The Regional Comprehensive Economic Partnership Negotiation
INTRODUCTION

Mega-regional trade deals are emerging as a key feature of the world trading system in the post–global financial crisis era. This trend has been motivated by the need to reduce regulatory barriers to global supply chain trade, a loss of credibility in the negotiating function of the World Trade Organization (WTO), and geopolitics (Baldwin 2012). The international spotlight is on negotiations for the US-led Trans-Pacific Partnership (TPP) and the US-EU Transatlantic Trade and Investment Partnership (TTIP). Meanwhile, Asia’s own mega-regional trade deal—the Regional Comprehensive Economic Partnership (RCEP)—is quietly being negotiated. But it merits more economic analysis: the RCEP could create the world’s largest trading bloc and have significant implications for the world economy.
This essay provides an initial assessment of the RCEP and explores its policy implications. It focusses on four important questions in contemporary policy debates: (1) What is the framework for the RCEP negotiations, particularly its aim, scope, and timeline? (2) How will the RCEP impact economies and sectors? (3) What does joining the RCEP imply for India, which some argue is hesitant to liberalize its trade further and could be a stumbling block to the negotiations? (4) What are the main challenges to the success of the RCEP during the negotiations and afterwards?

THE FRAMEWORK FOR THE RCEP NEGOTIATIONS

The RCEP was launched at the East Asia Summit in November 2012 in Phnom Penh, Cambodia (Basu Das 2012). While the partnership would expand ASEAN’s role in coordinating regional trade, the RCEP’s key aim is to reconcile two long-standing proposals into a large, region-wide trade agreement. The two proposals being joined are: (1) the East Asian Free Trade Agreement, which includes ASEAN, China, Japan, and South Korea; and (2) the Comprehensive Economic Partnership, which has added Australia, New Zealand, and India. The first was backed by China, and the second by Japan. The RCEP neatly bridges the two proposals by adopting an open accession scheme so that any party that meets the template can join. Furthermore, ASEAN is accorded the coordinating role for the RCEP process, which means better inclusion of the interests of smaller ASEAN economies.

A relatively short time frame for the RCEP negotiations was planned at the outset. Negotiations began in early 2013 and are scheduled to conclude by the end of 2015. Four rounds of negotiations have been completed to date, with the most recent held in Nanning, China, from March 31 to April 4, 2014.

The parties have stated that their goal is to achieve a modern and comprehensive trade agreement, and the negotiations are supposed to be guided by several key principles (RCEP Ministers 2012), including:
• maintaining consistency with WTO rules, such as GATT Article XXIV and GATS Article V;
• providing improvements over existing ASEAN-Plus-One FTAs;
• reflecting different levels of development of participating economies, and allowing for special and differential treatment for least-developed economies; and
• ensuring an open accession clause to enable participation of any ASEAN FTA partner, as well as other external economic partners, at a future date.

The core of the RCEP negotiating agenda will cover trade in goods, services trade, investment, economic and technical cooperation, and dispute settlement. More specifically, the RCEP seeks to achieve the following:

• gradually reduce tariff and nontariff barriers on most trade in goods to create a free trade area;
• 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; and
• provide for a dispute settlement mechanism to effectively resolve trade disputes.

The TPP is often portrayed as an ambitious, twenty-first century trade agreement dealing with complex behind-the-border regulatory issues (Schott, Kotschwar, and Muir 2013). It is possible that an eventual TPP agreement will be deeper than the RCEP in two respects. First, in core issues covered by both the RCEP and TPP, the TPP will have deeper commitments (e.g., faster and more comprehensive liberalization of goods trade). Second, the TPP will cover more areas than the RCEP (by as much as 29 chapters) that aim to substantially reduce barriers to trade, as well as expand the rules on trade.
There is a lack of official information on the current state of the RCEP negotiations, which are being conducted behind closed doors. The early signs are that progress has been made in the negotiations 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 (See China Daily, March 31, 2014). Negotiations on services and investment, however, may take some time due to differences in levels of development of the parties, the negotiation positions of the parties, and the influence of business lobbies.

Nonetheless, the RCEP is less ambitious than the TPP in terms of trade issues covered, and the prospect of development assistance for adjustment means that developing economies will find it easier to join the RCEP. Thus, an RCEP deal has a reasonable chance of success. Additionally, the RCEP, along with the TPP, will influence the emerging regional trade architecture toward achieving a free trade area of the Asia Pacific.

**ECONOMIC IMPACT OF THE RCEP**

Disparities in per capita income and trade policy are key differences among RCEP members. Table 1 shows per capita GDP in purchasing power parity, MFN tariff levels, and number of concluded FTAs of RCEP members. The grouping includes high-income developed economies (e.g., Singapore, Australia, Japan, South Korea, and New Zealand) as well as poor developing economies (e.g., India, Cambodia, Laos, Vietnam, and Myanmar). There are wide variations in levels of trade opening, with some economies exhibiting double-digit MFN tariffs and others having low tariffs. Differences also exist in the emphasis given to FTAs as trade policy instruments, with very active FTA-strategy economies existing alongside more passive FTA-strategy economies.

These differences, however, mask the striking collective economic importance of the RCEP trade bloc. Table 2 provides information on the RCEP members’ world shares of population, GDP, trade, and investment. The grouping covers 48.8 percent of the world’s population and accounts for 28.7 percent of world GDP. It also makes up 27 percent
The Regional Comprehensive Economic Partnership (RCEP) is a significant agreement in terms of world trade, 24.4 percent of world FDI inflows, and 23.3 percent of world FDI outflows.

There are several \textit{a priori} reasons why the implementation of the RCEP can generate economic gains for Asia. First, the RCEP can

\begin{table}[h]
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\begin{tabular}{|l|cccc|ccc|}
\hline
 & \multicolumn{2}{|c|}{Per capita gross domestic product based on purchasing power parity (PPP)} & \multicolumn{2}{|c|}{Simple mean, MFN tariff rate (\%)} & \multicolumn{2}{|c|}{Concluded FTAs} \\
\hline
Northeast Asia & & & & & & & \\
Japan & 25,709 & 36,899 & 3.3 & 3 & 0 & 13 \\
China & 2,382 & 9,844 & 17 & 2.5 & 1 & 14 \\
South Korea & 16,528 & 33,189 & 9.2 & 12.1 & 1 & 11 \\
\hline
ASEAN & & & & & & & \\
Brunei & 43,386 & 53,431 & 2.6 & 2.5 & 1 & 8 \\
Cambodia & 909 & 2,576 & 16.4 & 14.2 & 1 & 6 \\
Indonesia & 2,433 & 5,214 & 8.4 & 6.7 & 1 & 9 \\
Laos & 1,185 & 3,068 & 9.5 & 9.7 & 3 & 8 \\
Malaysia & 9,102 & 17,748 & 10.2 & 7 & 1 & 13 \\
Myanmar & 530 & 1,740 & 5.5 & 5.6 & 1 & 6 \\
Philippines & 2,446 & 4,682 & 7.6 & 6.3 & 1 & 7 \\
Singapore & 33,195 & 64,584 & 0 & 0 & 1 & 21 \\
Thailand & 5,015 & 9,875 & 18.5 & 9.7 & 2 & 12 \\
Vietnam & 1,426 & 4,012 & 16.5 & 9.8 & 1 & 8 \\
\hline
Other & & & & & & & \\
India & 1,561 & 4,077 & 32.9 & 12.4 & 1 & 13 \\
Australia & 27,581 & 43,073 & 4.5 & 2.8 & 1 & 8 \\
New Zealand & 19,884 & 30,493 & 2.6 & 2.1 & 1 & 9 \\
\hline
\end{tabular}
\caption{Per Capita Income and Trade Policy in Asia}
\end{table}

Notes: “The tariffs reported are the simple average MFN tariffs across all commodities. Where data is not available, the most recent year within a five-year window (on either side) is used. Sources: IMF, World Economic Outlook Database; World Bank, World Integrated Solutions Database; ADB, Asia Regional Integration Center.”

of world trade, 24.4 percent of world FDI inflows, and 23.3 percent of world FDI outflows.

There are several \textit{a priori} reasons why the implementation of the RCEP can generate economic gains for Asia. First, the RCEP can
help regionalize sophisticated global supply chains that make Asia the world’s factory. If a comprehensive agreement can be reached, trade barriers impacting goods and services in Asia will fall. Market size will expand beyond national borders, and a larger regional market will facilitate the realization of economies of scale in production.

Second, if the new regional rules align with WTO agreements on goods and services, the RCEP can help further insure against the emergence of protectionist sentiments in the global economy, particularly murky nontariff measures.

Third, in the area of investment rules—where there exists only a rather basic WTO agreement (the Trade Related Investment Measures, or TRIMs)—the RCEP promotes easier FDI flows and technology transfers by multinational corporations. Reducing barriers to investment and supporting a regional, rules-based FDI regime will further facilitate regional supply chain trade.

Fourth, by simplifying trade rules, the RCEP will also reduce the overlap among Asian FTAs and the risk of an Asian “noodle bowl” of multiple trade rules (Kawai and Wignaraja 2013). Rules of origin, in particular, could be rationalized, made more flexible, and better administered through electronic means. This would reduce transaction costs for businesses, particularly for small- and medium-sized enterprises (SMEs).

Fifth, falling trade barriers will make available cheaper imports of food and consumer goods, which will benefit consumers and low-income households.

### Table 2 Importance of RCEP in Global Economy

<table>
<thead>
<tr>
<th>Measure</th>
<th>Magnitude</th>
<th>Share of world</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>3.4 billion people</td>
<td>48.8% (2013)</td>
</tr>
<tr>
<td>GDP (Current)</td>
<td>US$21.3 trillion</td>
<td>28.7% (2013)</td>
</tr>
<tr>
<td>Trade (Goods and services exports and imports)</td>
<td>US$12.1 trillion</td>
<td>27.0% (2012)</td>
</tr>
<tr>
<td>FDI inflow</td>
<td>US$329.4 billion</td>
<td>24.4% (2012)</td>
</tr>
</tbody>
</table>

*Notes: Figures for population and GDP are IMF estimates. Sources: IMF World Economic Outlook Database; World Bank World Development Indicators; UNCTAD, (all accessed February 20, 2013).*
Simulation modeling using computable general equilibrium (CGE) models is useful in quantifying the income effects of eliminating import tariffs on the trade in goods, and liberalizing cross-border trade in services through the formation of trade agreements. CGE models can trace economy-wide effects of policy changes and point to unintended economic consequences. CGE studies typically show that significant gains can arise from the RCEP.

A recent study (Kawai and Wignaraja, forthcoming) showed that the RCEP can offer large income gains to the world economy, reaching $260 billion (or a 0.54 percent change from baseline income). Furthermore, all economies that are party to the RCEP agreement are projected to achieve gains (see Figure 1). For ASEAN’s dynamic members, projected gains are significant: Thailand (12.8 percent), Vietnam (7.6 percent), Malaysia (6.3 percent), and Singapore (5.4 percent). For the rest of ASEAN—Cambodia, Indonesia, the Philippines, and the remaining ASEAN economies—the gains are less than 3 percent. Among the economies of Northeast Asia, South Korea is projected to experience the largest gain under the RCEP (6.4 percent), while gains for Japan and China are less than 2 percent. Meanwhile, the gains for India are 2.4 percent, the gains for Australia are 3.9 percent, and those for New Zealand are 5.2 percent. As expected, economies that are not members of the RCEP experience losses, and the magnitude of these losses differ by economy.

The study also shows that the implementation of the RCEP scenario is likely to result in significant structural changes toward manufactures and services (and away from agriculture and other primary products) in Asia. There are also shifts within manufacturing. Among ASEAN’s dynamic members, Thailand is projected to experience gains in electrical machinery and electronics, motor vehicles, and services; Vietnam in textiles and clothing; and Malaysia in metals and metal products. In the rest of ASEAN, Cambodia sees losses in a key sector (textiles and clothing), and the Philippines sees losses in motor vehicles. Meanwhile, China achieves gains in electrical machinery and electronics, and India in services and metals. Japan and South Korea see gains in most manufacturing sectors. Strikingly, seven economies see declines in agriculture, and the others see negligible gains.
India’s Look East Policy of 1991 signaled the intent of South Asia’s giant economy to revitalize its cultural, defense, and economic ties with globally important East Asia. Over time, India has operationalized its Look East Policy by concluding FTAs with East Asian economies, including a plurilateral agreement with ASEAN in 2010, as well as bilateral agreements with Singapore in 2005, South Korea in 2010, Japan in 2011, and Malaysia in 2011. By providing for India-China trade and India–Australia/New Zealand trade, the RCEP fills in crucial, missing FTA links between India and other RCEP members. This will give the Indian business sector greater opportunities to access a larger regional market and to integrate into regional production networks. None of the other South Asian economies have expressed a desire to join the RCEP.
but this may change if they become concerned about being left out of the large regional integration group (Wignaraja 2014).

Trade preferences and regional, rules-based India–China trade offer important advantages for India. However, there have been concerns among some business sectors in India, particularly in the import substituting manufacturing sector, about expanding India-China trade (e.g., Mishra 2013). Cheap imports of manufactured goods from China are thought to have adversely affected Indian businesses. Some argue that Chinese firms appear to have price and quality standards that few Indian firms can match. Concerns have also been expressed about opening up sensitive economic sectors and infrastructure to inward investment from China, particularly by state-owned enterprises that unfairly benefit from government subsidies.

But a preoccupation with the absolute advantage of Chinese firms as traders or investors is misplaced. The CGE projections mentioned above show that India can achieve potential income gains of 2.4 percent from the implementation of the RCEP. The RCEP provides inroads for Indian services to China and the rest of East Asia, where India has achieved a comparative advantage on world markets (see Wignaraja 2011). These advantages include the areas of information and communication technology, professional services, law, banking, and educational services. Moreover, India has emerged as an important destination for tourists from the Asia-Pacific region, and tourism services offer further opportunities for Indian businesses. Accordingly, India should make the case for lower barriers to services trade and more transparent investment rules in the RCEP negotiations. India has also shown growth in some manufacturing sectors in world markets (including pharmaceuticals, the automotive sector, textiles, and food processing), and this trend is likely to continue under the RCEP.

Thus, the RCEP is a major opportunity for Indian businesses in services and manufacturing, including large and small firms within these sectors. Lobbying for exemptions for sensitive sectors or more protection for declining manufacturing sectors would be an unproductive, defensive approach to the RCEP. Instead, Indian businesses should prepare for gradual market opening under the RCEP by investing in price, quality, and delivery systems that meet international standards. Above all,
Indian businesses need to invest in new technology, quality management systems, just-in-time procurement systems, research and development, relationships with overseas buyers of output, and technical training. The Indian government can support business process reengineering by Indian firms through investing more in transport and energy infrastructure, implementing second-generation structural reforms, providing access to competitive industrial finance, investing in tertiary-level technical education, and strengthening science and technology institutions.

It seems that India has adopted a generally positive approach to the RCEP negotiations. The good thing about the RCEP is that it is a step-by-step process, so any economy that meets the template can join. The RCEP should be relatively easy for India because it has concluded the more ambitious India-Japan and India–South Korea FTAs. Indian businesses, then, should embrace the RCEP, as it includes all the ASEAN economies, as well as others.

Furthermore, Indian elections in Mid-May 2014 have ushered in a more pro-business administration. The new government led by Narendra Modi has said it will adopt new economic reforms (including liberalization of regulations on the entry of foreign investment and strict labor laws). Sweeping domestic reforms in India over the next few years will make it easier for India to lock in the gains from trade by concluding a RCEP agreement.

**CHALLENGES FACED BY THE RCEP**

Realizing the benefits of the RCEP will depend on how effectively several challenges are addressed during the negotiations and afterwards (Basu Das 2012, Hiebert and Hanlon 2012, Kawai and Wignaraja 2013). First is the political challenge of respecting the central role of ASEAN in the RCEP negotiations, amidst the presence of major regional economies (such as Japan, China, South Korea, and India). The second challenge arises from negotiating partners having different levels of development and interests. The RCEP must overcome the risk that granting exclusions to protect sensitive sectors will ultimately limit trade and investment liberalization. The third challenge is for the
RCEP to gradually improve its coverage of new trade issues (such as competition policy, the environment, and labor standards), which are increasingly a feature in the most comprehensive FTAs in Asia and internationally. Fourth is the risk that firms, particularly small- and medium-sized enterprises, may underuse RCEP tariff preferences due to limited international competitiveness, as well as poor understanding of its legal provisions. Fifth, implementation of the RCEP will bring gains and losses at sector level within countries. With wages and jobs at risk, adjustment costs may be high in declining economic sectors. Sixth, there is the possibility that the RCEP and other mega-regional FTAs may exacerbate the divergence between regional and WTO trade rules, with the continuing erosion of WTO’s central role in global trade governance.

CONCLUSIONS

This essay conducted an initial assessment of the RCEP. This is a difficult exercise as the negotiations only began in early 2013, and official information is lacking on the current state of the RCEP talks. Several points emerge from the analysis.

First, a lower level of ambition than other mega-regionals, such as the TPP, and the prospect of development assistance for adjustment suggest that the RCEP stands a reasonable chance of getting concluded. The addition of a built-in agenda to the RCEP negotiating text would permit more difficult trade issues concerning regulatory barriers to be added in the future.

Second, the RCEP is globally important as a trading bloc, and CGE simulation studies suggest that it will generate notable income gains for the global economy. All members of the RCEP will gain, but the magnitude of gains varies among economies. Structural changes will shift economic activity toward manufactures and services, and adjustments at sectoral levels will also result from the RCEP.

Third, concerns expressed by the Indian business community about increased competition arising from the implementation of the RCEP may be overstated. India has achieved a comparative advantage on world
markets in services and in some areas of manufacturing. A renewed partnership between Indian businesses and government can help the business sector prepare for market openings under the RCEP. Assistance can take the form of investments in manufacturing capabilities and improvements in the policy environment for businesses.

Fourth, realizing the benefits from the RCEP depends on addressing challenges during the negotiations and afterwards. Key policy challenges are likely to arise about how to ensure ASEAN centrality in the RCEP process, how to achieve a reasonable level of ambition in an eventual RCEP, how to ensure optimal use of RCEP preferences, how to support declining economic sectors, and how to enhance the role of the WTO in global-trade governance.

The way forward for the RCEP negotiations should be to take the best features of existing Asian FTAs (including existing ASEAN-Plus-One FTAs), and to use them as a basis for negotiations to maximize the quality of the RCEP, adhere to the timetable for concluding the RCEP negotiations, and actively involve the private sector in the negotiations. Afterwards, significant outreach and business services would be needed for small- and medium-sized businesses to improve their international competitiveness and lower the costs of using the RCEP. Enhancing domestic structural reforms, investing in cross-border infrastructure, and streamlining trade facilitation would also help elicit a private sector response to the RCEP. Furthermore, adjustment assistance and social safety nets can help mitigate the negative effects of trade liberalization under RCEP on affected sectors and jobs. Finally, a WTO agenda on global supply chains and regionalism will facilitate greater coherence between mega-regionals like RCEP and WTO rules.

NOTES

1. The views expressed here are solely mine and do not reflect the views of the Asian Development Bank or the Asian Development Bank Institute.
SOURCES


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DIMENSIONS OF A GRADUAL PROGRESSION

Recognizing the practical ways in which regional integration and cooperation have evolved in the last three decades or so in East Asia (EA), it increasingly makes sense to look at EA as a region that consists of the Association of Southeast Asian Nations (ASEAN) or Southeast Asia, Northeast Asia, and Australia, India, and New Zealand. This definition has very little to do with physical geography and social geography. It is a practical decision that recognizes deepening interdependence between ASEAN, Northeast Asia, Australia, New Zealand, and India in terms of trade, investment, and migration flows. It also captures how the rest of the world relates to this region, rather than focusing on its smaller geographical parts. The world may one day mutate into a single region. For the time being, however, regionalism does open incremental opportunities for economic and social advancement, depending on the density of connectivity that has been wired into it, be it physical connectivity, people-to-people connectivity, or—also very important—institutional connectivity. A dense connectivity transforms a physical region into a formidable economic geography (Giulani 2010, Morris 2010).
Generally speaking, EA as an emerging region is currently serving as the locomotive for the world economy’s growth for a number of reasons. It is growing faster than the rest of the world primarily thanks to China, which admittedly is experiencing a slowdown, but still manages to grow by over 7 percent a year. Another contributor is the medium-size economy of Indonesia, which grows at approximately 6 percent a year. Future potential for growth is also promising as EA remains a “huge region of complementary opportunities.” China is still evolving in the middle-income group. India, Indonesia, the Philippines, and Vietnam are at an even earlier stage, but are catching up. People from diverse walks of life, such as commerce, professional employment, policymaking, and academia have discovered that East Asia is a rewarding area for spending their time and effort. They all wish to be part of and benefit from the EA growth process.

However, EA is not a homogeneous region. The contrast starts by looking at income and economic development in general. On this score, EA occupies the entire spectrum of income and development levels. At one end, EA is home to very low-income economies, such as Myanmar, Cambodia, and Laos. On the other hand, it is also home to top-income countries of different kinds, such as Brunei, Singapore, Japan, and South Korea. In the lower middle there thrive Vietnam, India, the Philippines, and Indonesia; China, Thailand, and Malaysia occupy the upper middle. Beyond the favorable economic growth, there looms very large in East Asia different priorities concerning economic policymaking. Drawing a coherent agenda of economic community building in EA requires a fine balancing. The region’s different stages of development combine with variations in geography, political systems, foreign policies, and history to make EA also a region of divergence.

The contrast extends to macroeconomic conditions and policies. Inflation is largely benign in EA (Kim and Lee 2013). Yet Vietnam and India are faced with the risk of inflation rising to double digits. Unemployment is also generally low, but India in recent times has faced an employment rate of almost 10 percent. What is more, there are important footnotes to unemployment in East Asia. In several economies, huge numbers of people engage in vulnerable employment that may disappear when an external shock strikes (ILO 2013). And while region-wide progress on
poverty has been remarkable, the war against poverty is far from won. If the poverty line is defined at PPP (purchasing power parity) US$2 per day, around 68 percent of Indians, 60 percent of Laotians, 49 percent of Cambodians, 43 percent of Indonesians and Vietnamese, and 27 percent of Chinese still struggle at the edge of poverty. Healthy life expectancy (HALE) is short in the low-income and low middle-income economies of EA. Furthermore, inequality is worsening in the region, as reflected in rising Gini coefficients (Wang Feng 2011, Saez 2013).

Somewhat more disquieting is the profile of current account. After a long period of positive current account following the crisis of 1997–1998, Indonesia, for example, returned to a negative current account in 2013 and 2014. The situation is more serious in Cambodia and Laos, where the ratios have stood at around 6 percent in recent times, far above the limits of 4 percent that is widely considered to be threatening. However, these two economies can still count on development assistance when dealing with financing. In India, the current account deficit is much higher, in the neighborhood of 8 percent of GDP, though India can count on capital and financial flows for financing. However, for large economies such as India and Indonesia, high current account deficits are reasons for concern, no matter how optimistic one may be about unrequited transfer and direct investment inflow, or incoming portfolio investment.

Even foreign direct investment (FDI) is not a panacea from a current account perspective, since sooner or later it is going to lead to cumulative outflows in excess of cumulative inflows. While overall net investment positions in EA are not worrisome, there are again great variations. Australia and New Zealand exhibit a net position of −64 percent and −69 percent of GDP respectively, but they are able to mobilize capital inflows in sufficient magnitude. Next are Indonesia at −36 percent, South Korea at −18 percent, and India and the Philippines at −10 percent each. On the other hand, China enjoys a net position of +37 percent, Japan +56 percent, and Singapore a huge +224 percent. These statistics underline the importance of monetary policy cooperation. East Asia is on the right track with the strengthened Chiang Mai Initiative Multilateralization (CMIM) and the ASEAN Macroeconomic Research Organization (AMRO), which together are expected to evolve into a more comprehensive framework for macroeconomic policy cooperation.
After lagging for decades behind Europe in terms of regional integration and cooperation, EA has caught up at high speed in recent years. Not only was the reluctance to integrate and cooperate overcome by the ASEAN economies when they established the ASEAN Free Trade Area in 1992, but ASEAN has also evolved into an ASEAN Economic Community (AEC), which is scheduled to be completed by 2015. Intra-ASEAN trade, investment, and flows of people have expanded, though one has to note time and again that EA rather than ASEAN is the more proper definition of the region. Assessment by the Economic Research Institute for ASEAN and East Asia (ERIA) suggests that the agreed targets may not be attained in their fullness (ERIA 2012, 11–16). Nevertheless, the AEC is likely to deserve a “B” score, with targets in trade in goods achieved to a large extent, though the ones pertaining to services, investment, and flows of people much less so. Mention must also be made of the adoption of the ASEAN Charter in 2007. In spite of its limited ambitions in terms of extent and speed of integration and cooperation that go beyond interstate relations, the charter gives ASEAN a more solid foundation as a regional grouping. In the meantime, ASEAN is preparing for strategies and steps for the post-2015 period, which is likely to be critical for the future economic development of ASEAN and East Asia in general.

The process of branching out of ASEAN regional integration and cooperation has also progressed in EA. Bilateral FTAs or partnerships have been established or are in the making in EA. The Chiang Mai Initiative Multilateralization (CMIM) must have played a role in protecting EA from the oftentimes-wild impacts of global crises, such as the one that erupted in 2007–2009 in those economies with the most developed financial systems, though the CMIM still suffers from shortcomings (Siregar and Chabchitrchaidol 2013, 7–11). The various early attempts to pursue an EA-wide approach to regional integration and cooperation have admittedly failed to result in the desired outcomes so far, but they have now led to negotiations on the RCEP, which is scheduled to come to an agreement by the end of 2015.

It is extremely important for EA to insulate rising trade, investment, and people interactions, as well as the process of economic community building, from the impacts of resurging protectionist measures enacted
after the 2007–2008 crisis. Of equal importance is shielding itself from interactions regarding disputes in other spheres of life, particularly territorial disputes in the South China Sea and East China Sea, as well as shielding against an escalating arms race. Not only is such insulation very important from the perspective of future growth, it is also one way of raising stakes in achieving good and peaceful relations, as functionalists and neo-functionalists have argued all along.

THE NEXT STAGE OF GRADUATION

Notwithstanding progressive growth in recent decades and the positive perception of EA among traders, investors, and governments as the world’s most vital growth center, where a presence—direct or indirect—is considered essential, the fact remains that EA economies are scattered along the entire development ladder, as alluded to earlier. Economic growth will still continue to rank very high in EA’s development agenda. Even Japan is faced with the need to revive growth to a higher level, as reflected in the “Abenomics.” As the problems associated with Japan’s aging population get increasingly severe, and its policy stance regarding immigration remains closed, the need for higher productivity of the working population will be felt more pressingly. This erodes even further the appeal of low-value processes in manufacturing and services, unless they are highly mechanized. Similar to Japan, South Korea will also have to raise productivity of its working population to be able to absorb the burdens that come with worsening aging. Given its very high income, Singapore may find growth increasingly difficult. Yet, Singaporeans do seek to go beyond their current level of per capita income. Brunei may have little urgency to seek alternative growth sectors outside of oil and gas, thanks to its resource abundance and small population, though these fossil fuels are bound to run dry sooner or later. It remains an open question whether the very advanced economies of EA will, in time, find the necessary growth impulses, or if they will succumb to the tyranny of life cycles and become satisfied with small, steady state growth.

For the rest of East Asia, growth will continue to rank very prominently in the development agenda. Indeed, the attainment of an escape
velocity that would allow these economies to safely overcome the development traps is an imperative, if the lessons from Japan, South Korea, and China apply to the rest of EA, as they probably do. Needless to say, the challenges facing individual economies differ depending on physical geography, demography, cultures adhered to, level and diversity of competencies mastered by the population, the stage of development occupied, economic systems adhered to as they pertain to constitution of ownership, the role of the state in economic development, and openness to the rest of the world. To highlight the problems more succinctly, the following discussion is focused on the more populous economies. As long as these economies grow at healthy rates, the less populous ones will find ways to grow alongside them, or even outpace the populous economies.

The experiences of Japan, South Korea, and China show that sustaining progressive growth in manufacturing is indispensable to the attainment of the escape velocity of growth. A casual observation of recent patterns in the global production network shows, in fact, that acceleration is possible only in a few subsectors, notably information and telecommunication technologies, automotive industries, and some parts of consumer goods industries. It is in these few industries where growth of output and trade is fastest. It is also in these few industries where the division of labor can be pushed to greatest depths. A fundamental question arises as to what extent the world can accommodate the simultaneous, rapid growth of manufacturing in China, India, Indonesia, the Philippines, Myanmar, and Vietnam. However one answers the question, the populous EA economies are going to look at manufacturing as the only feasible locomotive for strong output and employment expansion. Some may push the acceleration under state leadership, along the lines of industrial targeting, though the probability of successfully pursuing such routes has diminished as manufacturing has spread more widely and protection measures become increasingly costly to maintain. The more popular route, however, is acceleration driven by foreign direct investments. In fact, the strategy of creating growth momentum through special economic zones, where speed of development can be raised and location costs reduced through special administrative provisions and economies of scale and scope, is still a popular option to boost the growth of manufacturing.
Using foreign investment as a catalyst of progressive growth in manufacturing requires a good policy in the widest sense of the word. Such policies include border measures that allow the inflow and outflow of goods and services to proceed at high speeds and lower costs across the different locations in the production network. On this score, the developing parts of EA have a lot of catching up to do in addressing non-tariff measures related to trade in goods, including setting and enforcing various standards. Of equal importance is good domestic regulation. For instance, the difficulties involved in infrastructure in general, and public-private partnerships in particular, pertain partly to land rights. In some new democracies, such as Indonesia, dealing with labor unions has turned out to be difficult, with the tendency for unit labor cost to rise progressively relative to productivity. Dealing with business permits has remained an arduous process, despite efforts on the part of governments to streamline the permitting process. Governments can also grow impatient, forcing foreign companies to transfer technologies. What is more, underinvestment in infrastructure is commonplace in the developing parts of East Asia. Routine expenditures, such as subsidies on current consumption of fuels, as in the case of Indonesia, are typically large in comparison to tax revenues. The call for private sector investment in infrastructure by way of public-private partnerships has materialized only marginally because of the difficulties involved in drawing up contracts and enforcing them. As a result, connectivity in the cases of low-income economies in EA leaves a great deal to be desired. The decision by some governments to focus on carefully selected clusters of metropolitan areas, such as Indonesia’s promotion of the Indonesian Master Plan for the Acceleration of Economic Development, appears sensible. However, making these plans successful takes daring leadership, as China demonstrated in determinedly pushing its special economic zones (SEZ).

Given the tough competition between different locations, the temptation exists to engage in a “race to the bottom,” or using location dumping as a way to get larger shares of foreign investments in manufacturing. The more thinly a government is equipped with resources, the greater such temptation becomes. The danger of governments engaging in zero-sum games, or even negative-sum games in cases of mutual destruction, is apparent. Interestingly, ASEAN recognized this danger early on. It
was with a view to minimize such zero-sum games that the first substantive cooperation programs in ASEAN mostly took the form of “resource pooling”—for example, ASEAN Industrial Projects, ASEAN Implementation Projects, and ASEAN Industrial Joint Ventures. Market sharing was originally designed to complement the resource-pooling program, apart from a modest preferential trade agreement with a very limited margin of preferences. Unfortunately, none of the resource-pooling programs turned out to be successful enough to catalyze cooperation in other industries. In the end, ASEAN also opted for the standard route of trade liberalization, in combination with unilateral trade and investment deregulation of the 1980s and 1990s.

There are certainly areas where liberalization initiatives need to constitute an important part of future ASEAN and RCEP integration and cooperation efforts, including addressing the sensitive and highly sensitive lists of the agreements that emerged out of ASEAN. But the ASEAN Economic Community (AEC) and the RCEP cannot be exclusively aimed at accelerating and sustaining growth—they must also enable less-developed members to grow faster or to catch up. While producing economic benefits, liberalization is socially flawed in that it benefits the most-prepared members and companies already operating in an area, while the less-prepared ones have to wait for their turn. The AEC and the RCEP are also focused on reducing environmental stresses, including those of immediate or long-term relevance. East Asian cities are suffering from severe shortages of fresh water, traffic jams, depleted public amenities, polluted air, greenhouse gas emissions, and many other ecological stresses. Reforestation is badly needed in EA. Concrete measures are needed to protect land and marine biodiversity, which are exposed to extreme strains stemming from commercial activities in EA. Pursuing growth while reducing environmental strain are herculean challenges to ASEAN and the RCEP, and they can only be addressed through regional cooperation.

MEASURES OF INCLUSION AND SUSTAINABILITY

Regionalism is a dynamic process. Post-war experiences clearly show the tendency of regionalism to spread across wider and wider geographical
areas. New members accede to existing groupings. The European Union (EU), for example, expanded from the original six members to twenty-seven, and ASEAN from its original five members to ten. After all, “region” is a man-made term, as alluded to earlier. Interregional integration and cooperation are also conceivable. ASEAN and the EU wanted to pursue an interregional undertaking, but the possibility ended because of unbridgeable differences on human rights issues in pre-reform Myanmar. A convergence between the RCEP and the TPP is, of late, often mentioned as a possible route to the Free Trade Area of the Asia-Pacific (FTAAP), even though such a convergence looks remote for the time being.

Issues addressed in regional integration and cooperation tend to become increasingly comprehensive over time. The EU, for instance, started off as sector-based communities, and grew to become a single market and, later, a single currency. ASEAN’s agenda was also originally confined to state-to-state economic cooperation, but moved to become a free trade area and then an economic community. The geographical extension and the widening issue coverage spurred by regional integration and cooperation appear to be unstoppable once they are launched. This is the reason for the recent tendency to conceive economic regionalism as a comprehensive partnership. Given this pattern, the three blocks of issues that are involved in regional comprehensive partnerships differ in the extent to which they have been addressed. The liberalization block, while not easy, has been dealt with the most intensively in the history of regional integration and cooperation. Barriers to trade in goods and, to a lesser extent, trade in services have been studied, quantified, and assessed in terms of costs and benefits, and these barriers have been reduced under regional liberalization for over six decades. Facilitation follows as a necessary condition for meaningful enforcement. The least advanced is functional cooperation, which primarily consists of capacity building that favors less-developed members. ASEAN members such as Laos, Cambodia, and Myanmar can benefit from trade liberalization only if, through functional cooperation, they are aided in producing new exportable goods and services. A similar question can, in fact, be raised in relation to the least-developed parts of an emerging economy, such as the eastern provinces of Indonesia. Here, tradable goods are typically
confined to natural resources, which can only be explored, exploited, and traded with the help of significant financial capital and a well-educated and trained workforce. Such sectors are typically controlled by large multinational companies, alone or in cooperation with politically well-connected national companies. They are hardly accessible to people living in least-developed provinces of even emerging economies.

While facing complex issues, regional groupings are typically limited in terms of the human and financial resources at their disposal. The ASEAN Secretariat, for example, had a budget of less than US$16 million in 2012, which was raised according to the principle of equal contribution by each member, irrespective of its ability to contribute. Regional groupings are usually not equipped with the power to generate revenue, and ASEAN and the RCEP will face very difficult questions in developing a cooperation agenda that is meaningful enough for the immensely large region and population, on the one hand, but realistic enough in terms of resource constraints.

One criterion is to select issues that can be addressed effectively on a regional basis. Airspace and sea-lanes can perhaps be included in a group, together with industrial pollution, pre-competitive research and development (R&D), and fishery management. Other types of issues can be considered national rather than regional. These include many health issues and transportation issues, including some issues of connectivity. This classification of issues is becoming increasingly arbitrary. More and more, important issues are local, regional, and global at the same time.

Cooperation in science and technology (S&T) represents another important priority. First of all, long-term sustainability of growth greatly depends on progress in science and technology, as practiced in businesses, households, public facilities, and governments. Even during transitions from lower middle-income economies to upper middle-income economies, and from there to high-income status, durable success is only possible with the help of S&T diffusion and acquisition. Secondly, it is in respect to S&T literacy and capabilities that economies in ASEAN and the RCEP differ starkly. The statistical database of UNESCO and the UNESCO Science Report suggest that research and development capacities in most ASEAN economies are very limited compared to the leading S&T economies of the region, as well as elsewhere in the more
developed world (UNESCO 2010). Given their limited R&D capacity, economies can offer very few contributions to R&D collaboration of either regional or global scopes. In the universe of international R&D collaborations, only a few economies in the RCEP, including ASEAN, have been equipped to participate, as reported by the Royal Society in its 2011 report on global scientific collaboration in the twenty-first century (Royal Society 2011). If this trend continues, there is little that one can expect in terms of development convergence of a lasting nature in East Asia, and a fall into the middle-income trap becomes highly probable.

ASEAN and the RCEP are well advised to propose a shopping list that can be put together into a regional matrix at both ASEAN and RCEP levels. Such programs should not be primarily conceived as transfer programs, in the sense of some economies playing the role of donor and others the role of recipient. Even under the tight resource constraints that each ASEAN economy faces, an active participation in S&T collaboration is possible, subject to reallocation of resources. While participation of all economies should be encouraged, the formula of ASEAN-minus-X or RCEP-minus-X should also be accepted in the interest of effective cooperation.

Finding new levers for effective cooperation is critical to success, yet ASEAN and the RCEP suffer from being largely state-driven undertakings. Change is needed on this score, as well as recognizing the power hidden in better information, which, in turn, can be attained with the help of open systems. The second element relates to institutionalization. ASEAN and the RCEP rely heavily on ASEAN centrality, however one defines it. Yet ASEAN is faced with tight limitations. ASEAN is still largely an association of nations when it comes to policy decisions, and it is also much more limited financially than its ambitious goals would suggest. Historical circumstances force East Asia to continue to rely on ASEAN as the mover of EA regionalism, as it has done over the years. Yet a more inclusive leadership appears to be increasingly needed. The CMIM arrangement, where voting is weighted by taking into account each member’s contribution, provides a possible model for adapting. An exclusive reliance on the principles of one vote for one economy may not be enough to push community building in EA beyond its current levels.
The world between now and 2025 is bound to change in many important ways. The multi-polar power structure may take a clearer configuration. Wealth will probably continue to be redistributed in favor of East Asia, notably China, and to a lesser extent to India and Indonesia, to name only the most populous economies of EA. However, East Asia will still have to rely on European and North American scientific developments, while seeking to climb the difficult stages of the development ladder. What this implies is that EA regionalism should in no way be thought of as an exclusive grouping. Doing so would be swimming against globalization, which—despite heated criticisms—is bound to strengthen in the wake of technology changes and, probably, as a result of growing capabilities of governments, businesses, and societies to make globalization increasingly inclusive and respectful of the environment. East Asia economies will undoubtedly differ in the speed that they adjust to these emerging realities. It is important under such plurality to give a chance to multi-track community building, which can equip economies for achieving gradual convergence.

SOURCES


A Stages Approach to Regional Economic Integration in Asia Pacific

The RCEP, TPP, and FTAAP

Shujiro Urata, Professor of International Economics, Waseda University

INTRODUCTION

The Asia-Pacific region has been witnessing the emergence of two mega-free trade agreements (FTAs), the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP). TPP negotiations began in March 2010, while RCEP negotiations began in May 2013. Negotiating members are different, although some economies are participating in both FTAs. Both are considered to be pathways toward the establishment of a Free Trade Area of the Asia-Pacific (FTAAP). Although the contents of these two FTAs have yet to be finalized as they are still in negotiations, it is important for policymakers to analyze their relationship—conflicting or complementary—in order to draw a roadmap for achieving an FTAAP, the eventual goal of regional economic integration in the Asia Pacific. An FTAAP would contribute
to economic growth of the Asia Pacific, which would in turn promote economic growth of the world economy by establishing a free and open business environment. Such a business environment would lead to efficient use of labor and capital and promote innovation, thereby resulting in economic growth.

This essay analyzes the relationship between the TPP and the RCEP in the context of regional economic integration in the Asia Pacific. The second section makes some comparisons between the TPP and the RCEP in order to identify their similarities and differences. Based on the discussions in the second section, the final section proposes a two-stage approach to regional economic integration in the Asia Pacific.

**THE TPP AND THE RCEP: COMPARISON**

One observes both similarities and differences between the RCEP and the TPP, and summarizing these helps us examine their relationship. While very few similarities exist, there are a number of differences between the RCEP and the TPP. Let us begin with the similarities and then turn to the differences.

**Pathways to an FTAAP**

Both the RCEP and the TPP are free trade agreements, although their contents differ substantially. Both the RCEP and the TPP are characterized as mega-FTAs, because of their large number of negotiating members; 16 for the RCEP, and 12 for the TPP. Another similarity is that both the RCEP and the TPP are considered pathways to an FTAAP. This observation needs a qualification, as explained below.

At the APEC Leaders’ Meeting in October 2010 in Yokohama, Japan, participants agreed that the eventual goal of regional economic integration in the Asia Pacific is to establish an FTAAP. They also agreed that there are mainly three pathways leading to an FTAAP: the ASEAN-Plus-Three FTA (EAFTA), the ASEAN-Plus-Six FTA (CEPEA), and the TPP. The ASEAN-Plus-Three FTA and ASEAN-Plus-Six FTA initiatives have been merged to become the RCEP. Accordingly, the RCEP has come to be recognized as a pathway to an FTAAP. Similarities stop here.
Turning to the differences between the TPP and the RCEP, let us look at their membership, objectives, contents, and other issues.

**Membership**

The TPP negotiations began with eight economies—Singapore, New Zealand, Chile, Brunei, the United States, Australia, Peru, and Vietnam—which were later joined by four more, Malaysia, Canada, Mexico, and Japan. At present, 12 economies, all of which are members of APEC, are participating in the TPP negotiations. It is worth noting that the TPP negotiations are quite unique because the number of members increased during the negotiations process. This indicates a realization on the part of new members of the TPP’s importance. Indeed, that importance is likely to increase as membership grows, given that an FTA is a discriminatory arrangement, and the negative impacts of being a nonmember increase with the expansion of members.

Participants of the RCEP negotiations include 16 economies: 10 members of the Association of Southeast Asian Nations (ASEAN)—Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam—as well as China, Japan, South Korea, India, Australia, and New Zealand. Although the RCEP may accept new members, so far there have not been any.

Seven economies—Brunei, Malaysia, Singapore, Vietnam, Japan, Australia, and New Zealand—are participating in both negotiations. Those RCEP participants that are not participating in the TPP negotiations are Cambodia, Indonesia, Laos, Myanmar, the Philippines, Thailand, China, South Korea, and India. Among those, Cambodia, Laos, Myanmar, and India are not members of APEC, while Indonesia, the Philippines, Thailand, China, and South Korea are members. Since the TPP is likely to be open only to APEC members, Cambodia, Laos, Myanmar, and India are not qualified to participate in the TPP. It is important to note that Cambodia, Laos, and Myanmar are in the early stages of economic development compared to other RCEP economies. Those TPP negotiating members that are not participating in the RCEP negotiations are Chile, the United States, Peru, Canada, and Mexico. These economies are not located in Asia. One notices immediately that China and India, two Asian giants, are not participating in the TPP, while the United States,
another giant, is not participating in the RCEP. As such, some consider the TPP and the RCEP to be in conflict, as China and India—particularly China—are trying to establish a regional framework that excludes the United States, while the United States is keen on establishing a regional framework that excludes China.

A brief comparison of the TPP and the RCEP in terms of economic indicators is in order. Table 1 shows that the RCEP members in total represent a substantially larger population, at 3.4 billion, compared to the TPP members, who total 0.8 billion. The TPP members have higher GDP at US$28 trillion, compared to the RCEP members at US$21 trillion. The magnitude of total trade, or the sum of exports and imports, is similar for the TPP and the RCEP, with each amounting to around US$10 trillion. In terms of world shares, the RCEP members account for 48.3 percent of world population, 29.2 percent of world GDP, and 28.3 percent of world trade, while the corresponding shares for the TPP members are 11.3 percent, 38.8 percent, and 25.8 percent, respectively. These observations indicate that both the TPP and the RCEP are very important for the world economy, as their respective coverage in the world economy is substantial. Finally, it should be noted that the average GDP per capita is significantly larger for the TPP members (US$32,751) compared to the RCEP members (US$18,879), reflecting the fact that low-income economies are included in the RCEP.

**Objectives**

The objectives of the RCEP and the TPP are quite different, although both are FTAs. The objective of the TPP is to enhance trade and investment among the TPP partner economies; promote innovation, economic growth, and development; and support the creation and retention of jobs. These objectives are to be achieved by constructing a free and open business environment through establishing a comprehensive, next-generation regional agreement that liberalizes trade and investment and addresses new and traditional trade issues and twenty-first century challenges. It is further envisaged as an ambitious model for other free trade agreements in the future.

The objective of the RCEP is to achieve a modern, comprehensive, high-quality, and mutually beneficial economic partnership agreement
<table>
<thead>
<tr>
<th></th>
<th>Population (million) (%)</th>
<th>GDP (US$ billion) (%)</th>
<th>GDP per capita (US$) (%)</th>
<th>Trade (US$ billion) (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RCEP</strong></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>China</td>
<td>1,350.7 19.2</td>
<td>8,227.1 11.4</td>
<td>6,091.0 10.4</td>
<td></td>
</tr>
<tr>
<td>South Korea</td>
<td>50.0 0.7</td>
<td>1,129.6 1.6</td>
<td>22,590.2 2.9</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>1,236.7 17.6</td>
<td>1,841.7 2.5</td>
<td>1,489.2 10.4</td>
<td></td>
</tr>
<tr>
<td>Camboida</td>
<td>14.9 0.2</td>
<td>14.0 0.0</td>
<td>944.4 19.2</td>
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</tr>
<tr>
<td>Indonesia</td>
<td>246.9 3.5</td>
<td>878.0 1.2</td>
<td>3,556.8 378.4</td>
<td></td>
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<tr>
<td>Laos</td>
<td>6.6 0.1</td>
<td>9.4 0.0</td>
<td>1,417.1 5.1</td>
<td></td>
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<td>Myanmar</td>
<td>52.8 0.7</td>
<td>52.5 0.1</td>
<td>861.0 20.4</td>
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<td>Philippines</td>
<td>96.7 1.4</td>
<td>250.2 0.3</td>
<td>2,587.0 117.4</td>
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</tr>
<tr>
<td>Thailand</td>
<td>66.8 0.9</td>
<td>366.0 0.5</td>
<td>5,479.8 477.1</td>
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<tr>
<td><strong>RCEP and TPP</strong></td>
<td></td>
<td></td>
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<tr>
<td>Brunei</td>
<td>0.4 0.0</td>
<td>17.0 0.0</td>
<td>41,126.6 17.0</td>
<td></td>
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<td>Malaysia</td>
<td>29.2 0.4</td>
<td>305.0 0.4</td>
<td>10,432.1 424.0</td>
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<td>Singapore</td>
<td>5.3 0.1</td>
<td>274.7 0.4</td>
<td>51,709.5 788.1</td>
<td></td>
</tr>
<tr>
<td>Vietnam</td>
<td>88.8 1.3</td>
<td>155.8 0.2</td>
<td>1,755.2 228.4</td>
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<tr>
<td>Japan</td>
<td>127.6 1.8</td>
<td>5,959.7 8.2</td>
<td>46,720.4 1,684.4</td>
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<tr>
<td>Australia</td>
<td>22.7 0.3</td>
<td>1,532.4 2.1</td>
<td>67,555.8 517.8</td>
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<tr>
<td>New Zealand</td>
<td>4.4 0.1</td>
<td>167.3 0.2</td>
<td>37,479.4 75.6</td>
<td></td>
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<tr>
<td><strong>TPP</strong></td>
<td></td>
<td></td>
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<tr>
<td>US</td>
<td>313.9 4.5</td>
<td>16,244.6 22.4</td>
<td>51,748.6 3,882.7</td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>34.9 0.5</td>
<td>1,821.4 2.5</td>
<td>52,219.0 929.7</td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>120.8 1.7</td>
<td>1,178.1 1.6</td>
<td>9,748.9 751.4</td>
<td></td>
</tr>
<tr>
<td>Chile</td>
<td>17.5 0.2</td>
<td>269.9 0.4</td>
<td>15,452.2 158.1</td>
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<tr>
<td>Peru</td>
<td>30.0 0.4</td>
<td>203.8 0.3</td>
<td>6,795.8 88.2</td>
<td></td>
</tr>
<tr>
<td><strong>RCEP</strong></td>
<td>3,400.5 48.3</td>
<td>21,180.6 29.2</td>
<td>18,879.1 10,469.6</td>
<td></td>
</tr>
<tr>
<td><strong>TPP</strong></td>
<td>795.5 11.3</td>
<td>28,129.8 38.8</td>
<td>32,751.1 9,545.2</td>
<td></td>
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<tr>
<td>World</td>
<td>7,046.4 100.0</td>
<td>72,440.4 100.0</td>
<td>10,280.5 100.0</td>
<td></td>
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</tbody>
</table>

Notes: All the figures except GDP and GDP per capita for Myanmar are taken from World Bank, while GDP and GDP per capital for Myanmar are taken from the ASEAN Secretariat. Sources: World Bank, World Development Indicators online accessed on March 30, 2014 ASEAN Secretariat, http://www.asean.org/news/item/selected-key-indicators accessed on March 30, 2014.
among the ASEAN member states and ASEAN’s FTA partners, in order to support and contribute to economic integration, equitable economic development, and strengthening economic cooperation among the participants.8

Although both the TPP and the RCEP have aimed to establish high-quality and comprehensive trade agreements that promote economic growth and development, there are differences in how they emphasize economic growth and economic development. One of the most important elements for the RCEP is to achieve equitable economic development through economic cooperation. By contrast, the TPP does not put much emphasis on economic cooperation. It is only natural that the RCEP places emphasis on economic cooperation as membership includes least-developed economies such as Cambodia, Laos, and Myanmar, whose successful economic development is very important for the region’s sustainable economic growth and social stability.

**Issue Coverage**

The issues covered by the TPP and the RCEP have been noted as being quite different, reflecting the differences in their objectives. Indeed, the RCEP is designed to cover trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement, and other issues. In contrast, the TPP’s coverage is broad and comprehensive, and 24 working groups have been established in the following areas: market access of industrial goods, agriculture, textiles, technical barriers to trade (TBT), sanitary and phytosanitary measures (SPS), rules of origin, customs cooperation, investment, services, financial services, telecommunications, e-commerce, business mobility, government procurement, competition, intellectual property, labor, environment, capacity building, trade remedies, and legal and institutional frameworks. In addition to these issue-specific areas, crosscutting “horizontal issues” such as regulatory coherence, competitiveness, development, and small- and medium-sized enterprises are also addressed.

Unfortunately, the comparison made above is quite deceptive because the description of the issue coverage in the RCEP is very rough, with few details, compared to the TPP. If one considers the contents of the issue coverage of the RCEP in more depth, the differences between the
two become much less significant. Table 2 shows that the major differences are environment, government procurement, labor, and crosscutting horizontal issues such as regulatory coherence, which are covered in the TPP but not in the RCEP. Although these are only four issue areas out of many, they are regarded as very important for developed economies such as the United States, which seeks to achieve a level playing field in competition and to achieve sustainable economic growth. For developing economies, on the other hand, these issue areas pose challenges.

LEVEL OF COMMITMENT, SPECIAL AND DIFFERENTIAL TREATMENT OF DEVELOPING ECONOMIES, AND MODE OF AGREEMENT

This section discerns differences in the level of commitment, the treatment of developing economies, and the modes of agreement between the TPP and the RCEP. The previous section identified substantial overlaps in the issue coverage of the TPP and the RCEP, despite some important differences. Looking beyond the overlaps, there are notable differences between the two frameworks in the level of commitment. One of the areas where the commitment differences can clearly be seen is the level of trade liberalization, or market access for goods. The TPP seeks complete elimination of tariffs, or 100 percent trade liberalization, although in reality trade liberalization rates (the proportion of tariff lines subject to tariff elimination, compared to the total number of tariff lines) for some members may be around 97–98 percent. This is because of political sensitivities concerning some products, such as sugar, in the United States and Japan. By contrast, the trade liberalization rate for the RCEP is likely to be substantially lower compared to the case for the TPP. Some observers predict 90 percent trade liberalization, based on the trade liberalization achieved by five ASEAN-Plus-One FTAs. ASEAN economies achieved nearly 90 percent trade liberalization in each ASEAN-Plus-One FTA, while only 73.3 percent of tariff lines were commonly eliminated vis-à-vis their ASEAN-Plus-One FTA partners. Considering that common tariff concessions, rather than bilateral tariff concessions, are likely to be adopted in the RCEP negotiations, even
### Table 2  Comparison of Issue Coverage in the TPP and RCEP

<table>
<thead>
<tr>
<th>Issue Area</th>
<th>TPP</th>
<th>RCEP</th>
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<tr>
<td><strong>Trade in Goods</strong></td>
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<tr>
<td>– Market Access for Goods</td>
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<td>– Textile and Apparel</td>
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<td>– Rules of Origin</td>
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<td>– Customs</td>
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<td>– Trade Facilitation</td>
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<td>– TBT</td>
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<td>– SPS</td>
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<tr>
<td>– Trade Remedies</td>
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<tr>
<td><strong>Trade in Services</strong></td>
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<td><strong>Intellectual Property</strong></td>
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<td><strong>Legal and Institutional Issues</strong></td>
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<td><strong>Others</strong></td>
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<td>– E-commerce</td>
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<td>– Labor</td>
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<tr>
<td>– Crosscutting horizontal issues</td>
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</tbody>
</table>

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.
achieving 90 percent trade liberalization requires significant efforts on the part of ASEAN members. Furthermore, it should be pointed out that India has the lowest trade liberalization rate in its FTA with ASEAN—78.8 percent—indicating substantial difficulty in achieving 90 percent trade liberalization. Non-ASEAN RCEP members will also have to make enormous efforts to achieve 90 percent trade liberalization, except for Australia and New Zealand, which have achieved 100 percent trade liberalization in their FTAs with ASEAN.

One of the major differences between the TPP and the RCEP is the treatment of least-developed economies. ASEAN-Plus-Six trade ministers agreed to provide special and differential treatment to the least-developed ASEAN members in the RCEP. This treatment is to be consistent with existing ASEAN-Plus-One FTAs, which consider the different levels of development of RCEP negotiating members. A specific example of special and differential treatment of least-developed ASEAN members can be found in the ASEAN-China FTA, which included the postponement of trade liberalization by new ASEAN members. The TPP does not provide special and differential treatment to least-developed members in terms of the contents of the agreements, although it may provide different schedules to least-developed economies for the implementation of the agreements. These differences in the treatment of least-developed economies seem to be attributable to the differences in the philosophy toward the role of government protection in economic development. In the United States, which is a leader in the TPP, market distortion created by government protection would retard economic development, whereas in many East Asian economies, which are participating in the RCEP, government protection is regarded as possibly beneficial to the least-developed economies.

Another important difference is the mode of agreement. Despite very comprehensive contents, as shown above, the TPP is trying to include all of these contents/components from the outset in the form of a “single undertaking.” This has been a practice for comprehensive FTAs involving the United States. In contrast to the TPP, the RCEP is likely to adopt a gradual and sequential approach, where different components are negotiated and implemented under different time schedules, depending on the difficulty in reaching an agreement.
market access in goods may be taken up first, say by 2015, while trade in services and investment might be negotiated after 2015. Having noted the different time schedules for different components, it is important for the RCEP to be completed by a certain date, such as the year 2025, 10 years after the expected conclusion of negotiations. This sequential approach has been adopted by ASEAN in its endeavor to establish the ASEAN Economic Community (AEC), and it may be practical in light of the diversity among the negotiating members in terms of economic development, structures, and systems.

**TWO-STAGE APPROACH TO AN FTAAP**

So far, we have found that the RCEP and the TPP are quite different in how they handle membership, objectives, contents, and other characteristics, although both are free trade agreements with comprehensive coverage. The RCEP, with its emphasis on equitable and sustainable economic development through economic cooperation, may begin with shallow integration—limited issue coverage and relatively low levels of trade liberalization—but gradually achieve deeper integration. An eventual goal of the RCEP may be to establish an East Asian Economic Community, a possible extension of the ASEAN Economic Community. The TPP, on the other hand, will establish a rule-based, free and open business environment by achieving high-level trade and investment liberalization and by setting up high-level rules on competition, intellectual property rights, government procurement, and other areas. The TPP aims to develop into an FTAAP, which may eventually turn into the WTO Mark II, or global economic rule.

Considering these differences, the RCEP and the TPP can be complementary and coexist, and they do not need to merge to become an FTAAP. Indeed, one may regard these two regional frameworks as two stages to reach an FTAAP, an eventual goal of regional integration in the Asia Pacific, while the RCEP may eventually develop into an East Asian Economic Community. Developing economies in East Asia may participate in the RCEP first, and they may join the TPP when they have grown economically and are ready to accept high-standard eco-
nomic rules. In order for this approach to be realized, both the RCEP and the TPP need to accept new members that are qualified to join. Finally, the importance of a speedy conclusion and implementation of the RCEP and the TPP needs to be stressed, to promote regional economic integration in the Asia Pacific, which would contribute to the economic development and growth of the region.

NOTES
2. Concerning the TPP, a very good analysis concerning its contents, importance, difficult issues, and other matters can be found in Jeffrey J. Schott, Barbara Kotschwar, and Julia Muir, Understanding the Trans-Pacific Partnership (Washington, DC: Peterson Institute for International Economics, 2013).
3. RCEP, “Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership,” 2012 states that any ASEAN FTA partner 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 upon by all other participating economies.
4. The rule on membership has not been decided for the TPP. According to the original TPP, membership is open to non-APEC members. The Trans-Pacific Strategic Economic Partnership Agreement states in Article 20.6 (Accession) that the agreement is open to accession on terms to be agreed upon among the parties, by any APEC economy or other state. See http://www.mfat.govt.nz/downloads/trade-agreement/transpacific/main-agreement.pdf.
5. All statistics are for 2012.


11. This sequential approach is recommended by a group of experts on the RCEP. See Expert Roundtable for Regional Comprehensive Economic Partnership (RCEP), “Recommendations on the Approaches to be Adopted in the Negotiations of RCEP and Its Implementation,” 2013.
The RCEP

A Chinese Perspective

Quan Yi, Editor-in-Chief, Asia-Pacific Economic Review

INTRODUCTION

The Regional Comprehensive Economic Partnership (RCEP) was designed and promoted by ASEAN because of at least two considerations.

In the first place, ASEAN is keen to retain a leadership position in the process of economic integration in East Asia. However, with the emergence of the Trans-Pacific Partnership (TPP), not only have the big players of the region become active negotiating parties to the TPP, but also nearly half of the ASEAN members are participating. The rapid expansion of TPP membership has shifted the center of gravity surrounding economic cooperation in East Asia toward the Asia Pacific, giving more weight to American dominance. This centrifugal tendency jeopardizes the ASEAN leadership and creates anxiety in the region.

Secondly, ASEAN feels the necessity to maintain its centrality in regional economic cooperation. As the hub of five ASEAN-Plus-One free trade agreements (FTAs), ASEAN and its regional partners feel the pinch of the Asian “noodle bowl effect.” The ASEAN-Plus-One FTAs have become new obstacles to the construction of a regional production network based on free markets in East Asia. The RCEP has emerged as a
tool to converge or integrate the ASEAN-Plus-One FTAs in alignment with the common aspirations of the region.

Launched in early 2013, the RCEP negotiations have undergone three rounds. On the basis of the Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership, the RECP negotiating committee has established seven working groups covering trade in goods, trade in services, investment, intellectual property, market competition, “eco-tech” (economic-technical) cooperation, and dispute settlement, as well as two subcommittees on rules of origin and on customs procedures and trade facilitation. The framework for negotiations is basically in place. Thus, negotiations have been split into groups and conducted in parallel.

THE RCEP IS A COMMON ASPIRATION OF EAST ASIA

The RCEP is of great importance to East Asia as a whole. Both now and in the foreseeable future, East Asia remains the world’s most dynamic region, with the greatest potential in terms of economic development. China, India, and Indonesia are the largest developing economies with the most economic potential. All are members of the RCEP and will benefit from the RCEP much more than from the five existing ASEAN-Plus-One FTAs. China, India, Japan, and South Korea will be some of the biggest winners, as none have bilateral trade agreements with the others. Thus, the RCEP provides the driving force toward regional economic integration.

If successfully concluded, the RCEP will represent a milestone in the course of regional economic cooperation and integration in East Asia, and in the Asia-Pacific region as well. East Asia is one of the least economically integrated areas in the world. For various reasons, China, India, and Japan have struggled to strike deals on free trade, let alone make joint efforts to promote regional economic integration that covers the whole of East Asia. The RCEP presents a chance to break the impasse caused by big-power gaming and competition.

At the same time, the RCEP is about rule-making, or developing new rules that will promote the economic development of East Asia. Firstly,
The new rules will facilitate the adjustment, improvement, and operation of regional and international production networks. Secondly, the new rules will facilitate trade in goods, trade in services, and investment in that the economic policies, regulations, and administration of the regional economies will be coordinated and harmonized. Thirdly, rules designed for economic cooperation, if properly implemented, will create a favorable environment for regional economic development. As Zhang Yunling indicated, the RCEP is an “East Asian version of development round.” The new rules set by the RCEP will not only promote economic development in East Asia, but also provide useful experience for other areas, especially for the developing economies. The RCEP will have its own advantages and influence. Given that the RCEP counts as its members several large developing economies with great economic potential, it will have significant implications for multilateral trade negotiations, as it will represent an effective counterbalance to the new rule-making process championed by the developed economies (Zhang 2014).

THE RCEP SHOULD BE CARRIED OUT IN PRACTICAL STEPS

According to the guidelines of the RCEP, the negotiations were launched in 2013, and should be concluded by the end of 2015. Although the RCEP parties are devoted to the negotiation process, they need to take proper measures to strike a deal within the short time frame. With so many members, coordinating among them is a daunting challenge, but one that can be tackled through a series of practical steps.

The negotiations could be conducted on clusters of issues. Agreements should be concluded first on those areas where consensus can be easily reached. On difficult issues, a high-standard agreement should also be expected. Yet when it comes to implementation, differentiated approaches should be taken, with the relatively advanced members implementing as soon as possible. A phase-in period should be granted to less-advanced economies, which would open their markets at the expiration of the phase-in period.
Theoretically speaking, the five ASEAN-Plus-One FTAs differ from each other the least in the provisions on investment, and RCEP parties could reach consensus on investment first. China’s current stance on pre-establishment national treatment and performance requirements constitutes the major obstacle to an RCEP agreement on investment. Now that China is prepared to grant foreign investors the pre-establishment national treatment and take a negative list approach to managing foreign direct investment, it is estimated that RCEP negotiations will progress swiftly and easily in this area.

The liberalization of trade in goods remains a top priority. It is expected that by 2018 tariffs will be reduced to low levels. The negotiations on tariffs could be oriented to two schedules, one for common products and one for sensitive products, but it is essential to control the length of the latter. Besides tariffs, harmonization of the rules of origin (ROO) is also an essential part of the negotiation of trade in goods. Currently, the ROO of the ASEAN-Plus-One FTAs follow either the 40 percent regional value content (RVC) standard, or the change in tariff classification (CTC) standard. If the RCEP is to further optimize East Asian production networks, the only choice is to simplify its ROO.

The negotiations on trade in services will be complex. It is advisable to liberalize trade in services sector by sector. For instance, tourism, e-commerce, health, and logistics transportation could be set as priority areas for liberalization, while telecommunications and finance sectors could follow later.

It may be imperative for ASEAN to exchange quality for time. According to the timeline of the RCEP, ASEAN hopes to complete negotiations by the end of 2015. At that juncture, the ASEAN Economic Community is also supposed to be established. Ideally, when ASEAN regional integration is upgraded, East Asian regional economic integration, in which ASEAN enjoys centrality, will be strengthened as well. However, as time is very pressing for completion by the target date, it is possible that ASEAN will try to make up time at the cost of quality. That is to say, the standards of the RCEP could be lowered for the sake of completion by 2015.

The “quality for time” tactics seem to be imperative given the fast development of the TPP. Both the TPP and the RCEP are mega-regional trade
agreements (mega-RTAs), with a significant overlapping of membership. They may substitute each other to a certain extent. They can influence or even hijack each other in the course of development. Whichever moves faster and better will set new rules for trade and investment in the Asia-Pacific region, favoring its members with more leverage. Competition between the TPP and the RCEP is therefore inevitable. As the conclusion of the TPP talks often appears to be around the corner, the RCEP parties, spearheaded by ASEAN leadership, should assume a sense of urgency.

STRATEGIC THINKING ON CHINA’S PARTICIPATION IN THE RCEP

As an important economy in East Asia and the earliest partner to establish the ASEAN-Plus-One FTA, China remains an important driving force of economic cooperation in East Asia. However, China has experienced difficulties in promoting the regional trade agreement of East Asia over the years. China’s preference for the ASEAN-Plus-Three pathway toward the economic integration of East Asia was frustrated by the structural constraints in the region. Based on the political economy of East Asia, China should support ASEAN in promoting comprehensive regional economic cooperation, with the RCEP as the major vehicle. The success of the RCEP is of strategic importance to China. RCEP will not only give China an open regional market with enormous potential for development, but also present an immediate market base to counterbalance the TPP, from which China is excluded (Zhang 2014).

An active and aggressive posture in RCEP negotiations could also help promote the opening of the domestic market and reform of the regulatory system. Compared with the advanced economies, China has a long way to go to establish a full-fledged market economic system, liberalize market access, establish the credit system, and increase the transparency of the legal system substantially. It is a common practice for today’s FTA negotiators to establish fair, open, just, and transparent management and dispute settlement mechanisms for trade, investment, and intellectual property protection. The RCEP presents the
Chinese government with an opportunity to deepen reforms to both their economic and administrative systems. For instance, for the benefit of economic development, China can introduce the negative list in market access, reform the administrative review and licensing system, streamline the various procedural fees in the circulation realm, and create a better market environment and legal environment.

The RCEP should be supported by China as it will reassure ASEAN of its centrality, relieve the United States of suspicions that China is dominating East Asian affairs, and bring in Japan, which is happy with the RCEP.

The member economies are all closely connected with China economically. They are all partners or potential partners of China in its pursuit of FTAs. Therefore, the RCEP can be regarded as an ideal platform for China to realize its free trade ambitions, and to promote regional economic integration and peaceful development together with other regional players.

China should participate in the RCEP from a strategic perspective, and play the role of an active participant and constructive promoter. Indeed, of the 16 participants of the RCEP, China stays at the upper-middle level in terms of economic development. The China-ASEAN FTA (CAFTA) ranks high in terms of the degree of free trade in goods and the performance of implementation (Yuan and Wang 2010). Therefore, China is well positioned to be an active participant in the RCEP negotiations. China’s attitude and offer are critical to the success of the RCEP negotiations. China should work with ASEAN economies and other partners to develop the template for the negotiations.

China could effectively use the RCEP as a test ground to unify its tracks of bilateral and multilateral economic cooperation, as well as its regional and subregional free trade and investment arrangements. Among the RCEP members, China has established FTAs with ASEAN, Singapore, and New Zealand. The China–South Korea FTA, the China–Japan–Korea (CJK) FTA, and the China–Australia FTA are undergoing negotiations, while China and India have completed a joint feasibility study on forming an FTA. China should strive to complete negotiations with South Korea and Australia, ideally prior to the conclusion of the RCEP agreement. At the same time, China should upgrade the
China-ASEAN FTA (CAFTA), while promoting the RCEP. The China–South Korea FTA and the China–Australia FTA should be of higher quality than the RCEP. Also, the China–South Korea FTA should serve as a model for the China-Japan-Korea FTA. The alignment of the FTAs with the RCEP—for example, harmonizing the ROO—will play a significant role in the reduction of business costs.

In addition, China and other RCEP members are engaged in various subregional cooperation mechanisms, such as the Greater Mekong Subregion Economic Cooperation Program (GMS), and in various cross-border economic cooperation zones and China economic cooperation (investment) zones in relevant ASEAN countries. Currently, China is promoting the Maritime Silk Road and the China-India-Myanmar-Bangladesh Economic Corridor, as well as infrastructure connectivity programs such as an Asian Infrastructure Investment Bank. These initiatives and programs have gained the endorsement and support of relevant countries. China could also help establish a new regional platform for technical cooperation by launching a regional intellectual property trading market. These subregional cooperation mechanisms will complement the regional mechanisms. Therefore, consideration should be given to these mechanisms when the eco-tech cooperation programs are developed for the RCEP.

**SOURCES**


South Korea’s Recent FTA Policy

A Personal Viewpoint

Inkyo Cheong, Professor of Economics, Inha University

OVERVIEW OF SOUTH KOREA’S FTA POLICY

Since South Korea envisioned its “Roadmap for National FTA Strategy” in September 2003, it has implemented 10 free trade agreements (FTAs) and concluded negotiations for three FTAs as of April 2014. South Korea’s FTA partners include the United States (US), the European Union (EU), the European Free Trade Association (EFTA), the Association of Southeast Asian Nations (ASEAN), India, Turkey, Singapore, Colombia, Peru, and Chile. Australia and Canada became South Korea’s FTA partners upon the conclusion of FTA negotiations in late 2013 and early 2014, respectively. It is expected that South Korea will conclude negotiations for a bilateral FTA with New Zealand by the end of 2014.

South Korea, a semi-developed economy, has been successful in expanding its FTA network to more than 60 economies. It has developed one of the most extensive FTA networks in the world, following Chile and Mexico. South Korea was the first economy in the world to agree to bilateral FTAs with the United States, the European Union, India, and
South Korea's recent FTA policy

ASEAN, enabling free trade with more than 60 percent of the global economy. South Korea now seeks to become an FTA hub economy in East Asia. Given the current status of its FTAs (Figure 1), South Korea’s free trade share will reach almost 90 percent of its total trade in the near future.

In April 2004, South Korea implemented its first FTA with Chile and began to improve its domestic environment to expand its FTA network. In spite of political disturbances, South Korea began FTA negotiations with the United States in early 2006 and concluded them one and a half years later. At this time, it opened negotiations for an FTA with the European Union. Bilateral FTAs with the United States and the European Union became the basis for its FTA platform.

The quality of the FTAs that South Korea has agreed to thus far should be noted. While early FTAs were relatively narrow, South Korea’s FTAs with the United States and the European Union were its most comprehensive in terms of coverage and market access. Figure 2 shows the concession rates of South Korea and its FTA partners in terms of the tariff line. South Korea’s average concession rate is 96.7 percent, and, with the exception of India, all of its FTA partners’ concession rates are more than 90 percent. The Korea-US FTA (KORUS FTA)
has the highest rate of market access, with almost 100 percent tariff elimination.

South Korea has continued to expand its FTA network and currently has various negotiations in progress. However, it faces several challenges: completing the China–South Korea FTA, collecting economic gains from the improvement of its FTA hub position, participating in mega-FTAs such as the Trans-Pacific Partnership (TPP) agreement, and improving its FTA utilization ratio.

**APPROACH FOR BILATERAL FTAS**

**Bilateral FTAs**

Currently, South Korea is in negotiations for bilateral FTAs with China, Vietnam, Indonesia, and New Zealand, as well as for a China-Japan-Korea FTA (CJK FTA) and the Regional Comprehensive Economic Partnership (RCEP), as shown in Table 1. Among these economies, China seems to be the most important FTA partner for South Korea. Recognizing the importance of upgrading the ASEAN–South Korea FTA, South Korea has worked toward concluding FTAs with Vietnam and Indonesia. The Australia–South Korea FTA was concluded in
December 2013, and now South Korea and New Zealand—which had been waiting to see the outcome of the FTA with Australia—are expected to complete a bilateral FTA.

Negotiations for the CJK FTA and the RCEP have been held irregularly and are not likely to be concluded in the near future. Bilateral FTAs with Japan, Mexico, and the Gulf Cooperation Council (GCC) have progressed slowly for various reasons, such as wide differences in the position for market access. The RCEP was initiated through close consultation between Japan and ASEAN. However, RCEP momentum seems to have weakened since Japan and the four member economies of ASEAN decided to negotiate the TPP.¹

**China–South Korea FTA**

Since the trade ministers of China and South Korea agreed to explore a bilateral FTA between the two economies in September 2004, the FTA

<table>
<thead>
<tr>
<th>FTA partner</th>
<th>Beginning of talks</th>
<th>First round of negotiations</th>
<th>Recent round of negotiations</th>
<th>Number of rounds</th>
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<td>China</td>
<td>2004.9</td>
<td>2012.5</td>
<td>2014.1</td>
<td>9th</td>
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<tr>
<td>Vietnam</td>
<td>2010.6</td>
<td>2012.9</td>
<td>2013.10</td>
<td>3rd</td>
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<tr>
<td>Indonesia</td>
<td>2011.5</td>
<td>2012.7</td>
<td>2013.11</td>
<td>6th</td>
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<td>2006.12</td>
<td>2009.6</td>
<td>2014.2</td>
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<td>2013.3</td>
<td>2014.3</td>
<td>4th</td>
</tr>
<tr>
<td>RCEP</td>
<td>2012.5</td>
<td>2013.5</td>
<td>2014.1</td>
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</tr>
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<td>Mexico</td>
<td>2000.5</td>
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<td>2007.12</td>
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<tr>
<td>GCC</td>
<td>2007.3</td>
<td>2008.7</td>
<td>2009.7</td>
<td>3rd</td>
</tr>
</tbody>
</table>

Source: Prepared by the author.
has been advanced step by step over a decade.\textsuperscript{2} Because of several factors, including differences in economic systems and economic development as well as other major concerns, it took seven years for the two parties to begin official negotiations after agreeing to organize a joint research group.

Although the government of South Korea has been interested in free trade with China, its agriculture sector has been extremely sensitive and expressed strong objections to the FTA. Because of this, both economies have agreed to two-stage negotiations: modality for market access and coverage of market access for sensitive sectors were discussed in the first stage; all remaining issues were discussed in the second stage. The first stage of negotiation was concluded in its seventh round, which took place in Weifang, China, in September 2013. The two economies agreed to pursue a mid-level FTA, including goods, services, and investment and trade rules, and to liberalize 90 percent of items and 85 percent of imported values.

Given the political and economic factors in East Asia, the China–South Korea FTA can be evaluated as more than a simple bilateral trading bloc. It should be underscored that the two economies are participants in negotiations for the CJK FTA and the RCEP, although it is uncertain whether the conclusion of the FTA will have a positive or negative effect on these larger agreements. As stated in a 2014 article in the \textit{Journal of Korea Trade}: “The China–South Korea FTA could be a critical pillar in forming a region-wide FTA in East Asia, since the FTA between the largest economy (China) and third-largest economy (South Korea) in East Asia could produce a regional cohesiveness including Japan, Chinese Taipei, and other economies in the region.”\textsuperscript{3}

The background for the China–South Korea FTA’s high priority can be found in the expectation of economic gains from the FTA. In various scenarios, South Korea can collect substantial economic gains from the FTA with China: between 1.21 percent and 2.48 percent GDP growth by 2028 (cumulative). The complete elimination of all tariffs (including those on agricultural products) brings about a 2.48 percent increase in South Korea’s GDP (scenario S1 in Table 2), but lower gains (1.29 percent–1.21 percent) are expected if the elimination of agricultural tariffs
is delayed (scenarios S2 or S3) or if some part of the tariff is lowered (scenario S4).

The simulation results for the four tariff liberalization scenarios under the China–South Korea FTA are consistent with a priori expectations because if the agricultural sector is liberalized earlier and broadly, then there are greater economic gains. Here, South Korea faces a dilemma in dealing with market access for agriculture. If South Korea targets high economic gains from its FTA with China, it should choose scenario S1, but policymakers from sensitive sectors will strongly object. In this case, it will take longer to conclude negotiations for the FTA. As a compromise, South Korea has agreed to promote a mid-level FTA with China, while reducing the losses for the agricultural sector.

### APPROACH FOR MEGA-FTAS

Over the last two decades, East Asian economies have discussed several formats for regional economic integration: ASEAN-Plus-One FTAs, the ASEAN-Plus-Three FTA (East Asia FTA, or EAFTA), the ASEAN-Plus-Six FTA (Comprehensive Economic Partnership in East
Asia, or CEPEA), and the RCEP. The 2012 East Asia Summit talks declared the initiation of negotiations for the RCEP and the CJK FTA. These negotiations are a challenge for China, Japan, South Korea, and the ASEAN-10 economies. Also, it is difficult to say that East Asian economies have been heading for regional economic integration. Various initiatives have been raised over time, but the general environment for regional economic integration has progressed slowly.

**East Asia FTA**

While ASEAN economies have taken several measures toward establishing the ASEAN Economic Community (AEC), ASEAN has faced a regional division of two groups—TPP participants and nonparticipants—that may weaken ASEAN membership. Because the four ASEAN economies are officially participating in TPP negotiations, ASEAN may have trouble dealing with the issues surrounding regional economic integration initiatives. Since it cannot force these four economies to withdraw from the TPP to consolidate the AEC, other ASEAN economies are considering TPP membership. In the vortex of raising hands for the TPP, East Asian economic integration agendas have developed into the RCEP, which includes ASEAN-Plus-Six. In addition, China, Japan, and South Korea have agreed to initiate negotiations for the CJK FTA, which the three economies have discussed for several years.

In East Asia, the AEC, the RCEP, and the CJK FTA may coexist or join forces to form a major trading bloc in the future. These various agreements may indicate the active promotion of regional integration. However, multilayered regionalism may also indicate internal disorder. Now, the question can be raised: Why the RCEP? If ASEAN promotes the RCEP as a regional integration icon, it should be a robust agreement, and ASEAN should be ready to lead negotiations for a region-wide bloc. The AEC should be established by ASEAN economies without delay. Although negotiations for the RCEP have been held intermittently, the creation of the RCEP bloc does not seem to be imminent.

If China, Japan, and South Korea appreciate the value of the RCEP, then it will be reasonable for them to avoid a trilateral FTA. ASEAN, which proposed the RCEP, has argued that ASEAN has to maintain its leadership position in regional economic integration based on the
ASEAN-Plus-One FTAs. However, if the CJK FTA is formed, it is inevitable that East Asia will focus more on the CJK FTA than on the RCEP. Although East Asian economies appear to be working together, they each have different objectives and approaches with respect to region-wide economic integration. It is difficult to determine whether they would hold one another in check, or whether most economies would participate in the RCEP under the domino effect of economic integration. In particular, ASEAN centrality and an ASEAN Free Trade Area (AFTA) may not be compatible with the CJK FTA.

Is the CJK FTA realizable within a reasonable span of time? In response to the TPP (led by the United States) and the RCEP (led by ASEAN and Japan), China has sought to initiate CJK FTA negotiations with South Korea and Japan. Japan has been concerned about the emergence of China and the weakening of its leadership in East Asia. As a result, Japan once prioritized the CEPEA (ASEAN-Plus-Six FTA) over the East Asia FTA (ASEAN-Plus-Three FTA), which was advocated by China, but has since been supportive of the RCEP in conjunction with ASEAN. However, given that Japan has joined negotiations for the TPP, it seems to be less interested in the establishment of the RCEP. Although negotiations for the CJK FTA have been held irregularly, no economies have been active in seriously driving negotiations.

**The TPP**

South Korea announced its concerns about negotiations for the TPP on November 29, 2013, and began preliminary bilateral consultations with TPP negotiation economies. Seven of the current 12 TPP negotiation economies, including the United States, are South Korea’s FTA partners. South Korea concluded FTA negotiations with Australia in December 2013 and a bilateral FTA with Canada in March 2014. New Zealand is likely to become South Korea’s FTA partner in the near future, which would make 10 TPP members as its FTA partners.

For the last three years—since the United States began to promote the TPP—South Korea’s position on the agreement has been to “wait and see,” since the conclusion of TPP negotiations was considered unfeasible. In addition, South Korea believed that it was more urgent to implement the FTA with the United States in 2011–2012 and to com-
plete negotiations for the FTA with China. In line with its policy priority, the new administration, which took office in early 2013, decided to delay participation in the TPP until negotiations for the FTA with China were concluded. Moreover, US trade officials invited South Korea to TPP negotiations and indicated to South Korean counter-partners that the TPP would be concluded at the TPP trade minister meeting in Singapore in December 2013. At the end of 2013, top trade policymakers expressed their intention for the TPP, and confirmed that this expression does not necessarily imply automatic participation in negotiations. The trade authority explained that since TPP negotiations were kept secret, consultation with TPP partners and the evaluation of each partner’s participation should be made first, and that the government of South Korea would then make its decision on negotiations.

South Korea’s participation in the TPP negotiations is unlikely to occur in the near future. This is largely because of the strong position the United States has taken regarding TPP participation conditions. The United States insisted upon several sensitive issues before Japan joined the TPP negotiations. If the United States raises the issues of market access for rice and beef, then negotiations will not be politically feasible for the government of South Korea. South Korea’s prospects for TPP negotiations are also affected. As the TPP trade minister meeting did not conclude the agreement last year, and the end of negotiations is not imminent, South Korea may be better served making a national decision on TPP negotiations. The sizes of the circles in Figure 3 show the differences on many sensitive TPP issues. The figure summarizes the wide gaps between developed TPP members and developing ones.

Considering political events in many TPP economies, such as the United States’ mid-term elections in November 2014, The Diplomat (2014) stated, “[The TPP] is the conundrum faced by the Obama administration, which now faces significant international and domestic opposition to two major trade initiatives: the Trans-Pacific Partnership (TPP), and the Transatlantic Economic and Trade Pact (ETP). Both are still in negotiation, but it is not too early to distinguish their relative merits.”4 As negotiations for the TPP have proceeded slowly in 2014, South Korea seems to be more cautious in expressing its intentions toward the TPP. South Korea’s recent official documents state that
its concerns about the TPP do not necessarily imply that it will join negotiations for a mega-FTA in the Asia-Pacific region. Moreover, it feels burdened by the preconditions that the United States’ senior trade officials have established. Thus, South Korea may delay.

**CONCLUSIONS**

Since its first FTA with Chile was implemented in April 2004, South Korea has been active in expanding its FTA partners. Negotiations for the FTA with China have been South Korea’s top priority in the last
several years, and both China and South Korea are optimistic that the negotiations will be concluded successfully. However, as South Korea has expressed concern about the TPP, new issues have emerged between China and South Korea. The two economies agreed to a mid-level FTA in the seventh round of negotiations in Weifang, China, in September 2013. China seems to regard the possibility of South Korea’s joining the TPP as a chance to obtain a higher market opening. China may also be concerned that South Korea will choose the TPP over the FTA with China.

In early 2014, South Korea’s trade authority completed preliminary consultations with each of the 12 TPP members concerning their participation in TPP negotiations, and South Korea will decide whether to have a second round of consultations. Although the United States will welcome South Korea when negotiations with the current 12 members are concluded, the United States’ preconditions for South Korea’s TPP participation were confirmed in January: the sharing of financial data, nontariff barriers on cars, the certification of organic goods, and customs origin verification. Based on the estimate of its burden for joining the TPP, South Korea may decide not to seek membership. In addition to the unfavorable TPP negotiations, the unexpected confusion regarding the China–South Korea FTA seems to make South Korea neutral regarding membership. The United States has had “extremely tough” talks with Japan on opening its agricultural market, and ministerial-level talks in Singapore (February 2014) “ended with many issues still on the table, most notably Japan’s protection of its farm sector.”

Based on the current status of TPP negotiations and the recent progress on South Korea’s FTA with China, Trade Minister Yoon Sang-jick announced that “China is South Korea’s most urgent FTA partner and the economy will try to conclude the negotiation for the FTA with China” on March 8, 2014. Recognizing the interactions between the TPP, the China–South Korea FTA, and South Korea’s FTA strategy, South Korea is expected to explore its new roadmap for FTAs and regional economic integration in the near future. Based on the performance of FTAs thus far, South Korea may place great emphasis on economic factors in deciding its new FTAs, while developing national strategies to take advantage of its extensive FTA network. Based on the weak prospects of TPP negotiations with the current 12 members, and the burden for
TPP membership, South Korea seems likely to focus on concluding the FTA with China rather than weakening its trade negotiation power by entering into negotiations for the TPP. After concluding its FTA with China, South Korea will have more options regarding the emergence of mega-FTAs.

NOTES

1. The four ASEAN economies are Brunei, Malaysia, Singapore, and Vietnam. Indonesia and Thailand are seeking to join negotiations for TPP membership.


3. Ibid.


5. This is based on an article by Reuters, “U.S. Readies for More ‘Extremely Tough’ Trade Talks with Japan,” March 7, 2014.

INTRODUCTION

The Australian government recently signed a free trade agreement with South Korea, announced that it had reached an agreement with Japan, and continued to work on an agreement with China. These activities were associated with a visit to Northeast Asia by Australian Prime Minister Tony Abbott in April 2014. During the 2013 national election, Abbott announced that his goal was to conclude all three agreements within 12 months of taking office—that is, by September 2014. Negotiations with South Korea, Japan, and China began in 2008, 2007, and 2005, respectively.

This recent experience provides an opportunity to reflect on the contribution of bilateral trade agreements and their link to regional economic integration. First, there is the matter of the agreements’
coverage and depth, and the extent of the reforms that they encompass. Second, there is the question of the relationships between agreements of different scope, membership, and principles. As Australia and Japan negotiated their agreement, both also participated in the Trans-Pacific Partnership (TPP) negotiations, while South Korea continues to consider its options. The implications of bilateral agreements, such as those signed or agreed so far, for a complex process like the TPP and for wider regional integration is, therefore, also a topic of interest.

In this short paper, the coverage and depth of Australia’s agreements with South Korea and Japan are outlined, and some of the implications of agreements of this type are discussed.

**COVERAGE AND DEPTH**

Key interests of Australian trade negotiators apparently include market access for agricultural exports and for services firms operating in all modes of supply in the partner economy. In turn, the partner economies request access for manufactured product imports to Australia and for new rules on inbound foreign direct investment (FDI) to Australia. The agreements with South Korea and Japan illustrate the approach to these items, which may also be applied in a future agreement with China.

The deal with Japan, for example, included a swap of access for Australian agricultural exports for access by Japan to industrial product markets in Australia. Australia will remove the 5 percent tariff (10 percent before 2010) on smaller Japanese cars, which make up the bulk of Japan’s auto exports to Australia. Tariffs on all other Japanese automobiles will end in three years. Tariffs on other consumer products will also be removed. In services, there is reference in the official summary of the agreement,¹ which is called an economic partnership, to providing access to markets for funds management services, legal services, education, and telecommunications, but the details have not been specified so far.

In the case of South Korea,² Australia has removed tariffs on imported manufactured goods and, for some sensitive products, on schedules that are as long as eight years (e.g., some carpets that have a 5 percent tariff).
Services markets, in which Australian firms faced barriers, were reduced for legal, accounting, funds management, insurance, education, and other professional services.

Details concerning the coverage of the agreements on the treatment of imports of agricultural products into South Korea and Japan are provided in Table 1. Coverage is not universal, and the depth of tariff cuts is variable. In addition, quotas are used in some cases, and tariff cuts are often applied with safeguards. Both South Korea and Japan excluded rice. The agreement with Japan effectively excludes Australian sugar that is exported to Japan. Some dairy products are excluded in the Japan agreement. Beef tariffs are eliminated over a long period in South Korea and cut significantly in Japan. Tariffs are reduced more for frozen beef than for chilled beef, which is a closer competitor to local beef, with the reductions extending over a long period. Safeguards apply to beef in both economies.

For large FDI projects, Australia has a screening process managed by the Foreign Investment Review Board. In both agreements, the project value for screening is raised from A$248 million to A$1,078 million, which matches commitments to the United States and New Zealand. Agriculture in Australia remains a sensitive sector. The agreement with South Korea includes lower ceilings for agricultural land (A$15 million) and agribusinesses (A$53 million), and the summary of the agreement with Japan refers to “reserved policy space” to screen such proposals from Japan. This treatment is a dilemma for Australia. While seeking market access for agricultural exports, the domestic political debate has led to tighter control of foreign investment in the agricultural sector. The treatment of this issue in the case of China will be interesting to observe.

The agreement with South Korea includes a mechanism for investor-state dispute settlement (ISDS). This is significant because, previously, Australia had refused to include such a provision in a trade agreement on the grounds that it could restrict its right to regulate. However, there are restrictions on its application. According to the South Korea agreement, an ISDS claim can only be made on the basis of a breach in the agreement’s investment chapter, or a breach of an investment agreement between the investor and the government of the other party. It does not apply to decisions concerning investments that are subject to review under Australia’s foreign investment policy, and that cannot be
Table 1  Agriculture Provisions in the Korea-Australia Free Trade Agreement (KAFTA) and the Japan-Australia Economic Partnership Agreement

<table>
<thead>
<tr>
<th>Item</th>
<th>South Korea</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beef</td>
<td>The 40% tariff on beef and 18% tariff on bovine offal will be eliminated over 15 years. South Korea has the right to apply a safeguard measure (initially a 40% tariff, falling to 30% and then 24% in 5-year intervals) for the next 15 years. These safeguard measures apply to volumes over a base level of imports, which is increasing by 2% a year. Australian exports to South Korea in 2012 and 2013 were about 125,000 metric tons (t), and the base volume for the safeguard measure is higher than that, at 154,584t. Australia in recent years has accounted for over half of South Korean beef imports. Australia's exports to South Korea in 2012 and 2013 were about 125,000 metric tons (t), and the base volume for the safeguard measure is higher than that, at 154,584t. Australia in recent years has accounted for over half of South Korean beef imports.17</td>
<td>Japan currently imposes a 38.5% tariff on beef imports. The tariff on frozen beef will be cut to 19.5%, with an 8 percentage point cut in the first year, 2 points in the second year, and 1 in the third year (18 years). The tariff on fresh beef will be cut to 23.5%. The tariff will be cut by 6 percentage points in the first year, followed by annual 1 percentage point cuts (15 years). Japan has the right to apply a safeguard measure. On frozen beef exports, the trigger volume is 195,000 metric tons (t), with growth of 1,500t a year over 10 years. For any Australian exports above the trigger volume in the first 12 months, the tariff automatically “snaps back” to 38.5%. On chilled beef exports, the trigger volume will start at 130,000t, with 1,500t-a-year growth for 10 years. The year-one trigger levels are higher than later years—e.g., in 2013, volumes of 115,000t chilled and 173,000t frozen.18</td>
</tr>
<tr>
<td>Sugar</td>
<td>Abolish the 3% tariff on raw sugar.</td>
<td>The official website says that “Australian sugar exporters will benefit from tariff elimination and reduced levies for international-standard raw sugar.” However, the industry report is different: “Australia has been supplying a specialized Japan-grade sugar for many years to the Japanese market, which is inherently different to the international-grade sugar supplied to its other customers. While the announced change of a tariff reduction on international-standard sugar from 184% to a 110% effective tariff is welcome, clearly this will not improve Australia’s access to Japan. The tariff remains significantly higher than that of the effective tariff on the special-grade sugar that Australia supplies, which remains unchanged at 70%.”19</td>
</tr>
<tr>
<td>Item</td>
<td>South Korea</td>
<td>Japan</td>
</tr>
<tr>
<td>---------------</td>
<td>------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------</td>
</tr>
<tr>
<td>Wheat</td>
<td>Eliminate the 1.8% tariff on wheat and 8% tariff on wheat gluten.</td>
<td>Not included.</td>
</tr>
<tr>
<td>Dairy</td>
<td>Tariffs of 36% on cheese and 89% on butter will be eliminated in 13 to 20 years. Australian dairy exporters will also benefit from growing duty-free quotas for cheese, butter, and infant formula.</td>
<td>Under current arrangements, Australia exports 27,000t of cheese duty-free under a global quota. Australia has gained a preferential, duty-free, Australia-only quota, growing to 20,000t (above which a tariff of 29% applies). The agreement calls for halving of the 40% tariff on processed cheese over 10 years, and immediate tariff cuts on grated and powdered cheese, and on blue-veined cheese, with no volume restrictions. Japan has granted immediate duty-free access for milk products such as protein concentrates and casein, with tariffs of up to 5.4%. For ice cream and yoghurt, a 50% reduction of a 14.9% tariff and increased quotas are specified, plus a review trigger if another economy gets a better deal on dairy. Skim milk, fresh cheese, and butter are not covered.</td>
</tr>
<tr>
<td>Lamb/goat/pork</td>
<td>The 22.5% tariff on all sheep and goat meat will be eliminated over 10 years. Tariffs on key pork exports of 22.5% to 25% will be eliminated in 5 to 15 years.</td>
<td>Tariffs were zero for lamb, and will be bound at zero. Tariffs on pork were cut to 2.2% from 4.3%, within a quota that limits volume to 6,700t in the first year and rises to 16,700t within five years.</td>
</tr>
<tr>
<td>Horticulture</td>
<td>Cherries, almonds, and dried grapes will enter South Korea duty-free on entry into force. These currently face tariffs of 8% to 24%. Tariffs on macadamia nuts, fruit juices, mangoes, asparagus, and lentils, ranging from 27% to 54%, will be phased out over 3 to 10 years. Tariffs on potatoes for chipping (current tariff 304%), oranges (50%), fresh table grapes (24%), and mandarins (144%) will be eliminated during Australian exporting seasons.</td>
<td>A 5% tariff on macadamia nuts to be eliminated immediately; 7.8% in-season tariff and 17% off-season tariff on table grapes will be eliminated over 10 years; 16% and 17% in-season tariff on oranges and mandarins eliminated over 10 and 15 years, respectively; 10% tariff on grapefruit eliminated over 5 years.</td>
</tr>
</tbody>
</table>
TABLE 1  Agriculture Provisions in the Korea-Australia Free Trade Agreement (KAFTA) and the Japan-Australia Economic Partnership Agreement (continued)

<table>
<thead>
<tr>
<th>Item</th>
<th>South Korea</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barley</td>
<td>A growing duty-free quota for malt and malting barley introduced, while high out-of-quota tariffs of 269% and 513% will be eliminated over 15 years.</td>
<td>Barley exporters will have “increased duty-free access.”</td>
</tr>
<tr>
<td>Rice</td>
<td>Excluded.</td>
<td>Excluded.</td>
</tr>
<tr>
<td>Seafood</td>
<td>Southern bluefin tuna (current tariff 10%) and rock lobsters (20%) will enter duty-free after 3 years.</td>
<td>Tariffs on shrimp and prawns, rock lobsters, abalone (fresh or preserved), oysters, crabs, yellowfin tuna, toothfish, sea urchins, fish oils, and southern bluefin tuna will be eliminated.</td>
</tr>
<tr>
<td>Wine</td>
<td>Immediate elimination of the 15% tariff on Australian wine.</td>
<td>Tariffs on bulk wine to be eliminated immediately, and those on bottled and sparkling wine will be subject to “quick tariff elimination.”</td>
</tr>
</tbody>
</table>

Source: The primary source of this material can be found at http://www.dfat.gov.au/fta/. It is supplemented by other reporting referred to in the following endnotes.

based on a breach of commitments in other parts of the Korea-Australia Free Trade Agreement (KAFTA), such as the intellectual property and environment chapters. The Australian government’s position is that it considers ISDS on a case-by-case basis, and that the Japan agreement does not even include an ISDS mechanism. University of Sydney Professor Luke Nottage argues that ISDS was of little value to either Japan or Australia, although he notes that its exclusion may be significant for other agreements, including the TPP. US negotiators have apparently sought this provision in the TPP, although others in the United States make the case against including the provision on many grounds.

IMPACTS OF THE AGREEMENTS

The agreements have been criticized for their lack of contribution to market access, their lack of ease of use, and their failure to contribute to national welfare.
Some exporter interests, for example, have been critical of the lack of market access negotiated, and the time it takes to implement the cuts in tariffs, in the agreements with South Korea or Japan. For example, the (Australian) National Farmers’ Federation said that it was “disappointed” with the “overall outcomes” in the Japan agreement, although the organization recognized the benefits for sectors such as beef, wine, and seafood. The dairy farmers went further to call it a “dud deal,” and they worried about the message being sent as future commitments are negotiated with China. The Australian trade minister reacted strongly to these responses, saying Australia “had achieved with Japan what no other country in the world had achieved, ‘let alone a major agricultural exporter.’”

Other Australian industry representatives have become increasingly concerned that the negotiated market access conditions are difficult to use. As illustrated with respect to agriculture, there are few commitments in common across these two agreements. Industry commentators also point to the proliferation of agreements and the different rules used in the agreements, especially concerning origin and the various procedures required to establish origin in order to make use of the negotiated changes in market access.

This debate illustrates the challenge of resolving bilateral agreements in a way that produces significant results in terms of market access, especially when a timetable is imposed by domestic politics. Another example of this challenge in bilateral talks is the difficulty the United States has had in its discussions with Japan, which are regarded as the critical next step for progress in the TPP. The Wall Street Journal reported during President Barack Obama’s visit in April 2014 that “after months of talks…significant differences remained on key issues, particularly US access to Japanese agricultural markets. Japan wants to protect its own products, including rice and beef, while the US is demanding full market access. Meanwhile, the US is apparently seeking more time to cut tariffs on Japanese vehicles.”

Likewise, while Australia has reached agreements with South Korea and Japan, its negotiations with China, which started even earlier, are still continuing.

Another criticism is that the agreements do not contribute to national welfare. The real gains from the application of new trade policy come from domestic reform, not from export market access. The question,
then, is whether trade agreements now being negotiated will make contributions. Bill Carmichael of The Australian, for example, argues that they do not, and his assessment is that pursuing the goal of market access concessions in bilateral agreements actually diminishes concern for the outcomes to the economy as a whole.

REGIONAL ECONOMIC INTEGRATION—ITS ROLE AND FEASIBILITY

One response to these criticisms is that the bilateral agreements are steps toward wider agreements that include more participants—for example, those designed to pursue regional economic integration. When undertaking the trade negotiating process in a larger group, there is more at stake. Thus, wider, deeper, and more common commitments might be found, ameliorating concerns about the impact of the smaller agreements. There might also be an effort to apply provisions that effectively multilateralize those commitments.

The problem is that this outcome may not be feasible when bilateral steps were initially taken. As noted, it will always be far more difficult to achieve significant changes in market access in a bilateral agreement, since neither party can offer the other the domestic political compensation required to offset the internal reforms that created losing groups. The larger negotiation process is supposed to provide that capacity. But initiating bilateral agreements creates a new set of losers, separate from those produced by more wide-ranging reforms, which are export groups that have gained preferential market access. It will be interesting to see, for example, the reaction of some Australian agricultural exporters or services firms to a TPP that removes their position of preference. It will also be interesting to see the attitudes of South Korean and Japanese manufacturers to a TPP that removes their preferential access to the Australian market. These groups would otherwise have been supporters of region-wide and global reform. The fracturing of the free trade coalition that results from taking the bilateral road as a first step may become a significant, long-run challenge, not just for the parties to the agreements reviewed here, but for Asia-Pacific integration more generally.
NOTES


13. Parallels between the structure of negotiations with Australia are interesting, although US car tariffs (2.5 percent) are actually lower than those in Australia, while the United States imposes a very high 25 percent tariff on pickup truck and commercial van imports. See http://www.autonews.com/article/20130412/OEM11/304129790/u.s.-to-gradually-drop-tariffs-on-japan-vehicles-under-trade-deal
and http://www.cato.org/publications贸易-briefing-paper/ending-
chicken-war-case-abolishing-25-percent-truck-tariff.

trade-as-a-foreign-policy-or-driver-of-growth/story-e6frgd0x-
1226878195316.

15. Continuing work on the transparency of current domestic policy and its
consequences, and “winning the argument” about the value of domestic
reform are also important. See http://www.theaustralian.com.au/national-
affairs/opinion/trade-as-a-foreign-policy-or-driver-of-growth/story-
e6frgd0x-1226878195316.

16. The primary source of this material can be found at http://www.dfat.gov.
au/fta/. It is supplemented by other reporting referred to in the following
endnotes.

Beef/Forecasts/MLA-cattle-industry-projections-2013/82-beef-exports-
Korea.


Media_Releases/Japan_as_disappointing_as_04_US_free_trade_agreement_for_sugar_ASAA/.

back-at-japan-deal-criticism/5406428.

imports from Australia were about 700 tons in the 12 months prior to
March 31, 2013. Japan imported 738,455 tons of pork worth US$3.8
billion in 2013, of which 38 percent came from the United States, the
world’s largest exporter.

/japan-free-trade-agreement-is-big-a-boost-to-horticulture/story-
fnker6g8-1226884737630.