

The Political Economy of an “Asian” Mega-FTA

The Regional Comprehensive Economic Partnership

ABSTRACT

Like other proposed mega-FTAs, the Regional Comprehensive Economic Partnership (RCEP) is intended to address twenty-first-century trade issues. The attributes of the RCEP negotiations are unique, however—being shaped by the dominant political interests in its member states and by the particular character of economic interdependence in the region.

KEYWORDS: mega-FTAs, RCEP, regionalism, TPP, ASEAN

“MEGA-FTAs” ARE CHARACTERIZED not just by their geographical scope but also by their content. In Lawrence’s terminology, mega-FTAs are both broad and deep.¹ In contrast to the bilateral character of most free trade agreements (FTAs), they involve large numbers of countries. Moreover, the three partnerships that have been characterized as mega-FTAs are all trans-regional in their geographical scope: the Transatlantic Trade and Investment Partnership (TTIP) embraces the European Union and the United States; the Trans-Pacific Partnership (TPP) links parts of North, Central, and South America, Northeast and Southeast Asia, and Oceania; and the Regional Comprehensive Economic Partnership (RCEP) joins countries in Northeast and Southeast Asia, Oceania, and South Asia. A comprehensive definition of mega-FTAs suggests that they are also distinguished by their coverage of a major share of world trade (which differentiates them, for instance, from African regional groupings that include multiple small countries) and by the presence of two or more parties that serve as hubs in global value chains

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1. Robert Z. Lawrence, *Regionalism, Multilateralism, and Deeper Integration* (Washington, DC: Brookings Institution, 1996).

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(a topic to which we return later).² Each of the agreements seeks to go beyond the traditional focus of FTAs on the removal of tariffs to address “twenty-first-century” trade concerns such as non-tariff barriers and competition policy. They are all about setting the rules of the trade game for the first half of the twenty-first century—and about whose rules will prevail.

In meeting these definitions, the three mega-FTAs share certain characteristics. But each is also distinctive, a product of the interplay of economic and political factors within a region. This article identifies the unique characteristics of RCEP, the “Asian” mega-FTA, explains the origins of its uniqueness, and examines how the attributes of participating economies and of regional interdependence are likely to shape any agreement reached among the negotiating parties.

THE SHAPING OF FREE TRADE AGREEMENTS

Regional cooperation is driven by a complex mixture of economic and political factors and motivations that reflect the interests of governments, state bureaucracies, and private actors. Regional economic collaboration is expected at the very least to build confidence among participants, paving the way for improved political relations. Such aspirations figured prominently among the early proponents of Asia-Pacific regionalism, who saw it as a means for reducing the prevailing economic tensions between Japan and the US, and for encouraging political as well as economic reform in the communist regimes in the region.³ Over time, the balance between economic and political motivations often changes—as occurred in Europe with the evolution

2. Ricardo Meléndez-Ortiz, “Mega-Regionals: What Is Going On?” in *Mega-Regional Trade Agreements: Game-Changers or Costly Distractions for the World Trading System?* ed. World Economic Forum and Global Agenda Council on Trade and Foreign Direct Investment (Geneva: World Economic Forum, 2014), pp. 13–14.

3. See e.g. Hugh Patrick and Peter Drysdale, “An Asian-Pacific Regional Economic Organization: An Exploratory Concept Paper” (Washington, DC: US Government Printing Office, July 1979), prepared for the Senate Committee on Foreign Relations by the Congressional Research Service, Library of Congress. For contrasting assessments of the contributions of Asian regional economic institutions to inter-state security, see Wu Xinbo, “The Spillover Effect of the ASEAN-Plus-Three Process on East Asian Security,” in *The Nexus of Economics, Security, and International Relations in East Asia*, ed. Avery Goldstein and Edward D. Mansfield (Stanford, California: Stanford University Press, 2012), pp. 96–119; Miles Kahler, “Regional Economic Institutions and East Asian Security,” in *ibid.*, pp. 66–95; and T. J. Pempel (ed.), *The Economy-Security Nexus in Northeast Asia* (New York: Routledge, 2012).

over three decades from the European Coal and Steel Community to the EU. The initial impetus for the wave of FTAs that East Asian countries entered into in the aftermath of the Asian financial crises of 1997–98 appeared to be based primarily on politics, driven in part by contestation between China and Japan for regional leadership.⁴ As businesses in Asian economies became more aware of the potential benefits and costs of such agreements, however, they played a greater role in the domestic policymaking of FTAs when they saw them impinging on their interests, endeavoring to shape governments' negotiating strategies to their advantage.⁵

The standard economic explanation for the content of FTAs views them through the prism of "protection for sale," in which governments attempt to maximize their prospects for re-election by seeking new markets for exporters while continuing to protect import-sensitive sectors.⁶ Such an approach provides a persuasive explanation for why FTAs are frequently characterized by significant "carve-outs," in which certain sectors are exempted from liberalization to satisfy domestic constituencies. The protection-for-sale approach, however, tells only a partial story. It ignores the possibility that governments and bureaucracies may have their own interests to pursue beyond electoral considerations, and the potential importance of non-economic factors, particularly strategic concerns. Similarly, it pays no attention to the significance of ideas in shaping the interests of bureaucracies or to the role that regional and multilateral institutions can play in disseminating collaborative approaches to policy.⁷

4. Christopher M. Dent, *New Free Trade Agreements in the Asia-Pacific* (Basingstoke: Palgrave Macmillan, 2006); John Ravenhill, "The 'New East Asian Regionalism': A Political Domino Effect," *Review of International Political Economy* 17, no. 2 (2010), pp. 178–208; Mireya Solís, Barbara Stallings, and Saori N. Katada (eds.), *Competitive Regionalism: FTA Diffusion in the Pacific Rim* (New York: Palgrave Macmillan, 2009); Gregory P. Corning, "Japan and the Liberalization of Trade in Services: TPP, TISA, and Leadership in East Asia," *Asian Survey* 56, no. 4 (August 2016), pp. 779–805.

5. Mark S. Manger, "Vertical Trade Specialization and the Formation of North-South PTAs," *World Politics* 64, no. 4 (2012), pp. 622–658; Antonio Postigo, "Institutional Spillovers from the Negotiation and Formulation of East Asian Free Trade Agreements: Government-Business Relations in the Policymaking of Bilateral Free Trade Agreements," *Review of International Political Economy* 23, no. 3 (2016), pp. 379–417.

6. Gene M. Grossman and Elhanan Helpman, "The Politics of Free Trade Agreements," *American Economic Review* 85, no. 4 (1995), pp. 667–690.

7. See e.g. Stuart Harris, "Policy Networks and Economic Cooperation: Policy Coordination in the Asia-Pacific Region," *Pacific Review* 7, no. 4 (1994), pp. 381–396.

Because governments pursue multiple objectives through FTAs, they often have to balance maximizing domestic economic (and thus vote-winning) concerns with foreign policy objectives. Numerous instances exist in FTA negotiations where governments decided to compromise on securing access to export markets or on maintaining existing levels of protection for domestic sectors because they placed a higher value on the non-economic benefits that they perceived the agreement could generate.⁸ A classic case was the decision in February 2004 by then-Australian Prime Minister John Howard to sign off, against the advice of his own negotiating team, on an agreement with the US that excluded several of the products and sectors that were expected to generate for Australia the most benefits from an FTA. Howard's judgement was that the FTA would reinforce the security relationship with Washington (which itself had the potential to generate domestic electoral benefits), and that this element was more important for his government than the costs of upsetting some domestic constituencies by failing to attempt to maximize economic gains.⁹ Security considerations have also been prominent in the recent TPP negotiations, where the Obama administration has frequently reminded its partners of the non-economic dimensions of the proposed agreement. In a speech on the sidelines of the APEC Leaders Meeting in November 2011, then-Secretary of State Hillary Clinton situated the TPP within the US plan for "strengthening our bilateral security alliances; deepening our working relationships with emerging powers; engaging with regional multilateral institutions; expanding trade and investment; forging a broad-based military presence; and advancing democracy and human rights."¹⁰ The US Secretary of Defense, Ashton Carter, has suggested that agreement on the TPP would be as important to US defense policy as having an extra aircraft carrier in the region.¹¹ In general, other things being equal,

8. On the links between security issues and FTAs see Vinod K. Aggarwal and Kristi Govella (eds.), *Linking Trade and Security: Evolving Institutions and Strategies in Asia, Europe, and the United States* (New York: Springer, 2013).

9. Ann Capling, *All the Way with the USA: Australia, the US and Free Trade* (Sydney: UNSW Press, 2005); Linda Weiss, Elizabeth Thurbon, and John Mathews, *How to Kill a Country: Australia's Devastating Trade Deal with the United States* (Crows Nest, NSW: Allen & Unwin, 2004).

10. Hillary Rodham Clinton, "America's Pacific Century," *Foreign Affairs* October 11, 2011 <<http://foreignpolicy.com/2011/10/11/americas-pacific-century>>, accessed October 3, 2016.

11. Ashton Carter, "Remarks on the Next Phase of the U.S. Rebalance to the Asia-Pacific (McCain Institute, Arizona State University) as Delivered by Secretary of Defense Ash Carter, Tempe, AZ, April 6, 2015," Department of Defense, <<http://www.defense.gov/DesktopModules/ArticleCS/Print.aspx?PortalId=1&ModuleId=1051&Article=606660>>, accessed August 17, 2015.

the more significant the security dimensions of a regional cooperative relationship, the greater the compromises one would expect governments to make in their pursuit of domestic economic objectives.

Reference to the security dimensions of FTAs provides a reminder that multiple bureaucracies, whose interests do not always coincide, may be involved in the formulation of government policies on trade agreements. Consequently, one factor that shapes national approaches to FTAs is the institutional structure for trade policymaking. In some cases, policymaking is fragmented, as has notoriously been the case in Japan. The Ministry of Economy, Trade and Industry, the Ministry of Foreign Affairs, and the Ministry of Agriculture, Forestry and Fisheries sometimes compete for influence in the context of a weak coordinating body in the Office of the Prime Minister; thus, trade policies tend to lack coherence, and multiple veto points will be available to those who seek to block trade liberalization.¹² In contrast, policymaking can be expected a priori to be more coherent in quasi-authoritarian regimes such as Singapore or in socialist regimes such as Vietnam or China. No government negotiating FTAs, however, can afford to consistently ignore key domestic interests.¹³

The configuration of trade policymaking institutions also affects the opportunities for societal actors to influence countries' negotiating positions. So does the structure of the electoral system. For instance, if rural interests are overrepresented, then it will be more difficult to liberalize agricultural trade. The capacity of societal actors to influence policy will also be affected by the rules on the size of campaign contributions, and by how important such

12. Yoichi Funabashi, *Asia Pacific Fusion: Japan's Role in APEC* (Washington, DC: Institute for International Economics, 1995); Aurelia George Mulgan, "Industry versus Agriculture in Japan's TPP Debate," *East Asia Forum*, December 14, 2011, <<http://www.eastasiaforum.org/2011/07/27/industry-versus-agriculture-in-japan-s-tpp-debate/>>, accessed 13 June 2012; Edward J. Lincoln, *East Asian Economic Regionalism* (New York: Council on Foreign Relations and Brookings Institution Press, 2004); Naoko Munakata, *Transforming East Asia: The Evolution of Regional Economic Integration* (Washington, DC: Brookings Institution Press, 2006).

13. Trade policymaking in all countries inevitably is influenced by competing bureaucratic interests. On the fragmented character of trade policymaking in China, see John Ravenhill and Yang Jiang, "China's Move to Preferential Trading: A New Direction in China's Diplomacy," *Journal of Contemporary China* 18, no. 58 (2009), pp. 27–46; Yang Jiang, "Australia-China FTA: China's Domestic Politics and the Roots of Different National Approaches to FTAs," *Australian Journal of International Affairs* 62, no. 2 (2008), pp. 179–195; Margaret Pearson, "Domestic Institutional Constraints on China's Leadership in East Asian Economic Cooperation Mechanisms," *Journal of Contemporary China* 19, no. 66 (2010), pp. 621–633; Guoyou Song and Wen Jin Yuan, "China's Free Trade Agreement Strategies," *Washington Quarterly* 35, no. 4 (2012), pp. 107–119.

contributions are for a candidate's prospects for being elected. Whether it is a majoritarian system with single-member constituencies or a proportional-representation system with multi-member constituencies can also affect the capacity of societal actors to influence trade politics and the extent to which trade policies are protectionist.¹⁴ Also important are factors impeding or facilitating actors' capacity for mobilization: the size of firms, for instance, and their geographical concentration.

Trade Policymaking in Asia

Much of the literature on FTAs in Asia is state-centric, not only referring to countries as if they are unitary actors ("Japan's approach," etc.) but also paying little attention to the input from societal actors into the formulation of trade policies. Such neglect was understandable in the immediate aftermath of the Asian financial crises of 1997–98, when it appeared that the switch in the trade policy approaches of many Asian countries from multi-lateralism to bilateralism was state-driven and primarily responsive to changes in the external environment.¹⁵ It is far less helpful in an era when observers see FTAs in general and mega-FTAs in particular as being driven in part by the demands of firms seeking to improve the management of their value chains.

The literature on the domestic politics of trade policy in Asian countries is often very thin, not least in comparison with that available on the US or the EU. Japan is a partial exception to this generalization;¹⁶ a few papers look at

14. A growing consensus in the vast literature on trade policies and electoral systems suggests that majoritarian systems are generally more protectionist; see John William Hatfield and William R. Hauk, "Electoral Regime and Trade Policy," *Journal of Comparative Economics* 42, no. 3 (2014), pp. 518–534. For a survey of the literature that is more skeptical of this relationship and points to the complexities in attempting to link electoral systems and trade policy outcomes, see Stephanie J. Rickard, "Electoral Systems and Trade," in *The Oxford Handbook of the Political Economy of International Trade*, ed. Lisa L. Martin (Oxford: Oxford University Press, 2015), pp. 280–297.

15. Vinod K. Aggarwal and Seungjoo Lee (eds.), *Trade Policy in the Asia-Pacific: The Role of Ideas, Interests, and Domestic Institutions* (New York: Springer, 2011).

16. Hidetaka Yoshimatsu, "Japan's Keidanren and Free Trade Agreements: Societal Interests and Trade Policy," *Asian Survey* 45, no. 2 (2005), pp. 258–278, provides an early exploration of the role of a non-state actor, Keidanren, in the formulation of policies toward FTAs in Japan. See also Mireya Solis, "Japan's New Regionalism: The Politics of Free Trade Talks with Mexico," *Journal of East Asian Studies* 3, no. 3 (2003), pp. 377–404; Mireya Solis, "Can FTAs Deliver Market Liberalization in Japan? A Study on Domestic Political Determinants," *Review of International Political Economy* 10, no. 2 (2010), pp. 209–237; Saori N. Katada and Mireya Solis, "Domestic Sources of Japanese Foreign

trade policymaking in Korea;¹⁷ on countries elsewhere in the region, very little has been published.¹⁸ Our understanding of some of the dimensions of trade policy formulation often comes not from detailed studies of the policy-making process itself but, rather, from deducing the role of various domestic actors in trade policymaking and their success in pursuing their interests from the publicly stated trade negotiating objectives of governments and the actual content of the agreements.

Relatively early in the pursuit of FTAs by Asian economies, substantial variation was evident in “national” approaches to FTAs.¹⁹ The Japanese

Policy Activism: Loss Avoidance and Demand Coherence,” *International Relations of Asia and the Pacific* 10, no. 1 (2010), pp. 129–157; Ellis S. Krauss and Megumi Naoi, “The Domestic Political Economy of Japan’s Regional Economic Policies,” in *Trade Policy in the Asia-Pacific*, pp. 49–70; Shigeki Higashi, “The Policy Making Process in FTA Negotiations: A Case Study of Japanese Bilateral EPAs,” Discussion Paper 138.2008.3, Institute of Developing Economies, Tokyo, 2008, <http://ir.ide.go.jp/dspace/bitstream/2344/72713/ARRIDE_Discussion_No.138_higashi.pdf>, accessed August 3, 2016; Mireya Solís, “Business Advocacy in Asian PTAs: A Model of Selective Corporate Lobbying with Evidence from Japan,” *Business and Politics* 15, no. 1 (2013), pp. 87–116; Mark S. Manger, *Investing in Protection: The Politics of Preferential Trade Agreements between North and South* (Cambridge: Cambridge University Press, 2009); Aurelia George Mulgan and Masayoshi Honma (eds.), *The Political Economy of Japanese Trade Policy* (Houndmills: Palgrave Macmillan, 2015).

17. Young Bae Park and Sang Bok Moon, “Korea’s FTA Policy Structure,” unpublished paper, 2006; Sang Bok Moon, *From the Inside Out: Domestic Factors Underlying the Variance across Korea’s FTA Policy Outcomes*, PhD dissertation, Australian National University, 2010; Sang-young Rhyu, “South Korea’s Political Dynamics of Regionalism: A Comparative Study of Korea-Japan FTA and Korea-U.S. FTA,” in *Trade Policy in the Asia-Pacific*, pp. 71–88; Min Gyo Koo and Whasun Jho, “Linking Domestic Decision-Making and International Bargaining Results: Beef and Automobile Negotiations between South Korea and the United States,” *International Relations of Asia and the Pacific* 13, no. 1 (2013), pp. 65–93; Hyun-Seok Yu, “Political Institutions and Protectionism in Korea: The Case of Korea-Chile FTA Ratification Process,” *Korea Observer* 37, no. 4 (2006), pp. 643–673.

18. On China, see Yang Jiang, *China’s Policymaking for Regional Economic Cooperation* (Houndmills: Palgrave Macmillan, 2013); Ming Wan, “The Domestic Political Economy of China’s Preferential Trade Agreements,” in *Trade Policy in the Asia-Pacific*, pp. 29–48; on Indonesia, see A. C. Chandra and L. Hanim, “Indonesia,” in *Governments, Non-State Actors and Trade Policy-Making: Negotiating Preferentially or Multilaterally?* ed. Ann Capling and Patrick Low (Cambridge: Cambridge University Press, 2010), pp. 125–160; on Singapore, see Lee Lai To and Ren Yi Hooi, “The Politics of Singapore’s Bilateral Free Trade Agreements: Enlightened Self-Interest to Promote East Asian Regionalism in the New Millennium?” in *Trade Policy in the Asia-Pacific*, pp. 121–142; on Thailand, see T. Pongsudhiriak, “Thailand,” in *Governments, Non-State Actors and Trade Policy-Making*, pp. 161–185.

19. Christopher M. Dent, “Full Circle? Ideas and Ordeals of Creating a Free Trade Area of the Asia-Pacific,” *Pacific Review* 20, no. 4 (2007), pp. 447–474; John Ravenhill, “The Move to Preferential Trade on the Western Pacific Rim: Some Initial Conclusions,” *Australian Journal of International Affairs* 62, no. 2 (2008), pp. 129–150; Arthur Lord, *Demystifying FTAs: A Comparative Analysis of American, Japanese, and Chinese Efforts to Shape the Future of Free Trade*, Asia-Pacific

government's approach favored comprehensive FTAs, with the notable exception of the agricultural sector (testimony to the strength of the Ministry of Agriculture, Forestry and Fisheries and the disproportionate influence of agricultural interests in Japanese elections).²⁰ Unlike the US strategy, that of Japan also emphasized a capacity-building element through the construction of comprehensive economic partnerships, a continuation of the longstanding Japanese "flying geese" approach to regionalism, which placed emphasis on the integration of economies around Japanese-led value chains.²¹ After initial FTAs that were far from comprehensive in their coverage, again primarily because of pressures from domestic agricultural interests, Korea began to negotiate agreements that were far more ambitious than any of Japan's bilateral FTAs. Choi and Oh argue persuasively that the Korean government was able to adopt this approach because the structure of trade policymaking in Korea was more coherent than that in Japan, enabling the government to circumvent opposition from agriculture and small and medium enterprises.²²

Whereas Japan and Korea's FTAs both included elements that went beyond their existing WTO commitments, such as provisions on investment

Policy Papers, no. 10, Johns Hopkins University–SAIS, Washington, DC, 2010, <<http://www.reischauercenter.org/en/wp-content/uploads/2012/05/Demystifying-FTAs.pdf>>, accessed August 1, 2016; Aggarwal and Lee, *Trade Policy in the Asia-Pacific*; Ganeshan Wignaraja, Economic Reforms, Regionalism, and Exports: Comparing India and China, Policy Studies no. 60, East-West Center, Honolulu, 2011, <<http://www.eastwestcenter.org/system/tdf/private/ps060.pdf?file=1&type=node&id=32972>>, accessed August 3, 2016

20. On the ongoing significance of agricultural interests in elections and consequently in Japanese trade policies, see Hironori Sasada, "The Impact of Rural Votes in Foreign Policies: The FTA Policies under the DPJ Government in Japan," *Asian Journal of Political Science* 21, no. 3 (2013), pp. 224–248; Aurelia George Mulgan, "Bringing the Party Back In: How the DPJ Diminished Prospects for Japanese Agricultural Trade Liberalization under the TPP," *Japanese Journal of Political Science* 15, no. 1 (2014), pp. 1–22.

21. Mitchell Bernard and John Ravenhill, "Beyond Product Cycles and Flying Geese: Regionalization, Hierarchy, and the Industrialization of East Asia," *World Politics* 45, no. 2 (1995), pp. 179–210; Kiyoshi Kojima, "The 'Flying Geese' Model of Asian Economic Development: Origin, Theoretical Extensions, and Regional Policy Implications," *Journal of Asian Economics* 11 (2000), pp. 375–401.

22. Byung-il Choi and Jennifer Sejin Oh, "Asymmetry in Japan and Korea's Agricultural Liberalization in FTA: Domestic Trade Governance Perspective," *Pacific Review* 24, no. 5 (2011), pp. 505–527. Small and medium enterprises were successful, however, in limiting the liberalization of merchandise trade in Korea's 2015 FTA with China. Seven percent of China's current exports to Korea will be excluded (in contrast to 1.7% of New Zealand's exports and 0.1% of US exports in Korea's bilateral FTAs). Moreover, the two parties will implement the agreement over two decades, a much longer period than for other Korean agreements. Kwanwoo Jun, "South Korea-China Trade Deal: Less Than Meets the Eye," *Wall Street Journal Blogs*, November 18, 2014 <<http://blogs.wsj.com/korearealtime/2014/11/18/south-korea-china-trade-deal-less-than-meets-the-eye/>>.

and on intellectual property, those of China and India focused primarily on border barriers—and even in this area were very limited in their coverage. The political origins of China’s early agreements (those with ASEAN and the “internal” FTAs with Hong Kong, Macao, and Taiwan) were evident in Beijing’s willingness to make more concessions than it demanded of its partners. But provisions in later agreements with industrialized economies, including Australia, New Zealand, and Switzerland, which were more comprehensive in their coverage, were far more balanced, as protectionist domestic interests, particularly in agriculture and services, asserted their voice in the trade policymaking process.²³

Among the FTAs of all the RCEP negotiating parties, those of India stand out for the incompleteness of their coverage, even of merchandise trade (where India has seldom committed to liberalize more than 75% of tariffs). India’s trade policies have been shaped by the legacies of the autarkical economic policies pursued until 1991: significant areas of manufacturing as well as agriculture continue to be characterized by low levels of efficiency and productivity, sustained by high tariffs and a variety of non-tariff barriers, policies that enjoyed considerable popular support. The foreign trade policymaking structure, concentrated in the hands of the domestically oriented Ministry of Commerce and Industry, provided a further barrier to trade liberalization. India’s early FTAs were exclusively with its neighbors and other Southern economies—its first FTA with an industrialized economy, Japan, was not signed until 2011. Only four of India’s FTAs in effect in 2015 included provisions on services as well as merchandise trade. Resistance to more-comprehensive agreements was reinforced by perceptions that India’s FTAs had exacerbated the country’s trade deficit by disproportionately benefiting its partners, not least because India was cutting tariffs from a much higher initial base.²⁴

23. Yang Jiang, “China’s Pursuit of Free Trade Agreements: Is China Exceptional?” *Review of International Political Economy* 17, no. 2 (2010), pp. 238–261; Ka Zeng, “Multilateral versus Bilateral and Regional Trade Liberalization: Explaining China’s Pursuit of Free Trade Agreements (FTAs),” *Journal of Contemporary China* 19, no. 66 (2010), pp. 635–652.

24. Kyle Robert Cote and Purna Chandra Jena, “India’s FTAs and RCEP Negotiations,” Discussion Paper, CUTS Centre for International Trade, Economics and Environment, Jaipur, September 2015, <http://www.cuts-citee.org/EPTAs/pdf/Indias_FTAs_and_RCEP_Negotiations.pdf>, accessed August 10, 2016; Biswajit Dhar, *India’s RCEP Challenges* (Singapore: Institute of South Asian Studies, 2016).

The size of the Chinese, Indian, and Japanese economies provides them with the bargaining leverage in trade negotiations to enable them to play the role of rule-makers. The smaller economies participating in the RCEP negotiations (the ASEAN member states, Australia, and New Zealand—and to some extent Korea) are largely rule-takers. Their own trade policy preferences differ substantially. Many of the ASEAN economies, particularly those with lower per capita incomes, have had a similar approach to FTAs to that of India: they have wanted to continue protection for domestic manufacturing as long as possible and are reluctant to include provisions on services trade that go beyond their existing commitments in the WTO. Australia, New Zealand, and Singapore in contrast are all enthusiastic liberalizers: they all have low levels of tariffs on manufactures, and are generally keen to promote liberalization of services trade. Australia and New Zealand in particular are strong advocates of reducing barriers to agricultural exports. Their limited bargaining leverage ensured, however, that the content of their FTAs owed much to the preferences of their negotiating partners. Consider, for instance, Singapore's bilateral FTAs with the US and India. The US agreement followed Washington's customary template for FTAs: it was comprehensive, and went substantially beyond US commitments at the WTO in its coverage of services, and intruded into areas of the economy, such as the activities of government-linked companies, that the Singapore government would have preferred to exclude.

In contrast, Singapore's treaty with India was of decidedly low quality: over 56% of products were completely excluded from the agreement.²⁵ Provisions on investment and on trade in services were very limited: government procurement was completely excluded. Similarly, while winning some concessions, Australia and New Zealand have had little success in negotiating significant liberalization of trade in agricultural products in agreements with much larger economies such as the US or China and Japan.

Differences in national trade policy preferences are reflected in the network of ASEAN Plus One agreements (bilateral treaties between ASEAN and Australia/New Zealand, China, India, Japan, and the Republic of Korea), on which RCEP builds. With the notable exception of Singapore, ASEAN countries have not aspired to comprehensive agreements. The content of the Plus One agreements consequently starts from a low base—and the extent

25. Institute of South Asian Studies, National University of Singapore, *Guide to the Singapore-India Comprehensive Economic Cooperation Agreement* (Singapore: Rajah and Tann, 2006).

to which they have built on this foundation largely reflects the preferences of the Plus One partners. Coverage, even of merchandise trade, is far from complete—and the treaties have implementation periods that range from 15 to 18 years (which contravenes the WTO expectation that such treaties will be fully executed within a 10-year period).²⁶ Again, the Indian agreement stands out for its poor quality, with on average fewer than 80% of tariff lines being liberalized by the parties. That with China is also limited in its coverage. The original framework agreement signed in November 2002 had only 16 articles and was essentially an agreement for future discussions in which flesh would be added to the skeleton. Trade in services was not included until 2007.

ASEAN's agreement with Australia and New Zealand is the most comprehensive in its coverage, both of merchandise trade and of services—but even then some commentators have judged it a poor-quality agreement overall.²⁷ None of the ASEAN Plus One treaties have met the WTO's transparency requirements.²⁸ And, in services, some of the agreements actually fall short of the commitments that countries have already made at the global level. Urata concludes that the ASEAN Plus One agreements are not compliant with the requirements in the General Agreement on Trade in Services treaty for substantial sectoral coverage and the absence or elimination of substantially all discrimination.²⁹

A structural factor also significantly influences the outcomes of negotiations between ASEAN and its Plus One partners. ASEAN is not a customs union; that is, it does not have a common external tariff. The consequence is that the ASEAN Plus One treaties have essentially been 10 bilateral agreements rather than a single multilateral pact. Each ASEAN country makes its own individual pledges in the agreements. The most notable example of

26. For details see Yoshifumi Fukunaga and Ikumu Isono, "Taking ASEAN+1 FTAs towards the RCEP: A Mapping Study," Discussion Paper ERIA-DP-2013-2, Economic Research Institute for ASEAN and East Asia, Jakarta, January 2013.

27. Law firm Minter Ellison, cited in Rowan Callick, "Our FTA with South-East Asia Labelled 'Mediocre'," *The Australian*, April 4, 2009.

28. Shujiro Urata, "Constructing and Multilateralizing the Regional Comprehensive Economic Partnership: An Asian Perspective," Working Paper 449, Asian Development Bank Institute, Tokyo, December 2013, <<http://www.adbi.org/files/2013.12.02.wp449.regional.economic.partnership.asia.pdf>>, accessed October 19, 2014.

29. *Ibid.*, 17. See also Rudolf Adlung and Sébastien Miroudot, "Poison in the Wine? Tracing GATS-Minus Commitments in Regional Trade Agreements," Staff Working Paper ERS2012-04, World Trade Organization, Geneva, February 2012, <http://www.wto.org/english/res_e/reser_e/ers201204_e.pdf>, accessed October 19, 2014.

variation in ASEAN commitments is in the treaty with India, where the percentage of total tariff lines that countries promised to liberalize varied from less than 50% in Indonesia (because of concerns over India's threat to sensitive domestic manufacturing, particularly textiles) to 100% for Singapore.³⁰ In other agreements, the smallest share of tariff lines liberalized was Malaysia's 85% in the ASEAN agreement with Japan.

By the time that the RCEP negotiations were announced, in November 2011, a decade of negotiations of FTAs in Asia had produced a patchwork quilt of arrangements that were markedly uneven in their content and that specified very different conditions with which businesses had to comply if they were to benefit from the agreements' provisions. The proliferation of agreements generated an incentive to negotiate an overarching arrangement that would multilateralize the increasingly dense "noodle bowl"—a principal reason why the WTO showed early interest in the mega-FTAs.³¹ Governments in the region also became more ambitious in their approach to FTAs, a change driven by the perceived need to maintain competitiveness by keeping up with developments in trade relationships both within the region and outside it (including the start of negotiations for the TPP). Although the overall context was favorable, the incentives to reach a comprehensive agreement in the RCEP negotiations would inevitably be affected not just by the domestic constraints identified in this section but also by the structure of economic interdependence in the region. The second part of this paper examines how this regional economic interdependence differs from that of the other "mega" regions, and how it can be expected to affect the content of the RCEP negotiations.

THE STRUCTURE OF ECONOMIC INTERDEPENDENCE AND MEGA-FTAS

The three mega-FTAs are differentiated by the predominant trade structure between the parties, and by their context, which in turn shapes the principal focus of the negotiations.

30. Arata Kuno, "Constructing the Tariff Dataset for the ERIA FTA Database," in *Comprehensive Mapping of FTAs in ASEAN and East Asia*, ed. Chang Jae Lee and Misa Okabe (Jakarta: Economic Research Institute for ASEAN and East Asia, 2011), pp. 13–37.

31. Richard E. Baldwin and Patrick Low (eds.), *Multilateralizing Regionalism: Challenges for the Global Trading System* (Cambridge: Cambridge University Press, 2009). The "noodle bowl" analogy transposed to Asia an earlier reference to a "spaghetti bowl"-like proliferation of trade agreements linking countries in Europe.

The structure of trade and investment differs significantly across the three agreements. A study of the trans-Atlantic partnership attributes its unique politics—where businesses from the two parties have been allies rather than rivals in the negotiations, united in their desire for regulatory reform—to the structure of the economic relationship between the US and Europe. Young concludes that the trans-Atlantic economy is “less a trading relationship than an investment one.”³² Market-access issues generally are insignificant: trade in services and the local production of finished goods for domestic consumption figure prominently in the relationship. In the TPP, in contrast, cross-Pacific participation in value chains is limited (except for US buyers of finished products from Asia); levels of foreign direct investment (FDI) across the Pacific are very low in comparison to the trans-Atlantic relationship;³³ services trade is small; market-access issues are more significant; and the negotiations were marked by divisions over alternative geographical bases for the organization of value chains.³⁴ Market-access issues also figure prominently in the RCEP negotiations, particularly for those economies that have been laggards in liberalization, most notably India and the lower-income ASEAN economies. Barriers to trade in services are among the highest in the world.³⁵ In addition, agricultural trade remains an ongoing challenge among the parties. Consequently, for domestic producers the negotiations have more of a zero-sum nature than the win-win structure that Young sees as characterizing the TTIP.

RCEP is also more similar to TPP than to TTIP on the metric of investment interdependence among its members. In the region’s largest economies, FDI stocks as a share of GDP are exceptionally low in comparison with other parts of the world: for Japan, the ratio is 4.1%; for Korea, 12.7%; for India, 13.5%; and for China, 11.1%. In contrast, the average figure for the EU is 47.9%, while even in the world’s largest economy, the US, foreign investment stocks are equivalent to 31.1% of GDP.³⁶ Intra-regional investment in

32. Alasdair R. Young, “Not Your Parents’ Trade Politics: The Transatlantic Trade and Investment Partnership Negotiations,” *Review of International Political Economy* 23, no. 3 (2016), pp. 345–378.

33. For instance, whereas 60% of the stock of outward FDI from the US is located in Europe, only 0.6% is invested in its largest Asian trading partner in the TPP, Japan.

34. John Ravenhill, “The Political Economy of a ‘21st Century’ Trade Agreement: The Trans-Pacific Partnership,” *New Political Economy* (forthcoming).

35. Corning, “Japan and the Liberalization of Trade in Services,” p. 784.

36. Data for 2015 from United Nations Conference on Trade and Development (UNCTAD), “World Investment Report Annex Tables,” <<http://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Annex-Tables.aspx>>, accessed August 21, 2016.

services substantially lags investment from outside Asia.³⁷ Despite the increase in intra-regional trade driven by the growth of global value chains, the cumulative share of ASEAN Plus Three countries (China, Japan, and South Korea) in the stocks of FDI held by other ASEAN Plus Three countries has remained largely unchanged over the last quarter of a century. In 2014, the figure was 18.5%.³⁸

ASEAN economies together hosted only 12.2% of the stock of Japanese outward FDI in 2013, the latest year for which data is available; China, a further 8.8%; Korea, 2.7%; and India only 1.2%. In contrast, 30% of Japanese total FDI was hosted by the US, and 24% by Europe. The geographical distribution for Korea is similar, with the notable exception of China, which hosts 25% of Korea's outward FDI: ASEAN hosts 14.2%; Japan and India, less than 2% each. OECD countries collectively host 40% of Korea's FDI stocks.³⁹

Similarly to the TPP but unlike the relatively balanced flow of investments across the Atlantic, enormous asymmetries in investment flows are evident within RCEP. China and Hong Kong combined account for only 3.3% of Korea's inward FDI stocks; Japan is responsible for 26.7%; India, for less than one-half of 1%. For Japan, East and Southeast Asia combined account for 26% of its outward FDI stocks, less than the share of the US; India, for only 1.5%. The share of inward FDI stocks in Japan held by other RCEP

37. Corning, "Japan and the Liberalization of Trade in Services," p. 784.

38. Calculated from data from the Integration Indicators database, Asia Regional Integration Center, Asian Development Bank, <<https://aric.adb.org/integrationindicators>>, accessed August 19, 2016.

39. Calculated from data at OECD.Stat, Organisation for Economic Co-operation and Development, <https://stats.oecd.org/Index.aspx?DataSetCode=FDI_FLOW_PARTNER>, accessed August 20, 2016. Official Chinese data from the Ministry of Commerce are substantially distorted because Hong Kong and tax havens account for close to 70% of reported total flows and stocks, making it difficult to discern the final destination of the capital (a portion of which is immediately re-invested in China itself). UNCTAD's *World Investment Report*, which uses Chinese Ministry of Commerce data, reports that Hong Kong held 58% of China's outward FDI stocks in 2012; Korea accounted for 0.6%; ASEAN, 5.3%; India, 0.2%; and Japan, 0.3%. Similarly, Hong Kong reportedly was the source of 44% of China's inward FDI stocks. UNCTAD, "Bilateral FDI Statistics," <<http://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics-Bilateral.aspx>>, accessed August 21, 2016. On the problems with the Chinese FDI data, see Carlos Casanova, Alicia Garcia-Herrero, and Le Xia, "Chinese Outbound Foreign Direct Investment: How Much Goes Where after Round-tripping and Offshoring?" Working Paper 15/17, Banco Bilbao Vizcaya Argentaria, Hong Kong, June 2015, <https://www.bbvaersearch.com/wp-content/uploads/2015/07/15_17_Working-Paper_ODI.pdf>, accessed August 20, 2016.

economies is even smaller: East and Southeast Asia contribute 13.4%, and India, substantially less than 0.1%. India generally is not closely integrated into regional investment flows: Japan accounts for 7% of its inward FDI stocks; China and Hong Kong for 2.2%; and Korea for 1.4%. The three Northeast Asian economies combined account for less than 2% of India's outward FDI stocks.⁴⁰

I have presented a detailed examination of the intra-regional FDI data because they have important implications for the content of trade negotiations among the parties. The data reflect not just enormous differences in the sizes, factor endowments, and levels of development of RCEP economies but also longstanding policies that are driven by the interests and preferences of domestic actors. Whereas there is a substantial volume of Korean FDI in China, primarily financing the local production undertaken by Korean automobile and electronic firms, few Chinese companies operate in Korea. Both India and Japan historically have had investment climates that were not welcoming of foreign companies. Korean companies, for instance, have had great difficulties in establishing a foothold in Japan (seen in Korea's 1.4% share of Japan's total inward FDI stocks)—even Hyundai Motor closed its operations there.⁴¹

And although the share of consumption goods in China's imports has jumped substantially in the last few years, in comparison with either the trans-Atlantic or the trans-Pacific relationships, trade in finished goods is a small percentage of intra-regional commerce. Instead, the RCEP grouping is distinguished by the significance of trade in components among its members, particularly the East Asian states. Approximately 60% of intra-regional trade consists of exports of parts and components,⁴² a substantially higher

40. All figures calculated from data in UNCTAD, "Bilateral FDI Statistics," <<http://unctad.org/en/Pages/DIAE/FDI%20Statistics/FDI-Statistics-Bilateral.aspx>>, accessed August 21, 2016.

41. Hans Greimel, "Hyundai Suffers Rare Setback, Pulls Out of Japan," *Automotive News*, November 30, 2009 <<http://www.autonews.com/apps/pbcs.dll/article?AID=/20091130/GLOBAL/11309989/1117>>, accessed December 1, 2010.

42. The regional average is pulled down by low figures for India and Indonesia; for ASEAN as a whole, Korea, and Taiwan, the figure is 70%. The regional average is 10 percentage points above that for the world as a whole. Prema-chandra Athukorala, "Production Networks and Trade Patterns in East Asia: Regionalization or Globalization?" *Asian Economic Papers* 10, no. 1 (2011), pp. 65–95; Asian Development Bank, *Asian Economic Integration Report 2015: How Can Special Economic Zones Catalyze Economic Development?* (Mandaluyong City, Philippines: Asian Development Bank, 2015), <<http://www.adb.org/sites/default/files/publication/177205/asian-economic-integration-report-2015.pdf>>, accessed August 19, 2016.

percentage than in the TTIP or TPP. In other words, value chain trade in East Asia is primarily vertical; that is, it involves the exchange of goods within the same industrial sector but at different stages of processing. The fragmentation of production across national boundaries rests on differences in factor costs—especially labor and land. In contrast, trans-Atlantic commerce is based primarily on horizontal intra-industry trade, that is, the international exchange of goods at the same stage of processing, which are differentiated primarily by brand name.

These differences have important implications for trade negotiations. The “new” trade theory of the 1980s suggested that horizontal intra-industry trade facilitated liberalization because it imposed fewer adjustment costs on capital and labor.⁴³ Where extensive inter-penetration of investment occurs and horizontal intra-industry trade prevails, the focus in trade negotiations, as in the TTIP, will be on regulatory harmonization rather than on more-contentious market-access issues.⁴⁴ In Asia, intra-regional investment levels are relatively low, and a comparatively small share of FDI is devoted to the production of consumer goods for local markets. Extra-regional markets are more important than those within the region for the export of consumer goods (which makes firms more interested in regulatory harmonization in their final markets in Europe and the US than within the region).⁴⁵

The advent of vertical intra-industry trade in global value chains has encouraged developing economies to render themselves attractive locations for various stages in these chains by liberalizing their trade and investment regimes. This liberalization has often occurred through the negotiation of FTAs with industrialized economies as well as through unilateral liberalization and the signing of bilateral investment treaties.⁴⁶ While this development

43. Bela Balassa, “Tariff Reductions and Trade in Manufactures among the Industrial Countries,” *American Economic Review* 56, no. 3 (1966), pp. 466–473; Paul Krugman, “Intra-Industry Specialization and the Gains from Trade,” *Journal of Political Economy* 89 (1981), pp. 959–973; James E. Alt et al., “The Political Economy of International Trade: Enduring Puzzles and an Agenda for Inquiry,” *Comparative Political Studies* 29, no. 6 (1996), pp. 689–717.

44. Young, “Not Your Parents’ Trade Politics.”

45. Where final products are manufactured primarily for consumption in the region, a notable example being the automobile sector, regulatory harmonization was achieved a quarter of a century ago by the adoption of the standards of the dominant Japanese producers. Richard F. Doner, “Japan in East Asia: Institutions and Regional Leadership,” in *Network Power: Japan and Asia*, ed. Peter J. Katzenstein and Takashi Shiraiishi (Ithaca, NY: Cornell University Press, 1997), pp. 197–233.

46. Richard Baldwin, “Trade and Industrialisation after Globalisation’s 2nd Unbundling: How Building and Joining a Supply Chain Are Different and Why It Matters,” Working Paper no. 17716,

has facilitated the negotiation of FTAs, vertical intra-industry trade is more likely than horizontal intra-industry trade to generate winners and losers within a country (and within the same sector) and thereby complicate the politics of trade liberalization. The offshoring of a particular stage in the production process to a firm in a low-labor-cost country may benefit the lead firm in the global value chain, but it may also put one or more of its domestic suppliers out of business. Hence we see resistance to liberalization particularly among small and medium enterprises in Korea and in many sectors of the Indian economy.

Exactly what relationship exists between value chains and the growth of free trade areas in the RCEP region has long been a matter of contention. For some observers, the region's "market-led" integration through value chains was well under way before the rush toward FTAs began. FTAs have had a marginal impact, at most, on the evolution of value chains. Observers point to the relatively low rates of utilization of many of the region's FTAs as evidence of their lack of importance.⁴⁷ The argument applies also to ASEAN's FTA and the agreements between it and its Plus One partners. A recent firm-level survey found that the average rate of utilization for the ASEAN FTA and the various ASEAN Plus One agreements was only 15% for exporting firms and 12% for importing firms. Twenty percent of firms surveyed used the ASEAN-China FTA, and 15% the agreement with Korea, but the other ASEAN Plus One agreements were used by fewer than 10% of exporting firms (under 5% for the Indian agreement).⁴⁸ The reasons are straightforward:

National Bureau of Economic Research, Cambridge, MA, 2011, <<http://www.nber.org/papers/w17716.pdf>>, accessed May 10, 2016; Manger, "Vertical Trade Specialization"; Soo Yeon Kim, "Regionalization in Search of Regionalism: Production Networks and Deep Integration Commitments in Asia's PTAs," in *Trade Cooperation: The Purpose, Design and Effects of Preferential Trade Agreements*, ed. Andreas Dür and Manfred Elseg (Cambridge: Cambridge University Press, 2015), pp. 134–164.

47. Ravenhill, "New East Asian Regionalism"; Jayant Menon, "Supporting the Growth and Spread of International Production Networks in Asia: How Can Trade Policy Help?" Working Paper Series on Regional Economic Integration, no. 112, Asian Development Bank, Manila, May 2013, <<https://think-asia.org/bitstream/handle/11540/2322/growth-production-networks-asia.pdf>>, accessed August 3, 2016; UN Economic and Social Commission for Asia and the Pacific, *Fighting Irrelevance: The Role of Regional Trade Agreements in International Production Networks in Asia* (Bangkok: UN Economic and Social Commission for Asia and the Pacific, Asia-Pacific Research and Training Network on Trade, September 2011), <<http://www.unescap.org/sites/default/files/Book-Review-2-September-2011.pdf>>, accessed August 10, 2016.

48. Lili Yan Ing and Shujiro Urata, *The Use of FTAs in ASEAN: Survey-Based Analysis* (Jakarta: Economic Research Institute for ASEAN and East Asia, August 2015), <<http://www.eria.org/ERIA-RPR-FY2013-5.pdf>>, accessed August 19, 2016. The share of firms that use FTAs in itself tells us nothing about the overall value or share of total (or, more relevantly, dutiable) trade that takes

a large percentage of intra-RCEP trade attracts no duties, a reflection of the unilateral reduction of tariffs, the use of special economic zones and duty-drawback arrangements, and sectoral trade arrangements (especially the Information Technology Agreement (ITA), which covers by far the largest sector in intra-regional trade, and to which all the major RCEP economies are signatories).⁴⁹ Meanwhile, firms that make use of FTAs incur compliance costs—and recent survey evidence suggests that, perversely, they also encounter more delays in moving goods across borders, because their use of FTAs attracts the attention of customs agents.⁵⁰

If firms make relatively little use of FTAs in the RCEP region, then one of the arguments for mega-FTAs—that they can bring order to the “noodle bowl” of multiple overlapping agreements—may have limited traction with private-sector actors. Moreover, they have alternative instruments of trade liberalization available to them. The importance of the ITA has already been noted: in 2010, Asian members accounted for around two-thirds of global ITA exports.⁵¹ The context of RCEP also differs from the TPP and TTIP in that the negotiations are occurring in the presence of an existing dense web of FTAs. In the trans-Atlantic relationship, no preferential trade agreement exists between the EU and the US. Multiple bilateral FTAs exist among the parties to the TPP but none between its largest economy—the US—and the largest Asian participants—Japan, Vietnam, and Malaysia. For both the TPP and TTIP, no alternative agreements currently are available for liberalizing trade between the biggest players. In contrast, RCEP is characterized by the greatest density of FTAs among the three mega-regions (Figure 1). In addition to the Plus One relationships that Australia/New Zealand, China, India, Japan, and Korea have with all ASEAN members, most countries have bilateral preferential agreements with their principal economic partners (more

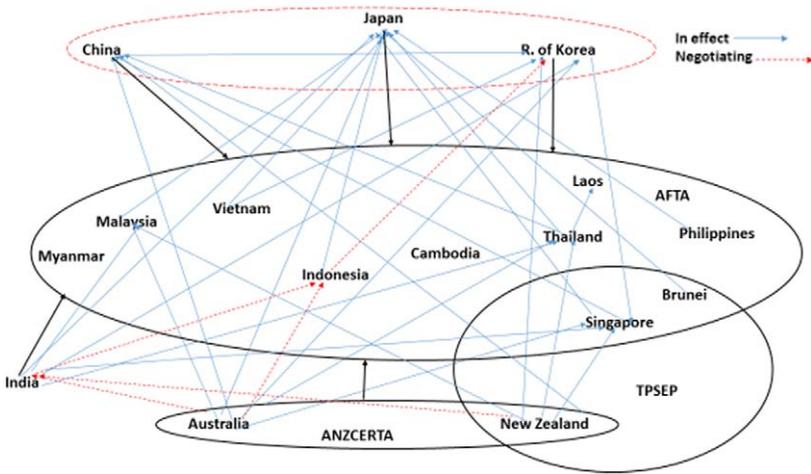
advantage of preferential arrangements. Cote and Jena (“India’s FTAs and RCEP Negotiations,” p. 11) cite ADB data that suggest that the utilization rate for India’s FTAs is between 5% and 25%.

49. The automotive sector was the one major area of manufacturing where tariffs remained high. FTAs (including AFTA, the ASEAN Free Trade Area) have been important in liberalizing trade in this sector. Studies of agreements such as the Australia–Thailand FTA have shown high rates of utilization by automotive firms.

50. Ing and Urata, “Use of FTAs in ASEAN.”

51. Jayant Menon, “Can FTAs Support the Growth or Spread of International Production Networks in Asia?” Working Papers in Trade and Development, no. 2013/06, Australian National University, Canberra, April 2013, <https://crawford.anu.edu.au/acde/publications/publish/papers/wp2013/wp_econ_2013_06.pdf>, accessed August 3, 2016.

FIGURE 1. The Web of Preferential Trade Agreements among Participants in the Regional Comprehensive Economic Partnership



than 40 are in effect). A priori, firms and governments alike might reasonably expect to make more gains from bilateral agreements than a mega-FTA negotiation. Target governments may be more willing to make concessions in a bilateral agreement than in a mega-FTA, where the concessions may have to be multilateralized to all partners, thereby increasing the costs to domestic constituencies.⁵² And the risk in a mega-FTA is that the dynamics of negotiation may be driven by a lowest-common-denominator effect, where the countries least willing to make concessions (especially if they are major players) determine the levels of ambition.

There are three major exceptions to the noodle bowl of bilateral agreements in the RCEP region: China–India, China–Japan, and Japan–Korea. It is in these relationships (assuming that the proposed trilateral agreement among the three Northeast Asian economies is not realized in the near future) that RCEP can be expected to generate the most gains from liberalization.⁵³

52. An alternative argument would suggest that the joint pressure on a target government a mega-FTA may facilitate could produce more concessions. This argument rests, however, on assumption that the countries seeking concessions are confident that all parties will share equitably in the gains from their joint action.

53. Petri, Plummer, and Zhai suggest that 87% of the welfare gains from implementing RCEP will accrue to these economies—assuming that RCEP delivers comprehensive liberalization. See the data on the authors' website, <<http://asiapacifictrade.org/>>.

In principle, RCEP presents an opportunity to fill these major gaps in the regional FTA framework. The absence of agreements among these economies is no accident, however, reflecting the resistance of domestic actors to liberalization, a politics sometimes compounded by historical animosities, as in the Japan–Korea relationship (where an FTA was first proposed by Korean President Kim Dae-Jung in 1998 but where negotiations have been suspended since November 2004). Domestic politics is likely to constrain the concessions that are made in those relationships where no bilateral trade agreement currently exists.

Elsewhere among RCEP participants, countries already have alternative agreements to utilize—which may, especially in the bilateral agreements, provide access superior to that which they might expect to achieve through RCEP, and diminish the interests of pro-liberalization domestic constituencies in the agreement. Consider as an extreme example the relationship between New Zealand and Singapore. If both the TPP and RCEP are implemented, trade between these two economies will be governed by five FTAs: a bilateral FTA; the ASEAN Plus One agreement with Australia and New Zealand; the Trans-Pacific Strategic Economic Partnership⁵⁴; the TPP; and RCEP. With a variety of alternative agreements available, it is not surprising that the expectations of some governments regarding the value RCEP might add are modest. For instance, on its webpage devoted to RCEP, the New Zealand government commented: “It may also be an opportunity to improve *at the margin* on some of our existing agreements” (emphasis added).⁵⁵

The ready availability of alternatives, plus skepticism about the likely content of an RCEP agreement, together explain the relative lack of interest in the agreement shown by the private sector in some of the participating countries. In Australia, a call for submissions on RCEP elicited only 17 submissions (compared to more than 90 on the proposed TPP agreement, and more than 260 on the Australia–China FTA). Similarly, in New Zealand only 15 submissions were made to the government’s RCEP enquiry, in contrast to the total of 64 on TPP.⁵⁶

54. The Trans-Pacific Strategic Economic Partnership is a free trade agreement among Brunei, Chile, New Zealand and Singapore, which entered into force in 2006.

55. <<https://www.mfat.govt.nz/en/trade/free-trade-agreements/agreements-under-negotiation/rcep/>>, accessed August 10, 2016.

56. Data from the websites of Australia’s Department of Foreign Affairs and Trade (<http://dfat.gov.au/trade/agreements/Pages/trade-agreements.aspx>) and New Zealand’s Ministry of Foreign

IMPLICATIONS FOR RCEP

RCEP's negotiating economies collectively account for 28% of global GDP and over one-quarter of global exports. Given the potential economic significance of the RCEP region, the relative lack of attention that the proposed treaty has received is striking. A quick search on Google in mid-August 2016 generated 35.4 million hits for TPP and 12.2 million for TTIP, but only 1.3 million for RCEP. RCEP negotiations are rarely reported, even in the business press. A search in the *Financial Times* found just 22 articles that mention RCEP, compared with 455 that reference TPP and 198 for TTIP. The World Economic Forum study of mega-FTAs referenced at the beginning of this article fails to mention RCEP.⁵⁷ The relatively few submissions to public inquiries into RCEP in Australia and New Zealand has already been noted.

The neglect of RCEP has much to do with the low level of expectations regarding what it will deliver. These are based on the experience of existing FTAs among RCEP members (including the ASEAN Plus One agreements), the domestic factors that have shaped these arrangements, and the character of economic interdependence across the region, which produces a particular configuration of negotiating interests and issues. Such doubts have been reinforced by two other elements: the importance of political factors in RCEP's evolution, and the negotiating principles that the parties have adopted.

All mega-FTAs are inevitably driven in part by political considerations, not least because of their concern with setting the rules of the international trade game. But political factors arguably figured more prominently in the origins of RCEP than for the other mega-FTAs. RCEP cannot be understood outside the context of the TPP, which evolved into a US-led proposal. The selective membership in the TPP split not only East Asia but also ASEAN itself. China was not invited to the TPP negotiations. Neither were the majority of ASEAN's members—Cambodia, Indonesia, Laos, Myanmar, the

Affairs and Trade (<https://www.mfat.govt.nz/en/trade/free-trade-agreements/>). Another reason for the small number of submissions is that RCEP to date has not attracted the same level of interest from civil society groups as the TPP.

57. World Economic Forum and Global Agenda Council on Trade and Foreign Direct Investment, "Mega-Regional Trade Agreements: Game-Changers or Costly Distractions for the World Trading System?" (Geneva: World Economic Forum, 2014), <http://www3.weforum.org/docs/GAC/2014/WEF_GAC_TradeFDI_MegaRegionalTradeAgreements_Report_2014.pdf>, accessed August 2, 2016.

Philippines, and Thailand are all currently absent. Washington apparently regarded these countries as not having achieved a sufficient level of development to be parties to an ambitious FTA. Fears that the organizational basis of the region and the rules for its trading regime would be set by Washington were sufficient to overcome long-standing divisions between China and Japan over the geographical basis for a mega-regional agreement. China had long championed an agreement based on the ASEAN Plus Three grouping.

The Japanese government, on the other hand, had put forward proposals in 2006 for a Comprehensive Economic Partnership for East Asia based on the initial membership of the East Asia Summit grouping (which added Australia, India, and New Zealand to the ASEAN Plus Three countries).⁵⁸ In August 2011, the Chinese and Japanese governments agreed to set up three joint working groups that would replace those previously working independently on the alternative proposals. Effectively, this agreement, largely at Beijing's initiative, represented a concession by China that the Japanese vision for the region would prevail.⁵⁹ Concerns about the TPP (including Japan's likely admission to the negotiations) were largely responsible for this change in approach. China also responded to the TPP by launching initiatives for eight bilateral FTAs and renewing its interest in a trilateral Northeast Asia FTA.⁶⁰

Once the membership issue was resolved, Beijing was then happy to take a back seat and allow the negotiations to be launched as an ASEAN-centered initiative. Placing ASEAN at the helm of the negotiations immediately raised concerns about how comprehensive an RCEP agreement might be. The existing ASEAN Plus One agreements provided grounds for skepticism about the likely configuration of an RCEP agreement. But so too did the principles adopted for the negotiations.⁶¹ Although these asserted that the RCEP

58. Malcolm Cook, Mark Thirwell, John Ravenhill, and Christopher Roberts, "The EAS: Towards a New Architecture for East Asian Cooperation," REPSF II Project no. 07/002, ASEAN Secretariat, Jakarta, May 2008, <https://www.researchgate.net/publication/269336132_The_EAS_Towards_a_New_Architecture_for_East_Asian_Cooperation>, accessed August 19, 2016.

59. Hidetaka Yoshimatsu, "Diplomatic Objectives in Trade Politics: The Development of the China-Japan-Korea FTA," *Asia-Pacific Review* 22, no. 1 (2015), pp. 100–123.

60. Asian Development Bank, *Asian Economic Integration Report 2015*, p. 53; Mireya Solís and Saori N. Katada, "Unlikely Pivotal States in Competitive Free Trade Agreement Diffusion: The Effect of Japan's Trans-Pacific Partnership Participation on Asia-Pacific Regional Integration," *New Political Economy* 20, no. 2 (2015), pp. 155–177.

61. ASEAN Secretariat, "ASEAN Framework for Regional Comprehensive Economic Partnership," <<http://www.asean.org/news/item/asean-framework-for-regional-comprehensive-economic-partnership>>, accessed November 8, 2014; ASEAN Secretariat, "Guiding Principles and Objectives

agreement would bring “significant improvements” over existing ASEAN Plus One agreements, the requirement for flexibility in “taking into consideration the different levels of development” of participants opened the door for incomplete coverage and partial compliance.

Two forces drive ASEAN demands for a flexible and non-intrusive agreement. One is the continuing political strength of domestic protectionist interests. The second is that some governments are simply not convinced that complete tariff liberalization, or the implementation of some elements that go beyond existing WTO commitments, particularly the extension of intellectual property rights, is in the interests of their economies at their current stages of development. Moreover, the content of the negotiations has been shaped by the unique structure of economic interdependence in the region discussed in the previous section. The consequence is that RCEP negotiations have been limited in scope, particularly in contrast with those for the other two mega-FTAs. The most important exclusions are government procurement, labor, and the environment. The lack of emphasis on regulatory harmonization is consistent with a regional economy characterized by predominantly vertical intra-industry trade. Meanwhile, protectionist interests across the region have resisted the multilateralization of bilateral concessions.⁶²

Paradoxically, the much-criticized weaknesses and omissions of the RCEP negotiations may prove to be its greatest advantage. The future of both the other mega-FTAs, the TPP and TTIP, is in doubt at the time of writing, in part because of a public backlash against their intrusion into areas that have traditionally been regarded as falling within domestic competencies. RCEP has largely remained off the public radar—although this may change if plans materialize to include investor–state dispute settlement mechanisms and to enhance enforcement mechanisms for intellectual property protection. RCEP may yet fall victim to the wave of protectionism and economic nationalism that has afflicted the other mega-regionals. Nonetheless, the provisions

for Negotiating the Regional Comprehensive Economic Partnership,” 2012, <<http://www.asean.org/images/2012/documents/Guiding%20Principles%20and%20Objectives%20for%20Negotiating%20the%20Regional%20Comprehensive%20Economic%20Partnership.pdf>>, accessed November 8, 2014.

62. RCEP is not alone in failing to deliver on multilateralization. For the TPP experience see Ann Capling and John Ravenhill, “Multilateralising Regionalism: What Role for the TPP?” *Pacific Review* 24, no. 5 (December 2011), pp. 553–575.

in RCEP for flexibility in implementation accord with the long-standing practice in economic organizations in the region, including APEC, of allowing states to decide the pace at which they wish to reform, while nudging them in the direction of greater liberalization. A failure of the TPP may provide a powerful incentive to bring the RCEP negotiations to a conclusion so that the parties can stake first claim on defining the future trading rules for the region.