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ASEAN Economic Community:
New Scenarios for Economic Cooperation in the Asia-Pacific and Implications for ASEAN

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New Scenarios for Economic Cooperation in the Asia-Pacific and Implications for ASEAN

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Objective of Module

To give participants a better understanding of the economics associated with nesting ASEAN integration in the context of Asia-Pacific regional economic integration.

Key Questions Addressed:

*What does "ASEAN Centrality" imply in Asia-Pacific Cooperation?

*What are the origins of the new "mega-regional" agreements in the Asia Pacific?

*What are the sectors covered in these agreements?

*What will be the economic effects of mega-regional accords, including the TPP/CPTPP and RCEP, and what will be their effects on ASEAN economies?

I. Introduction: The rise of regional trade agreements

Why is trade important for developing economies?

Trade is connected to growth and poverty reduction through multiple channel; countries that are open grow faster and trade-induced growth tends to reduce poverty. Trade acts as the vehicle through which countries exploit comparative advantage, improve the efficiency and productivity of domestic resources, move up value chains, and tap into international markets. In addition to raising incomes, trade spurs consumption and investment, reduces risks associated with shocks to domestic production and markets, and protects an economy from volatile capital flows. It enables access to greater varieties of goods, services and intermediate inputs, and allows local firms to use or acquire improved technologies. Trade cannot alone solve the vast challenges of economic development but, along with policies that support critical investments in institutions, people and resources, it is an essential part of the policy toolkit.

The liberalization of world trade under a half-century of General Agreement on Tariffs and Trade (GATT) agreements paved the way for unusually rapid growth in trade, especially by developing countries. At the same time that tariffs around the world plummeted, many developing economies became major players in international markets. Trade growth played a large role in virtually every successful development experience, especially in Asia.

If trade is so positive for growth and development, how does one explain the popular uprising against it?

Has global governance—e.g., at the IMF, World Bank—adapted to include the increasing importance of emerging markets in the international marketplace?

Why does multilateral trade governance appear to be stuck?

The historic mission of the GATT and now the WTO is to enforce past agreements and to negotiate new ones to reduce trade barriers. Global negotiations were very effective in bringing down tariffs and other forms of protection on mostly industrial products in the last half of the 20th century, and the WTO provides the rules under which much of international trade now operates. But the WTO has run into formidable obstacles in negotiating new agreements: the Doha Development Agenda launched in 2001 has achieved modest results with an aid-for-trade initiative (2005) and the trade-facilitation agreement (2013), but its core objective of a new, comprehensive agreement has reached an impasse. There are many reasons for this, including the unwieldiness of the WTO's decision-making process, which requires consensus among 164 economies. But also a wide range of policy measures behind the border have become serious impediments to trade, and are especially difficult to negotiate away in a global setting.

The GATT was effective in bringing down tariffs on manufactured goods through many rounds of trade liberalization beginning in 1949, but regulatory barriers, service trade, investment, the knowledge economy and other complex issues are proving far more challenging to address at a multilateral level with so many members. Hence many countries have approached economic cooperation on new issues through bilateral and/or regional agreements, something permitted under the GATT/WTO under certain conditions. There were few bilateral and regional trading agreements (RTAs) before 2000, but the number has since ballooned: as of 25 January, 2018 the WTO reports that 285 RTAs were in force.[1]

What is "aid for trade" and how can it help promote regional integration?

Given the changes in the global economy, is it inevitable that the WTO should be "stuck"?

What implications do unilateral actions—for example, the decisions by the United States to impose tariffs on steel and aluminium due to "national security" reasons and punish China for intellectual property right infringement under its national Section 301 trade-policy law—have for the legitimacy of the WTO?

What are the prospects for mega-regionalism to break the deadlock?

These trends also explain large, new mega-regional initiatives to update and extend global rules, that is, to draft "WTO+" trade policies. Limited groups of relatively like-minded economies—for example, 12 in the original Transpacific Partnership (TPP) negotiations, 16 in Regional Comprehensive Economic Partnership (RCEP)—have a better chance of fashioning liberalization to meets their needs. The EU offers obvious lessons; it made unusual headway toward deep integration because its members were similar and relatively developed, and strongly motivated to achieve integration. The Asia-Pacific region is much more diverse and progress has been predictably difficult. The TPP agreement, for example, took about seven years of often acrimonious negotiations, and ended up with 11 economies (the United States dropped out) and RCEP missed its original 2015 deadline for completion (though it is likely that it will at least reach an agreement in principle by the end of 2018).

[1] WTO Website, https://www.wto.org/english/tratop_e/region_e/region_e.htm, accessed 13 May, 2018.

The new initiatives are leading to the adoption of provisions well beyond the WTO *status quo*. The TPP is closest, so far, in spelling out next generation provisions, which include many WTO+ elements. The agreement offers expanded market access, even in sensitive products; a negative-list approach for liberalizing trade in services (as opposed to a positive list under GATS); more comprehensive rules and higher standards of intellectual property protection than in the Trade Related Intellectual Property Rights (TRIPS) agreement; new rules for internet and digital commerce; national treatment for investment both pre- and post-establishment; government procurement commitments by all members; tighter disciplines for state-owned enterprises; enforceable labor and environment codes; efforts to streamline regulations through cross-cutting principles on regulatory coherence; and improved dispute resolution related to many issues covered in the agreement.

Why are negative-list approaches to services liberalization generally better than positive lists?

Could mega-regionalism pose a threat to the WTO/multilateral trade governance? Or could it actually support it?

II. ASEAN Centrality[2]

What is "ASEAN Centrality"

As noted in our ASEAN module, cooperation among ASEAN countries has already paid strong dividends by generating political stability. Stability, in turn, has provided a platform for economic development and productive engagement with larger powers outside the region. Policymakers attach a high priority to pragmatism and regional solidarity, as reflected in many regional initiatives and institutions, as well as in the centrality concept itself. Centrality is hard to pin down, but the concept of centrality, and more fundamentally that of intra-ASEAN regional cooperation, encompasses activities that have significant value to ASEAN and its external partners.

ASEAN centrality is, in effect, shorthand for regional integration and for the leverage that this might bring to the region's international linkages. It is both a goal—the vision of integrated member states—and potentially a formula for achieving it, such as the prescription that members coordinate policies. Concrete definitions are scarce. The earliest uses of the term refer to ASEAN cooperation on extra-group issues. However, the extent of cooperation—say, whether external agreements should be jointly concluded, or centrally overseen, or negotiated in consultation with other members—has never been specified. And rather than making the concept more precise, recent usage has ranged more broadly, covering intraregional policy decisions and the leadership of pan-Asian economic and political architectures. In this last sense, centrality even appears to apply to ASEAN's role in Asia rather than in Southeast Asia itself.

What might be the core advantage(s) of ASEAN Centrality?

In your view, has ASEAN lived up to its potential in this regard? Has it gone too far?

What are the goals of ASEAN Centrality and how does ASEAN intend on reaching them?

In Article I of the ASEAN Charter, ASEAN committed "to maintain the centrality and proactive role of ASEAN as the primary driving force in its relations and cooperation with its external

[2] This section borrow from Petri and Plummer (2014).

partners in a regional architecture that is open, transparent, and inclusive." This is an externally-oriented definition, and the Charter later confirms that "the strategic policy directions of ASEAN's external relations shall be set by the ASEAN Summit upon the recommendations of the ASEAN Foreign Ministers Meeting."

Following in these steps, the ASEAN Economic Community Blueprint noted that "ASEAN shall work towards maintaining 'ASEAN Centrality' in its external economic relations, including, but not limited to, its negotiations for free trade (FTAs) and Comprehensive Economic Partnerships (CEPs) agreements." But it set weak guidelines for cooperation, calling merely for "a system for enhanced coordination, and possibly arriving at common approaches and/or positions in ASEAN's external economic relations" (ASEAN 2007).

Other references have emphasized ASEAN's potential role in the community of Asian nations. The *Roadmap for the ASEAN Community* suggests that beyond coordinating the external policies of members, ASEAN should become "the driving force in charting the evolving regional architecture" (ASEAN 2009). The *Roadmap* often uses the concepts of centrality, driving force, and shaping regional architecture side by side. A driving force in this sense is far more than a driver—it sets directions, engineers compromises, and provides leadership. The RCEP is arguably the most concrete and ambitious example of centrality in the economic sphere.

What does ASEAN Centrality mean to your country?

How has Europe been able to exploit centrality to its advantage?

How can ASEAN centrality help stimulate economic integration?

If centrality brings deeper intraregional integration, it should produce large economic benefits for ASEAN. It can be expected to generate increased specialization and higher productivity, freer factor flows, greater competition, and less rent seeking. As noted in the ASEAN module, regional integration will attract FDI inflows. ASEAN will be more profitable as an integrated economic space than as ten separate countries, each with a small fraction of the region's 625 million people. FDI will also benefit by locking in liberal policies. And as production clusters gain traction, the region's advantages will increase, helping to create ASEAN supply chains that collaborate and compete with those in China and India.

Should ASEAN work together to facilitate factor flows, or should it resist (despite potential economic benefits)?

We talk frequently about the positive effects of FDI. What are the negative effects?

Could there be negative effects and other challenges?

Common positions on international agreements, however, will not necessarily generate such ambitious results. They would perhaps enable ASEAN members to achieve better terms in external negotiations, but they would also impede decisions that will be seen as important to some members. For globally competitive economies like Singapore, regional markets will not be big enough, and ASEAN-style agreements with outside partners will not produce sufficient market access abroad. For less advanced ASEAN economies, in contrast, rapid liberalization may conflict with development objectives. At the same time, middle-ground regional agreements are unlikely to satisfy anyone.

Of course, separate deals (or deals with separate terms) can generate harm as well as benefits. A trade agreement between Vietnam and the United States, for example, will benefit Vietnam and its close ASEAN partners, but may divert trade from others. As integration proceeds, ASEAN should become better able to coordinate decisions, but, in the meantime, difficult trade-offs will have to be made. Ultimately, centrality is in ASEAN's hands: the more open and integrated the region becomes, the more members will accept coordinated decision making. In fact, initial policy differences in external policies may contribute to ASEAN integration by pressuring members to extend external preferences intra-regionally, and by forcing internal partners to become more competitive.

What are the advantages/disadvantages of taking a "common denominator" approach applied in ASEAN Centrality when negotiating agreements with ASEAN's external partners?

Should the "diversity" issue be overcome by letting lesser-developed ASEAN members take more time to implement deep economic cooperation policies, or should they be given exemptions?

III. ASEAN Economic Cooperation in the Asia-Pacific Context

Why aren't ASEAN's external policies more closely integrated?

Because even an integrated ASEAN would still be a small economy compared to many of its trade partners, the region needs to build stronger relationships with other economies in Asia and the West. These external integration efforts cannot wait until internal integration is complete, but are proceeding in parallel. Thus, ASEAN faces challenges that the European Community did not: it has to develop external relationships even though its ability to make common policy is limited.

As a result, the external trade policies of ASEAN members are not closely integrated. As an FTA rather than a customs union, ASEAN cannot set common tariffs. ASEAN's trade agreements with other partners (commonly referred to as ASEAN-Plus agreements) are mainly collections of bilateral negotiations, often conducted in parallel, with little exchange of information. In fact, many members have independently forged accords with non-members. The prescription of centrality is an effort to contain this process in order to develop greater external leverage.

ASEAN has an ASEAN Economic Community in place and is implementing the ASEAN version of the EU's four freedoms (free flow of goods, free flow of services, free flow of FDI, free flow of skilled labor); why doesn't it have a customs union?

How are ASEAN's external integration efforts being directed?

ASEAN's external integration efforts have proceeded in two major phases. The first focused on external relationships based on ASEAN-Plus FTAs with partners mainly in Asia, but extending beyond Asia as well. The second phase, now underway, involves two major regional cooperation initiatives, one spanning the Asia-Pacific region, and another among Asian economies.

a. ASEAN-Plus agreements

Individual ASEAN member countries have concluded many FTAs with non-ASEAN countries.[3] Some, such as the Singapore-US FTA, are deeper than the ASEAN trade regime. There are now

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[3] For a list of FTAs in effect or under negotiation, see www.aric.adb.org.

five ASEAN-Plus agreements, with China (2005), South Korea (2007), Japan (2008), India (2010), and Australia and New Zealand (2010). (Note that these countries are also the non-ASEAN members of the RCEP by design.) Others are being negotiated, including with the EU.

How might the existence of bilateral FTAs with external partners, including those that might even be more comprehensive than the AEC, affect ASEAN cooperation?

b. Trans-Pacific cooperation

Broader initiatives in the Asia-Pacific region have focused on two approaches: a trans-Pacific approach that includes the United States and other Eastern Pacific countries, and an Asia-only approach within ASEAN's network of dialogue partners. Divisions between these approaches first emerged in the 1990s when, on the one hand, the APEC forum was created and, on the other, Malaysian Prime Minister Mahathir Mohammed proposed an alternative East Asian Economic Group (EAEG) mechanism. Over time, these paths have crystallized into the TPP (now CPTPP) and RCEP negotiations, respectively.

APEC was launched in a 1989 conference convened by Prime Minister Robert Hawke of Australia. It now includes 21 economies: the United States, Canada, Mexico, Chile, and Peru in the Americas; Japan, South Korea, Russia, China, Taiwan, Hong Kong, and seven ASEAN economies in East Asia; and Papua New Guinea, New Zealand, and Australia in Oceania. In 1994, APEC adopted the Bogor Goals, pledging to create a region of "open trade and investment" by 2010 (2020 for developing member economies). Although APEC has received much credit for progress in trade facilitation and for developing a rich consultative network among member governments, its more ambitious goals have yet to be achieved.

To promote faster progress, four small APEC economies—Brunei, Chile, Singapore, and New Zealand—developed a high-quality FTA (the Trans-Pacific Strategic Economic Partnership agreement, also known as the P4), to which they hoped to attract other APEC countries. Several countries agreed to join in 2008, including the United States, and subsequently expanded to 12 countries. However, one of the earliest acts of the new US Administration under Donald Trump was to withdraw from the TPP. With very little changes to the original agreement, the remaining 11 economies signed the CPTPP in March 2018. Four ASEAN members—Brunei, Malaysia, Singapore, and Vietnam—are among the CPTPP economies, while several others, especially Indonesia, Philippines and Thailand, have expressed interest of joining at some point. The Trump Administration has also suggested that it may be interested in joining a revised agreement.

The United States was the driving force behind the TPP. Why do you suppose that the Trump Administration pulled out of the agreement?

The United States constituted the lion's share of regional TPP GDP, meaning that its absence diminishes significantly the size of the agreement. Why did the remaining 11 economies decide to move forward anyway?

c. Asia-centered cooperation

Meanwhile, ASEAN's regional diplomacy has created a formidable network of agreements in Asia and Oceania. In an effort to leverage this network into genuine regional leadership in trade, ASEAN is now committed to developing it into a true pan-Asian integration framework through the RCEP. This effort will also help to consolidate the "noodle bowl" of existing arrangements in order to exploit the advantages of larger economic zones.

Pan-Asian integration initially emerged in the form of two approaches: an ASEAN-Plus-Three grouping (including China, Japan, and South Korea) and an ASEAN-Plus-Six grouping (including also Australia, New Zealand, and India). The ASEAN-Plus-Three was launched in 2004, when economic ministers commissioned a feasibility study of a potential East Asia FTA. ASEAN then established an East Asia Summit (EAS) in 2005, adding Australia, New Zealand, and India to the ASEAN-Plus-Three meetings. In 2007, Japan proposed negotiations to create an FTA based on the EAS, named the Comprehensive Economic Partnership of East Asia. Although the EAS agreed to examine both frameworks in parallel in 2009, disagreements between China and Japan prevented significant progress.

At the 2011 ASEAN Summit, China and Japan agreed to move forward on both tracks and jointly proposed working groups to shape the negotiations. ASEAN, in turn, decided to develop a template of its own, later formalized as the RCEP at the ASEAN Summit in November 2012. With negotiations now underway, the initiative has become a powerful symbol of ASEAN centrality.

Why do you suppose that an “Asian noddle bowl” of bilateral FTAs would be so problematic to the goal of enhanced economic integration?

Could the Asian noddle bowl lead to “investment diversion”?

Should ASEAN have stopped at an “ASEAN+3” configuration, or was it a good idea to expand it to “ASEAN+6” under RCEP?

IV. Mega-regional trade agreements in the Asia Pacific

What are “mega-regional” trade agreements?

The literature defines mega-regional trade agreements (MRTAs) to be regional agreements that have systemic, global impact—in others words, they are large and ambitious enough to influence trade rules and trade flows beyond their areas of application. Certainly the TPP and RCEP belong in this group; APEC, through which the idea of a “Free-trade Area of the Asia-Pacific” (FTAAP) emerged, constitutes about 2/3 of total global trade and over half of global FDI inflows.

Should ASEAN be considered a “mega-regional”?

Why are mega-regional agreements deemed to be so important?

The Asia-Pacific’s highly interdependent production systems are making new demands on international connectivity and related policies. The region has become a leader in trade facilitation through APEC and its WTO+ trade agreements. APEC itself played an important role in creating the WTO plurilateral Information Technology Agreement (ITA) in December 1996 and its members were active in securing the ITA2 agreement signed in July 2015. These objectives are not just pursued through MRTAs, but have included cooperation in the context of the ASEAN Economic Community, important bilateral agreements, and various non-negotiating forums. Given the weight of emerging economies in the Asia Pacific, the region’s experience offers valuable insights for global development.

APEC is famous for embracing the concept of “open regionalism”. What does that mean?

Why is the private sector seeking mega-regionals?

The long draught in major agreements since the GATT Uruguay Round has been accompanied by far-reaching changes in the role of trade and in the business practices that drive it. The varied dimensions of this transformation define the rationale for new negotiations and agreements. Not surprisingly business groups across the region have been in the forefront of seeking new trade rules. They have actively supported regional agreements such as the TPP and RCEP and (through the APEC Business Advisory Committee) also championed wider regional integration through FTAAP.

Nowhere else in the world have new forms of organizing production—through regional networks and related global value chains—been as important as in the Asia Pacific. These networks depend on close supplier-producer relationships that frequently cross borders in the production of goods and services. Global value chains further extend these networks to the pre-manufacturing conceptualization and design of products, and to their eventual marketing and distribution. The efficiency of this system depends crucially on the trade and investment environment, and thus creates demand for policy to enhance connectivity and the soft and hard infrastructure of trade.

Why would mega-regionals be particularly good at supporting regional production networks?

How could regional production networks help close the development gap in ASEAN?

Why are "deep", comprehensive agreements necessary in the 21st century?

Deep RTAs can reduce transactions costs within value chains and production networks. As tasks are distributed internationally and intermediate products and services travel back and forth across borders, transactions costs rise even as overall production costs decline. Barriers that interfere with such specialization then raise the overall costs of value chains multiplicatively. All else equal, the managers of value chains will shift tasks to locations with low, predictable transaction costs as guaranteed, for example, by a high-quality trade agreement. For low-income economies, membership in an MRTA could facilitate linkages to international production networks.

Provisions that affect value chains appear in many chapters of new trade agreements. Some chapters focus on simplifying customs and border formalities. Others seek to limit restrictions on trade in key products or services, such as data flows. Still others attempt to make national standards and certification processes simpler and more compatible. An open investment regime is essential for some international production systems, especially in services, and adequate and comparable intellectual property rights are required to enable firms to locate activities freely among the members. Value chains may further require the mobility of some types of personnel. Finally, transparency and predictability in regulations are essential for the fragmentation of tasks, especially for smaller firms that don't have the resources to penetrate opaque systems.

Rules for the digital economy have not kept pace with realities on the ground; indeed, they are still in their infancy. The Uruguay Round was concluded well before the digital economy took shape. The more recent ITA and now the ITA2 are pertinent to the digital economy but relate to trade in physical goods, not electronic goods and services, and do not address rule-making issues. E-commence and other areas related to the digital economy therefore appear in many new FTAs, particularly among developed economies. In the TPP an advanced e-commerce/digital trade chapter sets rules and standards that include tax-free digital commerce, free flow of information across borders, protection of the confidentiality of information, and no local server requirements.

Given that the WTO hasn't been able to write global rules affecting the digital economy, would it make sense for rules established in, say, ASEAN or mega-regionals to be adopted at the global level?

What are the risks of excluding fiscal harmonization in the digital age?

Why is the inclusion of services in trade agreements so important?

Economic development is also making the service sector generally more prominent across the region. The share of services value added in GDP has risen virtually in every country in recent years and is now greater than 50 percent in most countries. All four modes of services trade—cross-border trade, consumption abroad, commercial presence, and presence of natural persons—are subject to extensive regulation in most economies, including measures pertaining to commercial presence; residency, licensing, and certification requirements; and taxation. Some services firms may be subject to local content or performance requirements, which are not prohibited under GATS. An integrated market for services, therefore, requires minimizing divergences in standards, as well as non-discrimination and national treatment. The complexity of these issues makes negotiations invariably challenging. Yet removing obstacles to services trade is essential not only for integration in the services sector, but also for integration in goods markets, since the quality of services affects the efficiency of value chains and many other dimensions of goods production.

Why is it so difficult to liberalize many services sectors?

While services have become more important in all of our economies, nominal measures of trade in services suggest that, as a percentage of total trade, it is flat. Why might that be so?

To what degree have traditional (i.e., border) barriers already been addressed?

In terms of changing magnitudes of protection, most-favored–nation tariffs have declined for all country groups; over the last two decades global average tariffs more than halved to about 10 percent today. Nevertheless, substantial tariffs remain. Agricultural tariffs are lower than manufacturing tariffs, but this difference is offset by the extensive use of non-price distortions in agricultural trade. NTBs are higher than tariffs and, given changing patterns of trade, appear to play an increasingly restrictive role. NTBs are difficult to measure, and much effort is underway to produce improved estimates. To be sure, it is even difficult to define NTBs, since they may in part reflect legitimate regulatory interventions. There is little consistent information over time, but some evidence suggests that the use of NTBs is increasing. In addition, the role of NTBs is likely to expand as internationally-traded products and services become more complex and subject to increased regulation.

How would it be possible to abuse the definition of "legitimate regulatory interventions" when applying NTBs? Can you think of any examples from your own country?

The Trans-Pacific Partnership (TPP)/Comprehensive and Progressive Transpacific Partnership (CPTPP)

What are the TPP/CPTPP?

As noted above, the original TPP included 12 APEC members representing about two-fifths of world output and one-quarter of global trade, ranging widely in income from Viet Nam and Peru to

Japan and the United States. When the Trump Administration pulled out of the TPP in January 2017, the size of the group shrunk considerably. The 2011 TPP Leaders Statement underscored five objectives: comprehensive market access; a regional agreement that facilitates production and supply chains; cross-cutting trade issues; challenges emerging from new technologies; and a "living agreement" that brings in additional members over time. Given that very little from the original TPP, these goals also characterize the CPTPP.

The TPP did not include China, the second largest economy in the Asia Pacific (and the world). Chinese membership could have advanced the agreement's integration objectives given its size and role as a trading hub in East Asia, and would have made the agreement a more compelling model for future agreements. Estimates that compare the benefits of the TPP with those of larger alternatives that include China confirm the importance China's participation, and future regional negotiations should address enlargements and/or new inclusive agreements that include China (Petri, Plummer, and Zhai 2012).

Given the potentially large effects of the United States and China in an FTA (either bilateral or regional), why do you suppose that China wasn't more actively courted to join the TPP?

What does the TPP/CPTPP look like and how do they differ?

The entire TPP/CPTPP agreement includes 30 chapters and, with annexes, over 6,000 pages. Most provisions deal with behind-the-border issues, address deep economic linkages, and cover ground well beyond WTO agreements. Negotiators also highlight four cross-cutting themes: regulatory coherence; competitiveness and business facilitation; the promotion of SMEs; and deeper production and supply chain linkages. These recognize the legal complexity of modern trade agreements and try to keep their parts focused on delivering crucial outcomes. The CPTPP includes all of these chapters but has 20 "suspensions," most of which reflect US priorities.[4] Still, these suspensions are remarkably modest and the key aspects of the TPP, such as tariff liberalization and market access, are included in the CPTPP without change. Most of the changes are in the area of intellectual property protection, but other US priority areas—such as special customs checks for express postal carriers—have also been suspended.

What do you suppose the prospects would be of the United States asking to join the CPTPP? How would that affect the interest of other ASEAN economies to join?

How will the United States suffer from "preference erosion" from being outside the CPTPP?

What are the goals of the TPP/CPTPP?

The TPP/CPTPP seeks to improve market access by eliminating "high-hanging" barriers that escaped prior rounds of liberalization in the WTO. Even so, negotiators could not agree on a region-wide approach, and left it up to each member whether to keep old RTAs in place or rewrite them, and whether to make new offers on a bilateral or multilateral basis. Thus, new liberalization is often focused on links not previously covered by RTAs, as well as sectors neglected in existing RTAs, such agriculture, technology, services and e-commerce. The TPP sought to eliminate tariffs on 96 percent of goods traded in the region, albeit with sometimes long implementation periods. It also includes provisions to help align technical and sanitary and phyto-sanitary (SPS) standards.

[4] These were included but "suspended" in case that the United States decides it would like to join the CPTPP in the future.

The bulk of the TPP text updates or develops new rules for issues that have either emerged or grown dramatically in importance in recent years, including trade in services, FDI, the digital economy, competitive neutrality for state-owned enterprises, intellectual property, and regulatory coherence. The agreement is notable as much for its comprehensive approach as for specific provisions. The TPP seeks to encourage trade, investment and development in all member countries and implicitly assumes that high quality rules, *albeit* implemented gradually, benefit economies irrespective of their stage of development.

What are the risks of a low-middle-income economy like Vietnam in joining such an advanced agreement as the TPP/CPTPP? Would it have been better off with a shallower agreement?

How do the "deep-integration" aspects of the TPP/CPTPP affect national regulations?

The TPP attempts to circumscribe national regulations in several areas in order to promote deeper integration. For example, it liberalizes all services trade and related investments except for sectors reserved on a negative list; attempts to keep digital trade free of barriers that apply to physical goods; prescribes national treatment in government procurement; prohibits government support for state-owned enterprises as they compete abroad; offers foreign investors national treatment both pre- and post-investment; and allows foreign investors to challenge government decisions that reduce the value of their assets through an arbitration process ("investor state dispute settlement", or ISDS). In several of these policy areas, regulations to protect health and safety are explicitly reserved for national governments, including especially the regulation of the consumption of tobacco.

What do you think would be the most sensitive national regulation in your country that would be affected by TPP/CPTPP rules?

How does it affect the protection of intellectual property?

TPP provisions for a strict and eventually uniform intellectual property (IP) regime are especially controversial. Exporters of IP-intensive products and some experts argue that strong rules and enforcement are necessary in order to support investments in innovation, whereas importing countries and anti-IP groups maintain that current levels of IP protection already stifle innovation and generate monopolies and rents. Protecting IP is often an important priority for advanced economies. Indeed, the effects of IP protection on economic development are ambiguous. Significantly, the agreement stipulates criminal penalties for the theft of trade secrets, long an important priority for multinational corporations.

The TPP goes somewhat beyond the WTO's trade-related intellectual property rights (TRIPS) agreement by requiring penalties for the unlawful commercial exploitation of copyrighted work, and prescribing measures to reduce the illegal online distribution of copyrighted material. Other IP provisions may lengthen copyright terms, protect clinical data developed by pharmaceutical firms from being used by competitors for a certain period of time, and set transparency standards for choosing medicines for reimbursement by national health plans. However, importing countries and IP-skeptics argue that longer protection periods delay or even prevent the utilization of existing knowledge in new innovations, thereby impeding development of potentially critical drugs and raising the costs of various medicines to individuals and national health-care systems.

Do you think that TPP-like IPR rules will be good or bad for the short- and long-run growth prospects for your economy?

What about financial services?

Another controversial feature relates to liberalization of financial services. Since the Asian Financial Crisis of 1997-98, Asian developing economies have been sensitive to the liberalization measures in the financial sector and to any constraints on regulatory discretion that might be placed on governments. The TPP chapter on financial services actually is limited in offering new market access to foreign financial institutions but rather focuses on non-discrimination and judicial recourse, including national treatment, most-favored nation treatment, minimum standard of treatment, and ISDS. Hence, national regulation of financial services continues to dominate, though the TPP does take a step forward in terms of "leveling the playing field" for foreign participation in local economies.

Given how sensitive the sector is, should financial services be included in mega-regional agreements?

What are the economics behind "data localization"?

Does the TPP/CPTPP include direct measures to promote development?

The TPP also includes a chapter specifically devoted to development, a topic often included in developing-country RTAs but not in developed-country agreements. The provisions included are generally uncontroversial. The Chapter includes: expressions of shared goals and principles regarding the promotion of inclusive growth and poverty reduction; an emphasis on the importance of supporting women in the workplace and as entrepreneurs; the objective of promoting education, science and technology, research and innovation; encouragement of joint activities to promote development; and the creation of a Committee on Development to boost cooperation on development matters, including bringing together international donors, the private sector, and NGOs to assist in developing and implementing joint development-related activities. However, the chapter neither commits parties to an increase in development assistance in pursuing these goals nor provides any "special and differential treatment" in terms of meeting the exigencies of the agreement.

Given the need to close development gaps, should substantial resources and/or deeper commitments be required in this area in any RTA? Or would it be better to handle these issues in other cooperative frameworks?

How are labor and the environment included?

The TPP includes *enforceable* provisions on labor and environmental issues. These chapters require members to adopt practices consistent with international conventions. With respect to labor, the TPP requires members to follow the International Labor Organization's Declaration on Fundamental Principles and Rights at Work, which includes the right of workers to organize. It is, however, suspended in the current CPTPP. With respect to the environment, the TPP references a list of international environmental agreements. In practice, labor and environmental provisions seek to achieve a difficult balance among three goals: protecting shared values; preserving the rights of governments to pursue domestic political and social agendas; and mobilizing political support across the agreement's members.

What are the pros and cons of including areas dealing with social policy in mega-regionals?

Regional Comprehensive Economic Partnership

What is the Regional Comprehensive Economic Partnership?

The RCEP is the culmination of long-standing efforts to pursue Asia-centered integration, mostly based on ASEAN's efforts to promote regional economic integration. The region had debated launching negotiations on a trade agreement with three external partners *(*China, Japan and South Korea) or six partners (the previous three plus Australia, India and New Zealand). The RCEP adopts the last of these configurations but is more explicitly led by ASEAN than the initiatives proposed earlier.

ASEAN's "Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership" define the goal of RCEP as "a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement… [to] cover trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement" (ASEAN 2012). The Principles stress the need for flexibility, and the agreement will likely include special and differential treatment for developing members. At first, it was to be confined mainly to market access and connectivity issues rather than behind-the-border rules, even though the latter rules will inevitably apply in such areas as investment, intellectual property and competition.

Should ASEAN as a group take a leading role in the RCEP negotiations, or should it just be left to individual member economies?

How is the RCEP progressing?

Thus far, there have been 22 RCEP rounds, with the last one having taken place in Singapore, 28 April to 8 May, 2018. Discussions have focused on trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition policy, and legal and institutional issues, including dispute settlement. E-commerce has also been part of the deliberations. While sessions have been closed-door, information that can be gleaned from the websites of various RCEP participating governments suggests that some progress is being made on trade in goods and services and intellectual property, but it has been slow.[5]

The deadline for completing an RCEP agreement was originally set for end-2015, but with so much on the trade negotiating table—ASEAN members were scrambling to finish the AEC by the end of the year and develop future plans that resulted in the AEC Blueprint 2025; seven of its members were engaged in finalizing the TPP and preparing for ratification; there was a WTO Ministerial meeting in December 2015 and many negotiating members are participating in the WTO plurilaterals—an early agreement was not in the cards. Nevertheless, the success of the CPTPP is incentivizing RCEP to step up the pace of negotiations, with the goal of finishing in 2018 (at least with an agreement in principle). A key puzzle in RCEP is to what extent the agreement will represent an RTA among China, India, Japan and Korea—all RCEP members with only one RTA (China-Korea) among them so far.

Should RCEP finally commit itself to finishing in 2018, regardless of what the agreement looks like (and perhaps with provisions to keep negotiating later)?

[5] New Zealand Ministry of Foreign Affairs, http://www.mfat.govt.nz/Trade-and-Economic-Relations/2-Trade-Relationships-and-Agreements/RCEP/, accessed 25 July, 2015.

If a certain country is holding the rest back, should that country be accommodated or excluded (with a provision that it could return at a later date?).

What will the RCEP look like?

The results of RCEP cannot be predicted at this time. On one hand, most negotiating members are outward-oriented and have incentives to produce a solid, comprehensive agreement, and official statements support this goal. Still, a history of shallow agreements by key member economies (such as ASEAN's and India's bilateral agreements), the focus on "flexibility", the hesitancy to include behind-the-border measures, and the inclusion of economies that have been skeptical of deep economic integration in the past does not bode well for an ambitious outcome. Instead, the results may well include a relatively comprehensive deal on market access in goods; a limited positive-list approach in services; a strong agreement on investment albeit with numerous carve-outs; few improvements in intellectual property rules; and provisions on economic and technical cooperation as well as special and differential treatment for low-income economies. The agreement will likely avoid strong commitments on behind-the-border issues.

Should the RCEP be more ambitious?

What is the case for an ASEAN "two-track" approach to MRTAs?

Free-trade Area of the Asia-Pacific

What is the Free-trade Area of the Asia-Pacific?

Since the benefits of next-generation trade rules depend on their coverage of value chains throughout the Asia Pacific, they would be maximized in agreements that span a wide regional membership. The concept of FTAAP among the 21 APEC member economies was introduced into APEC discussions in 2006, based on a proposal by the APEC Business Advisory Council (ABAC). Planning accelerated at the 2014 APEC meetings in Beijing, and an analytical report was prepared for the 2016 meetings with China and the United States as joint chairs. Since APEC is not a negotiating forum, the membership of the FTAAP could be decided by its members: presumably all APEC members would be potential candidates, but it might also include other countries as well (e.g., Cambodia, Lao PDR, Myanmar, India).

If FTAAP is to move forward, what should be its economy-composition?

When first tabled, it was intended that negotiations would begin around 2020, consistent with what was specified in the original Bogor goals. Is this desirable or even possible?

What are the envisioned "pathways" towards the FTAAP?

Discussions of FTAAP note that a region-wide agreement might emerge along pathways started by other, smaller agreements. Building on existing agreements such as the TPP or RCEP offers the advantage that many economies will have already agreed to their terms. However, those that did not participate in those negotiations may be reluctant to accept provisions that they didn't develop. In the end, FTAAP might offer wider ownership through opportunities to add to and subtract from previous agreements.

FTAAP could accommodate departures from TPP/CPTPP standards in order to expand its membership, while permitting TPP countries to benefit from existing accords. Such arrangements could lead to a multi-tiered system of rules, similar to those now emerging in the WTO itself. As in the WTO, members would be obligated to follow baseline commitments, but could then assume additional obligations under more ambitious agreements such as the TPP.

Does a pathway-approach make sense in an Asia-Pacific context, or would it be best to just start from scratch?

IV. Assessing the effects of the Asia-Pacific Regional Integration

What might be the benefits and costs of regional integration?

Because the effects of RTAs cannot be predicted theoretically (as noted in the AEC module), a great deal of empirical work has attempted to estimate their implications, ranging from *ex-ante* studies that anticipate the consequences of RTAs to *ex-post* studies that separate their effects from other developments. The challenge is especially great for MRTAs, given limited historical experience with them. Nevertheless, empirical work on the European Union and NAFTA provides insight into the scale of potential benefits and how different methodologies perform in assessing them. Evidence would suggest, for example, positive income effects in the 1-2 percent range for NAFTA and in the 2-3 percent range for the European Single Market relative to their respective baselines. In retrospect, these gains were not large enough to dominate other macroeconomic shocks during the implementation of these agreements. Yet given the scale of the economies involved, the direct, absolute benefits were likely significant and worth the effort invested in negotiations.

Can trade policy support economic growth and development without regard to other economic policies, such as macroeconomic policy or institutional development?

Does it make sense to compare other deep regional integration efforts—such as the EU—to Asia-Pacific MRTAs in terms of their potential empirical effects?

How might the net economic effects of Asia-Pacific regional integration be measured?

The most common model to assess potential trade agreements is the computable general equilibrium (CGE) model. The model used below to estimate the effects of Asia-Pacific MRTA is developed in Petri, et. al. (2017) and related research (available at www.asiapacifictrade.org) and considers several MRTA configurations: the original TPP (TPP12), the CPTPP, and expanded CPTPP to include economies who have expressed interest in joining (Indonesia, the Philippines, Thailand, South Korea and Taiwan). These scenarios should give a good idea of not only the potential economic effects of the MRTAs but also the distribution of the benefits across economies.

The actual mechanics behind the modelling is beyond the scope of this module. Hence, we will just survey what the effects of these Asia-Pacific initiatives are expected to be. However, it is important to note that any such study must be compared to a "baseline" scenario, which denotes forecasts of what the economies would look like in the absence of these Asia-Pacific regional scenarios, allowing us to show the "value added" of the agreement. These particular simulations include both changes in income and exports in 2030 relative to the baseline.

Any economic model requires simplifying assumptions. Does it make sense to model the economic effects of trade agreements anyway?

What will be the effects of the TPP, CPTPP, and RCEP, in the aggregate and by country?

The original TPP is projected to generate global benefits of $492 billion. This includes gains of $131 billion for the United States and substantial percentage gains for other members, including especially for Vietnam and Malaysia. As is evident from comparisons with other scenarios, much of these gains are based on their trade with the United States. But the high-quality nature of the TPP also contributes to these large gains.

The CPTPP generates substantially lower global benefits ($147 billion) compared to the TPP. Theses lower gains apply to all TPP economies, due to the exclusion of US markets and because many CPTPP members already have free-trade agreements with each other. The differences are especially marked for Japan, Malaysia and Vietnam, with the benefits of each reduced to about one-third to one-fourth of their TPP benefits. No member economy gains from replacing the TPP with CPTPP. The United States experiences the largest single net loss by moving from a $131 billion gain (under TPP) to a $2 billion loss (under CPTPP).

The CPTPP16 leads to global gains of $449 billion and $486 billion for member economies, slightly more than in the TPP case. The most prominent beneficiaries, in absolute terms, are Japan, Korea and Taiwan, along with their Southeast Asian partners. The CPTPP16 gains are large because such an agreement would apply high quality provisions to trade among those three industrialized economies which do not currently have a trade agreement with each other (Japan, Korea and Taiwan). Also, the agreement would go further than the others in establishing new supply chains in the Asia-Pacific region. Taiwan, in particular, has few agreements with other economies (only New Zealand and Singapore in the CPTPP16) and would benefit disproportionately with income gains of 7.8 percent of GDP, the largest percentage gain for any economy. The gains associated with CPTPP16 suggest that the CPTPP path could provide very attractive options for new members as expansion gains steam.

The RCEP agreement generates gains of $286 billion. This reflects, on one hand, the economic scale of RCEP, and on the other, the relative weakness of RCEP provisions. In addition, many prior trade agreements cover trade among RCEP countries—the requirement for membership in RCEP is that each economy have an agreement with ASEAN—and RCEP provisions are not likely to exceed in quality those already in place.

Are these estimates large? Do they justify the policy changes that would be required?

Are you surprised as to the economic effects for your country?

What would happen if the CPTPP and RCEP converged?

While there is significant membership overlap across member-states, the net gains of the combined CPTPP and RCEP scenarios (not included in the tables) are almost additive, meaning that there is considerable value added in combining these agreements despite the overlap. This is due in the main to some large economies that do not have free-trade areas in place with each other and the greater scope and ambition of the TPP-based agreements, which "upgrade" the RCEP relationships. Global gains from a combined RCEP and CPTPP and CPTPP16 come to $408 billion and $667 billion, respectively, with the latter being one-third larger than the original TPP.

Further analysis shows that most income gains reported in the scenarios are due to changes in trade and associated productivity gains, not trade diversion. Member-economy exports rise by usually more than double the income gains in all regional scenarios, and in all cases trade creation far exceeds trade diversion.[6] China is the biggest loser in the CPTPP and CPTPP16 scenarios—due to both trade diversion and preference erosion—but in all cases the effects are small.

If the CPTPP and RCEP include so many overlapping FTAs, why would the results of CPTPP+RCEP be small and "duplicative" rather than additive?

[6] This result derives mainly from the assumption of a 20 percent spillover of NTB liberalization under TPP and a 10 percent spillover effect for all other scenarios. See Petri and Plummer (2016) for details.

Table 1a. Effects of MRTAS on Income, by Country

Country	2030 income (billions of 2015 dollars)	Change in billions of 2015 dollars				Percent of income			
		TPP12	CPTPP	CPT16	RCEP	TPP12	CPTPP	CPT16	RCEP
Americas	**39,569**	**208**	**49**	**72**	**2**	**0.5**	**0.1**	**0.2**	**0.0**
United States	25,754	131	-2	-6	1	0.5	0.0	0.0	0.0
Asia	**50,659**	**202**	**69**	**316**	**253**	**0.4**	**0.1**	**0.6**	**0.5**
China	27,839	-18	-10	-53	101	-0.1	0.0	-0.2	0.4
India	5,487	-5	-4	-16	57	-0.1	-0.1	-0.3	1.0
Japan	4,924	125	46	98	56	2.5	0.9	2.0	1.1
Oceania	**2,854**	**21**	**15**	**22**	**7**	**0.7**	**0.5**	**0.8**	**0.2**
Australia	2,590	15	12	17	5	0.6	0.5	0.7	0.2
New Zealand	264	6	3	5	2	2.2	1.1	2.0	0.6
Rest of world (ROW)	**40,720**	**60**	**14**	**39**	**23**	**0.1**	**0.0**	**0.1**	**0.1**
Africa (Sub-Sahara)	4,068	0	0	-1	1	0.0	0.0	0.0	0.0
Europe	23,189	48	12	22	16	0.2	0.0	0.1	0.1
EMENA	10,001	9	2	15	5	0.1	0.0	0.1	0.0
Russia	3,371	2	0	2	1	0.1	0.0	0.1	0.0
ROW	90	0	0	0	0	0.2	0.1	0.0	0.1
World	**133,801**	**492**	**147**	**449**	**286**	**0.4**	**0.1**	**0.3**	**0.2**
Memorandum									
Income (members)		41,011	15,257	21,961	49,800				
Δ (members)		465	157	486	201	1.1	1.0	2.2	0.4
Δ (nonmembers)		27	-10	-37	84	0.0	0.0	0.0	0.1

Table1b. Effects of MRTAs on Exports in 2030

Country	2030 exports (billions of 2015 dollars)	Change in billions of 2015 dollars				Percent of exports			
		TPP12	CPTPP	CPT16	RCEP	TPP12	CPTPP	CPT16	RCEP
Americas	**7,068**	**478**	**72**	**103**	**-1**	**6.8**	**1.0**	**1.5**	**0.0**
Canada	835	58	39	56	-1	7.0	4.6	6.7	-0.1
Chile	147	8	6	8	-1	5.3	4.3	5.7	-0.5
Colombia	120	1	0	0	0	0.9	0.1	0.0	0.0
Mexico	670	32	23	45	-2	4.7	3.5	6.7	-0.2
Peru	135	14	12	15	0	10.3	9.0	10.8	-0.2
United States	3,906	357	-10	-22	3	9.1	-0.3	-0.6	0.1
Latin America nie	1,255	9	1	1	0	0.7	0.1	0.1	0.0
Asia	**12,905**	**511**	**172**	**874**	**668**	**4.0**	**1.3**	**6.8**	**5.2**
Brunei	16	1	1	1	0	9.0	3.5	4.9	0.9
China	4,976	9	-9	-44	259	0.2	-0.2	-0.9	5.2
Hong Kong	357	4	1	1	-1	1.0	0.2	0.2	-0.3
India	1,360	1	-3	-13	132	0.1	-0.2	-1.0	9.7
Indonesia	446	-4	-3	49	17	-1.0	-0.6	11.1	3.8
Japan	1,190	276	97	225	136	23.2	8.1	18.9	11.4
Korea	1,089	-11	-6	203	62	-1.0	-0.6	18.7	5.7
Malaysia	491	99	42	71	17	20.1	8.6	14.4	3.4
Philippines	184	-1	0	29	4	-0.4	-0.2	16.0	2.2
Singapore	470	35	29	33	3	7.5	6.2	7.0	0.6
Taiwan	506	4	0	170	-7	0.8	-0.1	33.6	-1.5
Thailand	561	-9	-7	68	24	-1.6	-1.3	12.0	4.3
Vietnam	357	107	31	84	17	30.1	8.8	23.5	4.9
ASEAN nie	93	-3	0	-1	4	-2.8	-0.4	-1.5	3.9
Asia nie	810	2	1	0	1	0.2	0.1	-0.1	0.1
Oceania	**673**	**38**	**28**	**45**	**17**	**5.6**	**4.2**	**6.6**	**2.5**
Australia	589	29	23	37	14	4.9	4.0	6.3	2.4
New Zealand	84	9	5	8	3	10.2	5.8	9.2	3.1
Rest of world (ROW)	**15,503**	**79**	**14**	**10**	**-7**	**0.5**	**0.1**	**0.1**	**0.0**
Africa (Sub-Sahara)	883	5	1	0	1	0.5	0.1	0.0	0.1
Europe	9,706	49	8	-7	-9	0.5	0.1	-0.1	-0.1
EMENA	4,021	20	4	14	1	0.5	0.1	0.3	0.0
Russia	851	5	1	2	1	0.5	0.1	0.3	0.1
ROW	43	0	0	0	0	1.1	0.3	-0.2	-0.1
World	**36,149**	**1,106**	**287**	**1,032**	**677**	**3.1**	**0.8**	**2.9**	**1.9**
Memorandum									
Exports (members)		8,890	4,984	7,769	12,745				
Δ (members)		1,025	308	1,102	546	11.5	6.2	14.2	4.3
Δ (nonmembers)		81	-22	-70	131	0.3	-0.1	-0.2	0.6

nie = not included elsewhere; TPP = Trans-Pacific Partnership; RCEP = Regional Comprehensive Economic Partnership; ASEAN = Association of Southeast Asian Nations; EMENA = Europe, Middle East, and North Africa
Source: Authors' computations.

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