11 November 2016

Now that Trump has won, what's next for trade and supply chains?

The result of the US Presidential Election on 8 November was the second shock to the global market in five months, after the Brexit referendum result in late June.

A Trump victory brings about a number of uncertainties:

First, the stances and policy agenda of Trump are highly controversial and protectionist, which include renegotiating or even withdrawing from the North American Free Trade Agreement (NAFTA) and tearing up the Trans-Pacific Partnership (TPP); imposing prohibitive tariffs on imports from China; repealing the Affordable Care Act (Obamacare); an extreme set of tax cuts; deporting 11 million illegal immigrants and building a wall that barricades the US from Mexico. It is not sure how committed he is to these pledges.

Second, although the Republican Party managed to maintain its majorities in both the House of Representatives and the Senate, giving it a clean sweep of the executive and legislature, it does not necessarily mean that Trump will be able to pursue his controversial policies on trade and domestic economy without obstacles. Checks and balances do exist. The strained relationship between Trump and senior Republicans – many who disavowed him during the campaign – also make forming a harmonious partnership between the Congress and the White House more difficult.

Furthermore, given his background as a shrewd businessman, we believe Trump is a 'pragmatist' (rather than a conservative or a liberal) whom Beijing would find it easier to deal with and to reach agreements with. We may therefore expect to see more 'business-like', pragmatic and constructive relations between China and the US.

Implications for sourcing business: We need more diverse and flexible supply chains

For the sourcing business, the Trump Administration is likely to bring fresh challenges and greater unpredictability, particularly as Trump and his supporters strongly oppose free trade and global supply chains (although Trump denies it). The process of trade liberalization will become much more difficult, if not being reversed, and the global trade regime will become more complex than ever. In this report we will analyze and predict the future of some trade agreements/arrangements which the US has participated in.

Under such circumstances, large players with a strong global network will be in a better position to meet the new challenges. In contrast, an 'all-in' sourcing strategy which is tightly-wound and single-market dependent will be unable to cope with the changes and uncertainties, and thus new sourcing strategies have to be devised. This is particularly true as production and supply chains now need to be even more flexible and diverse, in order to navigate and respond fast to the changing and unpredictable trade environment.

I. Implications for trade and global supply chains

Trade policy plays a central role in Donald Trump's "America first" rhetoric. His only principle with regards to trade policy is the impact on US jobs, especially manufacturing jobs.

Among the president-elect's 7 Point Plan To Rebuild the American Economy by Fighting for Free Trade, three were on free trade agreements (FTAs) which he deemed unfair to the US, while three other were targeted towards China. The remaining point in the Plan was to appoint 'tough and smart trade negotiators to fight on behalf of American workers,' suggesting that major personnel changes in the Office of the US Trade Representative (USTR) is underway.

It is important to note that while new trade agreements require approval by the Congress, US laws authorize the President to revoke existing trade agreements in the name of national security and emergencies. The US courts will then be the final gatekeeper by judging whether the criteria of national security or emergencies are met.

Over the past decade, the world has been heading toward liberalization of trade barriers and deeper integration through interlocking networks of free trade agreements and mega-regional agreements. (Appendix 1 illustrates the network of trade agreements that involve some selected Asian countries.) Trump's presidency will inevitably cause the US to deviate from the existing trajectory of liberalization, whether by withdrawal from existing agreements or by altering the ways it deals with future FTAs.

1. TPP

Trump strongly criticizes the Trans-Pacific Partnership (TPP), saying that it would deal a death blow to the US manufacturing sector and that it would undermine the US economy and independence. He once boasted that he could simply pull out of that agreement because it had not been ratified.

Trump's presidency further reduces the likelihood that the TPP will be ratified within the two-year deadline, counting from the signing of the deal on 4 February this year. First of all, the prospect of the Congress ratifying the deal during the two-month lame duck session is dim, given that the TPP has been greatly controversial within the nation. The presidential campaign has revealed that many Americans, supporters and non-supporters of Trump alike, are skeptical if not downright hostile toward the deal.

In the worst case scenario, Trump will announce withdrawal from the TPP on the first day of his term of office, as he promised. It will then be up to the remaining 11 signatories to decide the future of the TPP. A TPP without the US will nevertheless still be a sizable trade deal, but the incentives for the countries to stick with the deal will be significantly reduced without the US market as a reward.

Under a moderately optimistic scenario, the Trump administration will request a renegotiation of the TPP to get a better deal for US workers. Considering that negotiations for the existing TPP agreement took more than five years, any renegotiation may well last beyond Trump's term.

2. NAFTA

Trump promised to announce on the first day of his office his intention to immediately renegotiate the North American Free Trade Agreement (NAFTA) or withdraw from the deal under Article 2205, which allows any NAFTA member to withdraw upon a six-month notice.

Blaming NAFTA for shipping nearly one-third of US manufacturing jobs across the border, Trump said he wants to 'eliminate Mexico's one-side backdoor tariff and end sweatshops in Mexico that undercut US workers.'

3. WTO

During an interview in July, Trump threatened to pull the US out of the World Trade Organization (WTO) if WTO membership interferes with his plan to impose penalties on US companies that move production offshore. Trump also called the WTO a 'disaster' in the same occasion.

The implications for the US economy and world trade would be massive in the unlikely event that the US leaves the WTO. No longer subject to the WTO's most-favored nation (MFN) tariff rates, import duties imposed on US exports and, likewise, on imports to the US, are at the discretion of the importing countries. Although the US government may still sign bilateral agreements with its major trading partners, the disruption while the nation transitions to an entirely new tariff regime could be detrimental to US businesses and their overseas counterparts.

The WTO, despite all the criticisms it received, provides the vital institution that international trade is based on. If the US departs from the WTO, for example, its trade will no longer be governed by WTO trade rules, nor will the US be able to challenge other WTO members over breaking trade rules. Having the world's biggest economy operating outside of WTO rules will add enormous uncertainty to trade.

4. Other FTAs and preferential trade agreements

Dominican Republic-Central America FTA (CAFTA-DR): Trump did not explicitly voice out his plan on CAFTA-DR. As the US runs an overall trade surplus of US$5 billion (2015) with its CAFTA-DR partners, it will not be easy to argue that the deal is damaging to US jobs. The CAFTA-DR therefore is likely to stay intact, unless the US trade balance with Central American countries radically worsens.

US- Korea FTA: Trump described the US-Korea FTA, signed during Obama's term, as a job-killing trade deal. On his campaign website, Trump pointed out that the deal did not increase US exports to South Korea, while imports from South Korea surged. Although Trump did not mention specific plans against the US-Korea FTA, it should not be surprising to see Trump applying similar measures toward this deal as he does toward the NAFTA.

Generalized System of Preferences (GSP): While Trump did not make explicit his opinion on GSP, which grants unilateral trade preferences to developing countries, the program will probably fall into the same 'job-killer' category as the above trade deals. If and when the Trump administration chooses to target the GSP, supply chains involving GSP-beneficiary countries (e.g. Cambodia, Indonesia, India, the Philippines, Thailand and Turkey) may see serious disruptions.

II. Trump on China

Trump blasted China on ‘currency manipulations’, export subsidies and intellectual property theft, and threatened to impose higher tariffs to force China to change its behaviour.

Currency:

Trump insists that China sells so many goods in the US only because it has devalued its currency. (Note: Most independent economists call that charge out-of-date, and that recently China has been working hard and spending to prop up the yuan.)

Trump therefore pledged to declare China a currency manipulator on his first day in office and to threaten with countervailing duties until China changes its behaviour.

Exports:

Trump blamed China and its ‘illegal export subsidies, and lax labour and environmental standards’ for the US’s huge trade deficit, and loss of 50,000 factories and millions of manufacturing jobs since China joined the WTO.

Trump therefore proposed to impose punitive tariffs as high as 45% on imports from China.

Intellectual property:

Trump said that China stole hundreds of billions of dollars in the US intellectual property.

Trump then promised to confront China over intellectual property theft using every lawful presidential power, including raising tariffs.

Impact of Trump’s proposed tariffs on China:

According to analysts at Daiwa Capital Markets, a 45% tariff on Chinese goods would spark an 87% decline in China’s exports to the US – a decline of $420 billion. That would, over time and factoring in multiplier effects, mean a 4.82% blow to China’s GDP. There would be an estimated $426 billion in foreign direct investment repatriation if companies started to withdraw from China.

On the other hand, such tariffs, if implemented, would also hurt many US industries, particularly autos and technology, which rely heavily upon international supply chains. However, it would be positive for industries facing severe import competition, such as steel and manufacturing sub-sectors.

We also expect to see more Chinese manufacturers relocating their production facilities to other countries, in order to ship to the US via third countries.

Finally, China could retaliate by imposing high tariffs on US imports, leading to a trade war, which would in turn increase the risk of political conflicts between the two countries.

A geopolitical opportunity for China: Disruptions to the TPP and the US ‘Pivot to Asia” strategy

As mentioned in the previous section, Trump pledged to withdraw the US from the Trans-Pacific Partnership, which has not yet been ratified. He called the deal a ‘total disaster’ that will let China come in ‘through the back door’.

The trade pact currently excludes China and has been sold by President Barack Obama as a last chance for the US and allies to set global trade rules before they are dictated to Asia by China. The TPP is also part of the US ‘Pivot to Asia’ strategy and is expected to consolidate the US power and market influence in Asia Pacific, especially Asian countries.

Trump also called for the US military to withdraw from Asia and for US allies such as Japan and South Korea to take up more responsibility for their own defence. It is expected that the Trump administration would pay less attention to Asian affairs and focus more on domestic issues.

Economically, China’s exports will benefit if the TPP ceases to exist (or is disrupted by a prolonged period of time). It has been estimated that Chinese exports will drop by 0.5% to 1.2% with the TPP when compared to without the TPP, with the textile and apparel and the electronics industries in China being the most heavily impacted.

Politically, China could now face a geopolitical opportunity if, as seems likely, a distracted America pulls back from Asia. China may be able to assert more control over the Asia-Pacific region as the US dominance in China’s neighborhood diminishes.

III. Trump’s domestic policy suggestions and possible impact on the US economy

Domestic policy suggestions

Tax policies: Trump’s fiscal policy includes an extreme set of tax cuts. For example, the top income tax bracket under his plan would shrink to 33% from the current level of 39.6%; the estate tax would be fully eliminated; and no business would pay more than 15% of income in taxes.

Meanwhile, Trump has proposed to provide a deemed repatriation of corporate profits held offshore at a one-time tax rate of 10%, in order to encourage US firms to bring cash back to the US.

Infrastructure: Trump proposes to greatly increase spending in infrastructure.

Industrial policies: Trump emphasizes the revitalization of manufacturing. For example, he promises to reduce regulations in general and for the shale, oil, natural gas and clean coal sectors in particular.

Healthcare policy: Trump has vowed to repeal the Affordable Care Act (Obamacare) and replace it with health savings accounts.

Possible impact

Overall economy: As many policy suggestions proposed by Trump are controversial, it is highly uncertain which of his proposed policies will be realized. Against this backdrop, business investment and consumption may slow, thereby exerting negative effect on the economy. However, we see upside risks to the US economy in the short term, if fiscal stimulus measures such as tax cuts and increase in infrastructure spending can be carried out. Besides, after the completion of construction, the infrastructure may bring longer term benefits to the US economy through raising its productivity.

Business investment will be adversely affected: In a time of policy uncertainties, enterprises may not make big investment decisions until it is confirmed which of Trump's proposed policies will be definitely implemented.

Consumption: Consumers may also be cautious in making their spending in the near term. It is noteworthy that Trump has vowed to repeal the Obamacare, and his victory in the election is likely to induce higher precautionary savings of people who may soon lose health insurance. In the longer term, however, the cuts in individual income taxes, if successfully implemented, can boost consumer spending.

Fiscal deficits: The aggressive tax cuts and the big increase in infrastructure spending could greatly enlarge fiscal deficits. This will increase the likelihood of a fiscal crisis in the US.

Interest rates: Donald Trump's victory in the US presidential election has created greater uncertainty over the global economy and has triggered huge volatility in the global financial market. In our view, it now seems less likely that the US interest rates will be adjusted upward in December this year (which most analysts had expected before the election), as the interest rate hike is set to amplify the fluctuations in bonds, equities and currencies. The central banks in other major economies will also be on guard, and may even ease their monetary policies to support the market and the economy. In the longer term, however, there would be a possibility that the US central bank will tighten its monetary policy continuously, if Trump is able to levy punitive tariffs on Chinese products, which would be highly inflationary. The Fed policies might see a drastic change too, as the Fed Chairman is nominated by the President and it is believed that Trump wouldn't nominate Yellen to a second term.

IV. Between the President and the Congress: Checks and Balances still exist

Will Trump be able to pursue his policies?

Almost as important as Trump's defeat of Clinton is the Republican Party's maintenance of its majorities in both the House of Representatives and the Senate, giving it a clean sweep of the executive and legislature. However, this does not necessarily mean that Trump will be able to pursue his controversial policies on trade and domestic economy without obstacles.

Checks and balances

Trump's power as the President will be contained in two ways. First, the US system of checks and balances will limit Donald Trump's power to pursue his policy agenda. Trump will have to contend with the reality that presidents cannot act alone. In the US, legislative powers belong to the Congress, and legislation cannot be enacted without the consent of both chambers. The Congress could also pass legislation contradicting Trump's executive orders.[1]

Second, Trump cannot rely on the backing of his party to the same extent as a regular president-elect would expect. Trump has abandoned decades of pro-free trade Republican orthodoxy, and that could set him against many Republican leaders. The cracks could affect which of Trump's policies are pursued and how determinedly.

For example, Senator John McCain of Arizona, a former presidential candidate and an influential Republican leader, has publicly supported the TPP, and is against the idea of scrapping the NAFTA. Congressman Paul Ryan from Wisconsin, Speaker of the House, also defended free-trade agreements. Both of them also voted for CAFTA and a number of free trade deals in the past. Thus, any attempts by Trump to do away with free trade deals and implement protectionist measures may meet with strong resistance from the Republican leaders.

All in all, although the Republican Party will control both the House and the Senate, the passage of bills proposed by the Trump administration is not a given in the Congress.

1 Trump will retain the power to veto such a decision; however, the Congress may override his veto with a two-thirds majority to end an executive order.

Appendix 1: Bilateral/multilateral trade agreements that involve the US, the EU and selected Asian Countries

	Canada	US	EU	Vietnam	Turkey	Thailand	Philippines	Pakistan	Indonesia	India	China	Cambodia	Bangladesh
Bangladesh				GSTP	D-8 FTA, PTN	GSTP, BIMSTEC FTA	GSTP, PTN	D-8 FTA, GSTP, PTN, SAFTA, BD-PK FTA	D-8 FTA, GSTP	APTA, GSTP, SAFTA, BIMSTEC FTA	APTA		
Cambodia			ASEAN-EU FTA	ASEAN+, RCEP		ASEAN+, RCEP	ASEAN+, RCEP		ASEAN+, RCEP	AIFTA, RCEP	ACFTA, RCEP		
China			EU-China IA	ACFTA, RCEP		ACFTA, RCEP	ACFTA, RCEP	CN-PK FTA	ACFTA, RCEP	APTA, RCEP			
India	CA-IN CEPA		EU-IN BTIA	AIFTA, GSTP, RCEP		AIFTA, GSTP, RCEP, BIMSTEC FTA, IN-TH FTA	AIFTA, GSTP, RCEP	GSTP, SAFTA	AIFTA, GSTP, IN-ID CECA, RCEP				
Indonesia			ASEAN-EU FTA, EU-ID CEPA	ASEAN+, GSTP, RCEP	D-8 FTA	ASEAN+, GSTP, RCEP	ASEAN+, GSTP, RCEP	D-8 FTA, GSTP, ID-PK PTA					
Pakistan				GSTP	D-8 FTA, ECOTA, PTN	GSTP, PK-TH FTA	GSTP, PTN						

	Canada	US	EU	Vietnam	Turkey	Thailand	Philippines	Pakistan	Indonesia	India	China	Cambodia	Bangladesh
Philippines			ASEAN-EU FTA, EU-PH FTA	ASEAN+, GSTP, RCEP	PTN	ASEAN+, GSTP, RCEP							
Thailand			ASEAN-EU FTA, EU-TH FTA	ASEAN+, GSTP, RCEP									
Turkey			EU-TR CU										
Vietnam	TPP	TPP	ASEAN-EU FTA, EU-VN FTA										
EU	CA-EU CETA	TTIP											
US	NAFTA, TPP												
Canada													

Notes
1. "ASEAN+" here represents ASEAN FTA (AFTA) and the five ASEAN+1 agreements signed with Australia and New Zealand, China, India, Japan, and South Korea. It also includes the ASEAN-EU FTA now under negotiation.
2. Agreements highlighted in red are now under negotiation.
3. Details of the agreements are provided in the following table

Bilateral/multilateral trade agreements that involve the US, Canada, the EU, and selected Asian Countries[1]

FTAs In Force

	Name of agreement	Status	Current signatories[2]	Total population of signatories (2014)[3]	Total GDP of signatories (2014)[4]	Highlights	Rules of Origin[5]
ACFTA	ASEAN-China Free Trade Area	In force since 2005	Brunei, Cambodia, China, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam	1,988 million	US$12,838 billion	Zero duty for 94.7% of all tariff lines.	Cumulation: RVC 40%. The full value of a material used in the production of a finished good can be accumulated towards the RVC of the finished good only if the material itself qualifies as originating.
AFTA	ASEAN Free Trade Area	In force since 1993	Brunei, Cambodia, Indonesia, Lao, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam	623 million	US$2,478 billion	Zero-duty for 87.8% of all tariff lines, according to the ATIGA Tariff Schedule of 2013.	Cumulation: RVC 40% or CTH. A material can contribute towards the aggregate RVC of the finished good, as long as the material itself has a RVC of 20% or more.
AIFTA	ASEAN-India Free Trade Area	In force since 2010	Brunei, Cambodia, India, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam	1,919 million	US$4,545 billion	Zero duty for 79.6% of all tariff lines.	Cumulation: RVC 35% and CTSH.
APTA	Asia Pacific Trade Agreement	In force since 1976	Bangladesh, China, India, Republic of Korea, Lao PDR, Sri Lanka	2,896 million	US$14,153 billion	Covers 10,001 tariff lines after the latest (4th) round of negotiation. The Margin of Preference (the difference in average between the MFN rate of duty and the preferential rate of duty) is 29.2%.	Local value added 45% (35% for LDC's). Cumulation: the aggregate content originating in the territory of the Participating States is not less than 60% of its FOB value (50% for LDC members).
CN-PK FTA	China-Pakistan Free Trade Agreement	In force since 2007	China, Pakistan	1,549 million	US$10,607 billion	Both the countries will eliminate tariffs on around 90% products, both in terms of tariff lines and trade volume, within a reasonable period of time.	Local value added 40% (based on FOB price). Cumulation: bilateral, aggregate originating content on the final product is not less than 40%.

1 Bangladesh, Cambodia, China, India, Indonesia, Pakistan, Philippines, Thailand, Turkey, and Vietnam
2 The US, Canada, the EU, and the selected Asian countries are highlighted in blue
3 Source: World Bank
4 Source: World Bank (except for New Zealand, Trinidad and Tobago and Tunisia, where estimates from the IMF World Economic Outlook were adopted; and Cuba, where 2013 figure was adopted; and the Democratic People's Republic of Korea, where Bank of Korea's estimate was used)
5 Abbreviations are explained in the glossary in the end of this section.

FTAs In Force

	Name of agreement	Status	Current signatories	Total population of signatories (2014)	Total GDP of signatories (2014)	Highlights	Rules of Origin
D-8 PTA	Preferential Tariff Arrangement - Group of Eight Developing Countries	In force since 2011	Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan, Turkey	1,050 million	US$3,706 billion	In line with targets in the D-8 Roadmap 2018, the PTA aspires to increase the share of trade among D-8 members from the current 7.06% of their total foreign trade to 10-15% within the next 10 years.	Negotiations of the Rules of Origin are in progress.
ECOTA	Economic Cooperation Organization Trade Agreement	In force since 2008	Afghanistan, Azerbaijan, Iran, Kazakhstan, Kyrgyz Republic, Pakistan, Tajikistan, Turkey, Turkmenistan, Uzbekistan	447 million	US$1,897 billion	Tariffs in a positive list will be lowered to below 15% gradually. Implementation was delayed but will restart on 1 January 2014.	Local value added 40%. Cumulation: RVC 60%.
EU-TR CU	EU-Turkey Customs Union	In force since 1996	EU, Turkey	584 million	US$19,260 billion	Goods can now travel between the two entities without any customs restrictions.	N/A
GSTP	Global System of Trade Preferences among Developing Countries	In force since 1989	42 developing countries, including Bangladesh, India, Indonesia, Pakistan, Philippines, Thailand, Vietnam, and the Southern Common Market (MERCOSUR) trade bloc	3,570 million	US$14,441 billion	In the 3rd round of negotiations, in which participating members agreed to reduce applied tariffs by 20% on at least 70% of dutiable products, concluded in 2010 but has not yet become effective.	Local value added 50% (40% for LDC's). Cumulation: RVC 60%.
ID-PK PTA	Indonesia-Pakistan Preferential Trade Agreement	In force since 2013	Indonesia, Pakistan	439 million	US$1,135 billion	Preferential tariffs for items including cotton yarn, cotton fabrics, readymade garments, leather goods and other industrial products.	Local value added 40% (based on FOB price). Cumulation: RVC 40%.
NAFTA	North American Free Trade Agreement	In force since 1994	Canada, Mexico, US	480 million	US$20,488 billion	All tariffs and most nontariff barriers on goods produced and traded within North America are gradually being eliminated. All duties on textile and apparel goods within North America were phased out over a 10-year period.	The rule of origin might require 1) a change in tariff classification; 2) a RVC requirement; or 3) both a change in tariff classification and a RVC requirement.

FTAs In Force

	Name of agreement	Status	Current signatories	Total population of signatories (2014)	Total GDP of signatories (2014)	Highlights	Rules of Origin
PTN	Protocol on Trade Negotiations	In force since 1973	Bangladesh, Brazil, Chile, Egypt, Israel, Republic of Korea, Mexico, Pakistan, Paraguay, Peru, Philippines, Serbia, Tunisia, Turkey, Uruguay	1,076 million	US$7,777 billion	The PTN is a protocol relating to trade negotiations among developing countries.	A participating country may continue to apply rules such as a value-added criterion or a process criterion (a change in tariff classification), with necessary adaptations according to the agreement.
SAFTA	South Asian Free Trade Agreement	In force since 2006	Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka	1,689 million	US$2,587 billion	Tariffs are scheduled to be lowered to 0-5% by 2012 for developed members (2013 for LDC members). The deadline, however, was made obsolete by unresolved differences.	Local Value Added 40% (30% for LDC's) or CTH. Cumulation: RVC 50% with domestic value content 20%.
CA-EU CETA	Canada-EU Comprehensive Economic and Trade Agreement	Negotiation concluded in 2014. Pending legal review and ratification.	Canada, EU	544 million	US$20,247 billion	Over 99% of tariffs between the two economies will be eliminated, and sizeable new market access opportunities in services and investment will be created. Once implemented, the agreement is expected to increase two-way bilateral trade in goods and services by 23%.	
EU-VN FTA	EU-Vietnam Free Trade Agreement	Negotiations concluded in 2015. Pending ratification.	EU, Vietnam	599 million	US$18,647 billion	The FTA eliminates nearly all tariffs (over 99% of all tariff lines) on trade between the two parties. Other commitments include elimination of non-tariff barriers, customs and trade facilitation, liberalization of trade in services, investment and e-commerce, and behind-the-border policies, such as competition, state-owned enterprises, and labor and environmental standards.	Cumulation: 50% For garments, fabrics from the EU or Vietnam must be used, with the exception of: - fabrics produced in South Korea, another FTA partner of the EU, and - a small amount of materials not satisfying the ROO can be used in mixed fabrics under the 'tolerance rule'.
TPP	Trans-Pacific Partnership	Negotiations concluded in October 2015 and agreement signed in February 2016. Pending ratification.	Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, US, Vietnam	810 million	US$28,041 billion	Tariffs will be eliminated immediately for most tariff lines. The agreement also covers trade in services, investment and behind-the-border matters.	RVC (varies by product and method of calculation) or CTSH. "Yarn-forward" rule on textile and garment products.

FTAs under negotiation							
	Name of agreement	**Status**	**Current signatories**	**Total population of signatories (2014)**	**Total GDP of signatories (2014)**	**Highlights**	**Rules of Origin**
ASEAN-EU FTA	ASEAN-EU Free Trade Agreement	Under negotiation since 2007	Brunei, Cambodia, EU, Indonesia, Lao, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam	1,132 million	US$20,939 billion	Negotiations were temporarily suspended in 2010 and superseded by bilateral talks between the EU and individual ASEAN countries (see other agreements under negotiation below).	
BD-PK FTA	Bangladesh-Pakistan Free Trade Agreement	Under negotiation since 2003	Bangladesh, Pakistan	344 million	US$420 billion	Little progress was made as the two countries cannot resolve their differences over rules of origin and phase-out period.	
BIMSTEC FTA	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) Free Trade Area	Negotiations were formally launched in 2014 after framework agreement in 2004	Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, Thailand	1,625 million	US$2,791 billion	The BIMSTEC FTA covers 14 priority areas for cooperation: trade and investment, transport and communication, energy, tourism, technology, fisheries, agriculture, public health, poverty alleviation, counter-terrorism and transnational crime, environment and natural disaster management, culture, people to people contact, and climate change.	
CA-IN CEPA	Canada-India Comprehensive Economic Partnership Agreement	Under negotiation since 2010	Canada, India	1,331 million	US$3,854 billion	The 9th round of negotiation was held in 2015. A joint scoping report released in September 2010 estimates that total bilateral trade in goods and services between Canada and India can grow by over 50% or almost US$3 billion under the CEPA.	
EU-CN IA	EU-China Investment Agreement	Under negotiation since 2013	EU, China	1,873 million	US$28,865 billion	The EU and China agreed that the deal should improve market access opportunities for their investors by establishing a genuine right to invest and by guaranteeing that they will not discriminate against their respective companies. The EU and China are also determined to address key challenges of the regulatory environment, including those related to transparency, licensing and authorisation procedures, and to provide for a high and balanced level of protection for investors and their investments. The agreement will also include rules on environmental and labour-related dimensions of foreign investment.	

FTAs under negotiation

	Name of agreement	Status	Current signatories	Total population of signatories (2014)	Total GDP of signatories (2014)	Highlights	Rules of Origin
EU-ID CEPA	EU-Indonesia Comprehensive Economic Partnership Agreement	Under negotiation since 2012	EU, Indonesia	763 million	US$19,349 billion	The CEPA could potentially eliminate 95% of current import tariffs. The partnership also focuses on capacity building and investment, which differentiates it from a FTA.	
EU-IN BTIA	EU-India Bilateral Trade and Investment Agreement	Under negotiation since 2007, but negotiations have been at a de facto standstill since 2013	EU, India	1,804 million	US$20,528 billion	India and the EU have agreed to eliminate tariffs on over 90% of all tradable goods during the next 10-year period, but EU's demand on India to drastically cut tariffs on specific products remain contentious.	
EU-PH FTA	EU-Philippines FTA	Negotiations formally launched in December 2015	EU, Philippines	607 million	UD$18,794 billion	The Philippines and the EU agreed to cover a broad range of issues, including elimination of customs duties and other barriers to trade, services and investment, access to public procurement markets, as well as additional disciplines in the area of competition and protection of intellectual property rights.	
EU-TH FTA	EU-Thailand Free Trade Agreement	Under negotiation since 2013	EU, Thailand	576 million	US$18,834 billion	Negotiations cover tariffs, non-tariff barriers and other trade related issues, such as services, investment, procurement, intellectual property, regulatory issues, competition, and sustainable development.	
IN-ID CECA	India-Indonesia Comprehensive Economic Cooperation Agreement	Under negotiation since 2011	India, Indonesia	1,550 million	US$2,955 billion	The CECA will build on the ASEAN-India FTA and will be a comprehensive agreement, covering economic cooperation, trade in goods and services, and investment.	

FTAs under negotiation

	Name of agreement	Status	Current signatories	Total population of signatories (2014)	Total GDP of signatories (2014)	Highlights	Rules of Origin
IN-TH FTA	India-Thailand Free Trade Agreement	Under negotiation since 2000. Early harvest scheme in force since 2004.	India, Thailand	1,363 million	US$2,453 billion	India and Thailand agreed that negotiations should cover: elimination of tariffs and non-tariff barriers in substantially all trade in goods; liberalization of trade in services; investment; trade and investment facilitation measures; and economic co-operation in other mutually-agreed areas such as agriculture. Under the early harvest scheme (EHS), customs duties on 82 products were slashed by September 2006.	
PK-TH FTA	Pakistan-Thailand Free Trade Agreement	Under negotiation since 2015	Pakistan, Thailand	253 million	US$648 billion	It is reported that the first phase of the FTA will only cover trade in goods, with emphasis on tariff reduction, customs procedures, and cooperation in sanitary standards and trade remedy measures. After the signing of the first phase of FTA, both countries intend to negotiate on services, investment and competition.	
RCEP	Regional Comprehensive Economic Partnership	Under negotiation since 2012	Australia, Brunei, Cambodia, China, India, Indonesia, Japan, Republic of Korea, Lao, Philippines, Malaysia, Myanmar, New Zealand, Singapore, Thailand, Vietnam	3,488 million	US$22,569 billion	It will be based on the existing ASEAN+1 agreements. The 9th round of negotiations took place in August 2015.	
TTIP	Transatlantic Trade and Investment Partnership	Under negotiation since 2013	EU, US	827 million	US$35,880 billion	The 11th round of negotiations took place in October 2015. On top of eliminating tariffs across all sectors, both sides want to open their markets for services. The TTIP negotiations also aim at developing rules, principles, and new modes of cooperation on issues of global concern, including intellectual property and market-based disciplines addressing state-owned enterprises and discriminatory localization barriers to trade.	

Glossary:

CTH: Change in tariff heading. The non-originating materials have undergone a change in tariff classification (CTC) at 4-digit level (i.e. a change in tariff heading) of the Harmonized System.

CTSH: Change in tariff sub-heading. The non-originating materials have undergone a change in tariff classification (CTC) at 6-digit level (i.e. a change in tariff sub-heading) of the Harmonized System

FOB: Free on board. The buyer pays for transportation of the goods

LDC: Least Developed Countries. Includes Bangladesh and Cambodia in the selected countries in the present matrix.

MFN: Most favoured nation. An MFN tariff is the lowest possible tariff a country can assess on another country. Members of the World Trade Organization are required to extend most favored nation status to other members.

RVC: Regional value content. A type of rule of origin that requires a product to include a certain percentage of originating content from the region.

THE FUNG BUSINESS INTELLIGENCE

Fung Business Intelligence collects, analyses and interprets market data on global sourcing, supply chains, distribution, retail and technology.

Headquartered in Hong Kong, it leverages unique relationships and information networks to track and report on these issues with a particular focus on business trends and developments in China and other Asian countries. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments around the world through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational corporation, Fung Business Intelligence also provides expertise, advice and consultancy services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

The Fung Group is a privately held multinational group of companies headquartered in Hong Kong whose core businesses are trading, logistics, distribution and retailing. The Fung Group employs over 46,800 people across 40 economies worldwide, generating total revenue of more than US$24.65 billion in 2014. Fung Holdings (1937) Limited, a privately held business entity headquartered in Hong Kong, is the major shareholder of the Fung group of companies.

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