

A group of people are seated in a room, likely at a conference or meeting. In the foreground, a woman with dark, curly hair is speaking into a microphone. She is wearing a black jacket and a red skirt. To her right, another woman with brown hair is seen from the back, wearing a black and white floral patterned jacket. Several other people are visible in the background, some looking towards the speaker. The scene is indoors with a plain white wall.

“The role of civil societies in trade negotiations (...) can help global supply chains become more circular (...), especially when it comes to FTA negotiations and the integration of complex issues like circular standards and climate mitigation targets.”

-Venkatachalam ANBUMOZHI

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Free trade agreements and circular supply chains in the Asia-Pacific

The Asia-Pacific region plays a prominent role in the world's production, resource use and employment, through the formation of global supply chains. In part, this is the result of multilateral trade pacts, harmonized rules and technological innovation adoption. The main traded goods are from apparel and footwear, automotive, agro-food, electronics, and extractive industries. Global supply chain participation tends to be higher in the ten economies within the Association of Southeast Asian Nations (ASEAN) and in East Asia, which in 2019 accounted for more than 65 per cent of the Global Supply Chain (GSC) related intermediate imports in the world.

Widespread deforestation, polluted water resources, degraded agricultural lands and declining fish stocks are just examples of consequences of aggressively pursued economic growth by GSC that also generated millions of jobs across the region. On average, GSC related carbon

emissions account for 73 percent of a multinational company's total emissions. This underlines the imperative for circular supply chains that could tackle the negative externalities of free trade.

Many countries and businesses in the world have started adopting roadmaps for a transition towards more circular supply chains - a model that promotes enhanced resource efficiency, and the decoupling of economic growth from extractive, wasteful, and polluting processes. Moving from a linear, extractive produce-use-discard model to a more circular approach will involve a paradigm shift and significant changes to existing business models.

A wide range of trade in products and services plays a critical role in supporting the various circular business models underpinning GSCs. They include both traditional services, such as construction, repair and maintenance services, and new forms of products and production processes. The latter includes services related to sharing models involving co-ownership or co-access to information stored in digital platforms, or Product Service Systems, focusing on selling a service rather than the product itself. These circular services are not limited to domestic activities but are procured and supplied across borders. A recent study revealed that the current circular business approaches taken by MNCs could create new opportunities valued at USD 1.6 trillion.¹

ASEAN member states have affirmed their commitment to the transition to circular supply chains through the adoption of long-term frameworks for the circular economy. The framework identifies the key priorities of free trade, harmonization of standards, fostering innovation, sustainable financing, and enhanced resource efficiency. At the launch of this framework in November 2021, the ASEAN member states decided to work more closely to ensure synergy across the policy areas and at the same time to promote social inclusion.

While most of global thinking on the circular economy has focused on enabling policy frameworks at domestic level, much less attention has been paid so far to the role of free trade agreements (FTA) in supporting this transition. FTAs play an essential role in supporting circular businesses along GSCs, particularly in eco-design, the collection and sorting of waste material and its transformation into secondary raw material and remanufacturing or refurbishing. Technological advances, including artificial intelligence and Industry 4.0, are also to be paid due attention in future FTAs, given their functions as circular services. These have the potential to accelerate the global transition toward a more circular economy through comparative advantages and scale effects by closing resource loops and narrowing resource flows. With proper safeguards and regulations in place, FTAs can contribute to lowering tariff and non-tariff barriers to support clean technology diffusion.

However, when looking at bilateral and regional FTAs exclusively signed between ASEAN member states and their major trading partners like the US, the EU and Japan, there exists a huge gap between aspirations and implementation. For example, the recently concluded Regional Comprehensive Economic Partnership (RCEP) completely ignored the provision of environmental goods and services.

Which factors facilitate or hinder the integration of circular economy issues into bilateral or multilateral FTAs? In general, it has been argued that developing countries prefer setting up Multilateral Environmental Agreements (MEA) (Montreal Protocol, the Basel Convention and the Convention on International Trade in endangered species, the Paris Climate Agreement, etc.) to safeguard their stance on Common But Differentiated Responsibilities (CBDR). However, emerging trade disputes within the WTO have shown that a difficult relationship exists between free trade and trade related MEAs. Free traders often think that MEAs fosters green protectionism. But it is often very difficult to draw a distinct line between environmental protection and environmental protectionism because the preconditions for circular economy transition can easily be abused to justify trade restrictions, as in the case of the Chinese ban on imports of wastes in 2017.

Another reason for ASEAN member states' reluctance to discuss circular low-carbon economy issues in FTAs is that developing economies and their enterprises have neither the

capacity nor the capability to seriously address environmental issues prior to their per capita income being developed to a substantially higher level. However, this argument often forgets the fact that economic growth, resource depletion and social inclusion are interrelated and intertwined with the competitiveness of global supply chains. There also exists a lack of stakeholder interests in and understanding of the benefits of circular advantages. The North America Free Trade Agreement (NAFTA) is certainly the most prominent example, where public consultation led to the successful integration of sustainability issues into the trade policies of the US, Mexico, and Canada.

Advancing a global circular economy transition will require concerted action at the international level through FTAs, because in an integrated world economy, no individual country or company can achieve the transition on its own. But the integration of circular economy principles into global supply chains may be difficult when countries with different developmental stages are involved. Relevant institutional mechanisms, such as multilateral platforms for exchanging information, guidance, best practices, and experience-sharing on circular value chains are yet to be fully formulated.

The process of integrating circular aspects into trade agreements could be accelerated, if future FTAs bring along opportunities for green growth, geo-strategic importance on resource use or negotiations that serve as a testing ground

for a socially-inclusive development agenda in the future. This will make developing countries more willing to accept circular standards in bilateral FTAs as well as in mega trade agreements, such as RECEP. However, in order to realize the - often - aspirational goals of circular supply chains, participating countries should design more coordinated effort into policy fields covering environment, economy, innovation and finance.

The role of civil societies in trade negotiations is another important factor that can help GSCs become more circular. While most of the advanced economies have pluralistic societies in which interest groups are involved in policy making process, the participation of public and civil societies in the Global South is limited. This is especially true when it comes to FTA negotiations and the integration of complex issues like circular standards and climate mitigation targets. Thus, hardly any domestic pressure to integrate environmental issues in FTAs exists or is taken seriously by trade negotiators. Increased cooperation in science, technology and capacity building on best circular supply chain practices among trading partners will help developing countries, such as those among the ASEAN member states, to meet international obligations such as the Paris Climate Agreement, and will improve coherence between environmental policies and FTAs.

To sum up, transforming the current linear supply chains into circular ones on local, regional, and global levels, depends

on (1) the integration of trade and environmental policies, (2) the setting up of technological cooperative frameworks alongside trade agreements, and (3) on finding a new role for civil societies to constructively work together.

Notwithstanding that circular supply chains are mostly about business-to-business interaction, consumer participation is always necessary to raise awareness of various critical issues. It remains to be seen whether circular business models will be integrated in the world's mega FTAs, and whether bilateral trade agreements can help achieve better circular outcomes at the global level.

1. ERIA (2020). Assessing the Readiness of Industry 4.0 and Circular Economy, Economic Research Institute for ASEAN and East Asia, Jakarta.