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# Competitive Mega-regional Trade Agreements: Regional Comprehensive Economic Partnership (RCEP) vs. Trans-Pacific Partnership (TPP)

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# Competitive Mega-regional Trade Agreements: Regional Comprehensive Economic Partnership (RCEP) vs. Trans-Pacific Partnership (TPP)

## **Abstract**

The Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP) are both mega-regional trade initiatives in the Asia-Pacific that began in the late 2000s. Both are currently still under negotiation, and once concluded, will potentially shape the future of economic integration in the region. This paper seeks to explain why two overlapping yet diverging mega-regional trade deals emerged in the same region at around the same time. The paper posits that there is a direct relationship between the development of the TPP and that of the RCEP. Hence, it seeks to find a theory that best explains the interactive progress of the two “tracks”. By tracing the historical evolution of both agreements, comparing their key features, and studying the motivations and actions of the main players participating in either or both agreements, the author finds that firstly, there is indeed a competitive and mutually stimulating relationship between the TPP and the RCEP. Secondly, the theory that best explains the dynamics between the two proposals is “competitive regionalism”. This recently developed theory not only integrates realist and liberal arguments, but also takes into consideration domestic interests in influencing the mega-regional trade negotiations. Hence, it best accounts for the authors’ observations on the sequencing and patterns of the emerging regional trade arrangements, as well as the motivations and actions of participating states. This paper contributes to the analytical and theoretical literature on economic regionalism in general, and offers insights on the current state of Asia-Pacific economic integration.

## **Keywords**

free trade agreements, Asia-Pacific, regionalism, regional integration, Trans-Pacific Partnership, Regional Comprehensive Economic Partnership, mega-regional trade agreements, Political Science, Avery Goldstein, Goldstein, Avery

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**Title: Competitive Mega-regional Trade Agreements:  
Regional Comprehensive Economic  
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Partnership (TPP)**

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**Advisor: Professor Avery Goldstein**

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## **ABSTRACT**

The Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP) are both mega-regional trade initiatives in the Asia-Pacific that began in the late 2000s. Both are currently still under negotiation, and once concluded, will potentially shape the future of economic integration in the region. This paper seeks to explain why two overlapping yet diverging mega-regional trade deals emerged in the same region at around the same time. The paper posits that there is a direct relationship between the development of the TPP and that of the RCEP. Hence, it seeks to find a theory that best explains the interactive progress of the two “tracks”. By tracing the historical evolution of both agreements, comparing their key features, and studying the motivations and actions of the main players participating in either or both agreements, the author finds that firstly, there is indeed a competitive and mutually stimulating relationship between the TPP and the RCEP. Secondly, the theory that best explains the dynamics between the two proposals is “competitive regionalism”. This recently developed theory not only integrates realist and liberal arguments, but also takes into consideration domestic interests in influencing the mega-regional trade negotiations. Hence, it best accounts for the authors’ observations on the sequencing and patterns of the emerging regional trade arrangements, as well as the motivations and actions of participating states. This paper contributes to the analytical and theoretical literature on economic regionalism in general, and offers insights on the current state of Asia-Pacific economic integration.

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## I. INTRODUCTION

### **1.1. Mega-regional Trade Agreements: TPP and RCEP**

In March 2010, the first round of negotiations for the Trans-Pacific Partnership (TPP) began in Melbourne, Australia among nine countries – Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, the United States and Vietnam. The TPP has been called an “ambitious, twenty-first century trade agreement”<sup>1</sup> with extensive regulatory alignment in “next generation” trade areas such as labour law, environmental protection and intellectual property rights.<sup>2</sup> Currently, there are 12 Asia-Pacific Economic Cooperation (APEC) countries involved in the TPP talks (known as the “TPP12”): the nine countries mentioned above, as well as Canada, Mexico and Japan. Together, these countries account for 40% of world GDP and a third of global trade.<sup>3</sup> As such, the TPP, if successfully concluded, would bring about an estimated trade volume of US\$10.19 trillion and a nominal GDP of US\$19.76 trillion, making it the biggest trade agreement in history.<sup>4</sup>

At the Association of South-East Asian Nations (ASEAN) Summit held in Cambodia in November 2012, negotiations for the Regional Comprehensive Economic Partnership (RCEP) were formally launched among the ten members of the ASEAN and the six states that had existing free trade agreements (FTAs) with ASEAN, namely Australia, China, India, Japan, South Korea and New Zealand.<sup>5</sup> The RCEP is envisioned to be a comprehensive free trade agreement that will broaden and deepen current FTAs among these 16 countries (also known as the “ASEAN+6”). The 16 RCEP countries account for almost half of the world’s population, nearly 30% of global GDP and over a quarter of world exports.<sup>6</sup> If negotiations are successful, the total trade volume and GDP of the trading bloc is expected to reach US\$10.13 trillion and US\$19.76 trillion respectively.<sup>7</sup>

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<sup>1</sup> “The United States in the Trans-Pacific Partnership,” Office of the United States Trade Representative, <http://www.ustr.gov/about-us/press-office/fact-sheets/2011/november/united-states-trans-pacific-partnership>.

<sup>2</sup> Mark Thomson, “Trade partnership competition: TPP vs. RCEP,” *The Strategist - The Australian Strategic Policy Institute Blog*, 16 April 2013, accessed 7 October 2014, <http://www.aspistrategist.org.au/trade-partnership-competition-tpp-vs-rcep/>

<sup>3</sup> Joshua Meltzer, “The TPP, the Environment and Climate Change,” in *Trade Liberalisation and International Co-operation: A Legal Analysis of the Trans-Pacific Partnership Agreement*, ed. Tania Voon (Massachusetts: Edward Elgar Publishing, 2014), 207-230

<sup>4</sup> Inkyo Cheong and Jose Tongzon. “Comparing the Economic Impact of the Trans-Pacific Partnership and the Regional Comprehensive Economic Partnership.” *Asian Economic Papers* 12 (2013): 146.

<sup>5</sup> The ten member states of ASEAN are Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam.

<sup>6</sup> “Regional Comprehensive Economic Partnership negotiations”, Australian Department of Foreign Affairs and Trade, accessed 12 December 2014, <http://www.dfat.gov.au/fta/rcep/>

<sup>7</sup> Cheong and Tongzon, 146.

Asia-Pacific trade is a logical setting for new agreements due to its scale and dynamism. Of the world's US\$14 trillion trade in 2010, US\$9 trillion involve APEC economies (a useful, though synthetic definition of the region), and region's interest in formal linkages is clearly rising.<sup>8</sup> The aforementioned mega-regional free trade deals – the RCEP and the TPP – have become the main focal points for economic relations in the Asia-Pacific (and even the world) because of their sheer economic impact, geopolitical implications, and potential influence on the global trading system. One key question that has emerged in the scholarly debate and popular media is whether the two potential regional FTA trading blocs would interfere with one another, or if they are able to coexist with, and even merge with, one another.

Since China is excluded from the TPP, and the US from the RCEP, many scholars and media commentators have portrayed the TPP and the RCEP as competing proposals driven by the US and China respectively.<sup>9</sup> Some scholars go as far as to claim that the US-led TPP aims to contain the growing influence and power of China in the Asia-Pacific region.<sup>10</sup> Others argue that the RCEP is China's response to the TPP,<sup>11</sup> and warn that the RCEP can slow down, or even undermine, the TPP negotiations, and vice-versa.<sup>12</sup>

Other scholars have argued that competition between the RCEP and the TPP is constructive. For example, Petri and Plummer view the two regional trade agreements as examples of “competitive liberalization” – they stimulate each other's progress.<sup>13</sup> They argue that RCEP and

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<sup>8</sup> Before 2000, there were only four major FTAs among APEC economies. In 2014, there are more than 30, with more in the works.

<sup>9</sup> Some examples of media commentators include: Jagdish Bhagwati, “America's Threat to Trans-Pacific Trade,” *Project Syndicate*, 30 December 2011, <http://www.project-syndicate.org/commentary/america-s-threat-to-trans-pacific-trade>; and Beginda Pakpahan, “Will RCEP compete with the TPP?,” *East Asia Forum*, 28 November 2012, <http://www.eastasiaforum.org/2012/11/28/will-rcep-compete-with-the-tpp/>.

<sup>10</sup> Jane Kelsey, “US-China Relations and the Geopolitics of the Trans Pacific Partnership Agreement (TPPA),” *Global Research*, 11 November 2013, <http://www.globalresearch.ca/us-china-relations-and-the-geopolitics-of-the-trans-pacific-partnership-agreement-tppa/5357504>

<sup>11</sup> Shintaro Hamanka. “TPP vs. RCEP: Control of Membership and Agenda Setting.” *Journal of East Asian Economic Integration* 18 (2014): 163-186.

<sup>12</sup> Enda Curran, “Asia Leaders Push Regional Trade Pact”, *The Wall Street Journal*, 19 November 2012, <http://www.wsj.com/articles/SB10001424127887323622904578128650479355368>

<sup>13</sup> Peter A. Petri and Michael G. Plummer, “ASEAN Centrality, the RCEP, and the TPP”, *East-West Center Policy Studies* 69 (2013)



TPP need not be mutually exclusive. Rather, mutually reinforcing competitive liberalization will produce high quality and comprehensive integration in the Asia-Pacific.<sup>14</sup>

The two frameworks differ in terms of their specific objectives, issue coverage, membership and accession rules, but they do share the common agenda of trade liberalization and economic integration in the Asia-Pacific. As such, most scholars view the RCEP and the TPP as building blocks to the Free Trade Agreement of the Asia Pacific (FTAAP), which was first mooted by the Asia-Pacific Economic Cooperation (APEC) in 2006. Currently, APEC countries, including China and the US, agree that the RCEP and the TPP are both “possible pathways” to the FTAAP.<sup>15</sup>

But why did two different frameworks for regional economic integration – the TPP and the RCEP - emerge in the Asia-Pacific at around the same time? What factors, at the global, regional and domestic level, have influenced the formation and evolution of these agreements with differing visions for economic regionalism?<sup>16</sup> Is there an inherent relationship between the development trajectories of these two mega-regional FTAs; and if so, what is this the nature of their interaction? Finally, to what extent can existing theories explain the close timing in the launch of these two frameworks as well as the way in which their respective *negotiations* have progressed thus far?

## 1.2. Structure and Methodology

As aforementioned, there are fundamental differences but also overlaps in the agenda, prospective content and membership of the TPP and the RCEP. Therefore, this thesis aims to answer the question: why is it that two overlapping yet diverging mega-regional trade agreements have emerged in the same region (i.e. the Asia-Pacific) in the first decade of the 21<sup>st</sup> century? In other words, this paper attempts to explain the interlinked development of the RCEP and the TPP within a theoretical framework. This paper posits there is a direct competitive relationship between

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<sup>14</sup> Chia Siow Yue, “The Emerging Regional Economic Integration Architecture in East Asia.” *Asian Economic Papers* 12 (2013): 1-37.

<sup>15</sup> APEC, “2014 Leader’s Declarations: Annex A – The Beijing Roadmap for APEC’s Contribution of the Realization of the FTAAP”, accessed 13 February 2015, [http://www.apec.org/Meeting-Papers/Leaders\\_Declarations/2014/2014\\_aelm/2014\\_aelm\\_annexa.aspx](http://www.apec.org/Meeting-Papers/Leaders_Declarations/2014/2014_aelm/2014_aelm_annexa.aspx)

<sup>16</sup> Regionalism is typically defined as a political, top-down process that involves institutionalization. It can be understood as a political process in which measures such as economic policy cooperation and regulation are taken as standard. Regionalization, on the other hand, is an energetic, bottom-up process based on the economic connections between social actors. This means that it is a phenomenon in which economic exchange is regionally concentrated and conceptually, it is similar to economic interdependence.

the launch and progress of the TPP, and that of the RCEP. The following sections of the paper will first, examine the evidence that leads me to conclude that this hypothesis is correct, and secondly, explain the specific factors that have given rise to this competitive dynamic.

After the introduction (section I), the second section of the paper will trace the historical origins of the RCEP and the TPP. Specifically, it examines how each initiative came about as a result of broad global and regional conditions, and how it evolved to its current state. This section will be largely based on a review of scholarly works documenting the trade trends and the recent history of economic regionalism in the Asia-Pacific.

The third section highlights the similarities and differences in the agenda, substantive content, membership and accession rules of the two agreements, as well as the dynamic interaction between the negotiating processes of the two “tracks”. As the actual texts of the TPP and RCEP have not been publicly released (save for three draft chapters of the TPP published on Wikileaks), this section will rely mostly on scholarly works (i.e. books, journal publications, working papers and reports), current news articles (including academic commentary), and official statements by the participating states to shed light on the nuts and bolts of these two proposals.

The fourth section elaborates upon the motivations and actions of the key negotiating parties, which are crucial for understanding why the two agreements emerged and developed in their particular ways. Given the large number of countries involved in the TPP and the RCEP, and their power asymmetries, this thesis will focus on the most economically and politically important players, namely the US, China, Japan and ASEAN. Again, this section will draw largely upon the research material used in the previous section to explain the strategic motivations and behaviour of the selected countries.

The fifth section presents existing theories that explain regionalism in the Asia-Pacific and more specifically, the coinciding emergence of the TPP and the RCEP. This section demonstrates the usefulness and limitations of the aforementioned theories in explaining the development of the TPP and/or the RCEP, by comparing the claims of these theories with the actual development of both agreements. A strong theory should be able to explain the formation of more than one agreement and to illuminate the process by which the agreements are being negotiated.

Finally, the sixth section will integrate the key findings from the previous sections and identify possible areas for future research.

### 1.3. Key Findings

Several theoretical arguments have been advanced to explain the emergence of the RCEP and the TPP. Systemic-level arguments broadly fall into two schools of thought: realist and liberal. The realists generally interpret the RCEP and the TPP as proxies for great power competition between the US and China, with each great power seeking to check the (interlinked) regional influence and economic dominance of the other by leading a mega-regional trade deal that excludes the other (at least in the short term). Liberals, on the other hand, broadly view the RCEP and the TPP as regional institutions that developed from common challenges and interests shared by countries in the Asia-Pacific. These mega-regional trade agreements facilitate regional cooperation and integration among states that have high and increasing levels of economic interdependence. Besides these systemic-level theories, there are also domestic-level theories that emphasize the role of domestic interest groups in lobbying for trade-diverting FTAs and the chain reaction that these FTAs trigger among non-member producers.<sup>17</sup> Finally, there are integrative theories that draw from both the liberal and realist perspectives.

This paper finds “competitive regionalism”, which integrates the realist and liberal schools of thought, best explains the development and interaction of the RCEP and the TPP. Competitive regionalism (also known as “competitive diffusion”) is a theory of FTA diffusion developed by Katada and Solis in 2009, and applied specifically to explain the proliferation of bilateral and plurilateral FTAs in the Asia-Pacific since the late 1990s.<sup>18</sup> I find competitive regionalism to be the most useful theory because it allows me to better account for the observations I have made about the motives of participating states as well as the sequencing and patterns of the emerging regional trade arrangements. While realism and liberalism contribute to most of the existing theoretical literature on FTAs, competitive regionalism draws from both the realist and liberal (institutional) perspectives. Moreover, it takes into consideration domestic influences and the role of government

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<sup>17</sup> The chain reaction include subsequent FTA enlargement and the negotiation of alternative trade blocs, as disadvantaged non-member producers seek to minimize the trade and investment diversion caused by previous FTAs.

<sup>18</sup> *Competitive Regionalism: Explaining the Diffusion of FTAs in the Pacific Rim*, ed., Saori N. Katada, Mireya Solís and Barbara Stallings (Basingstoke, UK: Palgrave Macmillan, 2009)

leadership in explaining not just the genesis of the TPP and RCEP, but also the competitive and mutually stimulating dynamics between them.

#### 1.4. Significance of this paper

According to the World Economic Forum, mega-regional trade agreements are the “most important topic in the international trade scenario today.”<sup>19</sup> Mega-regional trade agreements are deep integration partnerships in the form of regional trade agreements between countries or regions with a major share of world trade and foreign direct investment (FDI) and in which two or more of the parties are in a paramount driver position, or serve as hubs, in global value chains (i.e. the US, the EU, Japan, China). Beyond market access, the emphasis of this type of partnership is on regulatory compatibility and a rules basket aimed at harmonizing differences in investment and business climates. The World Economic Forum has stated that both the RCEP and TPP fall under the category of mega-regional trade agreements.<sup>20</sup>

The TPP and the RCEP are worth studying because of their current relevance (both agreements are still being negotiated as of 30 March 2015) and massive potential economic impact. Both agreements have the potential to shape the regional economic architecture of the Asia-Pacific, and thus constitute a critical juncture in Asia-Pacific regionalism. Some scholars see them as “game-changers” in the global trading system,<sup>21</sup> in the sense that their negotiations are potentially redefining the trade rules of the 21<sup>st</sup> century.<sup>22</sup>

Both the RCEP and the TPP are relatively new developments; hence the available evidence and scholarship that has emerged since the beginning of the TPP negotiations in 2009 and the RCEP negotiations in 2013 have been very limited. Most of the literature that focuses on regionalism in the Asia-Pacific or East Asia tend to point out the differences between the RCEP and TPP, but do not explain the origins and development of the agreements from a theoretical standpoint. Analyses that compare the two agreements also tend to speculate about their possible

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<sup>19</sup> World Economic Forum, “Mega-regional Trade agreements: Game Changers of Costly Distractions for the World Trading System?”, Global Agenda Council on Trade & Foreign Direct Investment, July 2014, 1.

<sup>20</sup> *Ibid.*

<sup>21</sup> Bryan Mercurio, "The Trans-Pacific Partnership: Suddenly a 'Game Changer'." *The World Economy* 37 (2014): 1558-1574.

<sup>22</sup> Peter A. Petri, “The new mega-regionals: the TPP, RCEP and beyond,” *Asia Pathways (Blog of the Asian Development Bank)*, 22 May 2014, <http://www.asiapathways-adbi.org/2014/05/the-new-mega-regionals-the-tpp-rcep-and-beyond/>

outcomes, advocate one or the other, or point out their incompatibility or complementarity, but do not say much about the inter-related evolution of the two frameworks.

This paper will contribute to the growing literature on economic regionalism and the proliferation of free-trade agreements by refining existing theoretical arguments to explain the differences in the development of the RCEP and the TPP. More broadly, this paper aims to offer insight on the current state of Asia-Pacific economic integration and the future of economic architecture in the region.

## **II. EVOLUTION OF THE TPP AND THE RCEP**

The origins of the TPP and the RCEP deserve more attention because the historical context sheds light on the broader trends and events that have culminated in these regional trade frameworks. Some of these factors continue to shape the many trade agreements being negotiated in the Asia-Pacific region today. Understanding the events and developments that have influenced the birth and growth of the TPP and the RCEP is also crucial to understanding the current state and the future prospects of both mega-regional agreements. This section will first give an overview of the international and regional conditions that led to the proliferation of FTAs in the Asia-Pacific, and subsequently, the search for a region-wide FTA in East Asia and the broader Asia-Pacific region. The intra-regional and extra-regional dynamics discussed below also form the backdrop for the genesis of the RCEP and the TPP.

### **2.1. The Proliferation of FTAs in the Asia-Pacific<sup>23</sup>**

In the past two decades, the trade system in the Asia-Pacific region has been rapidly transformed. Prior to the 2000s, trade liberalization had largely occurred under the auspices of the World Trade Organization (WTO), a multilateral body that enforces a set of binding trade rules upon all its members. However, during the last 15 years or so, a number of governments in the Asia-Pacific have turned towards FTAs – bilateral and plurilateral (i.e. involving more than two states) agreements that go beyond WTO rules to preferentially reduce barriers to trade between signatory countries. In 2000, there were only three trade agreements in force in the Asia-Pacific, but by 2014, the number of regional trade agreements reported to the WTO rose to 40.<sup>24</sup> Moreover, if non-WTO notified and under-negotiation agreements are included, the count of FTA initiatives among Asia-Pacific states rises to 71.<sup>25</sup> As a result, the region has become one of the most active sites for FTA negotiations globally.<sup>26</sup>

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<sup>23</sup> For the purposes of this paper, the Asia-Pacific is defined as the combined membership of the East Asian Summit (EAS) and the APEC – the ten ASEAN countries, China, Japan, South Korea, Australia, New Zealand, India, the US, Russia, Mexico, Papua New Guinea, Taiwan, Canada and Chile.“

<sup>24</sup> World Trade Organisation (WTO), Regional Trade Agreements Database (2014), accessed 7 August 2014, [http://www.wto.org/english/tratop\\_e/region\\_e/region\\_e.htm](http://www.wto.org/english/tratop_e/region_e/region_e.htm),

<sup>25</sup> Asian Development Bank (ADB) Asian Regional Integration Centre FTA Database (2014), accessed 8 August 2014, <http://aric.adb.org/FTAbCountryAll.php>

<sup>26</sup> Christopher Dent, “Free Trade Agreements in the Asia-Pacific a Decade On: Evaluating the Past, Looking to the Future.” *International Relations of the Asia-Pacific* 10 (2010): 201–245.

### 2.1.1. Main factors that led to the rise of FTAs in the Asia-Pacific

Several global, regional and domestic factors combined to propel this regional shift from multilateralism towards bilateral and (sub)regional FTAs during the 2000s. Firstly, many governments have become frustrated at the lack of progress in the Doha Round of the WTO negotiations, and have turned to bilateral and plurilateral FTAs as an alternate strategy for trade liberalization.<sup>27</sup> Secondly, several developed countries in the Asia-Pacific are interested in so-called “WTO Plus” trade issues, such as investment, services and intellectual property, and have used FTAs as a means to advance trade liberalization in these areas.<sup>28</sup> Third, others countries have been *defensively* signing FTAs in order to neutralize disadvantages associated with being excluded from the web of FTAs spreading across the region. The widely influential “domino effect” theory argues that countries join or negotiate countervailing FTAs to neutralise trade diversion effects.<sup>29</sup> Finally, some governments have used FTAs for geopolitical rather than purely economic purposes: to “reward” security partners,<sup>30</sup> to signal diplomatic intentions,<sup>31</sup> and to pursue non-trade forms of economic cooperation (such as resource security arrangements).<sup>32</sup> (The specific FTA motivations of the main players in the TPP and RCEP will be examined in detail in section IV.) The consequence of FTA proliferation is that the trade system in the Asia-Pacific is no longer flat and multilateral, but dominated by a complex web of overlapping bilateral agreements with markedly different templates and objectives.

### 2.1.2. Problems with the spread of FTAs in the Asia-Pacific

However, the spread of FTAs posed two interrelated problems for progress towards trade integration in the Asia-Pacific. Firstly, the “quality” of most FTAs in the region was low because they were between countries with relatively low trade volume and because they typically have narrow coverage, with important (but domestically sensitive) sectors excluded, such as agriculture and

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<sup>27</sup> B. Desker, “In Defence of FTAs: From Purity to Pragmatism in East Asia.” *The Pacific Review* 17 (2014): 3–26.

<sup>28</sup> S. Thangavelu, and M. Toh, “Bilateral ‘WTO Plus’ Free Trade Agreements: The WTO Trade Policy Review of Singapore 2004.” *World Economy* 28 (2005): 1211–1228.

<sup>29</sup> Richard E. Baldwin, “Multilateralising Regionalism: Spaghetti Bowls as Building Blocs on the Path to Global Free Trade.” *World Economy* 29 (2006): 1451–1518.

<sup>30</sup> R.A. Higgott, “US Foreign Policy and the ‘Securitisation’ of Economic Globalisation”, *International Politics* 41 (2004): 147–175.

<sup>31</sup> Ann Capling, “Preferential Trade Agreements as Instruments of Foreign Policy: An Australia-Japan Free Trade Agreement and its Implications for the Asia-Pacific Region”, *The Pacific Review* 21 (2008): 27–43.

<sup>32</sup> J.D. Wilson, “Resource Security: A New Motivation for Free Trade Agreements in the Asia-Pacific Region”, *The Pacific Review* 25 (2012): 429–453.

financial services.<sup>33</sup> Agreements involving China and ASEAN members also rarely address any of the WTO Plus issues – such as investment, intellectual property and technical barriers to trade – in a substantive way that improves upon or extends existing WTO rules.<sup>34</sup> As a result, many analysts have argued that FTAs in the Asia-Pacific have failed to live up to their promise of advancing either trade liberalization, or broader forms of regional economic cooperation, in a meaningful way.<sup>35</sup>

A second challenge posed by the regional FTAs is the so-called “noodle bowl” (or “spaghetti bowl”) problem. Unlike multilateral trade through the WTO (which enforces a single and consistent set of trade rules for all members states), bilateral and plurilateral FTAs vary widely in their content. Each agreement includes (and excludes) different sectors, involves different commitments for tariff reduction, and creates different rules for technical standards, rules of origin, investment protection, etc. These inconsistencies deeply complicate the regional trading system, as each country has a different set of regulations and commitments for each of its FTA partners. The result has been the emergence of a complex patchwork of incommensurate and overlapping FTAs in the region, which is metaphorically compared to a tangled bowl of noodles.<sup>36</sup> The concern is that this tangle undermines the cohesiveness of both the global and regional trade system, imposes unnecessary transaction costs on businesses operating across regional economies, and might even lead to the emergence of competing trade blocs.<sup>37</sup>

Recognition of such concerns by Asia-Pacific countries has resulted in intergovernmental discussions on establishing an FTA that encompasses the entire Asia-Pacific region (i.e. APEC members), and more exclusively, among East Asian countries.<sup>38</sup> Generally, the region-wide FTA

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<sup>33</sup> John Ravenhill, “The Move to Preferential Trade on the Western Pacific Rim: Some Initial Conclusions,” *Australian Journal of International Affairs* 62 (2008): 129–150.

<sup>34</sup> Ann Capling and Jonh Ravenhill, “Multilateralising Regionalism: What Role for the Trans-Pacific Partnership Agreement?” *The Pacific Review* 24 (2011): 553–575.

<sup>35</sup> Ann Capling, “Australia’s Trade Policy Dilemmas,” *Australian Journal of International Affairs* 62 (2008): 229–244; Dent, “Free Trade Agreements in the Asia-Pacific a Decade On”; Wilson, “Resource Security: A New Motivation for Free Trade Agreements in the Asia-Pacific Region.”

<sup>36</sup> Richard E. Baldwin, “Managing the Noodle Bowl: The Fragility of East Asian Regionalism.” ADB Working Paper Series on Regional Economic Integration, No. 7. Manila: Asian Development Bank, 2007.

<sup>37</sup> Warwick Commission, “The Multilateral Trade Regime: Which Way Forward?” Coventry: University of Warwick (2007), accessed 12 March 2015, <http://www2.warwick.ac.uk/research/warwickcommission/worldtrade/report/>; World Trade Organisation, “World Trade Report 2011: The WTO and Preferential Trade Agreements – From Co-existence to Coherence”, Geneva: World Trade Organisation (2011), accessed 12 March 2015, [https://www.wto.org/english/res\\_e/publications\\_e/wtr11\\_e.htm](https://www.wto.org/english/res_e/publications_e/wtr11_e.htm).

<sup>38</sup> In this paper, “East Asia” is defined as to the ten countries of ASEAN, Taiwan, China, Japan, South Korea, Australia and New Zealand. East Asia can be seen as a smaller region encompassed within the wider Asia-Pacific region.



approach is regarded as superior to plurilateral and bilateral approaches, in terms of the economic and political benefits it generates.<sup>39</sup> Various economic simulation studies show that mega-regional FTAs, such as the TPP and RCEP, will result in more economic benefits than smaller plurilateral and bilateral FTAs for all countries involved.<sup>40</sup>

## 2.2. The search for a region-wide FTA: East Asia vs. Trans-Pacific

The pursuit of regional economic integration in the region under discussion has featured two *distinct* concepts of regionalism: the East Asia track and the trans-Pacific track.<sup>41</sup> This sub-section will demonstrate that the TPP and RCEP are new iterations of the trans-Pacific track and the East Asia track respectively, and that these two tracks have influenced each other since the 1990s.

### 1.2.1 The Trans-Pacific Track: APEC

The idea of trans-Pacific regionalism has an even longer history than East Asian regionalism. The concept of trans-Pacific economic integration dates back to the 1960s to proposals developed in the Pacific Trade and Development forum (PAFTAD) and eventually the quasi-governmental Pacific Economic Cooperation Council (PECC), founded in 1980.<sup>42</sup> PECC's regional community-building efforts led to the establishment of the Asia-Pacific Economic Cooperation (APEC) in 1990 among 12 Asia-Pacific countries.<sup>43</sup> The primary goal of APEC is to support sustainable economic growth and prosperity in the Asia-Pacific region, mainly by championing free and open trade and investment, promoting and accelerating regional economic integration, and encouraging economic and technical cooperation.<sup>44</sup> In 1994, APEC members convening in the Indonesian city of Bogor set

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<sup>39</sup> Economically, regional FTAs are expected to produce larger static welfare effects from trade creation, less trade diversion, economies of scale and better utilization of economic resources. Deeper economic integration also tends to reduce geopolitical tensions and conflicts as the countries involved would be more economically interdependent. Chia Siow Yue. "The Emerging Regional Economic Integration Architecture in East Asia", 15-16.

<sup>40</sup> Kawai, Masahiro, and Ganeshan Wignaraja, "ASEAN+ 3 or ASEAN+ 6: Which way forward?" ADB Institute Discussion Papers, No. 77 (2007); Petri, Peter A., Michael G. Plummer, and Fan Zhai. "ASEAN Economic Community: A General Equilibrium Analysis\*." *Asian Economic Journal* 26 (2012): 93-118.

<sup>41</sup> Robert Scollay, "APEC's Regional Economic Integration Agenda and the Evolution of Economic Integration in the Asia-Pacific Region." *APEC Study Series* (2012): 9.

<sup>42</sup> The PECC is a network of member committees composed of individuals and institutions dedicated to promoting cooperation across the Asia-Pacific region.

<sup>43</sup> APEC now comprises 21 member economies: Australia, Brunei Darussalam, Canada, Chile, People's Republic of China, Hong Kong, Indonesia, Japan, Republic of South Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Republic of the Philippines, Russia, Singapore, Chinese Taipei (Taiwan), Thailand, the United States, and Vietnam.

<sup>44</sup> APEC, "APEC Mission Statement", accessed 2 February 2015, <http://www.apec.org/About-Us/About-APEC/Mission-Statement.aspx>,

the goal of free trade and investment in the Asia-Pacific region (by 2010 for developed countries and by 2020 for developing countries), by further reducing barriers to trade and investment and by promoting free flow of goods, services and capital. These targets became known as the Bogor Goals, and would remain as the aspirational force behind APEC's regional economic integration agenda till today.

However, by the 2000s, APEC's pursuit of the 1994 Bogor Goals had lost momentum in the face of rising East Asian regionalism and the loss of credibility resulting from the failure of APEC's Early Voluntary Sector Liberalization (EVSL) initiative in 1998.<sup>45</sup> The launch of the WTO's Doha Round negotiations, and the beginning of the rapid spread of FTAs within East Asia, seemed to render APEC's vision of trans-Pacific integration irrelevant. The next sub-section examines the factors that contributed to the development of FTAs in East Asia, and the search for a East Asia-wide FTA.

## 1.2.2 The East Asia Track

### Proliferation of FTAs in East Asia

Up till the late 1990s, regional integration in East Asia was largely *de facto*, stimulated by the growing web of production networks developed by mostly Japanese firms and multi-national corporations.<sup>46</sup> It was only after the 1997-98 Asian financial crisis that most East Asian countries began emphasizing formal economic cooperation and integration mechanisms – in other words, using FTAs as a trade policy instrument. Now, East Asia is at the forefront of global FTA activity.<sup>47</sup> The number of concluded FTAs (bilateral and plurilateral) among East Asian countries increased from two in 2000 to thirty in 2013 (as of April 2013).<sup>48</sup>

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<sup>45</sup> The EVSL was an initiative sponsored mainly by the US that aimed to liberalize identified sectors. However, due to strong opposition from other APEC members, especially Japan, with regards to comprehensive liberalization of sensitive sectors like agriculture, the EVSL negotiations reached a stalemate in 1998. The failure of the EVSL initiative was a major setback for Asia-Pacific economic integration, and the APEC-centered process lost steam in the late 1990s up till the early 2000s.

<sup>46</sup> Françoise Nicolas, "De facto and de jure regional economic integration in East Asia: how do they interact." *The Singapore Economic Review* 55 (2010): 7-25.

<sup>47</sup> Roberto V. Fiorentino, Jo-Ann Crawford, and Christelle Toqueboeuf, "The landscape of regional trade agreements and WTO surveillance." In *Multilateralizing regionalism: Challenges for the global trading system*, ed. Richard E. Baldwin and Patrick Low (Cambridge, UK: University of Cambridge Press, 2009), 28.

<sup>48</sup> Asian Regional Integration Center (ARIC), FTA Database, accessed 8 February 2015, [www.aric.adb.org/fta](http://www.aric.adb.org/fta)

**Table 1. FTAs among countries in the wide East Asia (as of December 2014)**

Name	Effective Date	Name	Effective Date
Australia-New Zealand	1/1/1983	Japan-Brunei	
ASEAN FTA	1/28/1992	China-New Zealand	
New Zealand-Singapore	1/1/2001	Japan-ASEAN	12/1/2008
Japan-Singapore	11/30/2002	Japan-Philippines	12/11/2008
Singapore-Australia	7/28/2003	China-Singapore	1/1/2009
ASEAN-China	1/1/2004	Japan-Vietnam	10/1/2009
Thailand-Australia	1/1/2005	ASEAN-Australia/New Zealand	1/1/2010
Thailand-New Zealand	7/1/2005	ASEAN-India	1/1/2010
India-Singapore	8/1/2005	India-Korea	1/1/2010
Korea-Singapore	3/2/2006	Malaysia-New Zealand	8/1/2010
Japan-Malaysia	7/13/2006	Hong Kong-New Zealand	1/1/2011
Korea-ASEAN	6/1/2007	India-Malaysia	7/1/2011
Japan-Thailand	11/1/2007	Japan-India	8/1/2011
Japan-Indonesia	7/1/2008	Malaysia-Australia	1/1/2013
		China-Korea	Late 2015

*Source:* Author's compilation from WTO database of FTAs

Besides intra-regional FTAs, many East Asian countries have also entered into cross-regional FTAs since the 2000s. East Asian countries were engaged in 124 cross-regional FTAs as of October 2007.<sup>49</sup> This open pattern of regional integration, termed “permeated regionalism” or “open regionalism” is actually embodied by APEC, and explains why there is an interest among some East Asian states in pursuing a wider regional FTA (like the TPP) that includes non-Asian APEC members.<sup>50</sup>

The ASEAN states – both individually and collectively – have been at the centre of the shift towards FTAs in the Asia-Pacific. Southeast Asian governments have signed some 19 bilateral FTAs

<sup>49</sup> Mireya Solis, and Saori N. Katada, "Introduction: understanding East Asian cross-regionalism: An analytical framework", *Pacific Affairs* 80 (2007): 229-257.

<sup>50</sup> *Cross Regional Trade Agreements: Understanding Permeated Regionalism in East Asia*, ed. Katada, Saori N., and Mireya Solis (New York: Springer Science & Business Media, 2008)

since 2000, the majority of which are with economic partners in the broader Asia-Pacific region.<sup>51</sup> Since 1993, the ten member states of ASEAN have also been participating in the ASEAN Free Trade Area (AFTA) agreement, which established “common effective preferential tariff” between 0% to 5% for the majority of intra-ASEAN trade. Moreover, ASEAN itself has also become a player in regional FTAs through the negotiation of plurilateral “ASEAN-Plus” FTAs between the bloc and trade partners outside of Southeast Asia. ASEAN-Plus FTAs were signed with China, South Korea, Japan, India, Australia/New Zealand (ASEAN concluded a joint FTA with both Australia and New Zealand) in the latter half of the 2000s, and negotiations with the EU are currently underway.

### **Trigger for East Asian regionalism: The Asian financial crisis**

Many scholars stress that the 1997-98 Asian financial crisis was the catalyst for more purposeful East Asian regionalism<sup>52</sup>, as East Asian states recognized the need to respond to the challenges of increased interdependence, a process that “requires a more structured and binding framework for policy coordination”.<sup>53</sup> During the crisis, the International Monetary Fund (IMF) was unable to respond with appropriate measures. The US also adopted a passive stance, making East Asian countries realize the necessity of deeper cooperation among themselves.<sup>54</sup> Thus the crisis directly led to the creation of regional cooperation mechanisms like the ASEAN Plus Three (ASEAN+3) process, the Chang Mai Initiative (CMI) and the Asian Bond Market Initiative (ABMI).<sup>55</sup>

### **China backs the East Asian Free Trade Agreement (EAFTA)**

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<sup>51</sup> WTO, Regional Trade Agreements Database (2014), 7 August 2014, [http://www.wto.org/english/tratop\\_e/region\\_e/region\\_e.htm](http://www.wto.org/english/tratop_e/region_e/region_e.htm)

<sup>52</sup> Richard Pomfret, *Regionalism in East Asia: why has it flourished since 2000 and how far will it go?* (Singapore: World Scientific, 2011)

<sup>53</sup> MacIntyre, Andrew, and Barry Naughton, "The decline of a Japan-led model of the East Asian economy." In *Remapping East Asia: the construction of a region*, ed. John T. Pempel (Ithaca, NY: Cornell University Press, 2005), 98.

<sup>54</sup> Yoshinobu Yamamoto, "Asia and Regional Integration Theory: Between a Regional Complex and a Regional Society." In *Regional Integration in East Asia Theoretical and Historical Perspectives*, ed. Satoshi Amako, Shunji Matsuoka, and Kenji Horiuchi (New York: United Nations University, 2013), 23.

<sup>55</sup> The Chang Mai Initiative (CMI) is a multilateral currency swap arrangement among the ten members of ASEAN, China, Japan and South Korea. It was proposed 2000 and launched in 2010. The Asian Bond Market Initiative (ABMI) started in 2003 among the ASEAN+3 countries to develop efficient and liquid bond markets in Asia, so that the region's high savings can be better used for regional investment.

At the first ASEAN+3 (ASEAN plus China, Japan and South Korea) Leaders' Summit Meeting held in 1998, the East Asian countries involved decided to set up the East Asia Vision Group (EAVG) to study a long-term vision for economic cooperation. The EAVG submitted a policy proposal, including the formation of an East Asian Free Trade Agreement (EAFTA), to the ASEAN+3 leaders in 2002. In 2006, the group proposed to the ASEAN+3 economic ministers that the EAFTA be negotiated among ASEAN countries first, and membership be opened to other East Asian economies.<sup>56</sup> The leaders welcomed the outcome of the group's study, but did not accept the start of the independent process of the EAFTA right away.

The economic rationale for an EAFTA was that the production networks and supply chains in Asia had been developed most significantly among the ASEAN+3 members and so harmonizing rules of origin among these countries could produce the greatest tangible benefits.<sup>57</sup> Furthermore, the ASEAN+3 framework had developed as the most feasible regional framework in East Asia, since it already provided ministerial processes for regional cooperation in various policy areas. After concluding the ASEAN-China Free Trade Area (ACFTA) in November 2002, China subsequently proposed the establishment of an EAFTA among ASEAN+3 countries in 2004.

### **Japan proposes the Comprehensive Economic Partnership in East Asia (CEPEA)**

Japan and some ASEAN countries like Singapore and Indonesia did not respond positively to the Chinese proposal. In 2006, Japan proposed another idea for an East Asia-wide FTA: the Comprehensive Economic Partnership in East Asia (CEPEA). This agreement would include a free trade area covering the ASEAN+6 countries (i.e. the ASEAN+3 countries plus India, Australia and New Zealand).

Japan's economic rationale for the CEPEA was that the economic gains from the CEPEA were projected to be larger than that of the EAFTA.<sup>58</sup> Moreover, the incorporation of a resource-rich Australia and a fast-growing India was expected to provide substantial benefits to the economic growth of East Asia. Many analysts also argue that the CEPEA idea lies behind Japan's strategy of

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<sup>56</sup> ASEAN, "ASEAN Plus Three Corporation", Jakarta: ASEAN Secretariat, 2009, accessed 11 December 2014, <http://www.asean.org/asean/external-relations/asean-3/item/asean-plus-three-cooperation>

<sup>57</sup> Masahiro Kawai and Ganeshan Wignaraja. "Asian FTAs: Trends, prospects and challenges." *Journal of Asian Economics* 22 (2011): 14.

<sup>58</sup> Masahiro Kawai and Ganeshan Wignaraja. "EAFTA or CEPEA: which way forward?", *ASEAN Economic Bulletin* 25 (2008): 113-139.

taking a leadership role in setting up a regional institution in East Asia, to counter the China-driven EAFTA.<sup>59</sup> The formation of both the CEPEA and EAFTA thus reflects the political and economic competition between Japan and the China to take leadership of the establishment of a region-wide FTA.

### **Contesting templates for East Asian regionalism: EAFTA vs. CEPEA**

Stallings and Katada argue that “coherent regional integration” is by no means a logical or natural consequence of FTA proliferation in the Pacific Rim.<sup>60</sup> In reality, talks on the formation for an East Asia-wide FTA did not progress smoothly largely because *two* concepts for realizing the formation were proposed, and the feasibility studies of each concept initially proceeded without any initiative to harmonize them. This competitive dynamic between two regional trade templates, each supported by a major regional power, can also be seen in China-backed RCEP and the US-led TPP.

The EAFTA and the CEPEA were put in parallel development after 2006. The China-Japan rivalry on EAFTA vs. CEPEA and the divided positions of ASEAN members were reflected in the ASEAN summit in October 2009 – no definitive choice was agreed upon and the decision was to form a study group to review the two proposals together.<sup>61</sup> Then in August 2011, Japan and China jointly proposed the formation of a regional FTA in East Asia during the ASEAN+3 and East Asian Summit (EAS) economic ministers’ meeting, much to the surprise of the ASEAN countries. Clearly, both China and Japan were interested in speeding up the process of regional economic integration. What accounts for their sudden willingness to cooperate after years of deadlock? According to Urata, China’s push for an East Asian FTA was primarily influenced the progress of new Asia-Pacific economic framework – the TPP – under the leadership of the US, and in particular, Japan’s decision to participate in the TPP in 2011.

But how did the TPP come about? To understand the origins of the TPP, we first have to understand the progress of the Asia-Pacific track for regional economic integration thus far.

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<sup>59</sup> Shujiro Urata, “Constructing and Multilateralizing the Regional Comprehensive Economic Partnership: An Asian Perspective”, *East Asian Bureau of Economic Research*, No. 23853 (2013): 8.

<sup>60</sup> Barbara Stallings and Saori Katada, “Conclusion: FTAs in a Competitive World.” In *Competitive Regionalism: Explaining the Diffusion of FTAs in the Pacific Rim*, ed. Katada, Solis, and Stallings, 236-251.

<sup>61</sup> Chia, “The Emerging Regional Economic Integration Architecture in East Asia”

### 2.3. The TPP: A US-led framework that goes beyond trade

As mentioned in section 2.1, trans-Pacific economic regionalism as championed by APEC had stagnated by the early 2000s, in contrast to the growth of East Asian regionalism during the same period. However, in 2004, the APEC Business Advisory Council (ABAC) refreshed the trans-Pacific vision by proposing a Free Trade Area Asia Pacific (FTAAP), which would be (in principle) a free trade agreement embracing all APEC members. The apparent clash between the East Asian “vision” embodied in the EAFTA and CEPEA proposals, and the trans-Pacific vision reflected in the FTAAP was resolved (at least on paper) at the 14<sup>th</sup> APEC Economic Leaders’ Meeting held in 2006 in Hanoi, Vietnam. The APEC leaders compromised by formally adopting the Regional Economic Integration agenda, which recognised the FTAAP was recognised as a “long-term prospect”. The absence of a credible vehicle for early implementation of the trans-Pacific approach to regional liberalization was remedied in 2008 by the emergence of the TPP initiative.

The TPP began as a small agreement but soon grew into one with huge implications. The original TPP, also known as the Pacific Four (P4) agreement or the Trans-Pacific Strategic Economic Partnership (TSEP), was an FTA concluded between Brunei Darussalam, Chile, New Zealand, and Singapore in 2006. Despite no geographic proximity, the P4 embraced a shared vision for forging a high-standard, comprehensive agreement, which would allow for full goods market access without exclusions (i.e. zero tariffs) by 2015. This small group took an open-minded approach and embraced the participation of other countries (especially the other APEC members), which would enhance the economic benefits derived from the FTA.<sup>62</sup>

The TPP negotiations were greatly energized by the participation of the US in September 2008. US participation became the catalyst for other Asia-Pacific states to jump onto the TPP bandwagon. By November 2008, Australia, Vietnam and Peru all decided to join the TPP negotiations. The initiative gathered more momentum in 2009 when the Obama administration made the TPP a centrepiece of its new trade policy and its economic “pivot” to Asia. Mexico and Canada were accepted as new members in October 2012, making all three NAFTA members part of the TPP architecture. Japan also formally joined the TPP negotiations in March 2013, under the newly elected government led by Prime Minister Shinzo Abe.

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<sup>62</sup> Meredith Kolsky Lewis, "Expanding the P-4 Trade Agreement into a Broader Trans-Pacific Partnership: Implications, Risks and Opportunities." *Asian Journal of WTO, International Health Law and Policy* 4 (2009): 401, 405-406.

Importantly, the progress in the TPP negotiations rejuvenated the stagnating progress on the proposed East Asia-wide FTA. The TPP influenced the strategies of Japan and China to the extent that the two countries agreed to launch the RCEP. That is not to say that the TPP was the only factor that led to the Sino-Japan consensus on the RCEP, but it certainly was the biggest catalyst, as reflected in the timing of the RCEP proposal.

#### **2.4. The RCEP: Integrating the EAFTA and CEPEA proposals**

The ASEAN Framework for Regional Comprehensive Economic Partnership (RCEP) was announced at the ASEAN Summit in Bali in November 2011. China and Japan's joint proposal in August 2011 to establish three working groups for trade and investment liberalization gave ASEAN the opportunity integrated to table the RCEP proposal during the 2011 ASEAN Summit. The RCEP neatly bridges the EAFTA and CEPEA proposals by adopting an open accession scheme (i.e. "ASEAN++") so that any party that meets the template can join in the future.<sup>63</sup> The primary goal of the RCEP is to consolidate the trade system in East Asia combining the five ASEAN-plus FTAs into a single agreement. The RCEP was then officially launched at the ASEAN Summit in Phnom Penh, Cambodia, in November 2012 and the first round of negotiations took place in March 2013.

While it has been argued that the RCEP is led by China, it is in fact, an explicitly ASEAN-led initiative, especially since ASEAN is already the *de facto* hub for East Asian FTAs due to the many ASEAN+1 FTAs already in force. The "Guiding Principles and Objectives" of the RCEP also state explicitly that the RCEP will maintain "ASEAN centrality", meaning that ASEAN is accorded the coordinating role in the process. (A detailed discussion of ASEAN centrality can be found in section IV.) Nevertheless, despite ASEAN being the "driver's seat" of the RCEP, the initiative has received strong backing from China, which leads many commentators to view it as China's counterweight to the US-led TPP. This concern is grounded in the valid assumption that China's economic size and centrality in East Asian production networks would confer it the most influence in the launch, progress and outcomes of the RCEP negotiations.

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<sup>63</sup> However, the current RCEP negotiations are only taking among the ASEAN+6 countries. The envisioned accession clause will likely be added after a RCEP template has been agreed upon among the ASEAN+6.



## **2.5. Which way forward: TPP or RCEP?**

As mentioned, the RCEP and the TPP are both potential building blocks towards the FTAAP endorsed by the APEC members. The 2010 APEC Economic Leaders Meeting appeared to mark an important step towards resolving the question of how these separate initiatives (i.e. the East Asia track and the trans-Pacific track) would be reconciled in the future trade architecture of the Asia-Pacific. In the APEC leaders' 2010 statement, the status of the FTAAP was elevated from that of a "long term prospect" to that of "a major instrument to further APEC's Regional Economic Integration agenda". The leaders further declared that the FTAAP is to be "pursued as a comprehensive free trade agreement by developing and building on on-going regional undertakings, such as ASEAN+3, ASEAN+6 and the TPP, among others."

While APEC countries unambiguously see the FTAAP as end-point to be reached in the evolution of the Asia-Pacific regional trade architecture, they also effectively endorsed the "two track" approach to achieve the FTAAP. The open question how the two "tracks" might evolve into the FTAAP provides additional pressures for progress to be made towards each track, since it can be reasonably anticipated that the extent to which each track can influence the evolution towards the FTAAP and the design of the FTAAP itself, will be at least partly conditioned by the strength of momentum within each track. In other words, the RCEP and the TPP are competing to shape the FTAAP, resulting in not just a contest of templates, but also a "race" towards the conclusion of negotiations. (Section IV will address the latest developments on the FTAAP proposal.)

## **2.6. Conclusion**

This section highlights the main trends and events, at both the global and regional level, that have led to the proliferation of FTAs in the Asia-Pacific. The expanding network of bilateral and plurilateral FTAs created a "noodle bowl" situation, which then led to proposals for region-wide FTAs. The search for a broader regional economic architecture eventually took the form of the RCEP and the TPP, representing the East Asia and Asia-Pacific approaches to economic integration respectively. Notably, there is an interactive dynamic between the RCEP and the TPP in that they stimulated each other's conception and growth. The next section will highlight the differences in membership, objectives and prospective content of the two initiatives.

### III. TPP vs. RCEP: Key Features

Differentiated by their membership, scope and level of ambition, the TPP and RCEP embody competing visions for how the Asia-Pacific trade system should evolve. This section will compare and contrast the main elements of the two agreements, which present two different but nonetheless overlapping templates of economic integration in the Asia-Pacific. This paper argues that the membership, objectives and substantive content of the two templates reflect the competitive dynamic between them. The table below summarizes the key features of the TPP and RCEP agreements that this section will address in detail.

**Table 2. Key Features of the TPP and RCEP agreements (March 2015)**

	<b>TPP</b>	<b>RCEP</b>
<b>First mooted</b>	December 2009	November 2011
<b>Official negotiations</b>	March 2010	May 2013
<b>Intended completion</b>	Early 2015	Late 2015
<b>Negotiating rounds completed</b>	19	5
<b>Total GDP</b>	US\$27.5 trillion (September 2013)	US\$17 trillion (July 2013)
<b>Primary Goal</b>	Address new and traditional trade issues through a comprehensive “twenty-first century” FTA	Address noodle bowl problem by multilateralizing ASEAN FTAs
<b>Membership model</b>	All Asia-Pacific countries accession encouraged	ASEAN-plus-X model, accession yet to occur
<b>Relation to regional architecture</b>	Not tied to any existing organization (independent of APEC)	Affirms principle of ASEAN Centrality
<b>Scope and coverage</b>	“WTO Plus” aspirations – 20 non-tariff issues targeted	“WTO consistent” only – mostly focussed on tariffs
<b>Major sponsor</b>	US-led	ASEAN-led in principle, strongly backed by China
<b>Current members</b>	12: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, NZ, Peru, Singapore, US, Vietnam	16: ASEAN-10, Japan, Korea, China, India, Australia, NZ
<b>Significant “absent members”</b>	China, Indonesia, Korea*, India	US
<b>Common members</b>	Australia, Brunei, Japan, Singapore, Malaysia, NZ, Vietnam	

<b>Commitment level</b>	High level of trade liberalization (~98% tariff elimination)	Lower level of trade liberalization (~90% tariff elimination)
<b>Special treatment of developing economies</b>	None (may provide different schedules to less developed economies for FTA implementation)	Provided; consistent with ASEAN-Plus-One FTAs
<b>Mode of agreement</b>	Include all issues in a “single undertaking”	Gradual and sequential; different components negotiated and implemented under different time schedules

*Note:* \*In December 2013, South Korea formally expressed interest in joining the TPP negotiations.

*Source:* Author’s compilation from various sources

### 3.1. Agendas

The TPP and the RCEP have different but overlapping objectives and guiding principles. The differences in agendas between the agreements are not accidental; they reflect contrasts between the economic interests of Asian economies and more developed countries like the US. Asian agreements seek to preserve “policy space” (i.e. flexibility on the part of national governments) and encourage trade in manufactured goods, consistent with the comparative advantages of countries in the early and middle stages of development.

#### 3.1.1. The TPP’s Goals: An ambitious 21<sup>st</sup> century agreement

The TPP has often been referred to as a “platinum standard”, “21<sup>st</sup> century” agreement, signalling its high level of ambition. In November 2011, the leaders of the TPP countries endorsed a framework for the evolving trade pact that envisions “a comprehensive, next-generation regional agreement that liberalizes trade and investment and addresses new and traditional trade issues and 21<sup>st</sup> century challenges.”<sup>64</sup> On paper, the participants of the TPP aimed to craft a comprehensive agreement that (1) dismantles barriers to trade in goods and services; (2) develops a new trade rulebook in “WTO-plus” areas not yet subject to WTO disciplines, such as labour, environment, investment, and SOEs; and (3) seeks to develop a more coherent approach across sectors with regard to regulatory policies that affect flows of trade and investment. The overarching goal is to create a trade regime that exceeds both the WTO agreement and FTAs that have already been

<sup>64</sup> Office of the US Trade Representative, “Trans-Pacific Partnership Trade Ministers’ Report to Leaders”, 12 November 2011, accessed 10 November 2014, [www.ustr.gov](http://www.ustr.gov)

concluded by participant countries, and ultimately, set a precedent for future trade negotiations worldwide.

### 3.1.2. The RCEP's Goals: Consolidating the ASEAN+1 FTAs

The RCEP, on the other hand, has lower ambitions: it aims primarily to resolve the “multilateralize the noodle bowl” of FTAs among the ASEAN+6 countries. In the Joint Statement of the First Meeting of the Trade Negotiating Committee, the RCEP parties vowed to establish a “modern, comprehensive and high quality and mutually beneficial economic partnership agreement establishing an open trade and investment environment in the region” that will “have broader and deeper engagement with significant improvements over the existing ASEAN+1 FTAs”.<sup>65</sup> The Guiding Principles and Objectives of the RCEP state that the RCEP will cover trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement and other issues. However, the emphasis is firmly on goods, services and investment, which have been on the preferred focus of ASEAN in its existing “ASEAN-Plus” FTAs.

However, the RCEP is *not* intended to replace existing FTAs among the negotiating parties. The guiding principles state that:

*“[The] ASEAN+1 FTAs and the bilateral/plurilateral FTAs between and among the countries will continue to exist and no provision in the RCEP will detract from the terms and conditions in these bilateral/plurilateral FTAs between and among the participating countries.”*

Instead, the RCEP will attempt to harmonize the diverse rules of origins (ROOs) among the “noodle bowl” of FTAs in the region.<sup>66</sup>

Importantly, the guiding principles reiterate the importance of ASEAN centrality in the regional economic integration process. ASEAN leaders declared in the November 2011 Framework for RCEP the following:

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<sup>65</sup> ASEAN, “RCEP Joint Statement of the First Meeting of the Trade Negotiating Committee”, 10 May 2013, accessed on 30 September 2014, <http://www.asean.org/news/asean-statement-communications/item/regional-comprehensive-economic-partnership-rcep-joint-statement-the-first-meeting-of-trade-negotiating-committee>

<sup>66</sup> Sanchita Basu Das, “Asia’s Regional Comprehensive Economic Partnership”, *East Asia Forum*, 27 August 2012, <http://www.eastasiaforum.org/2012/08/27/asias-regional-comprehensive-economic-partnership/>

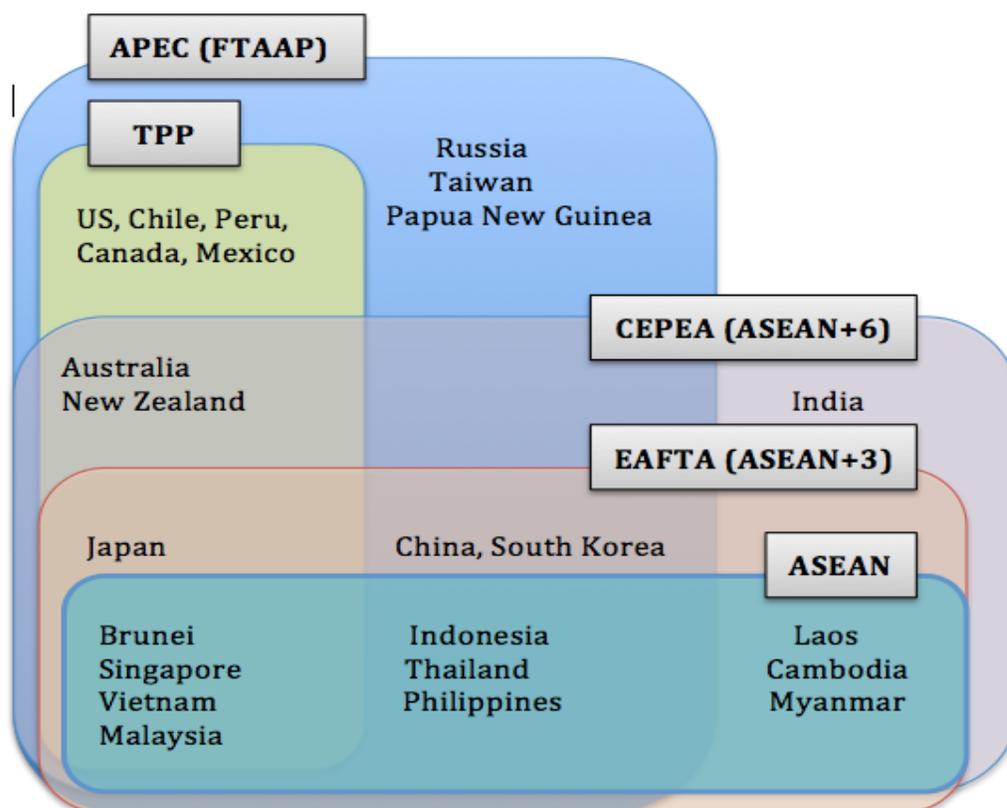
*“[We resolve] to establish an ASEAN-led process by setting out principles under which ASEAN will engage interested ASEAN FTA partners in establishing a regional comprehensive economic partnership agreement and, subsequently, with other external economic partners...”*

This means that the RCEP negotiating process will follow the “ASEAN way”, where objectives and commitments are made based on consensus and in adherence to the “lowest common denominator”. Compared to the TPP, the RCEP takes on a more pragmatic and flexible approach, but also sets the bar much lower. It accepts that countries will reduce trade barriers at different rates, and also makes limited demands for regulatory harmonization.

### 3.2. Membership and Accession Rules

Together, the two “tracks” involve 20 countries. Seven countries – Singapore, Brunei, Malaysia, Vietnam, Australia, New Zealand and Japan – are participating in both tracks.

Figure 1. FTA frameworks in the Asia-Pacific



Source: Author’s own summary

### 3.2.1. TPP membership: Not “Open to all”

As of 2014, 12 countries throughout the Asia-Pacific region have participated in the TPP negotiations: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the US and Vietnam. Costa Rica, Colombia, Taiwan, South Korea and Thailand have also expressed their interest in joining the TPP. The current 12 TPP countries already form part of a growing network of Asia-Pacific FTAs. The current TPP partners also include four of the ten members of the Association of Southeast Asian Nations (ASEAN): Brunei, Malaysia, Singapore, and Vietnam. ASEAN countries have negotiated a free trade area amongst each other as well as several external FTAs.

Accession to the TPP involves a lengthy and laborious process of bilateral discussions and endorsement by each existing participant, then a collective decision to allow the newcomer entry, followed by notifications to domestic governments (e.g. US Congress). In theory, the TPP is open to accession by any country, even those outside of APEC. All countries currently involved in the TPP negotiations are also members of APEC, and they have stated that membership expansion will likely focus on other APEC members first, though non-APEC countries with a focus on trade liberalization, such as Colombia and Costa Rica, have also expressed an interest in joining TPP.

Hamanaka argues that incumbents of the TPP have tried to put “latecomers” in a disadvantageous position in two ways.<sup>67</sup> First, they try to limit the latecomers’ ability to influence the agenda of the TPP. Latecomers must agree on two negotiation modalities: (i) they must accept terms already agreed upon by incumbents, and (ii) they do not have veto power on any chapter if the current negotiating partners reach an agreement on a chapter. In addition, latecomers are not allowed to view the negotiation text until they are accepted into the negotiating process. The second way to put latecomers in a disadvantageous position is by imposing additional requirements. While there have been no formal accession procedures to the TPP (because it has not been signed yet), it seems that incumbents are attempting to “tame” latecomers by introducing a similar mechanism to accession conditionality: bilateral negotiations. For example, in the case of Mexico, signing of the Anti-Counterfeiting Trade Agreement was the precondition for its TPP participation as set by the US.

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<sup>67</sup> Shintaro Hamanaka, “TPP versus RCEP: Control of Membership and Agenda Setting”, *Journal of East Asian Economic Integration* 18 (June 2014): 163-186.

While the TPP outline currently has an accession clause, it is unclear what type of accession clause will be included in the final TPP text. It is likely that a newcomer's participation will be subject to the approval of all TPP member countries, and that applicants who join after the TPP after the conclusion of the negotiations will be required to accept everything in the agreement. Of particular importance is that the TPP will have little consideration for developing countries. While capacity building will be an area covered in the TPP, all participating countries, regardless of their level of development, are expected to offer similar levels of commitment (as of yet). Hence, in reality, the TPP's terms of accession for developing countries are differentiated from those of developed countries, given that developing countries will most likely have to make internal reforms to meet the pre-requisites for accession, whereas developed countries do not.

### **3.2.2. RCEP Members: “East Asia only”**

There are currently 16 participants in the RCEP, namely the ten ASEAN countries and its six FTA partners, Australia, New Zealand, India, China, South Korea and Japan. 12 RCEP participants are also APEC members. Participation in the RCEP is not “open” as of yet. Countries without an FTA with ASEAN (such as the US) cannot participate in RCEP negotiations. Any other ASEAN economic partner can participate in RCEP only after the completion of RCEP negotiations, using the accession clause to be included in the RCEP agreement (Principle 6):

*Any ASEAN FTA partners that did not participate in the RCEP negotiations at the outset would be allowed to join the negotiations, subject to terms and conditions that would be agreed with all other participating countries.*

Like the TPP, it is still uncertain what type of accession rule will be employed in the final RCEP text. While the Guiding Principles and Objectives for the RCEP state that it will have an accession clause, it is naïve to expect that the RCEP will follow open accession rules, given that even participating in the on-going RCEP negotiations is fairly exclusive.

One important feature of the RCEP is its flexibility for less developed members and emphasis on developmental issues. This contrasts the TPP, which (so far) does not include clauses that call for differential treatment for developing members. The RCEP guiding principles state that:

*Taking in consideration the different levels of development of the participating countries, the RCEP will include appropriate forms of flexibility including provision for special and differential treatment, plus additional flexibility for the least-developed ASEAN Member states.*

This implies that developing, but not developed, countries will receive favourable treatment. Initial signals from some of the RCEP countries have suggested a desire to protect sensitive products, as well as to allow long timelines for implementation.

### **3.3. Issue Coverage and Prospective Content**

There are three main differences between the TPP and the RCEP in terms of their issue coverage. Firstly, the TPP covers as a much wider range of areas than the RCEP, including a wide range of issues not always found in traditional FTAs. Secondly, even in traditional FTA areas, such as goods and investment, the TPP has much stricter market access requirements. Thirdly, the TPP has placed special emphasis on the creation of fair, reliable and transparent economic rules and systems, attempting to streamline behind-the-border regulatory approaches. Given that the ASEAN+1 FTAs signed with countries like China, Japan and India contain a lot of exclusions for sensitive domestic sectors, the RCEP agreement is anticipated to be much less ambitious than the TPP in terms of issue coverage and depth of liberalization.



Table 3. Comparison of Issue Coverage in the TPP and RCEP

	TPP	RCEP
Trade in Goods	●	●
– Market Access for Goods	●	●
– Textile and Apparel	●	○
– Rules of Origin	●	○
– Customs	●	○
– Trade Facilitation		●
– TBT	●	○
– SPS	●	○
– Trade Remedies	●	○
Trade in Services	●	●
– Cross-border Services	●	●
– Financial Services	●	○
– Telecommunications	●	○
– Temporary Entry	●	
Investment	●	●
Economic and Technical Cooperation	●*	●
Intellectual Property	●	●
Competition	●	●
Dispute Settlement	●**	●
Legal and Institutional Issues	●	○
Others	●	●
– E-commerce	●	●
– Environment	●	
– Government Procurement	●	
– Labor	●	
– Crosscutting horizontal issues	●	

Note: “●” means the issue is covered. “○” for RCEP means that the issue is likely covered judging from ASEAN+1 FTAs and ASEAN Economic Community. \* “Cooperation and Capacity Building.” \*\* “Legal issues” for administration of the Agreement including dispute settlement.

Source: Adopted from the work done by Fukunaga of ERIA with some modification.

### 3.3.1. The Prospective Content of the TPP

The TPP is envisioned to be a “living agreement”, meaning that it would not just be opened for annual reviews, but also allow regular and on-going discussions and revisions to stay relevant to trade trends.<sup>68</sup> There are currently 21 working groups negotiating 29 chapters of the TPP. Trade issues cover two main components: (1) rules, disciplines, dispute settlement, institutional arrangements; and (2) market access for goods, services, procurement and investment. The TPP covers not only trade issues included in a regular FTA, but also non-trade issues – provisions that are crucial for the next wave of economic integration. Some of these provisions are especially difficult for developing countries to satisfy.

**Table 4. TPP issues under negotiation**

<b>Negotiating Topics in TPP (Potential Chapters)</b>	
Goods Market Access	Competition/State-owned Enterprises
Agriculture Market Access	Trade Remedies
Textiles and Apparel	Transparency
Customs/Trade Facilitation	Labor
Rules of Origin	Environment
Technical Barriers to Trade	Cooperation and Capacity Building
Sanitary and Phytosanitary Standards	Regulatory Coherence
Services	Business Facilitation and Competitiveness (supply chains)
Investment	Development
Financial Services	Small- and Medium-Sized Enterprises
Telecommunications	Institutional Chapters
E-Commerce/Digital Trade	-Dispute Settlement
Temporary Entry	-Living Agreement
Intellectual Property Rights	-Exceptions
Government Procurement	-Definitions

Source: Previous U.S. FTA chapters and USTR press releases on TPP negotiations.

<sup>68</sup> Elms, Deborah K. "The Trans-Pacific Partnership agreement: Looking ahead to the next steps." ADBI Working Paper Series, No. 447 (December 2013): 6.

Although no draft texts from the TPP have been officially released (except for two drafts of the intellectual property rights chapter released on Wikileaks), sufficient information have emerged from the negotiations to provide a reasonably pictures both of the likely content of a number of sections of the agreement and also of the contentious issues.

The following topics have been, or are being discussed, in the on-going TPP negotiations:

- **Market access for agricultural and industrial products.** Parties aim for duty-free access (i.e. zero tariffs) for trade in goods. They are also dealing with export and important licensing procedures, custom issues and trade facilitation. Unconfirmed reports from the negotiations indicate that the agreement on complete elimination of tariffs has been reached in respect of very high percentage of tariff lines, well over 95%.<sup>69</sup> Whether full liberalization of 100% of tariff lines will be achieved is a still an open question. A fundamental disagreement among the participants is over whether TPP commitments should be plurilateral commitments that replace existing bilateral commitments, or whether TPP commitments should be negotiated only between those participants that do not already have a bilateral FTA between them.<sup>70</sup>
- **Services.** The provisions relating to services will follow the so-called “NAFTA” model, whereby the services chapter covers “cross-border services”, while the investment chapter covers investment in services as well as in other sectors. The agreement would employ a negative list approach<sup>71</sup> for sectoral coverage of the services commitments (this means that provisions in the services chapter apply uniformly to all sectors except those specifically excluded). The negative list will include financial services, including insurance and insurance-related services, banking and banking-related services, as well as auxiliary services of a financial nature, to be addressed in a separate chapter.
- **Agriculture, other than market access.** The agreement will deal with sanitary and phytosanitary (i.e. measures to control agricultural pests and pathogens) standards, tobacco

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<sup>69</sup> Scollay, 39.

<sup>70</sup> Deborah Elms and C. L. Lim, “The TPP Negotiations: Overview and Prospects.” RSIS Working Paper No. 232, Singapore: Rajaratnam School of International Studies, 2012.

<sup>71</sup> The adoption of a negative list approach generally reflects a higher level of ambition than acceptance of a positive list approach.

regulation, and agricultural competition. A controversial proposal in the TPP would provide for enhanced enforceability of some “WTO-Plus” sanitary and phytosanitary measures, by subjecting them to dispute settlement.<sup>72</sup>

- **Rules (Intellectual Property Rights).** The TPP will include chapters and provisions that build on disciplines contained in the WTO’s Uruguay Round agreements on Technical Barriers to Trade (TBT) and intellectual property rights (IPR) enforcement. Intellectual property has been the most controversial topic in the TPP negotiations. Some proposals put forth in the TPP negotiations relate to issues that have not been resolved internally in the member countries, as exemplified by the intense controversy generated by the proposed Stop Online Piracy Act (SOPA) in the US.
- **Rules of Origin.** The agreement will incorporate cumulation provisions to allow cumulation for origin purposes across all TPP members.<sup>73</sup> This will be a significant advance on the present situation, where the rules of origin in some FTAs result in preference being denied if inputs are sourced from other TPP economies.
- **Investment.** Provisions of investment protection, ensuring non-discrimination, a minimum standard of treatment, rules on expropriation and prohibitions on specified trade distortive performance requirements. Provisions for investor-state dispute settlements (ISDS), which involves provision of an arbitration process outside the legal system of the host economy for resolving disputes between foreign investors and host economy governments, have been the most contentious issue in the negotiations on investment.<sup>74</sup>
- **Competition Policies.** Establishment and maintenance of competition laws and authorities, procedural fairness in competition in law enforcement, transparency, consumer protection, private rights of action and technical cooperation.

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<sup>72</sup> Implementation of SPS measures in existing FTAs of TPP participants is generally on a “best endeavours” basis, without recourse to dispute settlement.

<sup>73</sup> Since many of the parties to the TPP already have bilateral FTAs, being part of the TPP implies that inputs originating from a TPP country that are included in a final good exported by another TPP country to a third TPP member are regarded as originating in the first country. This fosters the participation of TPP members in regional production networks.

<sup>74</sup> Scollay, 43.

- **Government procurement.** The agreement states common principles and procedures, as well as specific obligations for conduct of procurement; it aims at comparable coverage by all members, while recognizing transitional measures for procurement markets of developing countries.
- **Environment and labour issues.** The agreement may contain substantive provisions on new environmental issues, such as marine fisheries and other conservation issues, biodiversity, climate change, and environmental goods and services, in addition to cooperation for capacity building. Negotiations on environment and labour have centred on proposals put forward by the US, which reflect, and in some respects extend the formula developed by the US in previous FTAs. The enforcement provisions in the US's TPP proposals are reportedly facing strong resistance from most if not all TPP participants.
- **E-commerce.** These provisions aim at eliminating or minimising impediments to electronic transactions that are increasingly included in FTAs involving TPP participants. The provisions may stipulate that no custom duties are to be imposed on digital products, and they also include commitments to free flow of information. Several participants considered these proposals unacceptable restrictions on the setting of government policy relating to cross-border data flows, and others expressed concern that the proposals make insufficient allowance for their privacy laws, which may for example restrict the cross-border transfer of personal information.
- **Development and capacity building.** Despite the inclusion of development as one of the cross-cutting issues to be reflected in the TPP commitments, there has been so far little sign that agreement is likely on commitments with substantial resource implications. A proposal by Malaysia that would require commitment of significant resources of capacity building proposals has reportedly attracted little support, and the outcomes in this area appears likely to fall well short of the rhetoric that surrounded the inclusion of development and capacity building in the TPP agenda.<sup>75</sup>

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<sup>75</sup> *Ibid.*

- **State-owned enterprises (SOEs).** SOEs play a significant role in the economies of several current and prospective TPP countries (e.g. Vietnam, Singapore, Chile, Japan). Australia and the US have advocated a policy “competitive neutrality” among public and private enterprises in order to mitigate market distortions caused by preferential treatment of SOEs. Looming large is the consideration that rules developed in the initial TPP accord will set important precedents for SOEs of future members, especially China.

The TPP’s wide coverage requires extensive negotiations between member states in order to achieve the goal of a significant and far-reaching agreement. In addition, the goods sector is being negotiated based on existing bilateral FTAs among the TPP countries. Thus, where FTAs exist between TPP members, they are likely to be adopted within the TPP, whereas countries without an existing FTA between them have entered into negotiations on a bilateral basis. Other issues are being negotiated among all parties; the goal remains a single agreement applicable to all members.

### **3.3.2. The Prospective Content of the RCEP**

As mentioned, the primary goal of the RCEP is to multilateralise the regional trade system by combining the five ASEAN-plus FTAs into a single agreement. The key focus of the RCEP is on trade in goods – to negotiate further tariff reductions. Far less attention is paid to other issues, and the agreement aims to be “WTO consistent” rather than “WTO Plus”. Only six non-tariff issues are being pursued (compared to the TPP’s 20), and the negotiating parties have been far less specific about what they intend to agree on in these areas.

The actual texts of the RCEP have not been released and the content of the negotiations are arguably even more secretive than those of the TPP. 11 working groups and sub-working groups have been formed to discuss the following issues:

- Trade in goods
- Trade in services
- Investment
- Intellectual Property Rights

- Competition
- Economic and Technical Cooperation
- Legal and Institutional Issues
- Rules of Origin
- Customs Procedures and Trade Facilitation
- Sanitary and Phytosanitary Measures
- Standards, Technical Regulations and Conformity

More specifically, the RCEP seeks to achieve the following:

- Gradually reduce tariff and non-tariff barriers on most trade in goods to create a free trade area. Kuno and Fukunaga consider benchmarks for tariff elimination coverage of 90% to 95%.<sup>76</sup>
- Largely eliminate restrictions and discriminatory measures on trade in services for all sectors and modes of services.
- Create an open and facilitative climate for investment.
- Address the special needs of less-developed ASEAN economies through early elimination of tariffs on products of interest to them, and through the provision of development assistance to narrow development gaps.
- Provide for dispute settlement mechanisms to effectively resolve trade disputes.

### **3.4. Current state of negotiations**

Both the TPP and RCEP are mega-regional undertakings that involve many countries with diverse trade policies and priorities. Naturally, the negotiations for both tracks are highly laborious, complex and challenging.

#### **3.4.1. TPP negotiations drag on**

The TPP agreement has undergone 20 rounds of formal negotiations for nearly five years. According to the TPP roadmap, negotiations were supposed to start in 2011 and end in 2013.

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<sup>76</sup> Yoshifumi Fukunaga and Arata Kuno, "Toward a Consolidated Preferential Tariff Structure in East Asia: Going beyond ASEAN+ 1 FTAs", *ERLA Policy Brief* (2012)

However, due to disagreement over several challenging issues, negotiations cannot be concluded as scheduled. The TPP negotiations remain ongoing through informal rounds, as well meetings among the chief negotiators and trade ministers. Both TPP leaders and ministers met on the sidelines of the November 2014 APEC meetings, but no major breakthrough was announced. Press reports suggest that the next meeting among TPP trade ministers is expected sometime in mid-March of 2015. As of December 2014, eight out of the 29 chapters have been finalized, namely development, regulatory coherence, competitiveness and business facilitation, small and medium enterprises, temporary entry, cooperation and capacity building, administration and institutional arrangements, and section A of competition policy. The remaining 21 chapters have outstanding issues that are still being negotiated.

Although the outstanding issues may be relatively limited, these issues are also likely the most challenging. The scope of tariff and agricultural quota removal or market access on sensitive products, particularly agricultural goods, as well as provisions over nontariff issues such as intellectual property rights, the environment, state-owned enterprises, and investment are reportedly among the most contentious unresolved issues. The US's bilateral market access negotiations with Japan have been particularly challenging as Japan seeks to maintain import protections for several categories of sensitive agriculture products and the US seeks to address concerns over nontariff barriers in the Japanese auto market. As the two largest TPP economies, these bilateral talks have significant implications for the broader 12-country TPP negotiations and the timing of their conclusion.

According to many economists, the timing of the conclusion of the TPP negotiations largely depends on the US. Recently, President Obama submitted the Trade Promotion Authority (TPA) bill to Congress for consideration and ratification. Jeffrey Schott of the Peterson Economics Institute said that Congress would most likely adopt the TPA in early 2014, pinning hopes for the negotiation to conclude in the first half of 2015. However, there is strong domestic opposition to the TPP from non-governmental organizations and even among US politicians, due to its alleged lack of transparency and for certain controversial provisions (e.g. intellectual property rights).

### **3.4.2. RCEP negotiations see no breakthroughs**



The RCEP negotiations kicked off in May 2013, and have since then been progressing in parallel with the TPP. The negotiations are scheduled to conclude by the end of 2015<sup>77</sup>, possibly before the conclusion of the TPP negotiations. Incremental progress is being made, but like the TPP negotiations, there are still many challenges to be resolved due to differing levels of ambition among countries on diverse issues. The outstanding issues include agreement on the modality for tariff liberalization on goods, methodology of liberalization for investment and services, levels of protection to investors, high ambitions for the intellectual property rights and competition chapters, and broadening the scope of the RCEP. The question of how RCEP will apply to the bilateral relations between the 16 participants is a particularly complex one.

To date, there have been seven rounds of negotiations, with the latest one being held in Thailand from 9-13 February 2015. There is lack of official information on the current state of the RCEP negotiations, which like the TPP negotiations, are conducted behind closed doors. The early signs are that progress has been made in the areas of goods trade and trade facilitation. The parties are said to have reached preliminary agreements on tariff reduction schedules, rules of origin, customs procedures and other trade facilitation measures.<sup>78</sup>

### **3.5. Conclusion**

This section has highlighted the key differences between the two templates for regional economic integration, as well as the challenges and progress of each prospective agreement. Despite overlapping issue coverage and membership, there is a huge gap in the level of ambition between the RCEP and the TPP, which reflects the differing economic and strategic interests of the countries involved. While both proposals are possible pathways to the APEC-endorsed FTAAP, it is uncertain as to whether the two mega-regional FTAs will converge, and if so, how they will resolve their fundamental differences. For the time being, the two templates exhibit a competitive dynamic due to their fundamental differences in agenda, membership and content. The influence of major powers, particularly China and the US, on each set of negotiations further contributes to competition

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<sup>77</sup> ASEAN, “RCEP Joint Statement of the First Meeting of the Trade Negotiating Committee”

<sup>78</sup> Ganesh Wignaraja, “The RCEP: An Initial Assessment”, In *New Directions in Asia-Pacific Economic Integration*, ed. Petri Plummer and Tang Guoqiang (Honolulu: East-West Center, 2014), 96.

between the two templates. The next section will address the motivations and strategies of the key players involved both the TPP and the RCEP.

## **IV. KEY PLAYERS: MOTIVATIONS, STRATEGIES AND PERCEPTIONS**

### **4.1. Rationale for highlighting key players in the TPP and the RCEP**

The RCEP and the TPP are essentially regional economic initiatives that emerged due to the convergence of interests among the participating countries. But they also reflect the economic and geopolitical interactions – which can be cooperative and/or competitive – among member countries. While each country obviously has different motivations for participating in either or both agreement, it is beyond the scope and ambition of this paper to do case studies for every country involved. Therefore, this section will only examine the motivations of the key players involved in the TPP and the RCEP for entering into the negotiations, their influence on the negotiations, and also their perceptions of each other (especially in the case of China and the US) and of the countervailing agreements. The countries or group of countries (as in the case of ASEAN) on which this paper focuses are generally perceived as having the most influence on the development of the two mega-regional FTAs, primarily due to their economic power, which goes hand in hand with their geopolitical influence in their Asia-Pacific region. This section will focus on the motivations and strategies of the US, China, ASEAN and Japan with regards to the RCEP and the TPP, as well as the interactions among these countries.

### **4.2. US: TPP as the economic “pivot” to the Asia-Pacific**

The US is undoubtedly the leading advocate of the TPP and has considerable influence over the content of the prospective agreement. As shown in section III, the US has pushed hard for what it deems to be “next generation” issues (both trade and non-trade) to be included in the TPP. The entry of the US into the TPP negotiations also injected new energy into the initiative and attracted many more countries to join. Six of the 11 other countries involved in the TPP already have FTAs with the US: Australia, Canada, Chile, Mexico, Peru, and Singapore.

#### **4.2.1. US FTA Strategy from 1990s to Present: “Competitive Liberalization” on all fronts**

US interest in regional trade initiatives started with the North American Free Trade Agreement (NAFTA), which was concluded between the US, Canada and Mexico in 1992. In the 1990s, US FTA strategy was based on the explicit understanding that regional agreements negotiated in tandem with multilateral ones (i.e. WTO rounds) would favour the completion of the latter. In

1989, the US joined the APEC forum and in 1994, also launched negotiations with 33 other Western Hemisphere countries to complete a Free Trade Area of the Americas (FTAA) by 2005.<sup>79</sup>

However, the ability of the US to negotiate FTAs was hampered by the veto of the fast-tracking negotiating legislation by the US Congress throughout the 1990s. In fact, it was not until the passage of the “Bipartisan Trade Promotion Authority (TPA) Act of 2002” that the US Trade Representative (USTR) was given the green light to seek out trade deals in multiple arenas. In the interim, US trading partners had signed many FTAs, meaning that by 2002, there was a widespread sense that the US was falling behind in the area of regional and bilateral FTAs.<sup>80</sup>

Under the leadership of Robert Zoellick, the Office of the USTR announced its strategy of “competitive liberalization” in 2002.<sup>81</sup> Since then, FTAs became a cornerstone of US strategy and similar bilateral FTAs have been negotiated between the US and other countries at varying levels of development. Ostensibly, these bilateral deals are with countries that are ready to move further with trade and investment liberalization despite the stalemate that has plagued the WTO Doha round negotiations.<sup>82</sup>

#### **4.2.2 US Motivations in joining the TPP: A Strategic Move**

The US was invited by New Zealand to join the TPP negotiations in 2005, but it did not agree to enter into talks until 2008. Why did the US only join the TPP talks only in late 2008?

#### **The Strategic “Pivot” to Asia**

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<sup>79</sup> It was envisioned that NAFTA would be incorporated into the FTAA, which would embrace WTO-plus rules and norms that surpassed the achievements of the WTO Uruguay Round (1994). However, the FTAA talks have more or less stalled since the last round of negotiations in 2003, and the initiative also missed the target deadline of 2005.

<sup>80</sup> US Trade Representative Robert Zoellick lamented in 2001 speech that that “there are over 130 FTAs in the world today and the US party to only two of them.” Robert Zoellick, “American Trade Leadership: What Is At Stake?” Remarks made at a speech at the Institute for International Economics, 24 September 2001 (Washington, DC).

<sup>81</sup> Competitive liberalization refer to negotiation of bilateral FTAs with certain nations in order to stimulate negotiations on other trade fronts.

<sup>82</sup> These recent bilateral FTAs all involve small open economies with relatively high levels of trade dependence on the US market, and where the asymmetries are especially steep. Richard E. Feinberg, “The political economy of United States’ free trade arrangements.” *The World Economy* 26 (2003): 1019-1040.

In 2009, the newly elected Obama administration made the TPP a centerpiece of its trade policy in the Asia-Pacific. President Obama argued that the strategic value of a potential TPP agreement parallels its economic value:

*“TPP is as important strategically as it is economically. Economically, TPP would bind together a group that represents 40 percent of global GDP and about a third of world trade. Strategically, TPP is the avenue through which the United States, working with nearly a dozen other countries (and another half dozen waiting in the wings), is playing a leading role in writing the [trade] rules of the road for a critical region in flux.”*<sup>83</sup>

During his State of the Union address to the 114<sup>th</sup> Congress, Obama also reiterated that the United States would benefit from developing the region’s trade rules as opposed to other regional actors, namely China.<sup>84</sup>

### **Advancement of US trade policy**

The US participation in the TPP negotiations serves several strategic goals in US trade policy. First, it continues and expands a US trade policy strategy that began with the NAFTA, of using FTAs to promote trade liberalization and potentially to spark multilateral negotiations in the WTO. Secondly, joining the TPP was in part a defensive move by the US, which feared that it would be locked out of the expanding network of East Asian FTAs. The TPP presented the US with an opportunity to level the playing field for US exports to Asian markets, which Americans perceive to have been undermined by the undervaluation of key Asian currencies. Existing and prospective East Asian FTAs, such the RCEP, could have trade-diverting impact on US exports. On the other hand, the most controversial provisions in the TPP agreement are deemed to be especially important to U.S. commercial trade—agriculture, disciplines on services, investment, and intellectual property rights, as well as enforceable provisions on labor and environment. Third, the TPP is expected to contribute to US economic and job recovery by opening doors to US exports. As Ronald Kirk, the US Trade Representative said, “a declining US market share in Asia-Pacific countries means fewer US jobs” and the TPP “provides the opportunity to develop a new model for US trade negotiations

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<sup>83</sup> USTR, “Remarks by Ambassador Michael Froman at the Council on Foreign Relations: The Strategic Logic of Trade,” 16 June 2014, <http://www.ustr.gov/about-us/press-office/speeches/transcripts/2014/June/Remarks-USTRFroman-at-Council-Foreign-Relations-Strategic-Logic-of-Trade>

<sup>84</sup> Barack Obama, "Remarks by the President in State of the Union Address," Office of the Press Secretary (2015), 20 January 2015, accessed 13 February 2015, <http://www.whitehouse.gov/the-press-office/2015/01/20/remarks-president-state-union-address-january-20-2015>.

and a new regional approach that focuses more on jobs, enhances US competitiveness.”<sup>85</sup>

### **An opportunity to define the trade agenda of the 21st century**

At the APEC Summit in Hawaii in November 2011, President Obama stated that “the TPP has the potential to be a model not only for the Asia Pacific but for future trade agreements.”<sup>86</sup> This statement seems to confirm the strategic objective of the US to create new template for global trade relations. The present WTO system is increasingly irrelevant to the trade interests of the US, due to the WTO’s focus on trade in goods as well as its extremely low efficiency, as manifested in the stagnation of the Doha Round talks. Conversely, the TPP represents a way for the United States and its partners to advance discussions of a “21st-century trade agenda” that addresses both new trade issues (e.g. e-commerce) and non-trade issues (e.g. environment labour, state-owned enterprises). The US also hopes that the TPP can serve as a model for future negotiations bilaterally, regionally, or in the WTO by establishing norms and rules on new issues.

### **Deepening the US’s Geopolitical Engagement in the Asia-Pacific**

The TPP also has potential geopolitical implications that are tied to US economic interests in the Asia-Pacific. The proposed TPP would not just deepen the US’s formal economic engagement with the Asia; a commitment to the TPP signals a commitment to keep the US military presence in Asia, and to continue serving as a stabilizing anchor in the region. In March 2013, National Security Advisor Tom Donilon confirmed the place of trade as part of the shift when he referred to the TPP as the “centrepiece of our economic rebalancing” and “an absolute statement of US strategic commitment to be in the Asia-Pacific for the long haul”.<sup>87</sup>

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<sup>85</sup> David Pilling, “Trans-Pacific Partnership: Far-reaching agreement could form powerful new trade bloc,” *Financial Times*, 8 November 2011, <http://www.ft.com/intl/cms/s/0/47dd4d14-06cc-11e1-90de-00144feabdc0.html#axzz3VEgVxTZt>

<sup>86</sup> Barack Obama, “Remarks by the President in the Meeting with Trans-Pacific Partnership”, Office of the Press Secretary (2011), accessed 3 January 2015, <https://www.whitehouse.gov/the-press-office/2011/11/12/remarks-president-meeting-trans-pacific-partnership>

<sup>87</sup> Tom Donilon, National Security Advisor to the President (2013), “The United States and the Asia-Pacific in 2013”, New York: Remarks made to The Asia Society, accessed 30 November 2014, <http://www.whitehouse.gov/the-press-office/2013/03/11/remarks-tom-donilon-national-security-advisory-president-united-states-a>

## Contain the Rise of China?

Some commentators also see the TPP as a US effort to contain China's growing economic and political dominance in Asia. Although Washington policy circles tend to deny US geopolitical considerations in engaging in TPP negotiations, many analysts (especially Chinese ones) believe that the US is concerned about the loss of power and influence in Asia, possibly caused by the rise of China-centered cooperation in the region. According to these analysts, US proponents of the TPP see it as a way to thwarting the emergence of a China-centered East Asia economic bloc. Closer economic interdependence among East Asian states has encouraged US allies and friends in East Asia to pursue more ambitious blueprints for regional cooperation that exclude the US. In this light, it's understandable that the US eagerly seeks the participation of allies like Japan to boost the TPP's economic and strategic weight. Japan is by far the largest US trading partner among the TPP countries and together with the US, account for 90% of the total GDP of the TPP. It also does not have an existing FTA with the US. Japanese involvement would also help tighten the security alliance between the US and Japan, and would likely bring along South Korea into the TPP. As such, the TPP as a useful way of constraining the centrifugal tendencies of allies Japan, South Korea and Australia, which are increasingly attracted by, and dependent on, China's growing economic power.

### 4.3 China: "Peaceful Rise"?

The competitive dynamics of the TPP and the RCEP are closely interlinked with the geopolitical implications of the rise of China and the perception of China by other states in the region. To understand China's participation in the RCEP and its perceptions of the TPP, it is helpful to understand China's regional strategy in East Asia, which is arguably the most important region for China economically and geopolitically.

Minimising the region's "China threat"<sup>88</sup> perception is key consideration in China's regional strategy in East Asia because China needs a peaceful international environment in order to concentrate on its economic development (always its top national priority), and this in turn requires good relations with its neighbours.<sup>89</sup> As the "China threat" is increasingly perceived in economic terms, the economic components of the strategy have become more important. Hence regional

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<sup>88</sup> *The China Threat: Perceptions, Myths and Reality*, eds. Herbert S. Yee and Ian Storey (London, UK: RoutledgeCurzon, 2002)

<sup>89</sup> Alastair Iain Johnston, "Is China a Status Quo Power?", *International Security* 27 (2003): 5–56

economic integration has emerged as the core of China's regional strategy in East Asia, and China has been very supportive of regional economic integration mechanisms like the ASEAN+3, and now the RCEP.

#### 4.3.1. China's FTA strategy

As mentioned in section II, compared with Europe and North America, East Asia is a latecomer in regional economic cooperation, and China is one of the latest in the region. China's top trade priority in the 1990s was to join the WTO and its 15-year accession process (from 1986-2001) consumed most of its efforts in the area of trade. China did not start to seriously consider the feasibility of the regional trade agreements approach until the outbreak of the Asian financial crisis in mid-1997.<sup>90</sup> There has always been a competitive dimension to China's FTA strategy, and it seems that Beijing is very much influenced by the FTA strategies of other countries. Yang argues that economic, political and strategic competition can play a decisive role in China's FTA decisions.<sup>91</sup>

China's initial interest in FTAs stemmed from concerns about being excluded from existing preferential arrangements. The emergence of regionalism in Latin American (Mercosur, 1991), Southeast Asia (AFTA, 1992) and North America (NAFTA, 1992), in addition to the formation of the European Union (Maastricht Treaty, 1992) raised fears that China might be left out of the new wave of regional integration. Although the number of FTAs in East Asia remained small, the Asia-Pacific as a whole seemed to be entering into FTAs faster than many other regions, and with many more to come.<sup>92</sup> Also, compared with the WTO, FTAs cover a broader range of issues and are more discriminative against non-partners.<sup>93</sup> The Chinese government was thus advised to follow the FTA trend and to join the "small group" of FTAs after joining the "big group" of WTO in order to avoid being marginalized in global and regional trade.<sup>94</sup>

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<sup>90</sup> Henry S. Gao, "The RTA strategy of China: A critical visit", in *Challenges to Multilateral Trade: The Impact of Bilateral, Preferential and Regional Agreements*, ed. Ross Buckley, Vai Io Lo and Laurence Boulle (The Hague: Kluwer Law International, 2007): 55-66.

<sup>91</sup> Jian Yang, *China's Competitive FTA Strategy: Realism in a Liberal Slide?*, Waseda University Global COE Program, Global Institute for Asian Regional Integration, 2008.

<sup>92</sup> C. Liu, "The Causes and Characteristics of the Development of China's Bilateral Trade Liberalization in the World and China's Policy", *World Economy Study* 4 (2005): 6.

<sup>93</sup> A. Zhang, "China's FTA Question", *中国海* [China Custom] 9 (2006): 7.

<sup>94</sup> F. Zhang, "On the Construction of China's FTA Strategy", *放导报* [China Opening Herald] 5 (2004): 74.



Beginning with the first China-ASEAN Summit in December 1997, China and ASEAN began exploring the possibility of a free trade area. In October 2001, ASEAN and China decided to establish an ASEAN-China Free Trade Area (ASEAN-China FTA) by 2010. Since then, China has moved fast in concluding bilateral FTAs. As of early 2012, China has signed bilateral and multilateral FTAs with eleven countries/regions (ASEAN, Pakistan, Chile, New Zealand, Singapore, Peru, Hong Kong, Macau, Costa Rica, Iceland, Switzerland) and is negotiating another six, including the RCEP and CJK-FTA.<sup>95</sup>

### **Economic Benefits of FTAs**

In terms of economic benefits, FTAs help make Chinese exports and businesses more competitive in five main ways. China uses FTAs to: (1) lower tariffs and thus reduce both export and import costs; (2) use rules of origins to overcome trade barriers<sup>96</sup>; (3) reduce the impact of trade diversion resulting from competing FTAs<sup>97</sup>; (4) help Chinese businesses to access overseas markets; and (5) reduce the number of antidumping investigations against China by (potential) FTA negotiation partners.<sup>98</sup>

### **Political Implications of FTAs**

While economic competition is an apparent factor in China's interest in FTAs, political competition is no less important. In analysing US FTAs, deLisle notes that: "FTAs can serve as an economic instrument in the pursuit of security goals that loom large in US foreign policy. More crassly put, instrumentally, they can serve as economic goodies that Washington can dole out to serve political ends of building or reinforcing alliance-like arrangements."<sup>99</sup> DeLisle points out that compared to the US, "the political dimension is even larger for Beijing and the commitment to the relatively radical economic liberalism idea behind FTAs (or of the broader international trade

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<sup>95</sup> China's FTA Network, accessed 3 March 2015, <http://fta.mofcom.gov.cn/english/index.shtml>

<sup>96</sup> Y. Ma, "The 'Grey' Area of Rules of Origin and Potential Barriers", *Statistics and Decision* 6 (2004): 47

<sup>97</sup> For example, the South Korea-US FTA, signed in April 2007, alarmed the Chinese because competitive US agricultural products could threaten Chinese agricultural exports to South Korea, the second biggest market for Chinese agricultural exports. On the other hand, American businesses have expressed intention to reduce their imports of textiles and apparel from China, and use South Korea as a replacement.

<sup>98</sup> Since its accession to the WTO in 2001, China has faced an increasing number of antidumping investigations: 536 investigations from 1995-2006.

<sup>99</sup> Jacques deLisle, "Free Trade Areas: Legal Aspects and the Politics of the US, PRC and Taiwan Participation." Paper for the Foreign Policy Research Institute, 2006.

regime) less established and robust.” Chinese analysts also emphasize that China’s FTA strategy should help it to “enhance its influence in the international political economy and expands its political and security space”.<sup>100</sup> Therefore, China should make FTAs “an important tool for both economic diplomacy and political diplomacy”.<sup>101</sup> Chinese analysts are wary of other major powers, namely Japan and the US, that try to negotiate FTAs with China’s neighbours.

According to Song Guoyou, apart from an economic rationale to secure China’s future supplies of much-needed natural resources, improving its international environment, is one of the most important reasons that China pushes its FTA agenda.<sup>102</sup> In particular, the key political objective of China’s FTA strategy is to improve and maintain stable political relations with its Southeast Asian neighbours. Though the Chinese government has persistently portrayed itself as “rising peacefully”, China’s emergence as a regional and global power has aroused both economic and strategic fears among ASEAN countries.<sup>103</sup> Some of these fears have their roots in historic mistrust, and have been exacerbated by the territorial disputes in the South China Sea. China has been trying to diminish mistrust like this, and to build closer ties with most of its neighbours by offering them economic benefits through FTAs. China gradually realized the simple denial of non-aggressive intent should be made more credibly by offering concrete initiatives that produced tangible benefits. In other words, China pursued a “charm offensive” in its FTA policy towards Southeast Asia.<sup>104</sup> In particular, China demonstrated great generosity in accommodating ASEAN preferences in the ASEAN-China FTA (ACFTA). It accepted various formats and contents developed by ASEAN in the ACFTA negotiation, such as differential treatment and flexibility for new ASEAN members, and made a big concession by offering the Early Harvest Programme (EHP) – i.e. voluntarily opening its agricultural market to ASEAN members, most of which were agricultural exporters.

### **Setting the rules of the international trade order: rule follower to rule maker**

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<sup>100</sup> F. Zhang, “On the Construction of China’s FTA Strategy”, 75

<sup>101</sup> Liu, 10.

<sup>102</sup> Wen Jin Yuan, “The Trans-Pacific Partnership and China’s Corresponding Strategies”, Freeman Briefing Report (Center for Strategic and International Studies, 2012): 7.

<sup>103</sup> Wen Jin Yuan and Melissa Murphy, “Regional Monetary Cooperation in East Asia: Should the United States be Concerned?”, CSIS Report, November 2010

<sup>104</sup> Joshua Kurlantzick. *Charm offensive: How China's soft power is transforming the world* (New Haven, Connecticut: Yale University Press, 2007)

Some Chinese analysts have argued that for great powers, playing a leading role in regional economic cooperation is not just for their economic and strategic interests in the region or for domestic benefits. More importantly, the great powers are aiming at the external benefits, namely to increase their bargaining chips in multilateral (i.e. WTO) negotiations and further, to play a leading role in making international economic rules.<sup>105</sup> By this logic, one of China's goals in joining international economic institutions is to shape the rules of the international trading system.<sup>106</sup> However, Beijing is not actively challenging the existing international trading system by propounding a new set of rules on trade and investment, partly because China is still learning how to play the international economic game. Chinese analysts note that China utilizes the existing international economic order and then works with other countries, especially developing countries, to gradually improve it.<sup>107</sup>

#### **4.3.2. The RCEP as China's counter to the TPP**

China has shown great interest in the RCEP, even though it does not exactly follow China's proposed template for East Asian economic integration – i.e. the EAFTA. As shown in section II, the RCEP can be seen as a compromise between China's EAFTA proposal and Japan's CEPEA proposal. But what factors motivated China to compromise on its original template?

It seems that the TPP has had considerable influence on China's trade strategy. China and Japan jointly proposed the formation of an East Asian FTA in August 2011 at the ASEAN+3 and East Asian Summit economic ministers' meetings, just before the leaders of nine TPP countries announced the broad outline of an expanded TPP in November 2011. In fact, it was China that encouraged Japan to consider the formation of the regional FTA.<sup>108</sup> The US-inspired TPP essentially forced China to shift the geographical scope of the FTA formation from East Asia to the Asia Pacific via the ASEAN-led RCEP. Interestingly, the TPP also eroded the political confrontation between China and Japan over the regional FTA initiative, and produced a middle path – the RCEP.

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<sup>105</sup> Z. Zhang, "FTA: A New Wave of Cooperation in Northeast Asia", *Southeast Asia* 3 (2004): 5

<sup>106</sup> *China's International Status Report 2004*, ed. Y. Zhang R. Huang (Beijing, China: People's Publishing House, 2004), 12.

<sup>107</sup> Liu C. and Z. Gong, "China's Participation in Bilateral FTAs and the its Policy Co-ordination between FTAs and APEC, *Asia-Pacific Economic Review* 2 (2007): 18.

<sup>108</sup> Hidetaka Yoshimatsu, *Comparing Institution-building in East Asia: Power Politics, Governance, and Critical Junctures* (New York: Palgrave Macmillan, 2014), 55.

While China's strong support for the RCEP is due to several factors, this paper contends that TPP was the most important catalyst for China's push for the RCEP. In other words, China's renewed interest in FTAs with its neighbours derived primarily from its strategic intention to hedge against the progress of the US-inspired TPP.

#### 4.3.3. Chinese Perceptions of the TPP

With regards to the TPP, there are three main schools of thought within the Chinese academic and policy circles: (1) the "containment" school; (2) the "economic competition" school; and (3) the "pro-TPP" school. The first school maintains that the main reason behind the US support for the TPP agenda is to use the TPP as a tool to economically contain China's rise by reducing the Asian Pacific countries' dependence on China.<sup>109</sup> Some even claim that once the TPP comes into force, it will undercut the East Asian regional integration process (i.e. the APEC framework) that China has been advancing for a decade, posing a great challenge to China's future.<sup>110</sup> The second group of Chinese analysts argues that the US's main intention behind joining the TPP is simply to boost its domestic economy via increased exports to the Asia-Pacific.<sup>111</sup> A third group of scholars believe that joining the TPP is aligned with China's long-term economic interests. Becoming a member of the TPP could be beneficial to China in at least three ways: (1) allow China exert some influence over the rule-making of the TPP (though it is arguably too late into the negotiations for China to revise the chapters that have been agreed upon) to safeguard its own economic interests<sup>112</sup>; (2) facilitate the trade liberalization process in the Asia-Pacific region; and (3) stimulate domestic structural reforms.<sup>113</sup>

#### 4.3.4. China's response to the TPP: RCEP, CJK FTA and the FTAAP

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<sup>109</sup> Xiangyang Li, "“跨太平洋伙伴关系协定: 中国崛起过程的巨大挑战,” [TPP: A Serious Challenge for China's Rise], *国际评论* [International Economic Review] 2 (2012): 17-27.

<sup>110</sup> Jianmin Jin, "China's Concerns Regarding TPP No More than Empty Worries?", Fujitsu Research Institute, 11 January 2012, <http://jp.fujitsu.com/group/fri/en/column/message/2012/2012-01-11.html>.

<sup>111</sup> Du Lan, "美国力推跨太平洋伙伴 系论析 [On America's TPP], *国际问题研究* [International Studies] 1 (2011): 45-51.

<sup>112</sup> Ding Gang, "中国应该尽快加入TPP谈判 [China should Join TPP As Soon As Possible], *环球时报* [Global Times], 15 November 2011.

<sup>113</sup> These Chinese scholars argue that many controversial issues in the TPP, such as reform of SOEs, environmental and labour standards, protection of intellectual property rights and liberalization of services trade, are also on China's own reform agenda.

Regardless of whether the TPP will be successfully implemented or not in the near term, most Chinese analysts agree that the most important strategy for the Chinese government at this point is to actively push for its own FTA strategy. Li Wei, President of the Development Research Center of the State Council, said in keynote speech at the Asian Financial Forum that the Chinese government's "unswerving policy" is to accelerate the development of free trade with its major trading partners in Asia. The speech seems to be a clear indicate that China will actively propel the establishment of new bilateral and plurilateral FTAs with more of its Asian neighbours to counter-balance the US-led TPP.<sup>114</sup>

In this context, the RCEP is definitely an attractive option for the following reasons: first, it offers access to markets in Japan, India and Australia, otherwise not possible as previous attempts to establish FTAs with these three countries have not borne fruit. As China tries to rebalance its economic and trade structures, a more integrated East Asian market under the RCEP becomes more essential to its future growth. Second, it is a convenient way for China to exclude the US in the regional trade architecture of Asia. China avoids direct confrontation with the US since the RCEP is ASEAN-led. In addition to positive commitments to the RCEP, China increased its interest in the China-Japan-Korea FTA (CJK FTA) – deemed to be a critical step for forming a wider regional FTA. The first talks for the CJK FTA were held in March 2013.

#### **4.3.5. The Beijing Roadmap for the Free Trade Area of the Asia-Pacific (FTAAP)**

The latest and most interesting development concerning these two mega-regional trade agreements occurred during the APEC Economic Leaders' Meeting held in Beijing, China in November 2014. The main outcome of the APEC annual meeting in Beijing was an agreement among APEC members to launch a two-year "strategic study" of the Free Trade Area of the Asia-Pacific (FTAAP).<sup>115</sup> The FTAAP initiative is known as "Beijing Roadmap", and is most strongly backed by China. Chinese President Xi Jinping said at a press conference after the conclusion of the APEC meeting that the move was "a historic step we took in the direction towards realizing the FTAAP". Xi also said the FTAAP can be the "aggregation" of existing free trade arrangements and

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<sup>114</sup> "中国欲制衡太平洋战略与经济伙伴 系?" [China plans to counter-balance the influence of TPP?], *International Financial Times* (China), 17 January 2012, <http://www.ibtimes.com.cn/articles/8777/20120117/china-tp.html>

<sup>115</sup> APEC, "2014 Leader's Declarations: "Annex A – The Beijing Roadmap for APEC's Contribution of the Realization of the FTAAP"

that "the FTAAP does not go against existing free trade arrangements, which are the potential pathways to realize the FTAAP goals".

While both the RCEP and TPP are considered stepping stones towards an APEC wide-agreement, it seems that China has made a clear political move at a time when TPP negotiations are labored and when the US is facing difficulties on passing the trade promotion authority, which enables the fast-tracking of FTAs through Congress. While China has been pushing for a full "feasibility study," this move has been resisted by the US and some other TPP negotiating partners as premature. This resistance stems from the US concern that engaging in a full FTAAP feasibility study at this time would detract from and interfere with completion of the TPP.

For some, the announcement of the FTAAP is tantamount to China rivaling the US for free trade supremacy in the Asia-Pacific region. Jayant Menon, the Lead Economist at the Asian Development Bank, claims "the race is on between the US and China to dominate the rules-setting game for trade by being the first to be able to announce plans for a free trade area in the Pacific Rim."<sup>116</sup> However, others predict that the FTAAP study announced at the Beijing APEC summit will also provide impetus for TPP completion.<sup>117</sup> With that study due at the end of 2016, the US and the other TPP countries will want to ensure that their own trade deal is completed well before the launch of the next phase of the FTAAP. In this way, the TPP—as one of the declared paths to a larger regional agreement—will be in a position to strongly influence the eventual shape, rules and level of market opening of an FTAAP.

It is also interesting to note that in 2013-2014, the Chinese leadership advanced its regional initiatives as a whole package of concepts, policy plans, and economic incentives. In this context, the RCEP is not just a regional trading pact, but also a strategic counterweight to US "rebalancing" in the Asia-Pacific. During the 2014 APEC Summit in Beijing, Xi Jinping announced that as its "overall national strength grows, China will be both capable and willing to provide more public goods for the Asia-Pacific and for the world, especially new initiatives and visions for enhancing regional

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<sup>116</sup> Jayant Menon, "Two visions for free trade in the Asia-Pacific", World Economic Forum, 10 November 2014, accessed 19 January 2015, <https://agenda.weforum.org/2014/11/two-visions-for-free-trade-the-asia-pacific>

<sup>117</sup> Hugh Stephens, "TPP or FTAAP: What it means US and the Asia-Pacific region", *China-US Focus*, 25 November 2014, <http://www.chinausfocus.com/finance-economy/tpp-or-ftaap-what-it-means-for-us-and-the-asia-pacific-region/>

cooperation”.<sup>118</sup> To this end, China has come up new initiatives for enhancing regional cooperation, namely the “Silk Road Economic Belt” and the “21<sup>st</sup> century Maritime Silk Road”. To finance infrastructure constructions to complete the aforementioned “One Belt, One Road” regional development strategy, China established the Asian Infrastructure Investment Bank (AIIB) in October 2014, with 21 other Asian countries.<sup>119</sup> It also committed \$40 billion to a Silk Road Fund, which will make investments in regional connectivity and infrastructural projects, including new airports, ports, roads and railways. The fund and the bank will support Chinese initiatives to enhance trade and economic growth in the Asia-Pacific. These ambitious undertakings also function as action plans that buttress the RCEP. Essentially, initiatives the AIIB, like the RCEP, can be perceived as manifestations of the fast-growing economic and diplomatic influence of China in the Asia-Pacific, and arguably, its attempt to set up parallel structures that challenge the established international order. However, while the AIIB is explicitly Chinese-led, it is not yet clear how much influence China has or will have in the RCEP negotiations and outcomes.

#### **4.3.6. Will China join the TPP?**

As aforementioned, it seems unlikely that China would agree to a process of bilateral discussions and arduous preconditions simply to get to the TPP negotiating table, and accept a raft of US-drafted rules that are disadvantageous to China commercially. However, criticisms against the TPP have toned down since June 2013, when the Chinese Ministry of Foreign Affairs declared that the “TPP, ASEAN Plus Three, and the ASEAN Plus Six are all possible paths for Asia-Pacific regional integration”. The Chinese Ministry of Commerce also announced that China would study the TPP’s influence on China’s economy and the possibility of China’s entry into the TPP positively”. In the wake of these official statements, Chinese sources have instead offered measured responses, which indicate that at this point in time, it is not in China’s interest to join the

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<sup>118</sup> Xi Jinping, “Seek Sustained Development and Fulfilled the Asia-Pacific Dream (Address by Xi Jinping to the APEC CEO Summit)”, APEC 2014, 13 November 2014, <http://www.apec-china.org.cn/41/2014/11/13/3@2580.htm>

<sup>119</sup> China has extended the deadline for countries to join as a founding member to 31 March 2015 and 12 more countries have since joined (as of 22 March 2015), including US allies such as the UK, Australia, as well as important EU countries like Germany and France. The AIIB viewed by some to rival the IMF, the World Bank and the Asian Development Bank, which are regarded as dominated by developed countries, especially the US. The China-led bank thus serves as an economic incentive for other countries to support China’s regional integration vision and arguably, its global leadership. On the other hand, the US has expressed concerns about whether the AIIB would have sufficient standards of governance, social and environmental safeguards. Matthias Sobolewski and Jason Lange, “US urges allies to think twice before joining China-led bank”, *Reuters*, 17 March 2015, <http://www.reuters.com/article/2015/03/17/us-europe-asia-bank-idUSKBN0MD0B320150317>

negotiations but that its position could be revisited at an appropriate time in the future.<sup>120</sup> One Chinese academic suggested that “if the TPP is not well-received by intended member states, China would be in a comfortable position to extend its economic leverage for the norm-setting powers, and to convert the TPP into an FTTA according to a set of compromised terms, if not China’s terms.”<sup>121</sup>

There are two main factors prompting China to change its attitude to the TPP. First, it has recognized the importance of the TPP to its economy. Trade with TPP countries accounted for 33% of China’s total trade in 2013. Among its ten largest trading partners, five are TPP member countries (i.e. the US, Japan, Australia, Malaysia and Singapore), which together account for 28% of China’s total trade in 2013. Moreover, TPP countries have become important destinations for Chinese investors. In 2013, China’s total outward reached \$124 billion, making it the third largest investor in the world after the US and Japan.<sup>122</sup> Japan’s decision to join the TPP is another reason for China to seek inclusion in the TPP. Japan’s entry significantly raised the potential of the TPP, which will cover nearly 40% of global economic output and one-third of global trade. Strategically for the US, including Japan in the TPP underpins an already close US-Japan security alliance, and cements Japan’s economic orientation in a US-led Asia-Pacific agreement at a time when Japan is also participating in a range of other Asian FTAs, and underscores American and Japanese leadership in the region. China would be left out of a Asia-Pacific trade system that includes the two other largest economies in the world (also its two largest trading partners) if the TPP is realized without its participation.

While joining the TPP is an option, the Chinese government is particularly concerned with the difficulties of joining the TPP at a later stage once the design of the TPP is finalized. This is because the agreements between China and ASEAN are typically far less ambitious than the FTAs

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<sup>120</sup> K. Yao, “China to Study Possibility of Joining US-led Trade Talks”, *Reuters*, 30 May 2013, [www.reuters.com/article/2013/05/30/us-trade-asiapacific-china-idUSBRE94T0X420130530](http://www.reuters.com/article/2013/05/30/us-trade-asiapacific-china-idUSBRE94T0X420130530); Qifeng Ding and Joseph Boris, “‘Positive’ Sign on Free Trade Pact”, *China Daily*, 3 July 2013, [http://usa.chinadaily.com.cn/world/2013-07/03/content\\_16711114.htm](http://usa.chinadaily.com.cn/world/2013-07/03/content_16711114.htm)

<sup>121</sup> Wan Meng, “TPP and China’s Response”, In “Mega-regional Trade agreements: Game Changers of Costly Distractions for the World Trading System?”, World Economic Forum: Global Agenda Council on Trade & Foreign Direct Investment, July 2014, 38.

<sup>122</sup> In 2012, the US, Canada, Australia and Singapore were among the ten largest investment destinations for Chinese enterprises, accounting for 10% of China’s total outward FDI. Ministry of Commerce of China, 2012 Statistical Bulletin of China’s Outward FDI, September 2013.



involving the US, of which the latter largely involves legally binding and enforceable obligations.<sup>123</sup> From the Chinese perspective, the main problem lies in the so-called “platinum” standards the US is pushing for in the TPP, which are inconsistent with China’s principle of non-interference in other nations’ domestic affairs.<sup>124</sup> These include stronger intellectual property rights, tighter labour and environmental standards and regulatory discipline of state-owned enterprises. Hence, Chinese scholars have asserted that for China, the ultimate decision to join the TPP is more of a political than an economic question.

Despite the economic competition between the US and China (as manifested in their respective concerns over the RCEP and the TPP), China is trying to further its economic ties with the US. It requested a pilot study on the feasibility of an FTA with the US and also restarted negotiations on a Bilateral Investment Treaty, and these should be nearing completion as of mid-2014. An investment treaty is generally viewed as a necessary step towards a possible FTA.<sup>125</sup>

#### **4.4. ASEAN: maintaining centrality in regional institutions**

The Association of South-east Asian Nations (ASEAN) is the one of oldest and most significant intergovernmental organizations in Asia, and it is now a major driving force for economic cooperation and integration in the Asia-Pacific. It is relevant to the two mega-regional trade agreements for two reasons. First, the RCEP is officially recognized as an ASEAN-led process. Second, four ASEAN countries are TPP member countries and a few others, namely Thailand and the Philippines, have expressed interest in joining the TPP. This section will: (1) analyse the motivations of ASEAN (as a single entity) in initiating the RCEP and then “leading” the negotiations process; (2) highlight the difficulties that ASEAN faces in driving the RCEP; and (3) briefly comment on the specific motivations of countries that are involved in both the RCEP and TPP.

##### **4.4.1. ASEAN’s Pursuit of Economic Cooperation and Integration**

Currently, ASEAN consists of ten member countries with a total of 625 million people

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<sup>123</sup> Ka Zeng, “Multilateral versus bilateral and regional trade liberalization: explaining China’s pursuit of free trade agreements”, *Journal of Contemporary China* 19 (2012): 635–652.

<sup>124</sup> Dean Baker, “The Pacific free trade deal that’s anything but free”, *The Star*, 29 August 2012, 13.

<sup>125</sup>“Fact Sheet: US-China Economic Relations”, The White House, Office of the Press Secretary, accessed 25 February 2015, <http://www.whitehouse.gov/the-press-office/2014/11/12/fact-sheet-us-china-economic-relations>,

(2013) – the third largest population in the world after China and India. The ASEAN countries collectively make up the eighth largest economy in the world, and ASEAN as a bloc is projected to become the world’s fourth largest economy in 2050.<sup>126</sup> Southeast Asia also adjoins the world’s largest potential markets, straddle critical shipping lanes and is now a key player in contests for influence in the Asia-Pacific region.

Trade is integral to the success and growth of ASEAN economies. Over the past two decades, ASEAN’s economic ties with Asia have intensified, whereas ASEAN’s trade with the US and the EU has declined markedly. China is now ASEAN’s number one trading partner, with its China share of ASEAN trade rising from 2% in 1993 to 12% in 2011. At the same time, Japanese, US and EU shares of ASEAN trade have dropped significantly from 1993 to 2011 (US: 18% to 8.5%; Japan: 20% to 10.3%; EU: 15% to 10.6%).<sup>127</sup>

Hence, economic cooperation and integration within ASEAN, and increasingly within the broader East Asian region, has been a key area of focus for the organization ASEAN. In 1992, members agreed to create the ASEAN Free Trade Area (AFTA), a regional common market, which became effective in 1993. Tariffs among the ASEAN nations have been greatly reduced, especially among the six oldest ASEAN members. The sub-region’s economic prospects will be much enhanced by an ambitious integration effort, known as the ASEAN Economic Community (AEC), which seeks to achieve a single market and production base, including higher mobility of labour and capital within the region. The launch of the AEC is currently planned for the end of 2015.

ASEAN’s external economic integration efforts have proceeded in two major phases. The first focused on external relationships based on “ASEAN Plus” FTAs with partners mainly in Asian but also beyond it. Starting with China in 2003, ASEAN has concluded free-trade agreements with South Korea (2006), Japan (2008), and Australia, New Zealand, and India (2009). The second phase, now underway, are the two major regional cooperation initiatives – the TPP (four ASEAN members are currently involved) and the RCEP.

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<sup>126</sup> In 2014, ASEAN’s GDP amounted to \$2.4 trillion. The bloc is expected to continue its average annual GDP growth of 6% for the next two decades, only a little slower than those of China and India.

<sup>127</sup> Syetarn Hansakul, “ASEAN Economic Community: A potential game changer for ASEAN countries”, *Current Issues*, Deutsche Bank, 14 June 2013.

Besides pushing for intra-ASEAN integration and economic cooperation with the wider Asia-Pacific, ASEAN has also initiated a number of pan-Asian economic and political institutions. The ASEAN Regional Forum (ARF), for example, was initiated in 1994 by the ASEAN states to serve “an effective consultative Asia-Pacific Forum for promoting open dialogue on political and security cooperation in the region”.<sup>128</sup> The EU, US, China and Russia are all current participants in the ARF. The ASEAN Plus Three (APT) was set up as a forum in 1997 to coordinate cooperation between ASEAN and China, Japan and South Korea.

ASEAN’s largely successful trajectory in institution-building and staying relevant to the great powers in the region – namely China, Japan, India, and the US – has given the organization increasing confidence in various aspects of cooperation and integration. The integration imperative has been reinforced by the growth of China and India. In this context, regional integration also came to be seen as an essential tool for competing with, or at least prevent being overshadowed by, giant neighbours.

#### **4.4.2. ASEAN negotiates a “middle path” between Japan and China**

As mentioned in section II, an intense competition emerged between two approaches to regional economic integration: an ASEAN+3 grouping favoured by China and an ASEAN+6 grouping proposed by Japan. ASEAN also did not have the willingness and capabilities to coordinate the two concepts suggested by Japan and China. Insofar as the Sino-Japanese rivalry did not produce direct political and economic disadvantages, ASEAN did not dare to coordinate the sharp confrontation between China and Japan. Nevertheless, in a breakthrough agreement at ASEAN’s 2011 Bali Summit, China and Japan allowed both tracks to move forward and jointly proposed working groups to shape the progress of negotiations. ASEAN, in turn, tabled its first-ever proposal for an East Asian regional FTA, later formalized as the RCEP initiative in 2012.

#### **4.4.3. ASEAN Centrality**

The RCEP is arguably the most concrete example of “ASEAN centrality”<sup>129</sup> in practice. As mentioned in section III, the ASEAN Framework for RCEP enshrines ASEAN centrality as a key

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<sup>128</sup> ASEAN Regional Forum, “27<sup>th</sup> ASEAN Ministerial Meeting Statement”, accessed 20 February 2015, <http://aseanregionalforum.asean.org/about.html>

<sup>129</sup> The term “ASEAN centrality”, now common in use, represents ASEAN’s vision to remain relevant and economically competitive in the Asia-Pacific region.

principle of the RCEP. However, it is important to note that there is no consensus about what is “ASEAN centrality”. Does it mean the ASEAN is in the “driver’s seat” of the RCEP – taking instructions from the passengers (i.e. other RCEP members) – or is it more of a driving force that engineers compromises and sets directions? Acharya defines “ASEAN centrality” as ASEAN’s central role as “the building bloc and hub of developing a wider Asian or Asia-Pacific regional architecture”.<sup>130</sup> Wang, on the other hand, believes that ASEAN is not the power centre and can only play a “functional” role, acting as a platform for cooperation and possessing the functional rights.<sup>131</sup> Most analysts argue the success of the RCEP will ultimately depend on whether an agreement among China, South Korea and Japan (i.e. a trilateral FTA) can be concluded within its framework. Some advocates of ASEAN have argued that the bloc should go beyond merely coordinating external relations to become the driving force in charting the evolving regional architecture.

#### **4.4.4. ASEAN’s Motivations for “Leading” the RCEP**

This paper argues that the RCEP was initiated by ASEAN due to two interrelated factors: (1) the progress on the TPP negotiations; and (2) the risk of losing “ASEAN centrality” (i.e. to avoid being marginalized by other regional initiatives).

#### **Political Considerations**

ASEAN centrality was one of the biggest motivations for ASEAN’s proposal of the RCEP in 2011.<sup>132</sup> In other words, ASEAN wants to avoid being marginalized by regional economic integration initiatives led by other (and notably more powerful) countries. The concept of ASEAN centrality first arose in discussions leading to the ASEAN Charter<sup>1</sup> in the mid-2000s, but has since become a staple of ASEAN documents (e.g. AEC Blueprint, ASEAN Charter) and policy statements. The use of this term suggests that ASEAN not only wishes to play a greater role in economic processes in the region, but it also perceives its “centrality” to be challenged.

In the context of trade regimes, two initiatives are threatening ASEAN centrality in East Asia:

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<sup>130</sup> Amitav Acharya, “The end of ASEAN centrality?” *Asia Times*, 8 August 2012.

<sup>131</sup> Yuzhu Wang, “The RCEP Initiative and ASEAN ‘Centrality,’” *China International Studies* 5 (2013): 119-132.

<sup>132</sup> Yoshifumi Fukunaga. "ASEAN's Leadership in the Regional Comprehensive Economic Partnership." *Asia & the Pacific Policy Studies* 2 (2015): 103-115

the TPP and the China-Japan-Korea FTA (CJK FTA). The TPP is generally understood as a US-led process where only four ASEAN members have access to confidential negotiation documents as original negotiating members. Given the “high-quality” nature of the TPP and its tough accession process, it would be impossible for the less developed ASEAN countries (i.e. Myanmar, Laos, Cambodia, which are also not APEC members) to join the TPP in the near future.

Meanwhile, the CJK FTA also has a large influence on the economic integration process in East Asia. ASEAN feared that the centre of gravity of trade integration might shift from Southeast Asia to Northeast Asia, especially with China’s rapid growth. The CJK have already signed the trilateral investment in May 2012, and is aiming to conclude the trilateral FTA by the end of 2015. Needless to say, ASEAN does not have any direct involvement in the CJK process. If the three large economies agreed among themselves on certain rules, ASEAN will have a lesser influence in the discussion of the RCEP. Although neither the TPP nor CJK FTA is free from challenges, their steady progress has attracted the attention of investors. By proposing an ASEAN-centred platform for a mega-regional FTA, ASEAN is trying to balance the non-ASEAN initiatives.

Moreover, the RCEP allowed ASEAN to mitigate the “braking effect” brought about by the Sino-Japan tussle over the template for an East Asia-wide FTA<sup>133</sup>. ASEAN deftly tabled a suitable compromise formula in order to prevent intra-regional cleavage and to “bring Japan back into the fold of Asian regional integration” (Japan was considering the TPP as early as 2010).<sup>134</sup> By proposing the RCEP at the East Asian Summit in November 2011, ASEAN tried to consolidate its position in Asian economic integration.

## **Economic Considerations**

There is a strong economic rationale behind ASEAN’s push for the RCEP. ASEAN has already signed FTAs, not only ASEAN+1 TAs, but also bilateral FTAs with all the RCEP members. On the other hand, ASEAN’s FTAs partners do not have FTAs with each other for the most part.<sup>135</sup> Thus, ASEAN is currently enjoying the hub position in the hub-and-spoke structure of FTAs, which gives

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<sup>133</sup> Das, “Asia’s Regional Comprehensive Economic Partnership”

<sup>134</sup> Jin, “RCEP vs. TPP”

<sup>135</sup> As of February 2014, ASEAN’s six FTA partners have signed five FTAs with each other, out of 15 possible FTA combinations.

ASEAN countries an export advantage.<sup>136</sup>

Given the current FTA situation involving ASEAN, the RCEP can reap large economic benefits for ASEAN. First, some of the current ASEAN+1 FTAs do not provide high-level market access opportunity for ASEAN. Thus, RCEP can potentially provide an opportunity to deepen the liberalization commitments in trade in goods, services and rules of origin (ROO). Second, the coexistence of ASEAN+1 FTAs itself is creating the “noodle-bowl” situation, which hinders the full utilisation of preferential schemes. RCEP can potentially harmonize various rules and commitments in the ASEAN+1 FTAs. Third, economic simulation models show that ASEAN will lose its potential economic gains if the CJK FTA is signed but the RCEP is not.<sup>137</sup> This negative effect comes from preferential erosion that ASEAN is currently enjoying in its hub position.<sup>138</sup> If the RCEP is successfully concluded, however, ASEAN can mitigate such negative effects and further expand its economic opportunities.

The content of the RCEP also reflects ASEAN’s collective economic interests. In particular, ASEAN has a strong preference for maintaining flexible and equitable treatment for countries at different developmental stages. The RCEP’s guidelines reflect this element, and one of its objectives is to increase economic and technical cooperation to narrow development gaps.

#### **4.4.4. TPP: A Threat to ASEAN Centrality and Unity?**

The TPP has had complicated effects on ASEAN members’ trade policy and relations. Although some ASEAN countries are actively involved in the TPP (and more have expressed interest), most scholars view the TPP as having a negative impact on the ASEAN-led RCEP process and on intra-ASEAN integration efforts.

Firstly, the TPP may distract ASEAN unity. ASEAN members’ position on the TPP was divided, which potentially risked undermining ASEAN’s collective will in regional FTA formation. Currently, four ASEAN members are part of the TPP talks. Singapore and Brunei were the original

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<sup>136</sup> J. Alba, H. Jung, D. Park “Do Hub-and- Spoke Free Trade Agreements Increase Trade?”, A Panel Data Analysis . ADB Working Paper Series on Regional Economic Integration, No. 46, Manila: Asian Development Bank, 2010

<sup>137</sup> K. Itakura, “Impact of Liberalization and Improved Connectivity and Facilitation in ASEAN for the ASEAN Economic Community”, ERIA Discussion Paper 1, 2013, ERIA.

<sup>138</sup> Petri and Plummer, “ASEAN Centrality and the ASEAN–US Economic Relationship”, 22-23.

TPP members (the P4) and Malaysia and Vietnam joined the TPP negotiations after the US did. Cambodia, Laos and Myanmar - non-members of APEC – are unlikely to meet the pre-requisites for being a TPP member. Some members who have not joined the TPP, such as Indonesia, have expressed concern about the negative impact that TPP participation may bring on their domestic industry. If the TPP is concluded faster than the RCEP, these members might push for more ambitious outcomes in the RCEP while non-TPP members stick to lower targets.<sup>139</sup> Secondly, some ASEAN members feared that the TPP formation would shift the locus of regional integration from ASEAN to the US. Accordingly, ASEAN members needed to advance a new trade initiative to strengthen or maintain ASEAN's centrality in promoting regional economic integration.

Essentially, both the RCEP and the TPP processes reflect ASEAN's internal weaknesses. It is not easy for ASEAN as a bloc to drive substantive negotiation in the RCEP because ten countries with vast differences in levels of development would naturally find it hard to agree on a single position. If ASEAN delays in reaching a consensus among the ten members, its FTA partners (in particular China) may take over the “driving” process.

#### **4.5. Japan: An unlikely pivotal state?**

Japan is involved in both the TPP and RCEP negotiations. Japan has been a party to the RCEP talks since its inception. In fact, Japan-proposed CEPEA can be seen as the conceptual precursor to the RCEP, given that the proposed membership of the CEPEA is reflected in the RCEP. Japan also acceded to the TPP negotiations in April 2013. In the words of former Japan's Prime Minister Noda, Japan's signal to join the TPP triggered “chemical reactions in regional and global FTA diffusion.”<sup>140</sup> Solis and Katada argue that Japan's “pivot” towards the TPP prompted China to accelerate the joint study of the CJK FTA and helped ASEAN overcome its indecision vis-à-vis the ASEAN+3 or +6 proposals by opting instead for the ASEAN++ framework.<sup>141</sup> Some scholars even

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<sup>139</sup> In addition to the substance of the trade agreements, frequent TPP negotiations affect the negotiation resources of TPP members, and may delay ASEAN's consensus-making process, as well as the RCEP negotiations.

<sup>140</sup> Mireya Solis 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 (2015): 155-177.

<sup>141</sup> *Ibid.*

argue that Japan can be a “bridge” that brings the RCEP and the TPP together.<sup>142</sup>

#### 4.5.1. Japan’s FTA Strategy: Competing with China

As mentioned in section II, Japan’s interest in FTAs in the late 1990s was triggered by the proliferation of FTAs in the Americas and Europe in the 1990s.<sup>143</sup> The Japanese government became more interested in East Asian FTAs for both economic and political reasons. First, most of Japanese trade was with East Asian countries. Japanese trade with East Asia greatly expanded from 1990 to 2011: exports from Japan grew 4.9 times and imports from East Asian countries grew by 5.3 times, whereas Japan’s global exports and imports only grew by 2.8 times and 3.5 times during the same period.<sup>144</sup> In general, FTAs yield economic benefits for Japanese businesses<sup>145</sup> and are also seen as a means to stimulate domestic structural reforms<sup>146</sup>, particularly in the heavily protected agricultural sectors. Many analysts also argue that a major catalyst for Japan’s FTA drive, especially with ASEAN countries, is thought to be Japan’s rivalry with China over leadership in East Asia.

Beginning the 2000s, Japan’s historical and economic rivalry against China significantly influenced its regional FTA policy. When China first proposed the formation of an FTA with ASEAN in November 2000, many Japanese viewed the proposal as unrealistic lip service and paid little attention to it. However, China’s pre-emptive moves towards the ASEAN FTA stunned Japanese policymakers, who then had to adopt counter-measures. After China and ASEAN began to consider the ASEAN-China FTA (ACFTA) seriously, Japan began advancing talks on the ASEAN-Japan Comprehensive Economic Partnership (ACJEP). If there had not been quick moves towards the ACFTA, it is unlikely that Japan would have moved as quickly to develop an initiative for

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<sup>142</sup> Junichi Sugawara, “Japan’s strategy on the regional economic integration of the Asia-Pacific region: its role as a bridge between the “Asia-Pacific” and “East Asia””, Mizuho Research Institute, Tokyo, February 2013.

<sup>143</sup> According to *Japan’s FTA Strategy* (October 2002), drafted by the Ministry of Foreign Affairs, “East Asia lags Europe and the US in the development of a regional system despite its deepening political and diplomatic interdependence”. The paper also stated that “there is no doubt regarding the importance of the construction and development of a regional economic system under Japan’s leadership for the stable development of Japan and the East Asia region”. Accordingly, “economic partnership in East Asia revolving around Japan, South Korea and China, plus ASEAN” as “the top priority strategic target” for Japan.

<sup>144</sup> Shujiro Urata, “Japan’s Trade Policy with Asia.” *Public Policy Review* 10 (2014): 3.

<sup>145</sup> FTAs would firstly, help secure export markets for Japanese businesses and secondly, prepare relatively open business environments for Japanese corporations overseas. Japanese businesses suffered damage in export markets because they were excluded from bilateral and FTAs (e.g. NAFTA and EU) and were also restricted in their scope of activities, especially in developing countries.

<sup>146</sup> Since Japan’s economic stagnation began in the early 1990s, domestic pressure and internal impetuses seem so far insufficient to promote structural reforms. Given that the Doha Round has stalled, FTAs seem to be the only source of external pressure that can help Japan achieve an economic recovery.



economic partnership with ASEAN.

Japan's rivalry with China is revealed in two other aspects of its FTA policy. The first is the targeting of FTA partners. Japan established bilateral FTAs with individual ASEAN members in addition to ASEAN as a whole entity. It began FTA negotiations with seven ASEAN members in succession from 2004 to 2007. Several scholars argue that such a bilateral orientation was sustained by a soft balancing against China's commitment to stronger trade linkages with Southeast Asia.<sup>147</sup> Importantly, there is widespread perception in the region that Japan lags behind China in its ability to use FTAs to score diplomatic points.<sup>148</sup> For instance, Japan negotiated first bilateral FTAs with selected Southeast Asian countries, whereas China inked a trade agreement with ASEAN as a whole.

The second competitive feature is Japan's approach to FTAs. The Japanese government emphasizes that its FTAs are of higher quality (broader issue scope and binding obligations) than Chinese ones, which have been characterised as brief, vague, and with an emphasis on conciliation rather than formal dispute settlement.<sup>149</sup> Japan has also stressed its ability as an industrialized counterpart state that can facilitate the development of Southeast Asian countries. In this way, China and Japan are offering different "models" of regional integration and rule-making, and the race is on to see which one disseminates faster and further. In other words, Japan is competing with China to become the focal point of the regional integration scheme in East Asia.

#### **4.5.2. Japan's Motivations for an East Asian-wide FTA**

Japan hoped to promote the formation of an East Asian-wide FTA with three main motivations. First, it hoped to strengthen linkages with ASEAN, an economically dynamic and politically strategic group of countries, thorough a regional FTA. Positive engagement in the RCEP became a major-pillar of ASEAN-Japan collaboration. The second was the maintenance of commercial interest in competition against South Korea. Japan and South Korea are internationally competitive in similar industrial sectors, such as automobiles and electronics. Since South Korea's

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<sup>147</sup> Japan used to be the biggest external trading partner of ASEAN in the 1990s, and has been actively giving foreign aid to the less developed Southeast Asian countries. Munakata, Naoko. *Transforming East Asia: The evolution of regional economic integration*. Brookings Institution Press, 2006.

<sup>148</sup> Terada, Takashi. "Forming an East Asian community: a site for Japan-China power struggles." *Japanese Studies* 26, no. 1 (2006): 5-17.

<sup>149</sup> Agata Antkiewicz and John Whalley, "China's new regional trade agreements", *The World Economy* 28 (2005): 1539-1557.

main FTA partners – the EU and the US – provided crucial markets for the Japanese manufacturing sectors, differences in tariffs were deemed to be serious handicaps to Japanese exporters. Therefore, while Japan searched for FTAs with the EU and the US (through the TPP), it needed to raise the efficiency of production networks and supply chains in East Asia through an East Asian-wide FA. Third, the formation of a regional FTA was necessary to secure benefits from production networks involving India and China, which also maintained relatively high import restriction measures. It was hoped for that the formation of a broad FTA would overcome business and trade constraints in overseas markets.

Moreover, as mentioned in previous sections, the geographic scope of the RCEP was aligned with the Japan-proposed CEPEA (ASEAN+6). The CEPEA proposal, with a larger membership than the China-proposed EAFTA, reflects Japanese intentions to dilute Chinese influence in the future of East Asian economic integration. For example, the incorporation of India, another large and emerging economy, prevents China from becoming the sole spokesperson for developing countries in a regional FTA. Since the contents of the RCEP are similar to those of the FTAs that Japan has with East Asian countries thus far, it naturally follows that Japan should actively promote the RCEP. As Japan already has in effect a regional-level FTA with ASEAN, bilateral FTAs with seven ASEAN countries, and a bilateral FTA with India, it hoped that the RCEP would standardize the differing tariff levels and rules of origin among the existing FTAs. Secondly, Japan would also further liberalize trade with major economies in the region, especially with its largest trading partner China (both import and export) and its third largest export partner and fifth largest import partner South Korea.

#### **4.5.3. Japan's Motivations for Joining the TPP**

Why did Japan decide to join the TPP after agreeing to adopt ASEAN's RCEP template? Interrelated economic and political considerations, both domestic and international, factor into the current Japanese government's strategic calculations to join the TPP.

The TPP had a significant impact on Japan's trade policy even before the RCEP was launched. The Japanese government had been investigating into TPP participation in autumn 2010, but could not make the decision to participate in the TPP negotiations for more than two and a half years. It

was in March 2013 that the returned Liberal Democratic Party (LDP) government under Prime Minister Shinzo Abe formally announced that Japan would join the TPP negotiations. Japan was originally cautious about its participation because it would have a negative impact on the development of its proposed regional FTA concept – CEPEA (the RCEP proposal had not been tabled yet) – and because it would invite strong opposition in domestic political circles and civil society.

However, the RCEP’s lower ambition (e.g. only six non-tariffs issues are being pursued compared to the TPP’s 20, limited geographic scope) also means it could be economically less attractive than the TPP to Japan.<sup>150</sup> Japan, as a developed country, supports high-quality FTAs and envisage regional FTAs a platform for creating and disseminating innovative rulemaking, and agrees with US in negotiating positions on a substantial number of issues in the TPP. For instance, it supports strong intellectual property protection, expansion of services trade and liberalization, strong investment protection, and meaningful environmental and labour standards.<sup>151</sup>

The TPP may be the catalyst needed for the structural reform agenda of Prime Minister Abe. Japan’s existing network of FTAs has two weaknesses: it primarily consists of smaller countries lacking significant economic weight and fall short of the liberalization standards of most developed countries.<sup>152</sup> The TPP, on the other hand, has potential economic and geopolitical gains that are significant enough to force through reforms, which under normal circumstances would not be possible. The TPP would also provide increase access to some of the most protected sectoral markets in the US and other TPP partners.<sup>153</sup>

The economic-security linkage with the US was an important consideration that pushed Japan to join the TPP. During the Democratic Party of Japan’s (DPJ) period of government under Prime Minister Hatoyama in 2009-10, US-Japan diplomatic deteriorated largely due to the US military base issue in Okinawa. The following DPJ cabinets sought to restore stable political ties with the US by

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<sup>150</sup> The impact of each mega-regional FTA on Japan will depend on the finalized template of both agreements. Currently, it is difficult to estimate whether the TPP or the RCEP will benefit Japan more.

<sup>151</sup> Mercurio, 1561.

<sup>152</sup> For example, while every FTA negotiated by the US and EU covers 90% of products (measured by tariff lines), not one of Japan’s 13 FTAs meets this standard (mainly as a result of over 400 exclusions related to agriculture).

<sup>153</sup> Of course, Japan could try to open its markets and encourage foreign investment through domestic legislation, but such a path is clearly too politically difficult; therefore, Abe is taking the well-worn path of using a trade agreement to push through liberalization and reform commitments.

exhibiting willingness to engage in the US-inspired TPP. Japan also saw strengthened ties to the US as necessary because China was becoming more assertive in its surrounding marine territories, which led to maritime clashes and ensuing diplomatic confrontation between Japan and China.<sup>154</sup> It is likely that Japan views the TPP and other regional initiatives as a way to diversify its trade relations from its current China-centric model and improve security links in the region.<sup>155</sup> Akihisa Nagashima, an assistant to the prime minister, stated that Japan needed to develop strategic environments that China would regard as formidable through participation in negotiations on the TPP.<sup>156</sup> Clearly, the US and Japan share similar aims in using the TPP to counterbalance against China's growth and regional dominance.

#### 4.5.4. Simulating the RCEP and the CJK FTA

In addition to domestic economic effects, Japan's TPP participation also had significant implications for East Asian regional trade initiatives. The roll-out of the RCEP coincided with Japan's announcement at the APEC Summit in 2011 that it would initiate consultations with TPP countries. Japan formally expressed interest in the TPP at the APEC Leaders' Meeting in Honolulu on 13 November 2011. Four days later, the RCEP was proposed at the ASEAN Summit, and such progress was noted at the East Asian Summit on 19 November 2011. At the East Asian Summit in Bali on 19 November 2011, China not only fast-tracked a long-delayed feasibility study of a CJK FTA (initiated in 2003), but also hurried to complete the first negotiating round.<sup>157</sup> Moreover, on 20 November 2012, RCEP negotiations were formally launched. This implies that despite past disagreements, China and Japan agreed on the value of launching the RCEP at a critical stage of TPP negotiations. On the same day, Japanese Prime Minister Yoshihiko Noda met President Obama and asked the US to support Japan's TPP participation. Japanese trade scholar Nakagawa bluntly concludes that "Japan's move to join the TPP must have made [the Chinese] change their mind."<sup>158</sup> Japan sees the TPP participation could be used as a diplomatic card to draw concessions from China

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<sup>154</sup> For example, the incident between a Chinese trawler and Japanese Coast Guard vessels in the East China Sea in September 2010.

<sup>155</sup> Stephen R. Nagy, "Territorial Disputes, Trade and Diplomacy", *China Perspectives* 4 (2013): 49-57.

<sup>156</sup> *Nihon Keizai Shimbun*, 2 November 2011.

<sup>157</sup> What is interesting is that this agreement was made even before the scheduled completion of the study on CJK FTA in December 2011, showing that there was a sense of urgency to conclude the CJK FTA (seen as a pre-requisite for the RCEP) and the RCEP before the TPP.

<sup>158</sup> M. Ermert, "Big Trading Blocs Moving at Breakneck Pace to Raise Free Trade Standards", IP Watch, 22 May 2013, <http://www.ip-watch.org/2013/05/22/special-report-big-trading-blocs-moving-at-breakneck-pace-to-raise-free-trade-standards/>

in an East Asia-wide FTA and potential CJK FTA, since China needs Japan to conclude an East Asia-wide FTA.

Finally, Prime Minister Abe, like President Obama, emphasized that the TPP will shape the trading rules of the 21<sup>st</sup> century. “The new economic order which will be created with the two major economic powers, Japan and the US, would not remain the “TPP only” rules. It should serve as a basis of rule-making beyond the TPP, in the RCEP and in the larger initiative of the FTAAP.”<sup>159</sup> He also positioned the importance of TPP to the Asia-Pacific region and Japan’s importance in the region: “Future historians will no doubt see that the TPP was the opening of the Asia-Pacific Century...Japan has to be at the heart of the Asia-Pacific century”. These statements are a clear indication that Japan is prioritising the TPP due to its potential “game-changing” value, while also using the TPP negotiations to deepen its relationship with the US.

#### **4.5.5. Domestic Opposition to the TPP**

Despite the potential economic and geopolitical benefits for Japan, domestic politics could still derail Japan’s trade reform and with it the ambition of the TPP. Some Japanese politicians still hold on to the notion of wholly protecting industries such as sugar, rice and beef. Deep opposition to liberalized trade exist among many segments of Japanese society, and Japanese leaders have thus far proven ineffective at taking on powerful lobby groups and vested interests. Although Japan’s entry definitely added more economic gravitas to the TPP negotiations (the US and Japan make up about 90% of the TPP members’ combined GDP), the negotiations have also become more difficult because of Japan. Major disagreements between the US and Japan over agricultural and automotive issues have stalled, thus failing to advance the negotiations.<sup>160</sup>

#### **4.6. Conclusion**

This section has shown that the motivations of the four major players and their interactions with each other have shaped the competitive dynamics between the TPP and the RCEP. There

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<sup>159</sup> Shinzo Abe, “Press Conference by Prime Minister of Japan”, Prime Minister of Japan and His Cabinet, 15 March 2013, [http://japan.kantei.go.jp/96\\_abe/statement/201303/15kaiken\\_e.html](http://japan.kantei.go.jp/96_abe/statement/201303/15kaiken_e.html)

<sup>160</sup> D. Palmer, ‘Barack Obama, Shinzo Abe Find Face-saving ‘Path Forward’’, *PoliticoPro*, 25 April 2014, <http://www.politico.com/story/2014/04/barack-obama-shinzo-abe-tpp-106018>.  
Html?hp=11; J. Soble and S. Donnan, ‘Obama and Abe Fail to Reach Trade Deal’, *Financial Times*, 25 April 2014, <http://www.ft.com/cms/s/0/6dde3056-cba9-11e3-8ccf-00144feabdc0.html#axzz2zyd0tYSp>

already exists competitive dynamics among the strategies of these major players. First, Japan and China competed to shape the template for East Asian economic integration through the CEPEA and the EAFT, respectively. Once the US and then Japan joined the TPP, the dynamics of Sino-Japanese competition changed: China began competing with the US to shape the still evolving Asia-Pacific trade architecture by throwing its weight behind the RCEP and most recently, the FTAAP. The RCEP is also ASEAN's competitive response to fears of being marginalized by the US-led TPP. Essentially, the TPP altered the regional strategies of Japan, ASEAN and China, and the confluence of interest (influenced by the TPP) among these three major players explains the speedy launch of RCEP negotiations in November 2012. Japan was satisfied with the more expansive membership configuration, China was eager to advance the regional FTA, and ASEAN was pleased to imprint its negotiation approach on the RCEP framework.

## **V. THEORETICAL EXPLANATIONS FOR THE EMERGENCE OF RCEP AND TPP**

This section will present theories of regionalism and international relations that have been, or can be, used to explain the coinciding emergence of the TPP and the RCEP. A strong theory should be able to explain not only the formation of both agreements, but also illuminate the processes by which the agreements are being negotiated.

The most widespread and convincing theoretical explanations for the emergence of mega-regional trade agreements are from the realist and liberal schools, hence this section will focus on theories that can adopt either realist or liberal frameworks, or a combination of both, to analyse the development of the TPP and the RCEP. This section ends with an analysis of the RCEP and the TPP by drawing on various theoretical approaches presented.

### **5.1. Realist Views on the TPP and the RCEP**

From the realist perspective, regionalism is a manifestation of the politics of alliance formation.<sup>161</sup> There is no essential difference between economic and political regionalism, and economic regionalism is seen as a strategy in the game of neo-mercantilist competition. Economic regionalism can also be deployed as a bargaining chip in the negotiations that determine the shape of the international economic order. In other words, the economic objectives of regional integration do not derive from the pursuit of welfare, but from the close relationship that exists between economic wealth and political power, and from concerns with relative gains and losses. Neo-realist arguments, in particular, emphasize that regional economic and security arrangements created by relatively weak states that remain contingent upon the policies and attitudes of major powers. The success of sub-regional cooperation will be contingent upon the policies of either major powers acting unilaterally, or of the macro-regional groupings, which those powers will naturally come to dominate.<sup>162</sup> For example, in the Asia Pacific, it is the evolving character of the Chinese-Japanese-US balance that will ultimately determine the fate of existing sub-regional grouping such as ASEAN, as well as broader cooperative schemes such as APEC or the ASEAN Regional Forum.

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<sup>161</sup> Regionalism is defined in this paper as a political, top-down process that involves institutionalisation. It can be understood as a political process in which measures such as economic policy cooperation and regulation are taken as standard. Haggard, Stephan. "The political economy of regionalism in Asia and the Americas." *The political economy of regionalism* (1997): 47.

<sup>162</sup> Andrew Hurrell, "Regionalism in Theoretical Perspective". *Regionalism in World Politics*, ed. Louise Fawcett and Andrew Hurrell (Oxford, UK: Oxford University Press, 1995), 49.

### 5.1.1. Hegemonic Theory

Neo-realists have emphasized hegemonic theory when explaining regionalism. They tend to highlight the degree to which regional integration efforts were spurred by direct US encouragement and pressure. According to the hegemonic stability theory, hegemony determines an international system's stability.<sup>163</sup> Proponents of this theory place importance on the construction and maintenance of an international system in which hegemonic states can offer benefits to other countries. As long as this system remains advantageous, states other than the hegemonic ones can conduct economic activities without building their own international systems.

There are at least three ways in which hegemony may act as a powerful stimulus to the creation of regional institutions. First, regionalism can emerge as an attempt to restrict the free exercise of hegemonic power through the creation of regional institutions. In the Asia-Pacific, the stronger states of the region (e.g. Japan, China, South Korea, Indonesia) have successfully resisted US efforts to promote APEC as an alternative vehicle for pressing its foreign economic agenda. From their perspective a loose regional arrangement is a way of keeping the US involved in the security of the region, whilst at the same time restricting its ability to press its economic agenda (i.e. greater trade liberalization).

Second, weaker states tend to seek regional accommodation with the local hegemon in the hope of receiving special awards (i.e. bandwagoning). This is most likely when power differentials are great, when there are few external alternatives to accommodate the hegemon, and when states are in close geographic proximity. Related to the previous point, the greater the degree to which the dominant power is prepared to accept a rule-constrained hegemonic order, the more acceptable a strategy of bandwagoning for the weak states. Roy holds that ASEAN members bandwagon with China to the extent that they hope to trade with and maintain good relations with it, while maintaining low-intensity balancing with the US through defence cooperation.<sup>164</sup>

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<sup>163</sup> Kindleberger (1973; 1981), Krasner (1976) and Gilpin (1981) are representative scholars of the discourse on hegemony.

<sup>164</sup> Denny Roy, "Southeast Asia and China: balancing or bandwagoning?", *Contemporary Southeast Asia: A Journal of International and Strategic Affairs* 27 (2005): 305-322.



Third, the hegemon may seek to become actively involved in the construction of regional institutions. If the hegemon is in an extremely dominant position, the very extent of power may make institutions and in this case, institutionalized regionalism unnecessary or marginal. A declining hegemony may press the hegemon towards the creation of common institutions to pursue its interests, to share burdens, to solve common problems, and to generate international support and legitimacy for its policies. This combination of marked inequality but still declining overall levels of power may be particularly conducive to the creation of regionalist arrangements.<sup>165</sup> On one hand, the core state is strong enough to provide effective leadership and if necessary, coercion. On the other hand, this is balanced by the perception that declining power makes cooperation ever more necessary.<sup>166</sup>

Invoking the hegemonic stability theory, Mansfield showed empirically that the number of FTAs and countries entering into such arrangements have increased with the decline of US hegemonic power.<sup>167</sup> Mansfield states that the decline of hegemony will increase bilateral FTAs as well as multilateral/regional FTAs: namely, it will *strengthen* regional “cohesion”. Today, US hegemony is in relative decline in East Asia, meanwhile China is increasing its influence and power in the region. The hegemonic stability theory predicts that FTAs will form under these conditions. Indeed, both bilateral and regional FTAs are being concluded among East Asian states and between the US and East Asian states. However, these proposed mega-regional FTAs may not necessarily “strengthen” regional cohesion. Rather, many commentators warn that the different content and objectives of the TPP and RCEP threatens to divide East Asia and the Asia-Pacific.

### 5.1.2. Balance of Power Theory

With regards to the TPP and RCEP, Hamanaka argues that the formation of regional integration frameworks can be best understood as dominant state’s attempt to create a preferred

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<sup>165</sup> Crone (1993) argues that hegemonic decline rather than ascendance provides a more conducive environment for the formation of a regional institution. When in the ascendant, a hegemonic state has little incentive to pursue an institutionalized regional order. Only when a hegemonic state declines relative to other states in a region does it seek institutionalized regional cooperation. APEC is an example of the US trying to stay relevant in Asia and to counter China’s regional rise and dominance. Donald Crone, "Does hegemony matter? The reorganization of the Pacific political economy." *World Politics* 45 (1993): 501-525.

<sup>166</sup>*Ibid.*

<sup>167</sup> Edward D. Mansfield, "The proliferation of preferential trading arrangements, *Journal of Conflict Resolution* 42 (1998): 523-543.

regional framework in which it can exercise influence.<sup>168</sup> Drawing upon the classical realist balance-of-power theory, he argues that US leadership in the TPP negotiations is an attempt to balance against a rising China, whereas China's strong push for the RCEP can be best understood as a counterbalance to the US-led TPP. Therefore, the formation of the TPP and the RCEP can best be understood as a competition between the US and China for control of both membership and agenda of regional economic institutions. The US and China seek to exclude each other from the TPP and RCEP, respectively, so that rules and agendas aligned with their core interests can be set.<sup>169</sup>

Hamanaka points out that the openness of these proposed agreements should not be overstated. As mentioned in section II, accession to the TPP negotiations requires newcomers to negotiate bilaterally with all incumbent members and also accept disadvantageous negotiation modalities and unfavourable requests set by incumbents. The high level of ambition of the TPP and the lack of developmental considerations make it very difficult for developing countries to join. And while the future RCEP agreement is likely to have an accession clause, it seems that the RCEP will remain a relatively closed club given its "ASEAN centrality" principle and exclusively "Asian" orientation.

### **5.1.3. Limitations of Realist Explanations**

Of course, there are limitations with realist explanations. First, neorealism says little about the character of regional cooperation once it is established and the ways in which the habits of sustained cooperation may involve institutional structures very different from the traditional idea of a coalition or alliance. The mega-regional trade agreements discussed in this paper are unprecedented and involve many actors. Hence, they cannot be analysed solely as the manifestation of economic and political competitions between the US and China. Other important states and blocs of states, such as Japan and ASEAN, also play an important role in shaping the character of regional institutions (e.g. the RCEP largely follows the "ASEAN Way"). The US and China, as powerful as they are, are unable to shape these plurilateral trade agreements as they may be able to in bilateral FTAs with obvious power asymmetries. The numerous difficulties encountered in the prolonged TPP negotiations, especially as more countries (like Japan) join the talks, are telling examples that the

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<sup>168</sup> Hamanaka, "TPP vs. RCEP: Control of Membership and Agenda Setting"

<sup>169</sup> The TPP may someday include China, resulting from a policy of the US "engaging" or "socializing" China, rather than purely balancing against it. However the TPP still prevents China from setting the rules in Asia-Pacific economic institutions.

US cannot, and will not, have its way. India and Japan's participation in the RCEP talks also constrains China's ability to shape the RCEP blueprint.

Secondly, realist theories also say very little about the impact of domestic factors, when these may have had a significant influence on states' changing FTA strategies and also the negotiating process of the agreements. Domestic factors thus constrain states' pursuit of mega-regional trade agreements. For example, the administration under George W. Bush was only able to pursue an FTA offensive in East Asia because it secured the TPA. Currently, domestic opposition to the TPP is very strong in both the US and Japan. If Congress does not approve the TPA in time (and there is a sizeable camp within the US government that strongly opposes the TPP, with Senator Elizabeth Warren taking the lead), the US government may find itself in the untenable position of being the obstacle, rather than the driving force, in TPP negotiations. As mentioned in section IV, for the Abe government, joining the TPP stemmed partly from a desire to reform Japan's stagnating economy. However, it is precisely the disproportionately influential and highly protected agricultural sector that may become a stumbling block for the TPP talks.

Third, realism neglects the way in which the competitive dynamics of the system change over time. Its picture of the international system misses out on the ways in which both the nature of political and economic competition, and the consequent definition of states' interests are affected by changes in the global economic system. Global economic integration may have acted as powerful stimulus to economic regionalism by altering and intensifying patterns of mercantilist economic competition, which presses towards the formation of larger units, both for economic efficiency and to ensure the political power necessary to bargain effectively over the rules and institutions that govern the world economy. For instance, Munakata argues that the driving force for East Asian regionalism from 1985 to 1992 was defensive regionalism – reactions to two main sources of extraregional pressures. First, the discrimination caused by preferential trade agreements in other regions such as EU and the Americas; and second, US unilateral actions and market fundamentalism.<sup>170</sup> The RCEP can be seen as the latest manifestation of “defensive regionalism” among East Asian states, in response to the EU and NAFTA, and now the TPP.

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<sup>170</sup> Nakao Munakata, *Transformation of East Asia: The Evolution of Regional Economic Integration* (Washington, D.C.: Brookings Institution Press, 2006)

## 5.2. Liberal Views of the RCEP and the TPP

Broadly, the liberal school of thought in international relations views regionalism as a functional response by states to opportunities and problems created by increasing regional interdependence. This perspective stresses the critical role of institutions and non-state actors in developing regional cohesion. There are two liberal theories in particular that have been used to explain the emergence of regionalism in the Asia-Pacific: neo-functionalism and neoliberal institutionalism.

### 5.2.1. Neofunctionalism

Neo-functionalists argue that high and rising levels of interdependence among states in the same region would set in motion an on-going process of cooperation, resulting in a “spillover effect” that would eventually lead to political integration.<sup>171</sup> Neofunctionalism emphasizes the role of non-governmental actors such as supranational organizations and enterprises in stimulating regional integration.<sup>172</sup> It argues that trade concentration is the most important spark for regional integration. Mattli uses neofunctionalist logic to explain the demand side of regional integration: as flows of intra-regional trade and investment increase, private actors will call for the creation of supranational institutions that allow them to reduce the uncertainty and the transaction costs surrounding these cross-border economic transactions, and to reap the benefits of economies of scale.<sup>173</sup>

While neofunctionalism identifies a powerful force for regional integration, it faces serious difficulties in explaining the *timing* of regional integration initiatives beyond Europe, as well as the more specific choices countries make in selecting their trading partners. Moreover, unlike the EU, regional institutions in the Asia-Pacific (e.g. ASEAN, APEC, ASEAN+3) are far from supranational, given that East Asian states are especially sensitive about the erosion of national sovereignty. Hence, plurilateral FTAs in the Asia-Pacific are not leading to *politically* significant integration. Regional economic integration in the East Asia and the Asia-Pacific is still very much

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<sup>171</sup> Ernst B. Haas, "The challenge of regionalism". *International Organization* 12 (1958): 440-458; Leon N. Lindberg, *The political dynamics of European economic integration* (California: Stanford University Press, 1963)

<sup>172</sup> J. Dougherty and Robert L. Pfaltzgraff Jr., *Contending Theories of International Relations* (New York: Harper and Row, 1980), 430-434; Ben Rosamond, *Theories of European Integration* (New York: St. Martin's Press, 2000), 58-59

<sup>173</sup> Walter Mattli, *The logic of regional integration: Europe and beyond* (New York: Cambridge University Press, 1999)

driven by national governments and continues to be shaped by geopolitical and security factors, though governments do take into consideration the interests of businesses and domestic lobbies.

As a modification of the neofunctionalist theory, Hidetaka argues that in East Asia, cooperative and integrative initiatives are undertaken through “pragmatic functionalism”.<sup>174</sup> This means that cooperative initiatives among states are need-driven actions that produce immediate and realistic results. Non-political, functional areas are selected for cooperation because these areas easily produce outcomes. While neofunctionalism posits that the cooperative process among states should be sponsored by formal organizations that can impose and uphold agreements made by member states, pragmatic functionalism suggests that states find little interest in developing formal organizations that would exert binding power on them. Rather, they prefer mechanisms that enhance mutual benefits through cooperation that does not affect state sovereignty. Hidetaka asserts that this approach is suitable for East Asia because it is a region characterised by diversities, and lacks social cohesion and mutual trust that is needed for deeper political integration. This theory can explain why East Asian states have concentrated on economic regionalism – i.e. forming regional FTAs – rather political regionalism.

Nevertheless, functionalist theories usually have more to say about the on-going role of institutions than about the factors that explain the birth of regionalist schemes. Hence, such theories are not very useful in explaining the emergence of the RCEP and the TPP, which are not just a “functional” development of increasing economic interdependence among regional states. As shown in section IV, the countries involved in these mega-rational trade agreements are also motivated by geopolitical considerations. In fact, economic interdependence has been shown to be a poor indicator to shifts in favour of regionalism. For example, intra-regional trade has consistently been higher for East Asia than for North America, and yet the US, Canada and Mexico moved much faster to negotiate the NAFTA than East Asian states.<sup>175</sup> In addition, given the huge volume of trade between the US and China and Japan, none of them have concluded a bilateral or plurilateral FTA or with each other. Rather, they seem to be competing with each other to conclude bilateral and regional FTAs in Asia. This *absence* of FTAs among the “big three” and their selection of FTA

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<sup>174</sup> Hidetaka Yoshimatsu, *The Political Economy of Regionalism in East Asia: Integrative Explanation for Dynamics and Challenges* (Basingstoke, England: Palgrave Macmillan, 2008)

<sup>175</sup> Masahiro Kawai, "East Asian economic regionalism: progress and challenges" *Journal of Asian Economics* 16 (2005): 31-32.

partners (usually much smaller states) demonstrate that FTAs are very much political decisions as they are economic ones, and cannot be explained merely as states' responses to regional interdependence. Finally, functionalist theories do not explain why *two* different templates for economic integration emerged instead of one in the same region, and also why some countries are involved in both sets of negotiations.

### 5.2.2. Neoliberal Institutionalism

Similar to neofunctionalism, neoliberal institutionalism argues that increasing levels of interdependence among states generate increased demand for cooperation. Institutions are viewed as collectively generated solutions to different kinds of collective action problems.<sup>176</sup> Institutions matter because of: (1) the benefits that they provide as cooperative mechanisms (e.g. decreasing transaction costs, reducing risks of defection); and (2) their impact on states and the ways in which states define their interests. Importantly, states can utilise multilateral institutions to raise their position in interstate relations. While a dominant state can raise its presence by committing to the development of an important institution, smaller states can preserve their interest by entangling a pre-eminent state in multilateral institutions and imposing on them institutional binding.

In the context of regionalism, neoliberal institutionalism posits that regional economic integration processes create: (1) material problems – “international policy externalities”- that require collective management; and (2) incentives for reducing transaction costs and facilitating intra-regional links. It is expected that both problems and incentives will lead to the expansion of formal or informal interstate cooperative institutions, including regional free trade areas. Institutionalist theories are useful in that they shed light the ways in which strategic interaction among states may lead to the emergence of cooperation in a given area of international relations. However, they do not adequately explain how seemingly *competing* institutions can develop as a result of both competitive and cooperative interactions between states or how these institutions can influence each other.

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<sup>176</sup> Keohane (1984) argues that institutions play significant roles in rectifying problems in the anarchical international system with respect to asymmetric information, moral hazard and potential dishonesty; in providing legal liability that establishes stable and mutual expectation about others' patterns of behaviour, in offering relatively symmetrical information to the members, and thereby reducing the level of uncertainty and risk in making agreements; and in reducing transaction costs of legitimate bargains and increasing them for illegitimate ones. Robert, Keohane, *After Hegemony: cooperation and discord in the world political economy* (Princeton, NJ: Princeton University, 1984)

### 5.3. Domestic-Level Theories

Domestic-level theories have also been advanced to explain the proliferation of FTAs regionally. One line of analysis argues that FTAs emerge because domestic lobbies push for trade-diverting agreements that yield rents for specific producer groups. This theory argues that the decision of a government to negotiate a FTA is not influenced by the prior actions of other countries, but predominantly determined by domestic politics.<sup>177</sup> For one, Grossman and Helpman have found that protection for most sectors is the political recipe to muster domestic support for FTAs. Consequently, in this view, we should not expect various FTA negotiations among different sets of countries in the same region to occur at around the same time.

One of the most influential theories that have been credited with explaining FTA proliferation is Baldwin's theory of "domino effect".<sup>178</sup> Baldwin argues that the negotiation of trade-diverting FTAs triggers a chain reaction of subsequent FTA enlargement, or the negotiation of alternative trade blocs, as disadvantaged non-member producers seek to minimize the trade and investment diversion caused by previous FTAs. According to this account, East Asian regionalism was essentially a defensive response to FTAs concluded in Europe and the Americas.<sup>179</sup>

However, the trade diversion motive only explains a subset of FTAs. For example, Japan's first ever FTA with Singapore was not informed by the desire to counter trade diversion since Singapore is already one of the most open economies in the world. More generally, domestic lobby arguments fail to explain how regional institutions help to satisfy state agendas that are not influenced by domestic concerns, such as to alleviate regional tensions, participate in trade and investment rule-making and to promote internal economic reforms through international agreements (often at the expense of domestic lobby groups). These political agendas, as shown in section IV, were all important motivations for the participation of major players in the RCEP and the TPP.

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<sup>177</sup> Gene M. Grossman and Elhanan Helpman, "The politics of free trade agreements", *The American Economic Review* 85 (1995): 667-690.

<sup>178</sup> Richard E. Baldwin, "A domino theory of regionalism", No. 4465, National Bureau of Economic Research, 1993.

<sup>179</sup> Richard E. Baldwin, "The causes of regionalism", *The World Economy* 20 (1997): 865-888.

Ravenhill proposes a realist modification to Baldwin's theory.<sup>180</sup> He argues that a detailed examination of economic data finds no support for the argument that intra-regional economic interdependence in East Asia has increased significantly since the financial crises of 1997 and 2008. Hence, economic factors in many instances have been less important in the FTA formation than states' use of FTAs to pursue political objectives. Thus, the new East Asian regionalism is best understood as being driven by a "political domino effect" than an economic domino effect.

#### **5.4. Integrating Liberal and Realist Theories**

There are several theories on economic regionalism that draw on both the realist and liberal traditions.

##### **5.4.1. Institutional Realism**

Soft balancing (also known as institutional balancing or institutional realism) describes a strategy involving non-military tools such as international institutions, economic statecraft and other diplomatic arrangements in order to delay, complicate or increase the cost of using extraordinary power by a preponderant state.<sup>181</sup> This theory is an extension of realism (and in particular, hegemonic theory), but attributes greater importance to institutions as constraints on the behaviour of great powers (through institutional entanglement). This concept has mainly been used to explain responses from second-tier major powers to US unilateralism.<sup>182</sup>

It is also useful to explain political and economic relations in East Asia when China's economic ascent poses potential threats to its neighbouring countries, which are apprehensive that a rapidly rising China will undermine their political autonomy and their ability to pursue their own national interests. Under such conditions, smaller states (like the ASEAN members) try to promote regional collaboration and develop regional institutions (in the economic, political and security sectors) as attempts to constrain the potentially disruptive effects deriving from China's exercise of power.<sup>183</sup> According to this theory, regional institutions such as APEC, the TPP and bilateral FTAs,

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<sup>180</sup> John Ravenhill, "The 'new East Asian regionalism': A political domino effect", *Review of International Political Economy* 17 (2010): 178-208.

<sup>181</sup> Robert A. Pape, "Soft balancing against the United States." *International Security* 30 (2005): 17.

<sup>182</sup> Thazha V. Paul, "Soft balancing in the age of US primacy." *International Security* 30 (2005): 46-71.

<sup>183</sup> Kai He, "Institutional balancing and international relations theory: economic interdependence and balance of power strategies in Southeast Asia", *European Journal of International Relations* 14 (2008): 489-518.



are all functioning as a network coordination apparatus to prevent the region from regressing to a standard regional complex in which a polarized balance of power prevails.

While institutional realism helps to explain the strategies of the ASEAN states towards the TPP and the RCEP, it does not fully explain why there is a competitive and mutually stimulating dynamic between the TPP and the RCEP. Japan and ASEAN wanted to restrain China's influence in the RCEP by expanding its membership, why was China suddenly amenable to a non-ASEAN+3-based FTA proposal? Also, the TPP does not fit into the "soft balancing" theory because it is led by a great power – the US – and China is not party to it.

#### 5.4.2. Competitive Regionalism

Another integrative argument that was recently advanced by Solis and Katada to explain the spread of FTAs in the Asia-Pacific is that of "competitive regionalism".<sup>184</sup> This theory is inspired by two other ones: (1) Baldwin's domino effect theory, which highlights that trade and investment diversion effects from initial FTAs can generate a chain reaction of subsequent preferential trade agreements; and (2) policy diffusion theory, which is based on the notion of policy interdependence where government choices are interconnected. In other words, the adoption of a certain policy by one government alters the probability of adoption for remaining non-adopters.<sup>185</sup> Hence, the diffusion approach moves away from the conventional political science approach of analysing varied domestic response to common external shocks (e.g. financial crises) and instead focuses on studying the influence of the FTA strategies of other (neighbouring) states on a state's FTA policy.<sup>186</sup>

Earlier work on policy diffusion identifies four major mechanisms of proliferation: (1) competition, as a horizontal economic process whereby states adopt policies to enhance their attractiveness vis-à-vis competitors; (2) coercion, as strong states pressure of manipulate incentives to force weaker states to adopt particular practices; (3) rational learning, as states adopt a policy after they assess its benefits and (4) emulation, as state adopt policies they deem appropriate from socio-

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<sup>184</sup> Katada, Solis and Stallings, *Competitive regionalism: FTA diffusion in the Pacific Rim*

<sup>185</sup> David Strang, "Adding Social Structure to Diffusion Models An Event History Framework." *Sociological Methods & Research* 19 (1991): 324-353.

<sup>186</sup> Dietmar Braun and Fabrizio Gilardi, "Taking 'Galton's Problem' Seriously Towards a Theory of Policy Diffusion." *Journal of theoretical politics* 18 (2006): 298-322; *The global diffusion of markets and democracy*, eds. Beth A. Simmons, Frank Dobbin and Geoffrey Garrett (Cambridge, UK: Cambridge University Press, 2008)

cultural peers.<sup>187</sup> The *competitive* diffusion of policies among states takes place when a country's actions generate externalities for others, thereby creating an incentive to respond in kind.<sup>188</sup> When a competitor adopts a policy, the other country follows suit to remain attractive to foreign capital or to avoid loss of market share.<sup>189</sup> The original diffusion theory defines competition exclusively as an economic phenomenon that mostly affects countries' credibility or capital (mostly developing nations).

The competitive diffusion model proposed by Solis and Katada explains the dissemination of FTAs in three new ways. First, it factors the interplay of multiple competitive objects in FTA negotiation, which go beyond the defensive economic interest of domino theory, to include regional leadership contest (i.e. political competition) and dissemination of alternative standards in regional integration (i.e. legal competition). Second, the model posits an alternative hypothesis about FTA proliferation, which focuses on the role of ideas or policy paradigms as countries *emulate* successful FTA strategies of leading reference nations (there is a constructivist strand in this argument, since emulation focuses on the role of ideas and the importance of social acceptance in the dissemination process). The proponents of this theory argue that if *competition* is the dominant force behind diffusion, the recent FTA proliferation would work *against* the emergence of coherent regional integration projects. But if *emulation* prevails, then bilateral FTAs will be supportive of region-wide integration efforts. This model also looks more directly into how domestic policy formulation processes influence the manner in which governments respond to external diffusion pressures.

Solis and Katada test out their "competitive versus emulation" hypothesis using case studies in the Pacific Rim and find that *competitive* pressures have indeed led to the spread of FTAs in the Asia-Pacific. However, countries entered into the FTA in different ways and for different reasons. Economic pressures were especially important for smaller countries such as Singapore, Chile, South Korea and Mexico, as they aggressively sought to expand their preferential market access in large countries to counter current or future competitors. Large countries, by contrast, were not only responding to economic competition, but also political competition, in pursuing FTAs.

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<sup>187</sup> Beth A. Simmons, Frank Dobbin and Geoffrey Garrett, "The global diffusion of public policies: Social construction, coercion, competition or learning?", *Annual Review of Sociology* 33 (2007): 449-472.

<sup>188</sup> Braun and Gilardi

<sup>189</sup> Simmons, Beth A., Frank Dobbin, and Geoffrey Garrett. "Introduction: The international diffusion of liberalism", *International Organization* 60 (2006): 781-810.

Furthermore, the large countries used FTAs to set and spread rules and standards of trade (i.e. legal competition).<sup>190</sup> Writing in 2009, these scholars observe that political rivalry among the large countries (namely China, Japan and the US) undermined unity in the Asia-Pacific through diplomatic as well as rule-setting competition. They predicted that this dynamic and the prevalence of cross-regional FTAs pursued by the smaller countries would prevent the consolidation of coherent regional projects in both East Asia and Latin America.

## **5.5. Explaining the TPP and the RCEP using an integrated approach**

### **4.5.1. “Competitive Regionalism” Revisited**

The paper finds that the theory that best explains the emergence and interaction of the TPP and the RCEP to be that of competitive regionalism. This theory provides a compelling framework for analysing the both the evolution of the TPP and the RCEP, as well as the interactive dynamics between them, for three main reasons: (1) there are multidimensional competitive dynamics among the major powers involved in the TPP and the RCEP; (2) competition among these players have (partly) led to competitive dynamics between the TPP and RCEP as well; and (3) the coinciding emergence of the TPP and the RCEP has made the regional economic integration process in the Asia-Pacific more complicated and divisive.

### **5.5.2. Multidimensional competition**

Firstly, there is multidimensional competition among the major players involved in the TPP and RCEP, as shown in section IV. To reiterate, the proponents of “competitive regionalism” argue that competition – understood as the quest for relative advantage – is a multi-dimensional phenomenon comprising economic, political and legal elements. This paper agree with Franzese and Hays that the key transmission belt for diffusion lies in negative externalities, whereby the actions of one actor affect the marginal utilities of possible course of action for others, and therefore, the competitive mechanism creates the most powerful incentive to react to the prior actions of one’s competitive peers.<sup>191</sup> Furthermore, this paper agrees with Solis and Katada’s argument that externalities go beyond economics to include security-political and legal ramifications. Competition

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<sup>190</sup> *Ibid.*

<sup>191</sup> Robert J. Franzese and Jude C. Hays. "Interdependence in Comparative Politics Substance, Theory, Empirics, Substance", *Comparative Political Studies* 41 (2008): 742-780.

affects both developed and developing countries, small or large, as these countries compete with their peers to secure preferential access abroad for their internationalized business sectors, to gain regional status and to become more influential in defining the direction of the multilateral trading system. Therefore, there is no guarantee that governments will pursue coherent region-wide FTAs, as each country is influenced by a particular set of competitive pressures.<sup>192</sup>

In particular, China, Japan and the US have competed with each other by proposing different models of regional integration, all of which reflect their respective economic, geopolitical and legal interests. In the latter half of the 2000s, China and Japan competed with each other to shape an East Asia-wide FTA. But the US changed both China and Japan's strategies when it joined the TPP negotiations in late 2008. Japan, drawn to the potential economic and geopolitical benefits of the TPP and the possible counter that it could pose to China's increasingly regional dominance, also announced its interest in the TPP in late 2010. The participation of the largest and third largest economies in the TPP accelerated China's pursuit of its own regional FTA strategy, and explains why it agreed to break the deadlock with Japan over the East Asia-FTA proposal and pushed for the launch of the CJK FTA negotiations (seen as a pre-requisite to an East Asia-wide FTA). ASEAN, on the other hand, was also responding competitively to the US-led TPP (due to fears of losing ASEAN centrality in the regional economic integration process) when it proposed the RCEP. The RCEP was thus a joint competitive response largely initiated by ASEAN and supported by China, to counter the US-led TPP.

### **5.5.3. The triggering power of pivotal states**

Extending their competitive diffusion theory, Solis and Katada argued in a recently published paper that Japan was a "pivotal state" that triggered the cascade of FTAs (i.e. the RCEP and the CJK FTA negotiations) after it joined the TPP. A pivotal state is a state whose actions trigger a *competitive* adjustment by peer competitors that may change the viability of alternative tracks for trade integration. The authors argue that pivotal states unleash the power of diffusion by motivating increased competition in economic, political and legal spheres, as these actions tip the balance among players in all three spheres. Because of their high capability (i.e. sufficient economic power to impose significant externalities on others, political leverage or military power and an

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<sup>192</sup> Katada, Solis and Stallings, *Competitive Regionalism*, 14.

advanced legal system) and credibility (which hinges on their past record to overcome domestic opposition to trade liberalization and to be proactive in international trade negotiations), the US and China are two pivotal states whose trade policy undoubtedly impacts the FTA diffusion process.

On the other hand, Japan is an “unlikely pivotal state” because it has significant market potential, but has had a very dysfunctional FTA trade policy in the last ten years.<sup>193</sup> In other words, it has high latent capability but low credibility. But by signalling to join the TPP in 2010, Japan used the TPP as a commitment device to boost credibility in its trade policy. Japan’s unexpected move in turn raised the spectre of large economic, political and legal externalities among its trading partners, especially on China and ASEAN. This paper finds that this extension of the competitive regionalism theory explains the *specific timing* of the launch of the RCEP adequately. Both ASEAN and China were afraid that Japan would pursue the TPP at the expense of an East Asian FTA, and so moved quickly to push forward the East Asian track after Japan’s announcement.

#### **5.5.4. Geopolitical and legal motivations of participating countries**

Moreover, the competitive diffusion theory posits that different countries joined the TPP and the RCEP for different reasons. As Solis and Katada noted with regards to the conclusion of bilateral and plurilateral FTAs, smaller countries, such as Singapore and Chile, were largely interested in the TPP for economic reasons, whereas the larger countries were also motivated by geopolitical and legal considerations, in addition to economic considerations. As evident from section IV, the larger players were indeed concerned with the geopolitical and legal implications of the RCEP and the TPP.

With regards to legal competition (i.e. competition over FTA rule-making), the major powers use the mega-regional trade agreements to accomplish two main goals: firstly, standard-setting, meaning using FTAs using new rules that can be incorporated more widely and perhaps eventually to become a multilateral standard. As shown in section IV, this goal has been openly declared by Japan and the US, as both hope that the high-standard TPP rules, especially on WTO-Plus issues

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<sup>193</sup> The quality of Japan’s FTAs is generally low because Japan chooses small economic partners and protects its uncompetitive sectors through exemptions and managed tariff liberalization schedules. Moreover, its FTA policy-making includes numerous veto players that have managed to block FTAs if these threaten to involve sensitive sectors like agriculture and manufacturing.

like behind-the-border regulation, will eventually influence, or even be integrated into the WTO rules. The second dynamic at work in the competition over FTA rule-making is lock-in – governments put forward more idiosyncratic rules that apply only to their FTA network and impose cost to countries that operate with different standards. This dynamic can be observed in the RCEP, as it is more exclusive than the TPP, and seeks greater flexibility for developing ASEAN countries. China and other developing Asian countries (e.g. India) might also prefer a regional FTA that requires policy concessions of sensitive areas such as investment, intellectual property rights, and agriculture.

FTAs also help participating countries to achieve broader foreign policy goals, hence political competition among states is also reflected in the competitive dynamics of the RCEP and the TPP. The range of foreign policy goals in areas of political and security relations that states aim to achieve through FTAs is wide and very much contingent on the power resources available to each state. Hence, most of the literature on strategic FTAs makes a distinction between the strategies of large and small powers.<sup>194</sup> Large powers have traditionally relied on the ‘gravitational pull’ of their economies to influence other states’ behaviour. This is shown in China’s FTA policy towards ASEAN and its smaller trading partners, like the ASEAN states, New Zealand and Chile. As noted in section IV, China made substantial agricultural concessions to ASEAN when negotiating the ACFTA, largely to win the “trust” of its Southeast Asian neighbours and assuage fears of the “China threat”. The fact that great powers enjoy large markets and frequently act as security guarantors for allied states enables them to use FTAs to consolidate their position as regional leaders. By dictating the terms of economic integration through FTAs, great powers can define the membership of regional blocs, the sequence of the integration movement and the availability of side payments. However, a bid of leadership in the regional integration process can generate a counter-response from other great power competitors with the ensuing development of alternative and/or overlapping FTA networks. This particular dynamic was observed between the China and Japan with regards to the East Asia-wide FTA and now, between China and the US (i.e. China-backed RCEP vs. US-led TPP).

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<sup>194</sup> B. Stallings and S.N. Katada, “Conclusion: Free Trade Agreements in a Competitive World”. In *Competitive Regionalism*, 236-251.

As for smaller states, FTAs offer them the ability to hedge by seeking negotiations with various large powers, which neutralises the large powers' influence. Also, smaller states can use FTAs to reinforce security ties with existing allies. For example, Japan and some ASEAN countries wanted to add India, Australia and New Zealand to the East Asia-wide FTA framework not just because of greater economic benefits, but also as leverage against China, who preferred the ASEAN+3 framework (which would that allowed China to maximize its influence while offering substantial economic benefits). On the other hand, the TPP allowed US allies and friends like Japan, New Zealand and Singapore to strengthen their security linkages with the US. Finally, FTA diplomacy is useful to smaller trading nations to 'punch above their weight' by constituting themselves through the development of FTA networks, as seen in the examples of Chile, Mexico and ASEAN. ASEAN in particular, hoped to maintain ASEAN centrality in the regional integration process by tabling the RCEP. But more open ASEAN economies, like Singapore, which aspire to be regional FTA hubs, have also joined the TPP.

#### **5.5.5. Competing templates for regional economic integration**

The multidimensional competition among the major players mentioned above has led to competitive and mutually stimulating dynamics between the TPP and the RCEP, as evidenced by the temporal sequencing of the two proposals. The rapid development of the East Asia track in the 2000s – through the EAFTA and CEPEA proposals, and other initiatives like the ASEAN+3 and the East Asian Summit (EAS)<sup>195</sup> – sparked active US engagement in the Asia-Pacific under the Obama administration. The US gave new momentum to the trans-Pacific “track” of regional integration by joining the TPP in late 2008, arguably to counterbalance the East Asia track of regional integration (i.e. to prevent the emergence of an East Asian trade bloc that excluded the US). From 2010 onward, the progress of the Asia-Pacific track has been stimulating the East Asia track (whereas the East Asia track largely stimulated the Asia-Pacific track in the 2000s). Instead of the two tracks taking turns in gaining momentum, developments in both the Asia-Pacific track and the East Asia track are picking up. The expansion of the TPP membership since 2008, together with the acceleration of the negotiations under US leadership, led the East Asian countries (in particular China, Japan and ASEAN) to react defensively by reaching a consensus on the RCEP.

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<sup>195</sup> The EAS initially excluded the US and Russia but Japan and India supported the inclusion of US and Russia. ASEAN formally invited the US and Russia to join the group from 2011 onwards.

Given the catalytic effect of the TPP on East Asia regional economic integration, Terada concludes that the “driving force of East Asia integration will not come from within the region” and “external pressure such as the progress of the TPP negotiations led by the US will play a vital role”.<sup>196</sup> The slow progress of the East Asia track from the end of the 2000s stemmed from the diverse and conflicting interests among East Asian countries, and shows that a driving force to overcome such obstacles would likely *not* come from within the region, at least in the short term. Currently, both tracks are expected to accelerate each other’s progress through their mutual stimulation and competition.

Moreover, as highlighted in section III, the TPP and the RCEP represent two fundamentally different visions for regional trade and integration. The TPP started out as a FTA initiative among small, relatively open economies (namely Singapore, Brunei, New Zealand and Chile), and included more “21st century” issues that were important to developed countries. The RCEP, on the other hand, started off as a consolidation project between ASEAN and its trading partners (i.e. to consolidate the ASEAN+1 FTAs), and allows for more flexibility for developing countries (like India and China). Pre-requisites for entering the TPP are too high for developing countries and the advanced issues are largely irrelevant to them. Similarly, developed countries may not be interested in joining the RCEP because of its (relatively) low quality – i.e. narrower and shallower coverage of issue compared to bilateral FTAs and the TPP. As such, the TPP and the RCEP are more competitive than complimentary due to their differing membership, agenda, prospective content and most importantly, different levels of ambition.

This paper thus extends Solis and Katada’s competitive regionalism theory in explaining bilateral/plurilateral FTA proliferation to explain the “diffusion” of mega-regional free trade agreements. Of course, there cannot be as many mega-regional FTAs as bilateral/plurilateral ones, since these mega-regional proposals are partly a response to, and an aggregation of, the overlapping web of smaller-scale FTAs. Nevertheless, there are obvious negative externalities for important trading countries in the region that do not join either of the agreements. The US would lose market share and investment opportunities in important emerging markets like China and India if it did not

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<sup>196</sup>Takashi Terada. "Becoming more like a normal regionalism?" In *Routledge Handbook of Asian Regionalism*, eds. Mark Beeson and Richard Stubbs (London: Routledge, 2012)



join the concluded RCEP, whereas the TPP would put some East Asian exporters at a disadvantage in the US and some Latin American markets.

#### **5.5.6. Asia-Pacific economic integration becomes increasingly complicated and divisive**

Solis and Katada hypothesized that if *competition* is the dominant force behind FTA diffusion, the recent FTA proliferation in the Asia-Pacific would work *against* the emergence of coherent regional integration projects. But if *emulation* prevails, then bilateral/plurilateral FTAs will be supportive of region-wide integration efforts. It does seem that the current state of the emerging Asia-Pacific trade architecture supports the competition hypothesis. As mentioned, the RCEP and the TPP are not converging towards each other (though convergence has been discussed among scholars)<sup>197</sup>, as differences between the two templates will be very difficult to reconcile. Moreover, there must be sufficient political will among the major players involved in each agreement – namely between the US and China –before there the two templates can be merged. Given the lingering mutual mistrust (the Chinese leadership still views the US as its primary external threat and the US is wary of China’s growing regional and global influence and its own relative decline) and fundamentally different political systems (democratic US vs. state capitalist/communist China), it is unlikely that the US and China can overcome their political differences in the foreseeable future. Unsum, practically and politically, the probability of a convergence between the RCEP and the TPP is low in the short to medium term.

In 2009, Solis and Katada observed that political rivalry among the large countries (namely China, Japan and the US) undermined unity in the Asia-Pacific through diplomatic as well as rule-setting competition. They predicted that this dynamic and the prevalence of cross-regional FTAs pursued by the smaller countries would prevent the consolidation of coherent regional projects in both East Asia and Latin America. The authors’ predictions came true because not only are there a proliferation of competing bilateral and plurilateral FTAs, there are now two competing mega-regional FTAs: the TPP and RCEP – that have further divided Asia-Pacific regionalism.

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<sup>197</sup> Peter A. Petri, Michael G. Plummer, and Fan Zhai. "The TPP, China and the FTAAP: The Case for Convergence." In *New Directions in Asia-Pacific Economic Integration*, eds. Guoqiang Tang and Peter A. Petri (Honolulu: East-West Center, 2014): 78-92.

APEC's endorsement of both the TPP and the East Asian proposals (EAFTA/CEPEA and RCEP) in 2010 as possible pathways to the FTAAP further stimulated the competition between the TPP and the East Asian track (which eventually took the form of the RCEP). Both the RCEP and the TPP were now competing for first-mover advantage – in other words, to be concluded ahead of the other agreement. Scholars generally agree that the timing of the negotiations' conclusion (in addition to their final templates) will determine the degree of influence each agreement has on the eventual trade architecture of the Asia-Pacific. If the TPP is completed first it will set a new and high standard for trade liberalization in the region, reducing the utility of the RCEP and leaving it with only one major selling point – the inclusion of China. Conversely, if the RCEP succeeds in unifying the ASEAN-Plus FTAs, many governments may be content with this outcome and have a reduced appetite for the ambitious but costly reform agenda that the TPP demands. With both negotiations targeting similar completion dates (either mid or end 2015), these dynamics are indicative of a competitive “race to the finish” that will gather pace and intensity over this year. While it is certainly possible that both agreements could co-exist, the competitive dynamic means that there will be significant first-mover advantages for whichever proposal wins the race, and potentially insurmountable challenges for the “loser”.

Beijing's strong support for the FTAAP during the 2014 APEC Summit heightened the already intense competition between the TPP and RCEP. APEC members reached a consensus on the “Beijing Roadmap for APEC” to push forward the FTAAP process (i.e. a bigger mega-regional FTA) and agreed that the FTAAP would build on existing regional initiatives, including the RCEP and the TPP. After the meeting, Obama praised China for focusing attention on APEC's role in eventually achieving the FTAAP (first proposed in 2006), but also reiterated that the US priority was the smaller TPP.<sup>198</sup> It seems that China is backing the trans-Pacific track, but still prioritises the East Asia track as a means to establish the long-term FTAAP. The author of this paper argues that China's firm advocacy of the RCEP over the TPP has actually increased competition between the two tracks. First, by laying out a vision of an “Asia-Pacific dream”, Chinese Premier Xi Jinping has underscored China's intention to enhance its regional and global influence. This can be interpreted as a pre-emptive move by China to take leadership of the Asia-Pacific integration initiative.

#### **5.5.7. Is competitive regionalism fundamentally a realist theory?**

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<sup>198</sup> “APEC summit backs the Beijing roadmap to vast Asia-Pacific free trade area”, *The Guardian*, 11 November 2014.

Realists may argue that the competitive dynamics between the RCEP and the TPP essentially reflect the competitive dynamics between China and the US. This paper contends that the reality is not as simple as great power politics. The TPP and RCEP cannot be seen merely as tools for great power rivalry because they originate from broader regional and global trends (i.e. systemic factors like increasing trade liberalization and economic interdependence) and are also shaped by the strategies and actions of other states. After all, the TPP was not an initiative of the US, but of four small Pacific states, just as the RCEP was not an initiative of China, but of ASEAN. The fact that both sets of negotiations have dragged on, and the proposals by China and the US have met with opposition by other countries, clearly shows that the ability of the great powers to influence the eventual agreements is limited. Hence, the world of mega-regional trade agreements is more multi-polar than bi-polar. One must note that states are also not necessarily forced to choose between the RCEP and the TPP – several states are participants in both agreements. Japan also has substantial influence on the regional trade integration initiatives, as evidenced by the cascade of reactions it provoked after signalling its interest in the TPP. The final templates of both FTA proposals have not yet been concluded, which leaves much to be said about how much each FTA will be influenced by the great powers. That said, it is impossible to discount the influence of great powers on the FTA negotiations. So the theory advanced by this paper is more an integrative framework of institutional and realist perspectives.

## **VI. CONCLUSION**

### **6.1. Summary of Findings**

This paper seeks to explain the coinciding emergence of two mega-regional FTAs – the RCEP and the TPP – in the same region at around the same time. First, I posit that there is a competitive and mutually stimulating dynamic between the emergence of the two trade deals and also their subsequent negotiating processes. I set out to prove this by: (1) examining the origins and development of the two agreements; (2) highlighting their differences in objectives, membership, and prospective content; and (3) explaining the motivations and behaviour of the major players involved in either one or both of the agreements.

Secondly, the paper attempts to find a theoretical framework that best explains the parallel and competitive progress of both agreements. I find that the most compelling theory is competitive regionalism, which argues that FTA diffusion occurs because of multi-dimensional competition between regional states. I argue in section II that this dynamic of competitive diffusion can trace its way back the competitive dynamic between the East Asia and trans-Pacific regional integration tracks, before either the TPP or RCEP was formulated. For example, Mahathir's 1990 proposal of the exclusive East Asian Economic Group (EAEG) was strongly opposed by the US. During the 1990s, the US also tried to pursue its vision trans-Pacific regionalism through APEC and the Early Voluntary Sectoral Liberalization (EVSL) project. The failure of the EVSL – mainly due to Japanese opposition to the liberalization of sensitive domestic sectors – led to the stagnation of the trans-Pacific track in the late 1990s. In the meantime, the 1997-98 Asian financial and increasing economic interdependence among East Asian states injected new life into the idea of East Asian regionalism, which eventually led to two differing proposals for a East Asian FTA led by China and Japan respectively (i.e. EAFTA and CEPEA). The late 2000s saw the revival of the trans-Pacific track with the launch and expansion of the TPP. The TPP can be seen a US-led response to East Asian regionalism that was picking up pace throughout the 2000s, whereas the RCEP, launched in 2011, was East Asia's counter-response to the TPP.

The theory of competitive regionalism also accounts for the multidimensional competition among the major players involved in either or both the TPP and RCEP, which in turn explains for the competitive dynamics between the two tracks. This theory also takes into consideration the

different competitive motivations of small and large powers. Finally, competitive regionalism explains why the current state of Asia-Pacific regional integration is so fragmented. The TPP and RCEP are now superimposed upon the existing tangle of intra-regional and cross-regional FTAs, and it is uncertain how the two tracks, progressing in parallel, will eventually evolve. Currently, the two tracks are still stimulating each other in a competitive manner, and this pattern of interaction will most likely continue before either deal is concluded.

## **6.2. Theoretical Contributions**

This paper seeks to extend the theory of competitive regionalism in two ways, in order to better explain the evolution of both the TPP and the RCEP, and the interaction between them. Competitive regionalism was used by Solis and Katada to explain the proliferation of bilateral and plurilateral FTAs (e.g. ASEAN Plus FTAs) in the Asia-Pacific. This paper contributes to the existing theoretical research on regionalism by explaining the emergence of trade agreements of a different nature – namely mega-regional trade agreements – using this theory. It must be noted that the RCEP had not even been proposed at the time the theory was first advanced.

Secondly, this paper demonstrates that competition existed among various regional integration initiatives in the Asia-Pacific even before the genesis of the TPP and the RCEP. I argue that the TPP and the RCEP are continued manifestations of the longstanding competitive dynamics between the Asia-Pacific and East Asia integration “tracks” since the 1990s, and also responses to new regional realities that emerged in the 2000s.

Finally, this paper aims to integrate the realist and institutional perspectives in explaining the emergence of the TPP and RCEP. In the Asia-Pacific, the distribution of capabilities among politically and economically dominant countries or blocs (namely the US, China and to a lesser extent, ASEAN and Japan) has constituted the basic framework for international affairs. Therefore, the geopolitical interactions among involved parties are thus considered one of the most important variables that influence the process of institution building in the Asia-Pacific. However, while realist and liberal theories have made important contributions to the existing literature on FTAs, the development of mega-regional FTAs are arguably more complex because they involve more countries and have the potential for much greater economic impact and more significant strategic implications. By drawing from both liberal and realist strands, competitive regionalism best accounts

for the observations I made about the motivations of states in joining the TPP and/or the RCEP, as well the temporal sequencing and pattern of progress for the two trade initiatives. Importantly, competitive regionalism takes into account the influence of domestic interest groups and the role of national leadership in explaining the emergence of the RCEP and the TPP, as well as the competitive and mutually stimulating dynamics between them.

In sum, the TPP and the RCEP are (prospective) institutions that developed from the interaction of the major players in the region, against the background of changing regional and global trends and events. However, the respective developmental trajectories of these regional institutions, in which countries are both embedded in and influence, also have an effect in influencing each other (i.e. institutions influence other institutions). In other words, states and regional institutions are mutually constitutive. State behaviour and interaction stimulate the development of institutions, but institutions can also stimulate other institutions and thus shape the actions and strategies of states involved in these other institutions. Essentially, the TPP and the RCEP are mutually stimulating and competitive regional integration projects that resulted from the partly competitive, partly converging policies of countries in the Asia-Pacific.

### **6.3. Areas for further research**

Firstly, the theory of competitive regionalism can be further tested by observing the continued interaction between the TPP and the RCEP in the near future. It would be interesting to see if the competitive dynamic persists, and whether a more cooperative or complementary dynamic can develop as states change their strategic calculations regarding both or one of the tracks. Future research can focus on the how the TPP and the RCEP will influence each other once one of the templates is concluded (assuming they are not concluded simultaneously), and also when both are finalized. For one, if the TPP negotiations succeed as promised, it will introduce a new set of standards for WTO Plus-style liberalization, thus dramatically transforming both the regional and global trade architectures, and potentially diminishing the potential value of the RCEP. Finally, this theory has shown how the TPP, and in particular Japan's entry into the TPP, influenced the *launch* of negotiations on the stalled East Asian FTA. The theory can be extended to examine the extent to which the TPP and certain countries' entry into it may influence the *outcomes* of the negotiations in these regional trade groupings as well.

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