The RCEP is backed by ASEAN as a means to centralize the power of the ASEAN community and create a stronger negotiation power. This added support may be the difference in how fast the RCEP is ratified.

However, the same stumbling blocks that have delayed the TPP are now affecting the RCEP – intellectual property rights, e-commerce, and domestic politics. While the RCEP is still negotiating the initial text of its agreement, the TPP is moving forward, creating pressure for the RCEP committee to move beyond negotiations, so that the ASEAN community does not lose its foothold in the trade of goods and services.

Transatlantic Trade & Investment Partnership (T-TIP)
Probably the least known of the three powerhouse trade agreements, the T-TIP is "an ambitious, comprehensive, and high-standard trade and investment agreement," according to the US Trade Representative's website. The two key players – US and European Union (EU) – already see more than $1 trillion USD in the flow of goods and services each year. This annual trade in goods is expected to grow as the T-TIP is poised to eliminate tariffs and other duties on goods in the agricultural, industrial and consumer products industries, as well as provide reciprocal access to the EU market for US textile and apparel products.

Nevertheless, the T-TIP has its own set of issues. The biggest issue to date is the quality standards for food products, health care, worker's rights and environmental protection. Once these issues are resolved, the benefit to both sides will be tremendous. Consider this –a car made in Europe but sold in the US has to go through two different safety tests, which adds nearly 25% to the cost of the car, according to a 2013 Third Way study. The T-TIP would create a mutual recognition between the two countries in terms of automotive safety tests, thus eliminating a cost for the manufacturer with savings passed on to the consumer. More than anything, the T-TIP stands to create a template for 21st century trade agreements. As noted by the EU Chief Negotiator after the 11th round of talks in October, "[The] T-TIP is an opportunity to develop a shared vision on how global trade rules should be modernized to catch up with today's reality."

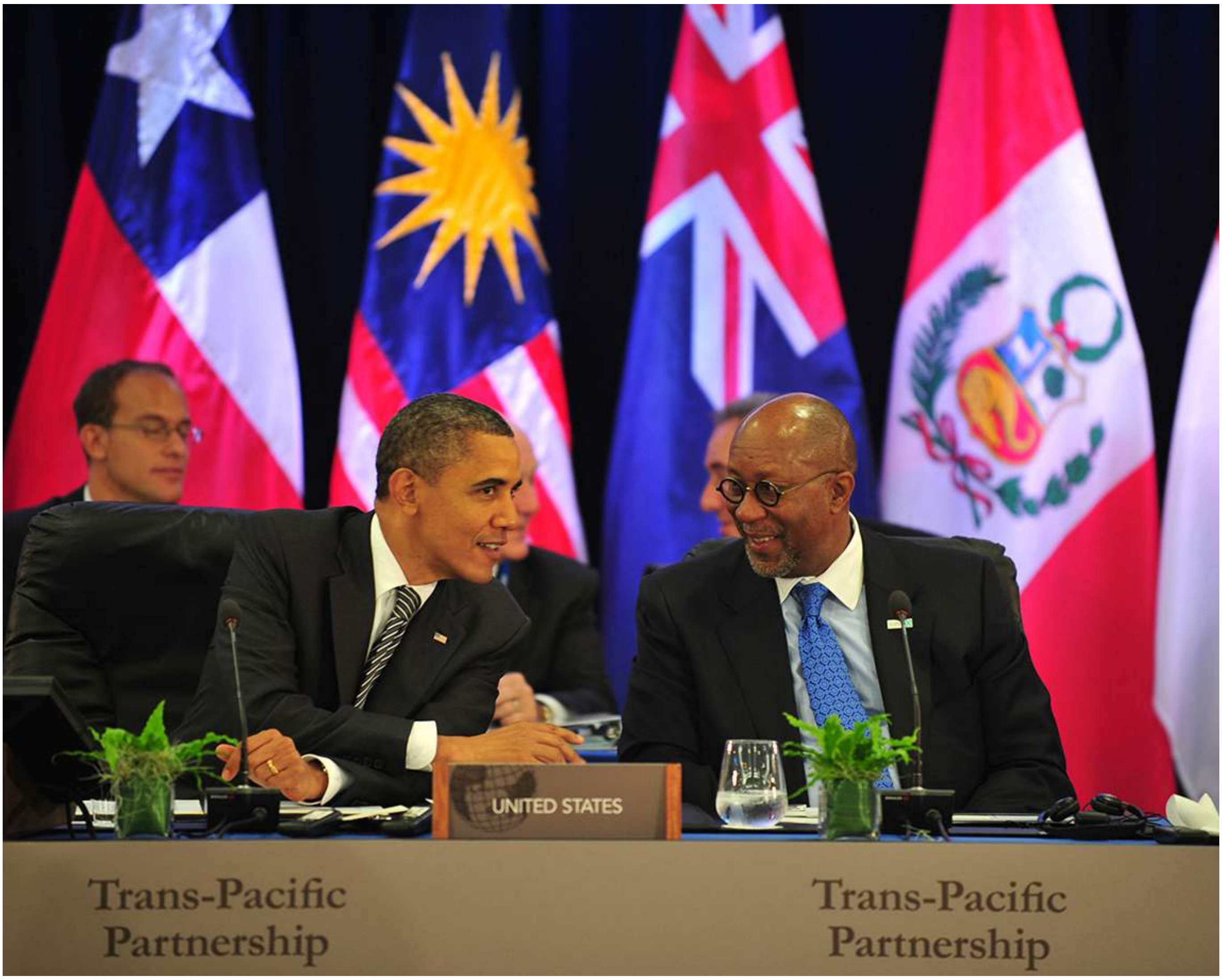
Looking Ahead
Each of the regional trade agreements faces different obstacles in the year ahead. However, as the negotiations continue, we could see more calls for standardization and harmonization of trade regulations across other blocs of countries. For companies doing business in the countries participating in the TPP, RCEP or T-TIP, the next 12 months will be critical.

In 2016, make sure to watch for these key developments with each of the regional trade agreements.
TPP:
The ratification process in each of the member states – Which country will ratify first, and which will find domestic barriers due to new political regimes
Possible consolidation of TPP and RCEP should China and the US begin cooperating with each other

RCEP:
Will China put this agreement on a back-burner and focus more attention on the more inclusive Free Trade Areas of the Asia-Pacific (FTAAP)

T-TIP:
Additional negotiation rounds for T-TIP begin in February 2016 as the key negotiators on both sides push to finalize the text by the end of 2016
Resolution of agricultural trade barriers in T-TIP could lead to major agricultural trade growth for the US and EU, as the US has faced similar barriers with other countries including those involved with TPP

Making the Most of FTAs
If you are taking advantage of FTAs, you are well aware of how much time it takes to obtain FTA benefits. Due to the high workload and a perceived lack of return, many organizations simply choose not to utilize preferential mechanisms made available via FTAs. Unfortunately, that decision can have a ripple effect throughout the supply chain. An organization that does not qualify their products is unable to pass on preference to any of their trading partners, who then become unable to benefit from lower prices and duties for goods that could have otherwise been imported under an FTA. Additionally, these trading partners will have a reduced capacity to qualify their products for their own customers because preferential origin was not available for the imported goods consumed in local manufacturing operations.



As 2016 approaches, take a moment to review how FTAs are utilized in your organization. Look for areas where your supply chain may be affected with the passage of the TPP, RCEP and/or the T-TIP. Whether you are managing the qualifications for one or multiple trade agreements, the keys to success are understanding the process, bringing everyone together on the same platform to share data, and utilizing technology to alleviate additional resource or time constraints.

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About the Author

James Meares is the Vice President for Asia-Pacific operations at Integration Point. His is responsible for all of Integration Point's activities in the Asia-Pacific region with a particular focus on expanding the company's presence and support services. Meares background over the past 30 years has been in commercial, functional, strategic, and senior management roles at major corporations. He has a proven record of leadership in supply chain services and in the establishment of operations to support clients in many Asian countries. Meares is also involved in, and has lead, several Asia-Pacific industry associations.

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