Competitive mega-regionalism : the trilateral geo-economic power play by the United States of America, China and the European Union

Ji, Xianbai

2019

Ji, X. (2019). Competitive mega-regionalism : the trilateral geo-economic power play by the United States of America, China and the European Union. Doctoral thesis, Nanyang Technological University, Singapore.

<https://hdl.handle.net/10356/82993>

<https://doi.org/10.32657/10220/47576>

**NANYANG
TECHNOLOGICAL
UNIVERSITY**

SINGAPORE

**COMPETITIVE MEGA-REGIONALISM:
THE TRILATERAL GEO-ECONOMIC POWER PLAY BY THE UNITED
STATES OF AMERICA, CHINA AND THE EUROPEAN UNION**

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S. RAJARATNAM SCHOOL OF INTERNATIONAL STUDIES (RSIS)

2019

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THE TRILATERAL GEO-ECONOMIC POWER PLAY BY THE UNITED
STATES OF AMERICA, CHINA AND THE EUROPEAN UNION**

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A dissertation submitted to the Nanyang Technological University, Singapore
in partial fulfillment of the requirement for the degree of
Doctor of Philosophy in International Political Economy

2019

Statement of Originality

I hereby certify that the work embodied in this thesis is the result of original research, is free of plagiarised materials, and has not been submitted for a higher degree to any other University or Institution.

13 February 2019

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Xianbai Ji

Supervisor Declaration Statement

I have reviewed the content and presentation style of this thesis and declare it is free of plagiarism and of sufficient grammatical clarity to be examined. To the best of my knowledge, the research and writing are those of the candidate except as acknowledged in the Author Attribution Statement. I confirm that the investigations were conducted in accord with the ethics policies and integrity standards of Nanyang Technological University and that the research data are presented honestly and without prejudice.

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Chia-yi Lee

Authorship Attribution Statement

This thesis contains material from 1 paper published in the following peer-reviewed journal where I was the first author.

Part of Chapter III is published as X. Ji, P.B. Rana, W-M. Chia, and C. Li. Post-TPP Trade Policy Options for ASEAN and its Dialogue Partners: "Preference Ordering" Using CGE Analysis. *East Asian Economic Review* 22(2), 177-215 (2018). DOI: <http://dx.doi.org/10.11644/KIEP.EAER.2018.22.2.342>.

The contributions of the co-authors are as follows:

- A/Prof Rana and A/Prof Chia provided the initial project direction and edited the manuscript drafts.
- I prepared the manuscript drafts.
- I co-designed the study with A/Prof Rana and A/Prof Chia and performed all the GTAP/CGE simulations at the Australian National University (under the Europa Visiting Fellowship). I also analyzed and interpreted the simulation results.
- Changtai Li assisted in the acquisition of GTAP model and its database and the interpretation of simulation results.

13 February 2019

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ACKNOWLEDGEMENTS

In the past four years, I have incurred enormous debts to a host of wonderful persons. First and foremost, I owe profound thanks to my advisors: Chia-yi Lee, Kaewkamol (Karen) Pitakdumrongkit, Chia Wai-Mun and Pradumna B. Rana. Chia-yi took much time out of her busy schedule to get my dissertation over the line, and indeed she has been responsive and supportive throughout my doctoral candidature. Her caring supervision is a blessing for me. Pradumna and Wai-Mun nurtured this dissertation in their capacity as Principal Investigators of a joint research project of which I am proudly a part. For much of the work including most notably the GTAP modelling exercises and the perception survey, I could only pursue thanks to them. Karen opened the door of a doctoral world and steered me through the early days of my journey at RSIS. Without these four amazing individuals, a venture such as writing this book-length dissertation is surely a non-starter. I would also like to thank the external and viva examiners from RSIS and beyond for their very helpful comments and suggestions.

A very special and heartfelt thanks goes to Yeo Lay Hwee. Lay Hwee is a true mentor for me. Her integrity, scholarship, passion for work and a level-headed view of the world (and life) make her a role model for me, professionally and personally. It was immensely kind of her to offer me a Visiting Fellowship (and a quiet and spacious office) at the EU Centre so that I did not need to travel to RSIS every day to write the dissertation. I managed to put in much productive writing time at the Centre and I am grateful to that.

In 2017, I spent four months in Canberra as Europa Visiting Fellow at The Australian National University. Annmarie Elijah and Jacqueline Lo hosted me warmly, provided valuable suggestions on how to sharpen and enrich the arguments, and introduced me to a number of key contacts including ‘the fantastic Paul’ Gretton. This

dissertation owes an immeasurable lot to the time and advices offered by Paul. He taught me many advanced CGE modelling techniques without reservation, and never hesitated to answer my (sometimes naïve) questions about the GTAP model. Hazel Moir who warned me of the limitations of quantitative methods deserves a special mention here. Exchanging ideas with her pushed me to be a more fastidious researcher.

I was also unbelievably fortunate to have received support from many current and former RSIS faculty members and staff. I would like to convey my sincere thanks to Tan See Seng and J. Soedradjad Djiwandono who sat at my Qualifying Examination panel for spotting the promise and viability of the project. I gratefully acknowledge Khong Yuen Foong for pointing me to the importance of conducting methodologically-guided research and handling criticism with honesty and grace. I also want to extend my gratitude to Farish Noor and Roxane Domingo Ordonez for taking care of me as a PhD student at RSIS. Ron Matthews and David A. Reisman were decisive in bringing me to RSIS in the first place though they had left the school when/shortly after I started the PhD. Ron fought hard for the prestigious Nanyang President's Graduate Scholarship on behalf of me and David encouraged me to further my study to a doctoral level. I am deeply indebted to their generosity and faith in me.

Finally, a thank-you note must be written to my lovely wife, Yanni. I know living with a PhD student is not easy, but she has been incredibly good at it. Her unwavering support, love and companionship throughout the years give me strength, courage and, above all, a peace of mind. I especially thank her for shouldering the majority of baby-sitting responsibilities after the birth of our lovely and energetic daughter, Meixin, and allowing me to concentrate on dissertation writing. The same goes to my in-laws and parents who had to travel back and forth between China and Singapore every few months to take care of Meixin. This dissertation is a tribute to them all.

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THESIS ABSTRACT

Free trade agreement (FTA) is an increasingly important platform for countries to pursue reciprocal trade liberalisation outside the multilateral framework. The latest wave of regionalism took shape of mega-regionals (mega-FTAs) – deep and expansive trade alliances between countries or regions with a dominant share of world economy, trade and population. Key mega-FTAs include the US-led Trans-Pacific Partnership (TPP), China-backed Regional Comprehensive Economic Partnership (RCEP) and the EU-initiated Transatlantic Trade and Investment Partnership (TTIP). The fact that these three unprecedented mega-FTAs, championed by competition trading powers, burst upon the global scene within a rather circumscribed period of time (early 2010 to mid-2013) is intellectually puzzling.

This dissertation explains why and how the three mega-FTAs suddenly came into being using a competitive policy diffusion framework. Unlike existing regionalism scholarship which tends to ‘vertically’ analyse FTAs as separate entities arising out of autonomous government decisions to entertain domestic concerns, this study undertakes a ‘horizontal’ diffusion-oriented research agenda to investigate the causally linked calculus of major power participation in the on-going mega-regionalism at the international strategic level. It conceptualises mega-FTA as a geo-economic strategy for the US, China and the EU to compete against each other, economically, politically and legally. It is argued that the TPP allowed the US to reap economic benefits from freer trade, demonstrate regional leadership and disseminate a favourable trade temple at the direct expenses of China. The disadvantaged China was then pressurised to respond in kind by launching a countervailing mega-trade pact of its own, i.e. RCEP, to level the playing field. The US’ TPP and China’s subsequent resorting to RCEP as its defence mechanism generated cumulative negative externalities along economic, political and legal dimensions for the EU, forcing the bloc to abandon its long-standing multilateralism-centred trade policy

paradigm to enter into TTIP negotiations. The move by the US, the counter-move by China and the counter-countermove by the EU eventually gave rise to the wave of mega-regionalism as we have observed in recent times.

A mixed method research design involving quantitative, qualitative and perceptual perspectives is adopted by this dissertation. Great power competition in the economic realm is captured by two formal approaches to international political economy. The computational general equilibrium simulations using the modified Global Trade Analysis Project model suggest that the logic of economic competition is premised on the international distributional effects of mega-FTA in terms of creating trade among participating economies while diverting trade away from non-members. The modelling results inform a follow-up game theoretical analysis to help visualise the way in which the economic competition unfolded in payoff matrices. Case study and content analysis methods are engaged to put up my arguments about political/legal competition and sketch out the broader historic backgrounds against which the genesis of mega-FTAs must be viewed. In a final step, a perception survey soliciting representative thinking of Asian experts was conducted to strengthen the main findings of the dissertation. The triangulation of data and arguments provide stronger evidence to the present dissertation's conclusion that the trilateral geo-economic power play on the part of the US, China and the EU is the key cause and driver of the latest wave of mega-regionalism.

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ABBREVIATIONS AND ACRONYMS

AANZFTA	ASEAN-Australia-New Zealand Free Trade Area
ABC	Anyone but China
ACFTA	ASEAN-China Free Trade Agreement
AD	Anno Domini
ADB	Asian Development Bank
ADMM-Plus	ASEAN Defence Ministers' Meeting Plus
AFC	Asian Financial Crisis
AFTA	ASEAN Free Trade Area
AFPs	ASEAN Foreign Partners
AHKFTA	ASEAN-Hong Kong Free Trade Agreement
AIFTA	ASEAN-India Free Trade Agreement
AIIB	Asian Infrastructure Investment Bank
AJCEP	ASEAN-Japan Comprehensive Economic Partnership
AKFTA	ASEAN-Korea Free Trade Agreement
ANZCERTA	Australia-New Zealand Closer Economic Relations Trade Agreement
ANZPAFTA	Australia-New Zealand-Pacific Alliance Free Trade Agreement
APEC	Asia-Pacific Economic Cooperation
APTA	Asia-Pacific Trade Agreement
ARF	ASEAN Regional Forum
ASEAN	Association of Southeast Asian Nations
ASEAN+3	ASEAN + China, Japan and South Korea
ASEAN+6	ASEAN + China, Japan, South Korea, India, Australia and New Zealand
AUS	Australia
AVE	Ad valorem equivalent
BIT	Bilateral investment treaty
BRI	Belt and Road Initiative
BRN	Brunei Darussalam
CAN	Canada
CAP	Common Agricultural Policy (of the EU)
CCP	Common Commercial Policy (of the EU)
CDE	Constant difference in elasticities function
CEE	Central and Eastern Europe
CEPEA	Comprehensive Economic Partnership in East Asia
CEPII	Centre for Prospective Studies and International Information (in French)

CEPR	Centre for Economic Policy Research
CES	Constant elasticity of substitution function
CETA	EU-Canada Comprehensive Economic and Trade Agreement
CFSP	Common Foreign and Security Policy
CGE	Computable general equilibrium
CHL	Chile
CHN	China, People's Republic of
CIF	Cost, Insurance and Freight
CJKFTA	China-Japan-Korea Free Trade Agreement
CLMV	Cambodia, Laos, Myanmar and Vietnam
CNZFTA	China-New Zealand Free Trade Agreement
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
CTC	Change in tariff classification
CU	Customs union
ChAFTA	China-Australia Free Trade Agreement
DDA	Doha Development Agenda
DFAT	Department of Foreign Affairs and Trade
DG	Directorate-General
DPRK	Korea, Democratic People's Republic of (North Korea)
EAEC	East Asian Economic Caucus
EAEG	East Asian Economic Group
EAEU	Eurasian Economic Union
EAFTA	East Asia Free Trade Area
EAS	East Asian Summit
EC	European Community
ECFA	Economic Cooperation Framework Agreement
ECSC	European Coal and Steel Community
EFTA	European Free Trade Association
ESCAP	Economic and Social Commission for Asia and the Pacific
ESDP	European Security and Defence Policy
EU/EUN	European Union
EV	Equivalent variation
EVSL	Early Voluntary Sectoral Liberalisation
FDI	Foreign direct investment
FOB	Free-on-Board
FOIP	Free and Open Indo-Pacific

FTA	Free trade agreement
FTAAP	Free Trade Area of the Asia-Pacific
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GFC	Global Financial Crisis
GTAP	Global Trade Analysis Project
HLWG	High-Level Working Group on Jobs and Growth
HS	Harmonised System
IDN	Indonesia
IPE	International Political Economy
IR	International Relations
LAO	Lao People's Democratic Republic
LCS	Littoral Combat Ship
ILO	International Labour Organisation
IMF	International Monetary Fund
IND	India
IPR	Intellectual property right
JEEPA	Japan-EU Economic Partnership Agreement
JEG	Joint Expert Group for Feasibility Study
JETRO	Japan External Trade Organisation
JPN	Japan
KHM	Kingdom of Cambodia
KOR	Korea, Republic of (South Korea)
KORUS	South Korea-US Free Trade Agreement
MC	WTO Ministerial Conference
MEX	Mexico
MMY	Myanmar
MIC	Multilateral Investment Court
Mega-FTA	Mega-free trade agreement
Mercosur	South Cone Common Market (in Spanish)
MFN	Most Favoured Nation
MNC	Multinational corporation
MRA	Mutual recognition agreement
MYS	Malaysia
NAFTA	North American Free Trade Agreement

NATO	North-Atlantic Treaty Organisation
NGO	Non-governmental organisation
NTA	New Transatlantic Agenda
NTBs	Non-tariff barriers
NTM	New Transatlantic Marketplace
NTMs	Non-tariff measures
NZL	New Zealand
OBOR	One Belt, One Road (officially known as BRI)
OECD	Organisation for Economic Cooperation and Development
P4	Pacific 4 (Brunei, Chile, New Zealand and Singapore)
PA	Pacific Alliance
PACER Plus	Pacific Agreement on Closer Economic Relations Plus
PAFTAD	Pacific Trade and Development Conference
PBEC	Pacific Basin Economic Council
PE	Partial equilibrium
PEA	Positive Economic Agenda
PECC	Pacific Economic Cooperation Council
PER	Peru
PHL	The Philippines
PIIE	Peterson Institute for International Economics
RUNS	Rural-Urban North-South model
Quad	Quadrilateral Security Dialogue
ROOs	Rules of origin
ROW	Rest of the world
RTA	Regional trade agreement
RVC	Regional value content
SAFTA	South Asian Free Trade Area
SAM	Social accounting matrix
SDT	Special and differential treatment
SGP	Singapore
SME	Small and medium-sized enterprise
SOE	State-owned enterprise
SPS	Sanitary and phytosanitary
TAA	Trade Adjustment Assistance
TAC	Treaty of Amity and Cooperation
TAFTA	Transatlantic Free Trade Agreement

TBT	Technical barrier to trade
TD	Transatlantic Declaration
TEC	Transatlantic Economic Council
TEP	Transatlantic Economic Partnership
THA	Kingdom of Thailand
TOM	Theory of moves
TOT	Term of trade
TPA	Trade Promotion Authority
TPN	Transatlantic Policy Network
TPP	Trans-Pacific Partnership
TPSEP	Trans-Pacific Strategic and Economic Partnership
TRIP	Agreement on Trade-Related Aspects of Intellectual Property Rights
TRQ	Tariff-rate quota
TTIP	Transatlantic Trade and Investment Partnership
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNESCO	United Nations Educational, Scientific and Cultural Organisation
US	United States
USITC	United States International Trade Commission
USTR	United States Trade Representative
VIMS	Value of imports evaluated at importer's market prices (GTAP variable)
VIXS	Value of imports evaluated at exporter's market prices (GTAP variable)
VNM	Vietnam
VXMD	Value of exports evaluated at exporter's market prices (GTAP variable)
VXWD	Value of exports evaluated at world prices (GTAP variable)
WTO	World Trade Organisation

CHAPTER I

INTRODUCTION

Regional trade agreements (RTAs) have been an integral part of the evolving global trade governance architecture and an intrinsic fixture in rules-based international economic relations since the end of World War II. In the trade lexicon of the World Trade Organisation (WTO), RTAs are taken to stand for any reciprocal trade treaty that involves two or more partners but fewer than all WTO members¹. Depending on the customs relationship between those in and outside the trading bloc, RTAs are further distinguished into free trade agreements (FTAs) and customs unions (CUs) (Krueger 1997). In an FTA, free trade partners reduce barriers to trade in goods (and increasingly services and investment) while maintaining their respective trade regimes vis-à-vis non-members. In a CU, contracting countries agree to not only lower customs duties on each other's goods but also erect a common external tariff structure to regulate imports from third parties into the integrated customs territory. Due to this difference, an FTA necessitates rules of origin (ROOs) to prevent transshipment of goods into the free trade area through the partner that charges the lowest external tariff rates (Shibata 1967), while CUs typically institute mechanisms to redistribute tariff revenues collected at the shared customs borders.

As exceptions to the 'Trade without Discrimination' principle of the WTO foremostly embodied in the most-favoured-nation (MFN) rule, FTAs and CUs are permitted under specific conditions pursuant to the General Agreement on Tariffs and Trade (GATT) Article XXIV² (Chase 2006, Mathis 2002). In essence, the GATT/WTO

¹ This definition tells the differences between RTAs and autonomous unilateral/preferential reforms taken on one's own and multilateral trade agreements which liberalise trade across the entire WTO membership.

² RTAs are also allowed under the General Agreement on Trade in Services (GATS) Article V and the Enabling Clause (exclusively for agreements among developing countries). Since selective liberalisation vis-à-vis partners necessarily means selective discrimination against

requirements are RTAs must constitute ‘voluntary agreements’ that liberalise ‘substantially all the trade between the constituent territories’ within ‘a reasonable length of time’ in a way that does not raise barriers for or discriminate among non-participating economies³.

Landscape of Free Trade Agreements

Figure 1.1 RTAs in force (by year of entry into force), 1948-2018

Source: WTO RTA Information System. Goods, services and accessions to an RTA are counted separately.

The salience of RTAs in the prevailing international trading system is above all manifested in the surge in their numbers. Since the establishment of the European Economic Community (EEC) through the Treaties of Rome – the first FTA notified to the GATT/WTO in 1957 – the number of FTAs and CUs has increased exponentially in the past decades as evidenced in the sharp upward trend depicted in Figure 1.1.

non-partners, the GATT/GATS rules permitting RTAs lead to accusation of creating a policy environment in which countries could get away with their discriminatory trading policies.

³ In reality, however, few RTAs meet the stipulated requirements in full. One common reason is that the desire to shield sensitive sectors from deep tariff cuts makes many governments reluctant to enter into agreements that liberalise ‘substantially all the trade’. Therefore, there have been widespread instances of non-observance and under-compliance, leading to allegations of ‘organised hypocrisy’ and ‘mutual indulgence’ – no one calls out the problem, presumably because everyone is non-compliant.

As of April 2018, a total of 459 physical RTAs had been notified, of which 287 are currently in force⁴. The participation in RTAs is also ubiquitous with all WTO members partaking in at least one regional trade arrangement⁵. RTAs come in all shapes and sizes, and are differentiated with respect to type, membership composition and geographic spread, depth of liberalisation, breadth of regulatory scope and openness. Generally, four trends with relevance to this thesis are worth underscoring.

The first is that CUs have recently become obsolete⁶ (Andriamananjara 2011) as countries are reluctant to relinquish the authority to run independent trade policies vis-à-vis third parties. Barring a few exceptions and accessions, the last notified CU was the Eurasian Economic Space (the precursor of the Eurasian Economic Union) between Russia, Belarus and Kazakhstan in 2012. For this very reason, the terms RTA and FTA are progressively indistinguishable and 'FTA' is used throughout this dissertation. The second trend relates to the deepening and expanding scope of FTAs, both implemented and under negotiations. More governments have since the 2000s elected to rise above reaffirming WTO rules in agreeing to FTA provisions that are WTO-plus and WTO-extra in nature (Acharya et al. 2011, Baldwin 2011a). The former refers to obligations within the mandate of the WTO that exceed those accepted at the multilateral level. The latter predominately concerns new disciplines applicable to policy areas lying outside the current purview of the WTO. Common WTO-plus and WTO-extra elements of FTAs include technical barriers to trade (TBT), sanitary and phytosanitary measures (SPS), intellectual property rights (IPRs), public procurement and environmental regulations, among others (Figure 1.2).

⁴ This figure excludes more than a hundred effective RTAs mostly between developing countries that are not yet notified to the GATT/WTO.

⁵ Mongolia was for many years the only WTO member that had no FTAs. This situation changed in 2015 when Japan signed an agreement with Mongolia after three years of negotiation.

⁶ This is ironic because the GATT drafted the Article XXIV permitting conditional exceptions to the MFN clause in the first place with a view to accommodating the existence of several CUs that were already operative at the time of GATT establishment (Bhagwati 1999).

The upshot of international trade law gradually intruding to policy areas that have traditionally been the preserve of national sovereignty is a transition from ‘negative integration’ focusing on removing discriminatory border measures to ‘positive integration’ aiming to level the playing field by developing common rules and standards (Lawrence 1996b).

Figure 1.2 Deep integration provisions in FTAs

Source: Author’s own calculations based on WTO RTA Information System

Figure 1.3 Cross-regional and intraregional RTAs notified to the GATT/WTO

Source: Author’s own based on WTO RTA Information System

The third trajectory is that the geographic spreads of FTA participating economies come to be broader and more diverse. In the early days of regionalism, (intra-regional) trade agreements tended to arise between geographically contiguous countries; but now forging trade partnerships across regional boundaries are gaining momentum as more transcontinental, inter-bloc and region-to-region FTAs leading to what Katada and Solis (2008) label 'permeated regionalism' come to life (Hoadley 2007, Hoadley and Yang 2007, Katzenstein and Shiraishi 2006). As shown in Figure 1.3, cross-regional FTAs accounted for merely a third of all notified RTAs in the GATT era, while close to 60% of RTAs notified to the WTO in the first two decades or so of its existence were between economies from at least two geographic regions. In some parts of the world such as Europe, the arrival of larger trade groupings was routinely followed by subsuming geographically narrower older FTAs, whereas in Asia, a region long resistant to trade liberalisation, such consolidation is largely absent (Acharya et al. 2011, Baldwin 2011a). This layering effect results in a tangled web of intersecting and overlapping regional trade architectures (see Figure 1.4) under which FTAs of varying sizes co-exist with each other (Aggarwal and Urata 2006, Dent 2006, Kawai and Wignaraja 2009, Sally 2008, Sally and Sen 2011).

One last pronounced trend is that FTAs are becoming more open. While arguably no FTAs so far have lived up to Asia-Pacific Economic Cooperation's aspirational goal of multilateralising trade concessions exchanged between FTA partners on an MFN basis (Garnaut 1994, PECC 1992, Drysdale, Elek, and Soesastro 1998, Garnaut 2004), countries striking FTAs have sought to lessen exclusivity and discrimination in more politically feasible ways – inclusion of an accession clause for interested outsiders to sign up is regarded as an international best practice. One most recent example is the 2017 accession of Panama into the Central American Common Market (CACM).

* Denotes bilateral trade agreement with ASEAN

— Denotes implemented trade grouping

-- Denotes trade grouping under negotiation

.... Denotes proposed trade grouping

Figure 1.4 Convoluted trade architectures in the Asia and Pacific

Source: Authors' illustration.

From a chronological perspective, the contemporary FTA landscape as sketched out above essentially took shape over three waves of regionalism. The first wave of regionalism occurred in the 1950s and 1960s (WTO 2011) when post-war Europe started embarking on the journey of regional integration lasting till today. The transformation of European Coal and Steel Community into the EEC and the creation of the rival pact, the European Free Trade Association in 1957-1958, together with the development of Andean Pact and CACM among mostly developing countries, marked the acme of this inaugural period of regional trade liberalisation and integration. In the early to mid-1990s, the 'second wave' of regionalism⁷, as Bhagwati (1999) terms it, took place in a post-Cold War world. The Southern Cone Common Market (Mercosur) formed in 1991; the Association of Southeast Asian Nations Free Trade Area (AFTA) and the European Single Market came into existence in 1993; the North American Free Trade Agreement (NAFTA) (Tomlin and Cameron 2000, Hufbauer and Schott 2005), the Common Market for Eastern and Southern Africa and the African Economic Community took effect in 1994.

The latest wave of regionalism – on which this dissertation focuses – began in the mid-2000s and extended well into the 2010s. This wave was underpinned by mega-free trade agreements (mega-FTAs) which are in a category of their own by virtue of size, scope, depth and impact. Mega-FTAs are loosely defined as 'deep integration partnerships between countries or regions with a major share of world trade and foreign direct investment (FDI), and in which two or more of the parties are in a paramount driver position, or serve as hubs, in global value chains' (Meléndez-Ortiz 2014). An alternative definition offered by Draper, Lacey, and Ramkolowan (2014) recognises mega-FTAs as trade agreements 'negotiated by three or more countries or regional groupings' whose 'members collectively account for twenty five percent or

⁷ The 'second wave' of regionalism is also referred to as 'new regionalism' (Ethier 1998).

more of world trade'⁸. These two definitions bring attention to the Trans-Pacific Partnership (TPP), the Regional Comprehensive Economic Partnership (RCEP) and the Transatlantic Trade and Investment Partnership (TTIP). The next section offers an incisive introduction to the three path-breaking mega-FTAs and a snapshot of their status of negotiation/ratification (as of April 2018).

Age of Mega-Free Trade Agreements

Trans-Pacific Partnership

The TPP was a mega-FTA negotiated among 12 countries lining the Pacific Rim: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States (US) and Vietnam. The grouping encompassed great economic and demographic diversity (see Table 1.1). For example, as of 2013 (the year in which the 12-country membership configuration was fixed), GDP per capita measured at purchasing power parity, a proxy measure for a country's level of economic development, ranged from \$5,200 in Vietnam to over \$81,000 in Singapore and Brunei. In addition, the relative weight of international trade in national economic structure differed significantly across the TPP membership. Four trade-dependent TPP countries (Brunei, Malaysia, Singapore and Vietnam) had trade-to-GDP ratios that exceeded 100% while the share of trade for the US and Japan both hovered around 30%. Diversities notwithstanding, the TPP bloc as a whole was home to 36% of global GDP and over 11% of the world's population.

The predecessor of the TPP agreement is the Trans-Pacific Strategic and Economic Partnership (TPSEP) forged by Brunei, Chile, New Zealand and Singapore ('P4' countries). The quadrilateral FTA was concluded in 2005 and entered into force

⁸ A third plank of their definition is that a mega-FTA needs to incorporate substance that 'goes *well beyond* current WTO disciplines' (emphasis added). This requirement makes their definition overly restrictive and RCEP disqualified. Disregarding RCEP as a mega-FTA contradicts the common understanding of most academic research and policy debate that generally treat RCEP as an important mega-FTA.

Table 1.1 TPP members and economic statistics

Member	GDP (nominal, \$ billion)		Population (million)		GDP/Capita (PPP, \$)		Real GDP Growth (%)		Total Trade (% of GDP)	
	2013	2016	2013	2016	2013	2016	2013	2016	2013	2016
Australia	1,567	1,205	23.1	24.2	45,605	46,012	2.6	2.8	41	40
Brunei	18	11	0.4	0.4	81,827	77,421	-2.1	-2.5	111	87
Canada	1,843	1,536	35.1	36.3	44,101	44,819	2.5	1.4	62	64
Chile	278	247	17.5	17.9	22,579	23,194	4.0	1.6	65	56
Japan	5,156	4,949	127.4	127.0	38,974	42,281	2.0	0.9	34	31
Malaysia	323	296	29.7	31.2	24,034	27,683	4.7	4.2	143	129
Mexico	1,262	1,047	122.5	127.5	16,683	17,275	1.4	2.3	64	78
New Zealand	191	185	4.4	4.7	36,170	38,565	2.4	3.1	56	53
Peru	201	192	30.6	31.8	11,829	13,019	5.9	3.9	50	45
Singapore	302	296	5.4	5.6	81,288	87,833	5.0	2.0	366	318
United States	16,692	18,624	316.2	323.1	52,787	57,638	1.7	1.5	30	27
Vietnam	171	205	91.5	94.6	5,200	6,296	5.4	6.2	165	185
Total	28,004	28,793	804	824	-	-	-	-	-	-
Global share (%)	36.4	37.9	11.2	11.1	-	-	-	-	-	-

Source: World Bank

partially the year after. When the P4 countries were about to begin their consultations on outstanding chapters about financial services and investment protection in March 2008, the US sat in the talks and formally announced its participation in September 2008. Two months later, the US and P4 countries were formally joined by Australia, Peru and Vietnam to work on a recast agreement of the Trans-Pacific Partnership at the side-line of 2008 APEC Summit. First round of the TPP negotiations took place in Melbourne, Australia in *March 2010*. Delegates were quick to drop the existing template of the TPSEP in deciding to start the negotiations for a high standard and enforceable FTA on a clean slate. Malaysia joined the bloc during Brunei meetings in

October 2010 (3rd Round). In December 2012 (15th Round), Canada and Mexico moved to join the TPP. Japan became the 12th TPP member in July 2013 (18th Round). TPP negotiations were concluded in October 2015 and the agreement was initialled in February 2016. Japan and New Zealand ratified the TPP in January and May 2017 respectively. As per the stated goal of the TPP to 'establish a comprehensive, next-generation regional agreement that liberalizes trade and investment and addresses new and traditional trade issues and 21st century challenges', the comprehensive TPP texts had 30 chapters (Cimino-Isaacs and Schott 2016). Overall, the market access components of the deal committed TPP partners to eliminating 99% of all tariff lines (after the specified transition periods which could last 30 years). Core provisions of the rules-components of the TPP agreement spanned a flurry of behind-the-border issues such as TBT; SPS; trade facilitation; trade remedies; cross-border provision of services and temporary entry of business persons; investment and financial services; telecommunications and e-commerce; government procurement; competition, state-owned enterprises and small and medium enterprises; IPRs; labour and environment; development and capacity building; transparency and anticorruption; regulatory coherence and administrative provisions; and dispute settlement. In addition to the broad substantive coverage of the TPP, the possibility of trade sanctions as a remedy for non-compliance or violation of the content of the agreement (Gerber 2018) made the TPP a revolutionary trade accord with exceptional enforceability.

The withdrawal of the US on President Donald Trump's first full working day in January 2017 left the TPP agreement in tatters. As the bloc lost its largest economy making up around 60% of combined GDP, the technical requirement stipulating that ratification by at least six countries representing 85% of the bloc's 2013 GDP is needed for the TPP to take effect entailed that the agreement could not enter into force as negotiated. Following several months of repeated statements from the Trump

Administration underscoring the impossibility of a US return to the TPP, the remaining 11 signatories moved on to sign a renamed and surgically trimmed-down Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) without the US in March 2018 in the Chilean capital of Santiago. A total of 22 (relatively minor) provisions from the original TPP agreement (New Zealand Ministry of Foreign Affairs and Trade 2018b) will not have effect on the CPTPP parties (but they could be reinstated at a later date)⁹. The CPTPP can be provisionally applied

⁹ The following changes are made to the CPTPP. 1) Article 3 of Annex 26A is suspended. The provision that would have required national pharmaceutical management agencies to make administrative changes to primarily benefit the pharmaceutical industry has been suspended. 2) In the Investment chapter, six articles and Annex 9-L are suspended, curbing businesses' ability to sue government for investment contract breaches. 3) Article 11.2.2(b), the phrase 'Article 9.6 (Minimum Standard of Treatment)' and Annex 11-E are suspended. 4) Article 18.63 is suspended, meaning countries will no longer be required to extend the term of protection for copyright from 50 years to 70 years. 5) and 6) Articles 18.50 and 18.51 are suspended. There are no data or market protection obligations for new medicines, including biologics. 7) Article 18.37 paragraph 2 and the last sentence of Article 18.37.4 are suspended to afford more flexibility around what is patentable. 8) and 9) Articles 18.46 and 18.48 are suspended. CPTPP countries will not have to change their laws to enable people to apply for an extension of the term of a patent following unreasonable delays. 10) Article 15.8.5 is suspended. The suspension means government are not legally required to promote compliance with international labour rights as part of their procurement processes. 11) Article 15.24.2 phrase 'No later than three years after the date of entry into force of this Agreement' is suspended, meaning further negotiations to expand government procurement coverage will be delayed. 12) and 13) Article 18.68 and Article 18.69 are suspended. Countries will not have to provide more extensive protection to 'technological protection measures' and 'rights management information'. 14) Article 18.82, Annex 18-E and Annex 18-F are suspended. Countries retain the right to adjust rules for liability of internet service providers for on-line copyright infringement. 15) Article 18.79 is suspended, meaning countries will not have to provide more extensive protection for encrypted programme-carrying satellite and cable programme signals. 16) Article 20.17.5 phrase 'or another applicable law' is suspended. The suspended language would have required countries to act to address violations to the wildlife trafficking laws of countries that were not party to the CPTPP. 17) Article 5.7.1(f) second sentence is suspended. CPTPP countries retain the right to regulate and review customs duties for express shipments. 18) Article 13.21.1(d) is suspended. The suspended provision provides for reconsideration of decisions made by telecommunications regulatory bodies. 19) Annex 10-B paragraphs 5 and 6 suspended, limiting disciplines on postal monopolies. 20) In Article 18.8, the last two sentences of footnote 4 is suspended. The suspension of the technical matter means that the CPTPP aligns with the existing international rules on national treatment for intellectual property. 21) and 22) Annex II Schedule of Brunei Darussalam – 14 – paragraph 3: the phrase 'after the signature of this Agreement' suspended. Annex IV Schedule of Malaysia – 3 and 4 – Scope of Non-Conforming Activities: all references to the phrase 'after signature of this Agreement' suspended. Due to these suspensions, the starting time of the relevant commitments will now be the date of entry into

after at least half of the signing countries completed domestic legislation. In this writing, Mexico, Japan, Singapore, New Zealand, Canada, Australia and Vietnam have completed respective domestic legislative procedures to ratify the agreement (in that order) and the deal will take effect on 30 December 2018 as a result.

Regional Comprehensive Economic Partnership

RCEP is a proposed mega-FTA involving sixteen countries: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam, China, Japan, South Korea, India, Australia and New Zealand. RCEP countries have a combined population of more than 3 billion and a total GDP of around \$22 trillion (2013 figures), accounting for about 48% and 29% of global total respectively (see Figure 1.2). If completed, RCEP represents the world's most populous free trade area and the only regional trade constellation that knits together China, Japan and India outside the multilateral WTO framework. The US pull-out from the TPP agreement (and the indefinite suspension of TTIP talks, see below) would also make RCEP the world's largest trading bloc in the making.

The idea of RCEP was first mooted at the 19th ASEAN Summit in November 2011, when leaders of the ten ASEAN countries adopted the ASEAN Framework for Regional Comprehensive Economic Partnership, which set out the general principles and visions for the prospective FTA negotiations. In August 2012, the Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership was drafted at the 44th ASEAN Economic Ministers Meeting and Related Meetings. The document, and the RCEP framework it served, were officially endorsed by leaders at the 21st ASEAN Summit and Related Summits in November 2012 in Siem Reap, Cambodia. First round of RCEP negotiations kicked off in *May 2013* in

force of the CPTPP for Malaysia and Brunei Darussalam respectively instead of the date of signature.

Brunei. As of 2018, 24 formal rounds, at least 9 ministerials and multiple informal meetings were completed.

In the first round, three RCEP working groups in charge of negotiations on Goods, Services and Investment were established. On trade in goods, RCEP countries aim to comprehensively liberalise tariffs so that participating countries can 'maximize the benefits of regional economic integration'. On trade in services, the priority is to 'substantially eliminate restrictions and/or discriminatory measures with respect to trade in services between the RCEP participating countries' through an agreement that is GATS-consistent and WTO-compliant. The content of RCEP is to be built on RCEP partners' existing commitments under the GATS and the ASEAN+1 FTAs. In relation to investment, RCEP seeks to address four pillars in terms of investment promotion, protection, facilitation and liberalisation with the intention to fostering 'a liberal, facilitative, and competitive investment environment' in East Asia. Other major policy topics covered in RCEP negotiations include economic and technical cooperation, IPRs, competition and dispute settlement; negotiations in these areas are led by four additional working groups established in January 2014 (3rd Round).

Initially envisioned to be completed in 2015, RCEP negotiations missed three more deadlines in 2016, 2017 and 2018. The latest deadline RCEP countries have set for themselves is to reach a 'substantial conclusion' under the ASEAN chairmanship of Thailand in 2019. Only seven chapters have been completed to date; they are the chapters on Economic and Technical Cooperation, Small and Medium Enterprises, Customs Procedures and Trade Facilitation, Government Procurement, Institutional Provisions, Sanitary and Phytosanitary Measures, and Standards, Technical Regulations and Conformity Assessment Procedures. The talks on market access for goods, investment protection and e-commerce prove hugely contentious and remain

Table 1.2 RCEP members and economic statistics

Member	GDP (nominal, \$ billion)		Population (million)		GDP/Capita (PPP, \$)		Real GDP Growth (%)		Total Trade (% of GDP)	
	2013	2016	2013	2016	2013	2016	2013	2016	2013	2016
Australia	1,567	1,205	23.1	24.2	45,605	46,012	2.6	2.8	41	40
Brunei	18	11	0.4	0.4	81,827	77,421	-2.1	-2.5	111	87
Cambodia	15	20	15.0	15.8	3,070	3,737	7.4	7.0	128	127
China	9,607	11,199	1,357.4	1,378.7	12,725	14,153	7.8	6.7	47	37
India	1,857	2,264	1,278.6	1,324.2	5,250	6,571	6.4	7.1	54	40
Indonesia	913	932	252.0	261.1	9,979	11,609	5.6	5.0	49	37
Japan	5,156	4,949	127.4	127.0	38,974	42,281	2.0	0.9	34	31
Korea	1,306	1,411	50.4	51.2	32,616	36,532	2.9	2.8	103	78
Laos	12	16	6.5	6.8	5,294	6,550	8.0	7.0	98	78
Malaysia	323	296	29.7	31.2	24,034	27,683	4.7	4.2	143	129
Myanmar	60	63	51.4	52.9	4,613	5,721	8.4	5.9	39	45
New Zealand	191	185	4.4	4.7	36,170	38,565	2.4	3.1	56	53
Philippines	272	305	98.5	103.3	6,527	7,804	7.1	6.9	60	65
Singapore	302	296	5.4	5.6	81,288	87,833	5.0	2.0	366	318
Thailand	421	407	68.1	68.9	15,293	16,913	2.7	3.2	133	123
Vietnam	171	205	91.5	94.6	5,200	6,296	5.4	6.2	165	185
Total	22,191	23,764	3,460	3,551	-	-	-	-	-	-
Global share (%)	28.8	31.3	48.2	47.7	-	-	-	-	-	-

Source: World Bank

far from closure. Another prominent moot point in the RCEP talks concerns India's reservations towards RCEP's imbalance of liberalisation between goods and services. RCEP countries hitherto appear to have attached a greater priority to dismantling tariffs on merchandise trade while remaining ambivalent with reference to the aspired level of services market opening. For New Delhi, a 'half-baked' RCEP (Sen 2018)

falling short of the services market access India goes after¹⁰ does not justify the deep tariff cuts India is being pushed to commit to. Nevertheless, India is under tremendous international and domestic pressure (Sengupta 2018) to not filibuster the eventual conclusion of RCEP negotiations.

Transatlantic Trade and Investment Partnership

TTIP is a mega-FTA that was being negotiated between the European Union (EU) and the US. Taking note of the recommendations delineated in a report by the joint High-Level Working Group on Jobs and Growth calling for the use of a comprehensive trade and investment to release untapped potentials of the Atlantic economy, the European Commission, the executive branch of the EU, in March 2012 drafted a mandate for commencing the TTIP process. The Council of the European Union approved the proposed negotiating directives in June, urging the Commission to kick start negotiations with the United States Trade Representative (USTR) as soon as possible. On the American side, the Obama Administration legally notified Congress of its intent to negotiate the TTIP with the EU in March 2012 and was authorised to do so after the 90-day consultation period ended. Officially announced in June 2013 (in the margins of the G8 Summit at Lough Erne, Northern Ireland), the first round of TTIP negotiations got under way in *July 2013* in Washington, DC. TTIP became the third mega-FTA under negotiation as its members contributed around 45% of global GDP, 30% of world's merchandise trade flows and 17% of global investment (2013 figures).

By the time when TTIP negotiations started, the EU and the US were already each other's primary markets, leading the transatlantic trade ties to be described as 'the most integrated commercial artery in the world' (Hamilton and Quinlan 2014). In 2012,

¹⁰ For example, India wants that at least the provisions on Mode 4 (i.e. liberalisation of the movement of natural persons) that were agreed upon as part of the FTA between ASEAN and New Zealand, Australia, should be included in the RCEP, but the ASEAN led by Indonesia is not willing to agree to it (Sen 2018).

the EU accounted for 24% of US imports and 28% of US exports, while the US accounted for 20% of the EU's imports and exports (excluding intra-EU trade). Notably, over 32% of EU imports from the US consisted of intra-firm trade and affiliate sales, and the figure was 61% for the US imports from the EU (Hamilton and Quinlan 2014). The transatlantic economy was also driven by investment – 44% of EU foreign direct investment (FDI) went to the US and 63% of FDI inflows to the EU originated from the US (OCED 2013). The European Commission estimated that EU investment in the US was approximately eight times the amount of EU investment in India and China together and the total amount of US investment in the EU was three times higher than in all of Asia.

TTIP has three overarching objectives: market access, regulatory cooperation and rules. Given the thickness of transatlantic economic relations and the already low tariff barriers (with an average of 5.2% for the EU and 3.5% for the US), negotiating further market access improvement was seen as a relatively straightforward task by negotiators although some sensitive sectors including agriculture would necessarily be opened up. By contrast, the other two objectives of the TTIP negotiations, namely, addressing regulatory issues (including non-tariff measures) and strengthening multilateral trading regime by writing trade rules in emerging areas turned out to be significantly more challenging than expected (Young 2016). Specifically, much of the controversies surrounding TTIP's regulatory cooperation agenda was related to some Europeans' fear (substantiated or otherwise) that harmonisation and/or mutual recognition of the equivalence of regulatory acts between the EU and the US would result in a regulatory race to the bottom in *inter alia* health and environmental protection with negative welfare repercussions (De Ville 2013). Others including some segments of the civil society mainly opposed the US demand of incorporating into TTIP an Investor-State Dispute System (ISDS) (European Commission 2015b) which they claimed would allow American multinationals to sue democratically elected

European governments for investment contract breaches predatorily. Therefore, the EU pronounced in November 2015 that TTIP must not legitimise any extra-judicial mechanism for commercial arbitration. In its place, the EU proposed a chapter on Government-to-Government Dispute Settlement (GGDS). Regarding the mediation mechanism to resolve conflicts between investors and governments, Brussels preferred a permanent Multilateral Investment Court (MIC)¹¹.

A total of 15 rounds of TTIP negotiations were carried out with the last one being held in October 2016 in New York. Landing zones identified included the exchanged offers on liberalising 97% of tariff lines¹², measures on trade facilitation and border delays reduction, the commitment to enhancing transparency during negotiations, and the content of a dedicated small and medium sized enterprise chapter (Executive Office of the President of the United States and European Commission 2017). Common ground was yet to be found on the treatment of the most sensitive tariff lines, expansion and locking in services sectors liberalisation, SPS, public procurement, standards and conformity assessment procedures, ISDS versus MIC, data flow and digital infrastructure, divergences in the EU's and the US' approaches to trademark, generic name, and geographical indication (Executive Office of the President of the United States and European Commission 2017). Negotiations for TTIP were effectively 'frozen' with Trump swearing in as the US president.

Table 1.3 compiled on the basis of available texts, intended chapter headings and informed speculation compares the *tentative* issue coverage of the TPP, RCEP and TTIP. It shows that the agenda of the three mega-FTAs are all preoccupied by 21st

¹¹ The EU has put the MIC proposal, taking the form of bilateral Investment Court System, into practice in its recent trade and investment agreements with Canada, Mexico, Singapore and Vietnam though major trading powers including the US, Japan and China remain deeply ambivalent towards the European approach.

¹² One should be cautioned that not all tariff lines are equivalent. Tariff elimination rate is just one indicator to partially characterise the true extent of liberalisation following the implementation of an FTA.

century, WTO-plus and WTO-extra items although the legal enforceability and depth of commitment are not necessarily identical for the same issue covered across agreements. It further demonstrates that RCEP is comparatively less high-standard than the TPP and TTIP are, because it is unlikely to contain deep commitment on labour, environment, state-owned enterprises or transparency. TTIP, as a mega-FTA being forged between developed economies (i.e. a North-North mega-FTA), does not provide for development-oriented, capacity-building chapters, but it like other trade agreements pushed by the EU prioritises and promotes more societal and normative policies such as sustainable development and climate change. Electronic commerce on the table of TPP and RCEP negotiations is conspicuously left outside the draft TTIP outlines. This perhaps is due to the non-existence of globally competitive firms like Alibaba, Amazon and eBay in Europe, and thus negotiating rules governing digital economy may be seen by Brussels as less urgent.

Table 1.3 A comparison of the tentative coverages of the TPP, RCEP and TTIP

Policy Areas	TPP/CPTPP	RCEP	TTIP
Market Access	✓	✓	✓
Rules of Origin	✓	✓	✓
Trade Facilitation	✓	✓	✓
Trade Remedies	✓	✓	✗
Sanitary and Phytosanitary Measures	✓	✓	✓
Technical Barriers to Trade	✓	✓	✓
Investment	✓	✓	✓
Services	✓	✓	✓
Electronic Commerce	✓	✓	✗
Public Procurement	✓	✓	✓
Competition	✓	✓	✓
State-Owned Enterprises	✓	✗	✓
Intellectual Property	✓	✓	✓
Labour	✓	✗	✓
Environment	✓	✗	✓
Technical Cooperation and Capacity Building	✓	✓	✗
Development	✓	✓	✗
Small and Medium-Sized Enterprises	✓	✓	✓
Regulatory Coherence	✓	✗	✓
Transparency and Anti- Corruption	✓	✗	✗
Institutional Provisions	✓	✓	✓
Dispute Settlement	✓	✓	✓
Sustainable Development	✗	✗	✓
Energy and Raw Materials	✗	✗	✓

Source: USTR, New Zealand Ministry of Foreign Affairs and Trade, European Commission (2015a), Asian Trade Centre (2016) and Robeniol (2018)

Research Questions

The forgoing discussions on the trajectories of RTA development, history of regionalism, and the exact timing of mega-FTA negotiations lead to the following research questions that this dissertation strives to answer: What explains this third wave of regionalism in which (the negotiations of) three distinctive mega-FTAs burst onto the global trade scene? This big picture research question can be unpacked into a series of sub-questions: Was there any causal relationship behind the successive launches of the TPP, RCEP and TTIP negotiations? Why did the US, China and the EU, once ardent defenders and beneficiaries of the WTO, jump away from multilateralism towards mega-regionalism one after another? What specific international considerations and national contexts informed them to engage in mega-regionalism? Why is there no mega-FTA proposal linking up them all?

This dissertation offers an international political economy account of the multitude of forces driving the sudden diffusion of the three mega-FTAs under study. The central hypothesis to be tested out in the next chapters is that this wave of mega-regionalism is the outcome of the multi-dimensional competitions in the context of interdependent world political economy between the US, China and the EU who aspire to leverage the distributive effects, political clout and regulatory influence of the mega-scale trading bloc to which they are party in enhancing their absolute and relative international power. Simply put, the mega-regionalism came into being because the TPP set off a chain reaction for RCEP and TTIP to happen, as China and the EU felt compelled to defensively respond in kind after the US made the first offensive move.

To delimit the scope of enquiry, three provisos (which also serve to situate this dissertation in the wider existing literature to be elaborated in Chapter II) are in order. First, the prime objective of this dissertation, as a scholarly attempt to examine the drivers behind the temporal clustering of mega-FTA negotiations since 2010, has

more to do with the hypothesised interconnected motives and interactive dynamics behind the three mega-FTAs than with the full range of rationales underpinning individual mega-FTAs best analysed in isolation and in their own rights. Second, a mega-FTA in this study is not addressed as an inter-governmental integrative economic cooperation or the bottom-up offshoot of market forces, nor is it approached as a piece of international economic law (so as to avoid sifting through the technical details of its legal texts). Rather, this study understands a mega-FTA as a strategy, generally defined as the mobilisation of available resources to attain pre-determined objectives according to certain action plans (Howard 1976, Baylis and Wirtz 2016). In the specific context of international political economy, the mega-FTA is understood as an instrument to satisfy geo-economic and foreign policy needs. A related point to make is that this dissertation seeks to unravel the causal mechanism (or a triggering effect) behind the consecutive launches of mega-FTA negotiations from the standpoints of the US, China and the EU. Choosing to focus on these three economies is primarily because, without their active participation and judicious leadership, the TPP, RCEP and TTIP would either fail to qualify as *mega*-FTAs or presumably cease to exist in the first place; it is not this study's intention to reject or trivialise the irreplaceable role played by other key mega-FTA partners like Japan, ASEAN, Australia, Korea and Canada in pushing the mega-FTA movement forward. This is particularly true considering the fact that the CPTPP which would not see the light of day had there not been conscious and coordinated efforts from Japan, Australia, Chile and Singapore and others to plough ahead against the headwinds of a retrenching and disengaging America.

Before I review existing regionalism literature and spell out the detailed research methodology to fill the identified lacuna (in Chapter II), I devote the remainder of this chapter unto taking stock some 'standard' diagrammatic or analytical perspectives on reciprocal trade agreements. These basic and necessarily incomplete understandings

of FTAs are crucial for us to get to the bottom of the economic causes and political motivations of mega-FTAs' formation, function, diffusion, competition and clustering.

Basic Economics of FTA¹³

The standard economics of FTA can be explained using a Walrasian three-country, three-good model (Baldwin 2009). Suppose the world is composed of Country A, Country B and Country C; each country exports two goods to the other two countries and imports one good from both countries. Further assume that tastes are identical across nations and that a uniform, MFN tariff is imposed by each country on imports from the other two countries. The trade pattern in this analytically simplified world economy is depicted in Figure 1.5.

Figure 1.5 Trade pattern of the model economy

What are the economic effects of an FTA being formed between two countries? The precise answer to this question hinges on the defining characteristics of the FTA signatories such as relative economic size. Different combinations of assumptions yield varying conclusions and implications regarding the economic consequences of

¹³ In this sub-section, only the theoretical foundations about trade creation and trade diversion are briefly explained using graphs. Empirical findings can be found in Soloaga and Winters (2001), Treffer (2004), Romalis (2007), Carrere (2006), Acharya et al. (2011), Kikuchi, Yanagida, and Vo (2018), Ji et al. (2018a) and others.

an FTA (Panagariya 2000, Pomfret 1997). Here I examine two classic cases (WTO 2011).

'Small FTA' Diagram

First consider an FTA involving Country A as a small country which takes the international price of a homogeneous Good 1 as given. Since Country A's demand is a negligible share of the global demand, this hypothetical FTA does not have any systemic impact and is thus considered a 'small FTA' (Shibata 1967, Johnson 1960).

Figure 1.6 shows the supply and demand curves for Country A.

Figure 1.6 'Small FTA' diagram

Country A can import Good 1 from Country B or Country C. Country A as a country with an infinitely small portion of global demand for Good 1 faces perfectly elastic export supply curves (labelled XS^B and XS^C). Under the condition of free trade, the prices of Good 1 from Country B and Country C are denoted by P^B and P^C , respectively. Note that Country C is the lower-cost supplier in the diagram, and Country A imports Good 1 exclusively from Country C, at the price of P^C and a quantity given by the segment $D'-S'$. If Country A applies a non-discriminatory MFN tariff, T , to the other two countries, domestic prices for Good 1 from Country B and

Country C become P^B+T and P^C+T , respectively. Under such a circumstance, Country C remains the more efficient supplier of Good 1 to Country A; it exports a quantity of $D''-S''$ to Country A at the price of P^C+T . Good 1 producers based in Country A increase production by $S''-S'$.

Country A is at liberty to form a free trade area with Country B or C. If Country A signs an FTA with country C so that imports from that country ceases to be subject to tariff T , the domestic price falls to P^C . Country A then imports $D'-S'$ from FTA partner Country C at the price of P^C . Under this FTA, consumer surplus gains by the areas of $a+b+c+d+e+f+g+h+i+j$, producer surplus is reduced by the areas $a+e$ and government loses tariff revenue $c+h$. The overall net effect of this FTA for national welfare is therefore positive with a gain of $b+d+f+g+i+j$. As such, the FTA between Country A and Country C can be said to be 'purely trade creating' and 'purely welfare-enhancing'.

Should Country A picks Country B as the free trading partner, the border price for Good 1 from Country B falls to P^B and that for Country C's exports stays at P^C+T . Therefore, Country A imports solely from Country B at the price of P^B and the imported quantity is $D'''-S'''$. Similarly, the agreement results in the increase in consumer surplus by areas $a+b+c+d$, a reduction in producer surplus by area of a , and a government revenue loss of areas $c+h$. The net welfare gain for Country A is $b+d-h$. If $h > (b+d)$, the agreement is welfare-reducing; otherwise it is either welfare-enhancing or welfare-neutral. Whether Country A gains or not depends on the initial level of MFN tariff and the elasticities of supply and demand. This national welfare indeterminacy is referred to as 'Viner's ambiguity' to mark one of Jacob Viner's key findings in his seminar book, *The Customs Union Issue*, that discriminatory trade liberalisation has ambiguous welfare implications for importing, preference granting countries (Viner 1950).

From the perspective of trade volume, the FTA between Country A and Country B is 'purely trade-diverting' because Country A sources Good 1 not from the more efficient producer, Country C, but from the less efficient FTA partner, Country B. If Country B's supply of Good 1 is sufficient and imports from Country B and Country C are mutually interchangeable, ROOs specifying the eligibility for preferential treatment in Country A are simply not relevant. But when Country B's supply of Good1 is not adequate, part of Country A's demand that cannot be satisfied by Good 1 produced within Country B actually comes from Country B's imports from Country C. With ROOs deterring blatant trade deflection defined by Shibata (1967) as a 'redistribution of imports from third countries through the partner country with the lowest tariff, with the sole aim of realising tax advantage by exploiting the rate differentials between the members within an economic union', Good 1 in the FTA with ROOs will have a higher price than in one without.

'Big-FTA' Diagrams

Building on the analytical analysis of a 'small-FTA', Figure 1.7 illustrates the standard economics of a 'big-FTA' in which, for the sake of simplicity, the three countries are assumed to have identical sizes and pre-FTA MFN tariff levels. The symmetry in terms of relative size makes Figure 1.7 more applicable to the mega-FTAs wherein major economies conclude or negotiate trade deals that have systemic implications for members and non-members alike.

Figure 1.7 'Big-FTA' diagram

Source: Author's modification of figures in Baldwin and Wyplosz (2009)

Suppose that in the initial state, the three countries engage in free trade (FT). Country A therefore imports the quantity M at the price of P^{FT} defined by the intersection of the import supply (MS_{FT}) and import demand (MD). Note that M is the sum of export quantities from Country B and Country C; due to the strong symmetry, each country supplies $\frac{1}{2} M$ to Country A. Once Country A decides to apply a uniform specific MFN tariff to imports of Good 1, the import supply curve is shifted up to MS_{MFN} . The imposition of this tariff T drives internal price up to P and border price down to $P-T$ for both suppliers. Country A's imports drop from M to M' , with the reduction divided equally between Country B and Country C.

If Country A and Country B decide to sign an FTA to swap tariff elimination on Good 1 between them, the resulting total import supply curve becomes MS_{FTA} which lies between the MS_{FT} and MS_{MFN} curves. MS_{FTA} is a kinked curve because there is a threshold price up to which producers from Country B have a monopoly over the access to Country A's market. Once the internal price in Country A rises above the threshold level, firms from Country C start to supply imports and MS_{FTA} resumes to the normal slope. Country A imports the quantity M'' at a price of P' defined by the

post-FTA equilibrium of the MS_{FTA} and MD . The FTA results in an internal price (between the free trade price P^{FT} and MFN price P) and two border prices. The price facing Country B-based producers is raised by tariff liberalisation to P' (i.e. Country A's internal price) from $P-T$. The FTA also serves to lower Country C's border price from $P-T$ to $P'-T$. As a result of the changes in border prices, Country B exports expand from $X^{B'}$ to $X^{B''}$ (trade creation) while Country C exports shrink from $X^{C'}$ to $X^{C''}$ (trade diversion). Identical development unfolds in the market for Good 2 for which Country A is the exporter and Country B becomes the importer. Nothing happens with respect to Good 3 which is imported by Country C under MFN conditions.

Several critical observations about Figure 1.7 concerning trade volume and national welfare should be highlighted. The first is that the FTA changes Country A's import composition to favour goods from Country B over those of Country C. In other words, the FTA creates trade between Country A and Country B while diverting trade away from Country C. More generally, discriminatory trade liberalisation induces a country to switch some of its purchases to FTA partner-based suppliers and away from possibly more productive suppliers originating in economies that lie outside the jurisdiction of the FTA. The second observation is that Country B firms benefit from the FTA in two ways: a greater market access to Country A following the removal of intra-FTA tariff (area ' b ' in Figure 1.7) and contracted Country C exports to Country A in the face of tariff discrimination (area ' a '). The area ' a ', known as preference rent (Baldwin 2009), disappears if Country C also signs an FTA with Country A or Country A multilateralises the trade concessions it grants to Country B¹⁴. Therefore, this preference rent – which was not present before the agreement in question took effect – often underlies various political arguments for excluded countries that lose from the

¹⁴ Some researchers (Amiti and Romalis 2006) suggest that such fear of disappearing preference in the event of achieving multilateral trade liberalisation is overstated, while others (Lankes and Alexandraki 2004) maintain that only a small subset of countries are in fact at risk of preference erosion.

FTA to seek a countervailing agreement and for included countries to hold back from extending reciprocal trade preference to outsiders (Bhagwati 1999). Conversely, the irrelevance of preference rent in the context of multilateral trade liberalisation explains why WTO (2011) in its report states clearly that 'If a multilateral trade agreement such as the GATT/WTO is in place, there is no [economic] rationale for signing a preferential trade agreement'.

The welfare effects of the FTA are differentiated between members and non-members. The net welfare impact for Country C is clearly negative. Because of the FTA's externality, Country C experiences a negative trade volume effect and a negative border price effect, i.e. the terms-of-trade improvement against Country B. The welfare impact for Country A is less straightforward (see Figure 1.8). Country A firstly experiences increased consumption measured by the area a ; the border price effect discriminating Country C leads to gains measured by the area b ; and the deteriorating terms-of-trade against partner Country B results in a loss of areas c_1+c_2 . The net welfare effect for Good 1 is $a+b-(c_1+c_2)$. Since trade liberalisation under the FTA is reciprocal, the reverse takes place for Country A's exports of Good 2 to Country B. The net welfare effect for Good 2 is d_1+d_2 . Country A's border price losses on the import side is partly compensated by its gains on the export side ($c_1=d_1$), so the net welfare effects of the FTA on Country A are given by $a+b+d_2-c_2$, which can be positive or negative depending again on elasticities of supply and demand and the pre-FTA tariff level (i.e. the Viner's Ambiguity). Country B's welfare impacts are identical to those for Country A.

Figure 1.8 Welfare effects for Country A

Source: Author's modification of figure in Baldwin and Wyplosz (2009)

Other Dynamic Economic Motives¹⁵

Apart from the mechanistic economic calculations of an FTA that focuses on market access, preference margins and trade creation/diversion¹⁶, dynamic gains from trade liberalisation and economic integration arising from external economies of scale, improvement in all-round productivity and efficiency, and foreign investment are additional important economic factors governments consider in pondering regional trade policies.

First, ever since the work of Marshall (1879) on 'industrial districts', realising external economies of scale has been a powerful economic argument in favour of establishing FTAs. The logic is that de-fragmenting national markets of signatory states gives rise to an integrated marketplace with facilitated cross-border supply chains and a

¹⁵ Theoretically speaking, the biggest gains to each country come from the unilateral removal of its own barriers, no matter what the others do. FTA remains the 'second best option'.

¹⁶ Hasson (1962) concluded a long time ago that 'Static analysis of trade division and trade creation is insufficient'.

regionally pooled labour market for companies to reduce cost per unit and increase output to serve the enlarged market (Lawrence 1996b). Second, bringing down protective barriers at national boundaries leads to a geographical concentration of firms, who cannot stay complacent but to become more efficient to meet the heightened level of competition with other producers within the free trade area. In the presence of an FTA, companies will also have a greater access to foreign technological advancements, specialised knowledge, and managerial know-how which would enable them to enhance competitiveness in creating cycles of 'endogenous growth' (Grossman and Helpman 1991). Furthermore, FTAs can improve the overall business climate and mitigate regulatory uncertainty and political risks. Therefore, FTAs could bring about economic benefits by stimulating FDI and boosting international investor confidence (Schiff and Winters 2003, Manger 2009, Berger et al. 2013, te Velde and Bezemer 2006), especially when governments are exposed to political pressure from domestic interest groups lobbying for import restricting and foreign discriminatory policies (Maggi and Rodriguez - Clare 1998).

Standard Politics of FTA¹⁷

Political Economy

Political economy analysis fundamentally views the formation of an FTA as the outgrowth of a national trade policy formulation process which serves the interests of policy-makers while being conditioned by the preferences of domestic non-state actors (Grossman and Helpman 1995).

A series of research by Mansfield, Milner, and Rosendorff (2002), Mansfield, Milner, and Pevehouse (2007), and Mansfield and Milner (2012) have led the way in making the case that democratically elected politicians tend to wield FTAs as 'a strategic tool

¹⁷ For a succinct summary of political motives behind economic integration based on a literature survey, see Hosny (2013).

vis-à-vis voters' to secure political gains (e.g. re-election). By negotiating an FTA and having the parliament to ratify it, the government is able to demonstrate to domestic constituents that it is implementing sound economic policies that increase social welfare and pursuing trade objectives approved by a majority of citizens. The concurrent rapid spread of democracy and FTAs among Latin American, Asian and Central Eastern European countries in the 1980s substantiate their reasoning (WTO 2011).

For another set of countries, FTAs are external policy anchors (Ferrantino 2006b, Chauffour and Maur 2011, Crawford and Fiorentino 2005, Galal and Lawrence 2005). Governments understand that binding international trade obligations contained in FTAs help them push forward domestic reform agenda better than they would otherwise be able to, knowing that committing to FTAs can earn international credibility, lock in existing progress and deter future policy reversals¹⁸. For instance, scholars subscribing to this view (Auslin 2012, Katada 2016, Honma 2015, Haidar and Hoshi 2016) argue that Japan's participation in the TPP grouping can (partly) be explained by the political imperative to carry out hard-to-sell structural reforms (i.e. the third arrow of the 'Abenomics'). What's more, some developing countries with relatively insufficient experiences with and knowledge about economy-wide liberalisation and market-oriented reforms often see provisions embedded in their North-South FTAs with more advanced economies as a roadmap for improving economic governance and policy transparency (Hoekman 2011).

Trade policy making is a bottom-up as well as a top-down process (Woll 2009, Capling and Low 2010) – private lobbying is a traditionally powerful force behind the formation of FTAs. Though interest groups are customarily assumed to be pro-protection in most economic literatures and public choice models explicating

¹⁸ Nevertheless, critics of FTAs argue that multilateral trade agreements achieved at the WTO should in theory have more effective and legitimate anchoring effect than FTAs.

international trade policies (Rowley and Tollison 1986, Baldwin 1989, Mitra 1999, Drope and Hansen 2004, Ehrlich 2007, Axline 1977, Levy 1997), they are in fact progressively organised to lobby for freer trade in general (Rönnbäck 2015) and for the opportunity to bank on greater market accesses abroad in specific (Rodrik 2018). Solís (2009) notes that Japanese business community had long demanded the government and trade bureaucrats to begin trade negotiations with the country's top trading partners like China, Europe and the US¹⁹ and other strategically important markets such as Mexico which serves as the gateway to the vast North American consumer markets for them to expand internationally.

Geopolitical Calculations

Geopolitical considerations that have historically informed the formation of FTAs are in close connection with the broader relationship between trade liberalisation and political integration. Depending on the sequencing of the two oft-interdependent undertakings, FTAs play different roles. FTAs can activate the process of fuller regional integration in a political sense²⁰. According to this neo-functionalist view, the spill-over effects of the initial and on-going integration of trade policies create an enabling socio-economic and policy environment that makes the need for deeper integration in political and institutional matters appealing and inescapable (WTO 2011, Ilievski 2015). The most discussed case of European integration (Lindberg 1963a) aside, a modern example is the formation of the Pacific Alliance (PA) in 2011 by Chile, Colombia, Mexico and Peru (Villarreal 2016). The goal of the PA is to build 'an area of deep economic integration' that can become 'a platform for political articulation' and for projecting the joint strengths of the four countries to the rest of the world. The PA countries moved expeditiously from agreeing to eliminate nearly all

¹⁹ Japan negotiated free trade with the US under the TPP, is negotiating with China under RCEP and has signed an agreement with the EU in 2018.

²⁰ Empirical studies suggest that when 'economic integration is accompanied by political integration, innovation and growth will be stronger and welfare higher' (Brou and Ruta 2011).

tariffs by 2020 and coordinating trade and investment promotion activities, to scrapping intra-PA tourist visa requirements for each other's citizens, to creating the Latin American Integrated (stock) Market, and to pooling diplomatic resources by setting up joint embassies in countries like Vietnam (Nolte 2016). In some other cases, trade liberalisation is contemplated to complement a pre-existing 'high-politics' process wherein the importance of 'low-politics' issues like economics had been downplayed for one reason or another. The creation of AFTA in 1992 (Cuyvers and Pupphavesa 1996, Severino 2006) in search of a new *raison d'être* for ASEAN's existence as Cold War and Indo-China conflict wind up (Chia 1998) particularly fits this interpretation.

Another popular geopolitical, and empirically tested (Mansfield and Pevehouse 2000, Lee and Pyun 2016, Martin, Mayer, and Thoenig 2008), argument put forth is that FTAs promote peace, stability and development while reducing incentives for armed conflicts. The EU – which itself was born out of the resoluteness to prevent war from breaking out in continental Europe again (Haas 1958, Winters 1997, Dinan 2006, Mattli 1999) – has been the forerunner in this regard (Woolcock 2007, World Bank 2005). In the aftermath of the collapse of the Soviet Union, the EU used FTAs as strategic side payments (Baccini and Urpelainen 2012) to 'bribe' neighbouring countries in exchange for peace (and policy change in desirable directions). For example, it adopted Europe Agreements to stabilise bordering Eastern European countries (many of which eventually became EU members decades later), signed Euro-Mediterranean Agreements to put in place 'a ring of friends' (Johansson-Nogués 2004) in its southern neighbourhood where democracy was just restored, and initiated Partnership and Cooperation Agreements with the Western Balkans and the Commonwealth of Independent States including Russia to safeguard peace. Prompted by the 2004 EU enlargement, the European Commission outlined a European Neighbourhood Policy (ENP) to support national development strategies of

partner countries (CEC 2004). The 2004 ENP was reviewed and revised in 2015, re-emphasising EU's intention of leveraging trade arrangements to foster 'stabilisation, security and prosperity' in its Eastern and Southern neighbourhoods (European Commission 2015c).

America, by contrast, embraces FTAs from a much more realist perspective (and its FTA partners often take up Washington's offer for similarly pragmatic, *realpolitik* reasons). Securitisation – the practice of framing an issue as essentially a security problem (Wæver 1995, Buzan, Wæver, and de Wilde 1998, Higgott 2004a) – of trade relations led to the establishment of the US' first ever FTA in 1985, the one with Israel. This economically fiddling accord, usually treated no more than a footnote in most economists' deliberations on US trade policy (Rosen 2004), demonstrates forcefully that FTAs should by no means be probed solely through the lens of trade coverage. The 'sweetheart deal' (Pelzman 1989b) was meant to bolster the position of the US' close ally in the Middle East by exhibiting the strong and special bilateral ties beyond the military domain. In the early 21st century, the George W. Bush Administration employed trade liberalisation to reward countries denominated as allies in the global war on terror. The 2004 US-Morocco FTA is one such example (White 2005). And the puzzling observation that the US has an FTA with Australia but not with New Zealand is oftentimes attributed not to economic peculiarities but to the fact that Canberra contributed militarily to the US-led international coalition in Afghanistan and Iraq while Wellington consistently rejected to support the American anti-terrorism campaign (Battersby 2018). Australia's security alignment with the US also drove it to form free trade partnerships with other staunch American allies in the region such as Japan to reaffirm Australia's unwavering commitment to the enduring US alliance and the Australia–Japan–US security triangle (Capling 2008).

International Negotiation

Numerous studies have contended that countries enter FTAs to strengthen their collective bargaining power in dealing with the rest of the world. In the broadest sense, there are three ways for FTA signatories to enhance such power. First, by forming trade alliances, developing countries can engage themselves in concerted actions to divide up negotiating costs while jointly pressuring industrialised countries to grant better treaty terms and greater accesses to their markets (Kitamura 1966, Inotai 1991, De Melo, Panagariya, and Rodrik 1993, Fernandez 1997, Fernández and Portes 1998). Pre-negotiation ‘cartelisation’ (Langhammer and Hiemenz 1990) is more easily to be executed if countries in the grouping share similar interests, suffer from negotiating resource constraints and face many policy issues in the upcoming negotiations with third parties (Andriamananjara and Schiff 2001). For advanced economies and powerful states, FTAs can be billed as opportunities to export regulatory preferences (including even segments of their domestic law) and/or impose trade agendas matter to them, especially those rejected by developing countries during universal negotiations at the GATT/WTO (Araujo 2017).

The second way proposed by Mansfield and Reinhardt (2003), Perroni and Whalley (2000) and others is that an FTA constitutes its members’ insurance policy against latent negative developments in their external trading environment. Such development could well be the failure to reach agreements within the multilateral regime. Then an FTA reduces the costliness of the WTO talk’s breakdown since the states had already secured preferential access to their free trade partners. Alternatively, an FTA minimises the prospect of members unilaterally raising trade barriers against each other in the future. On the other hand, however, the ability to craft relation-specific FTAs, or what McLaren (2002) calls ‘insidious regionalism’, with either like-minded partners or the most important markets runs the risk of bogging down WTO trade negotiations as both the economic relevance and political impetus

of reaching a multilateral treaty are significantly watered down (Krishna 1998, Levy 1997). Negotiating FTAs might divert finite political and diplomatic resources and the focus of domestic lobbying away from multilateralism to regionalism²¹ (Sally 2006). This concern underlies the leading multilateralist Bhagwati's famous comparison of FTAs to 'termites' that are 'eating away at the multilateral trading system relentlessly and progressively' (Bhagwati 2008a). Therefore, the drawn-out negotiations of the Uruguay Round (Croome 1995) and the Doha stalemate with no seeming end in sight could be seen as both cause and effect of multiplying FTAs.

While conventionally FTA negotiation is understood as a venue for inter-state bargaining and problem-solving (Niemann 2006), a third function through which an FTA's members can shape international trade negotiations in directions favourable to them is gaining attention. That is to set important legal precedents reflecting their trade preferences that could be leveraged in future trade negotiations or be transmitted more widely into global norms and standards (WTO 1997, Solís and Katada 2009, 2015, Crump 2016, Mattoo and Sauvé 2011, Araujo 2017). The complex business of trade deal-making and ratification entails that there is a natural economy in recycling texts from one accord to another (Ilott, Stelk, and Rutter 2016). Because of this practice, commitments and provisions in one FTA would benchmark subsequent trade talks – each new FTA consolidates and incrementally raises the bar of the rules established by the FTAs that preceded it²². If a country manages to strategically insert some disciplines it prefers into an FTA, the locking-in and snowballing effects of cross-FTA dissemination could 'weave webs of influence'

²¹ Some authors argue that regionalism also impede unilateral trade liberalisation. For example, Feldmann and Sally (2002) examining the political economy of Estonian trade policy asserts 'that EU accession is undermining the simple, classical liberal trade policy regime that existed during the 1990s'.

²² For example, in the context of international talks on rules about intellectual property rights, Mercurio (2006) notes that there is a 'never-ending cycle of multilateral standard setting which leads to increased standards via bilateralism/regionalism followed by consolidation in the form of more multilateralism'.

(Drahos 2007), ensuring that the country has a greater chance to see its trade preference reflect in more FTAs and serve as the source of inspiration, if not outright template, for multilateral trade negotiations. One example is that the US used the precedent created through the US-Jordan FTA of including stringent, enforceable labour rules as a chapter in the FTA texts instead of a stand-alone side agreement to push for FTAs enshrining similar trade-labour linkages with Latin American and Caribbean countries like Chile, Peru and Colombia (Dewan and Ronconi 2018).

Dissertation Structure

This dissertation comprises seven chapters. After this introductory chapter identifying the research questions and setting the scene for subsequent enquiries, Chapter II briefly reviews the existing academic and policy-oriented literature on the causes and drivers of proliferating, disseminating and diffusing regional trade agreements. The recent scholarship recognises three basic transmission mechanisms for FTAs to spread: policy convergence, policy transfer and policy diffusion. Testing the three classes of mechanisms deductively in the three mega-FTAs under study, Chapter II demonstrates that the first two mechanisms have significantly less explanatory power and empirical relevance than policy diffusion paradigm. The chapter then explains how this study builds on the theoretical foundations of competitive policy diffusion theories in hypothesising the diffusion and clustering of mega-FTAs as the result of great power competition. The second half of Chapter II provides further details on the research design based on a multi-method triangulation praxis.

Chapter III investigates the macroeconomic and sectoral implications of the three mega-FTAs using the comparative-static Global Trade Analysis Project (GTAP) software, a widely employed and highly standardised computational general equilibrium model for applied trade policy analysis. The magnitudes of trade creation and trade diversion are quantified to understand the underlying economic dynamics of

mega-regionalism and facilitate the following game-theoretic analysis of mega-FTA diffusion. I argue that the discriminatory aspect of a mega-FTA is a key attraction for major powers – trade creation builds up absolute gains while trade diversion enhances relative gains. Beyond that, the contribution this chapter makes to the existing pool of knowledge is three-fold. First, it makes use of a modified longer-term model closure (which allows for cross-border adjustment of capital) and the latest GTAP database version 9A for the base year 2011 (which makes the results more up to date). Second, the modelling exercises contemplate a set of nuanced and comparatively more realistic assumptions on the depth and scope of trade liberalisations under the TPP, RCEP and TTIP, whereas earlier quantitative studies tend to take it as given that *all* tariff barriers among mega-FTA partners would be eliminated. Last but not least, this chapter sheds light on not only the economic impacts of individual mega-FTAs but also what the parallel existence of two or three such mega-agreements might mean for participating countries and excluded parties. At the minimum, as the movement towards mega-regionalism is losing steam, the simulation results highlight the economic opportunities that might be lost if these mega-FTAs do not succeed in their negotiations.

Chapter IV presents a game-theoretic reconstruct of the successive launches of the TPP, RCEP and TTIP negotiations as the results of competitive and interactive trade policy-makings between the US, China and the EU. In a 3x2 mega-FTA game, each player (the US, China and the EU) is assumed to have two courses of action – it can choose to pursue a mega-FTA (R) or not to pursue one (NR). The ordinal payoff matrices which characterise players' rankings of all possible outcomes from best to worst are derived from and backed by the GTAP modelling results fleshed out in Chapter III. Both the conventional game theory and its dynamic variant, theory of moves (TOM), are engaged to solve the game. Standard game theory's Nash equilibrium and TOM's non-myopic equilibrium coincide in same outcome (or solution)

in which all players find it rational and advantageous to pick strategy R instead of NR. While both theories appear equivalent in explaining the mega-FTA boom in the third wave of regionalism, TOM yields insights with respect to the dynamic process of moves-counter moves in terms of resulting a spiralling model of competitive launches of mega-FTA negotiations that are not captured by the standard game theory. Additionally, TOM endogenously identifies the sequence of moves which correctly reflects the order in which the three mega-FTAs were initiated in the real world.

The competitive relationship between the US, China and the EU is not confined to the economic arena. Having explored the causal linkages between the three mega-FTAs from predominately economic perspectives, Chapter V delves into the wider historic, geopolitical and geo-economic contexts in which the US joined the TPP negotiations, China endorsed RCEP and the EU proposed TTIP. A common thread of the diverse rationales attached to the mega-FTAs is that the US, China and the EU all aspired to leverage the size and influence of the respective mega-scale trading bloc they lead or belong to in writing and disseminating favourable trade rules, standards and regulations. Zooming into the specific non-economic competitive motivations linking up the three mega-FTAs, this chapter argues that the US resorted to the TPP to coercively discipline and socialise China's trading practices; that China reacted by deploying RCEP to deflect the pressure of coercive socialisation while providing an alternative trade template that preserves more Asian, if not purely Chinese, norms; and that the prospect of being a rules-taker as opposed to a rules-setter, the historic role Europe had long accustomed to, made Brussels hasten to follow suit in kicking-start the ambitious TTIP negotiations so that the voice of an enfranchised Europe could be heard regarding the way in which emerging global trade governance architectures should be structured.

Chapter VI looks at the results of a perception survey among opinion leaders based in Asia and beyond on various (geo-)economic, geo-political and strategic dimensions of

mega-regionalism, including (i) pros and cons of pursuing a mega-FTA; (ii) the vertical relationships between (mega-)regionalism and multilateralism; and (iii) the strategic motivations of and horizontal interactions between the three mega-FTAs. The questionnaire also included a few questions to dissect the reasons for the on-going decentralisation process of the once centralised global economic architecture with Bretton Woods institutions at its core. The on-line survey was executed for a period of five weeks from 1 February to 4 March 2016. A total of 648 responses from more than 31 countries/economies were collected, leading to a reasonably high response rate of 11%. The representative views held by Asian policymakers, trade experts and media practitioners alike as solicited by the survey broadly corroborate the findings and conclusions of this dissertation. The more than 140 comments we received also greatly enriched this study while raising many burning questions that warrant future research endeavours.

Chapter VII provides a summarising ending to the dissertation. It synthesises the major findings and key arguments excerpted from the preceding chapters. The triangulation of quantitative, qualitative and perceptual evidences enables this dissertation to come up with a thorough and integrative answer to the research questions posed earlier. It reaffirms the economic and political utility of mega-FTAs in global economic competitions and great power politics, and reiterates the generalised conclusion that a government's decision to negotiate a mega-FTA is explained by not only the autonomous enthusiasm for liberalising trade and investment with certain groups of partners, but also the negative externalities associated with the mega-FTAs that are being negotiated by rivals to its exclusion. Once the competitive pressure of the earlier mega-FTAs set in, the successive launches of countervailing mega-FTAs is likely to become a natural and self-reinforcing phenomenon as observed.

CHAPTER II

THEORETICAL FRAMEWORK AND RESEARCH DESIGN

Why were negotiations for the TPP, RCEP and TTIP launched in a row within a rather circumscribed period of time (between early 2010 and mid-2013)? The first few explanations coming to mind, of course, presume that ‘comparable conditions produce comparable problems which produce comparable policies’ (Bennett 1991b). For instance, Krugman (1991b) and Bhagwati (1991) assert that the malfunctioning multilateralism is the root cause of FTAs spreading worldwide rapidly. Others attribute origins of dispersing regionalism to countries’ substantively similar but procedurally independent responses to idiosyncratic historic events such as the breakup of Soviet Union (Lester and Mercurio 2009), the Asian Financial Crisis (Harvie, Kimura, and Lee 2006) and the ‘Arab Spring’ democracy movements (Gylfason, Martínez-Zarzoso, and Wijkman 2015).

These systems-wide perspectives have some but incomplete explanatory power to elucidate the mega-regional explosion of 2010-13. The ‘slow multilateralism’ thesis fails to explain ‘why now’ and ‘why mega-FTA’. Trade multilateralism has been punching below its weight long before mega-regionalism cropped up; and even if one accepts that the under-performing multilateralism constituted a general background factor in the emergence of regional trade agreements, this line of explanations tells us little about the reasons why the initiating (and participating) states opted for mega-regional FTAs as opposed to the more conventional, easier-to-execute bilateral and regional FTAs. The ‘idiosyncratic external shock’ hypothesis is not sufficiently fit for purpose either, as there is no readily discernible exogenous shock that all the three mega-FTAs could be attributed to. In theory, the global financial crisis could amount to such a common global shock that might have prompted a crisis-ridden economy to leverage trade openness to stabilise the markets and tame financial contagion. This

inference, however, does not stand up to a quick reality check. For instance, the US' (informal) participation in the TPSEP predates the collapse of Lehman Brothers; the fact that the Bush Administration was not able to follow up on its declared interest in the TPSEP swiftly because of the financial crisis suggests that the 'shock' delayed the TPP process rather than triggered it; and there was no need for Washington to undertake trade liberalisation through mega-regionals in order to tap into the emergency lending from the International Monetary Fund to mitigate the crisis. In short, the causal relationship between the global financial crisis and the mega-FTAs is dubious. And in both cases, the crucial role played by causal mechanisms operating at the unit level such as third-nation influences (Baldwin and Jaimovich 2012) and the inter-linkages between individual trade agreements is taken no due notice of.

So, if we dismiss those 'slow multilateralism' and 'idiosyncratic shock' hypotheses, we are left with a constellation of theories which basically assume that policy-making in today's interconnected world is an interdependent undertaking to explain how the mega-regionalism under study came about. From these theories, it follows that the phenomenon of proliferating mega-FTA negotiations is a distinct instance of trade policy clustering and can be explained by interdependent and strategic decision-making among key actors (i.e. the US, China and the EU) in the process.

Before proceeding, however, it is essential to firstly clarify whether we should treat policy clustering as a dependent or independent variable (Elkins and Simmons 2004). In other words, is policy clustering the outcome or a process? For some (Strang and Soule 1998, Powell and DiMaggio 1991, Lazarsfeld and Merton 1954, Drezner 2001, Huntington 1991), policy clustering should be used in a descriptive way to account for the appearance of multiple adoptions of a congruent policy within a system of interdependent units. Eyestone (1977) aptly equates policy clustering with any 'pattern of successive adoptions of a policy'. Process-oriented scholars (Li and Thompson 1975, Anselin 1988, Westney 1987, Ross and Homer 1976, Jacoby 2000),

for their part, maintain that policy clustering ought be understood as a process that may or may not imply an outcome. The flagship definition in this tradition is provided by Strang (1991) who postulates that clustering results from a situation where 'prior adoption of a trait or practice in a population alters the probability of adoption for remaining non-adopters'.

Admittedly, this dissertation is not the ideal place to address the theoretically important 'clustering-as-outcome' versus 'clustering-as-process' debate in detail. My intuitive preference is that policy clustering might be thought of as both an outcome and a process. This is because any partial definition capturing some aspects of clustering while leaving others unspecified is likely to be individually insufficient to characterise policy clustering in full. The mere observation that common policy trends spread across governments cannot decidedly rule out the plausible scenario wherein autonomous countries make similar policy choices simultaneously but unintentionally. In the same way, it does not make much sense to tie a condition in which an initial adoption of a given policy by one country reduces the probability of others to follow suit to the idea of policy clustering of interest here which connotes a sense of multiplying and disseminating relationship (Marsh and Sharman 2009). This study, on this account, recognises clustering's delicate conceptual duality. Since portraying the mega-regionalism as the diffusion outcome is relatively uncomplicated, the next analytical step of this dissertation seems to identify the exact mechanism by which the mega-FTA policies became clustered through interdependent policy-making.

Mechanisms for Policy Clustering

A long-standing body of literatures on security studies (Midlarsky 1970, Starr and Most 1976, 1978, 1985, Most and Starr 1990, 1980, Singer 1981, Siverson and King 1980, Siverson and Starr 1990), comparative politics (Collier and Messick 1975, Starr 1991, Radaelli 2000, Stone 2000, Dolowitz 1997a, Weyland 2005, Brinks and

Coppedge 2006) and public policy (Walker 1969, Karch 2007, Gray 1973, Berry and Berry 1990, 1992, Welch and Thompson 1980, Canon and Baum 1981, Mintrom 1997, Mintrom and Vergari 1998, Crain 1966) have catalogued a number of clustering mechanisms.

The massive richness of the literatures notwithstanding, existing studies can be categorised into three streams of scholarly research: policy convergence, policy transfer and policy diffusion. As with Dolowitz and Marsh (1996), I think differences in nomenclature are not so important and more than one process could be in action in any specific case under investigation; and I concur with Fordham and Asal (2007)'s graphic metaphor that these three concepts are more 'snowflakes' with penetrable boundaries than solid 'billiard balls'. That said, the following discussions are preponderantly organised under these three headings because each is associated with a distinctive set of clustering channels and facilitating factors despite their conceptual overlaps at the margins.

Policy Convergence

Policy convergence stream accredits the possible causes of policy clustering to 'the tendency of societies to grow more alike, to develop similarities in structure, processes and performances' (Kerr 1983). Under this conception, whether countries were alike (or unlike) pre-convergence is largely beside the point; so long as there is a detectable movement towards certain identified common positions or a reduction of cross-governmental policy variations over time, convergence can be said to have occurred (Inkeles 1998, Knill 2005). The dynamic process of two or more countries coming to be alike is often a process of socially mediated spread of policies (Rogers 1983), facilitated by international regimes (Bennett 1991b). Defined by Krasner (1983) as 'implicit or explicit principles, norms, rules and decision-making procedures around

which actors' expectations converge in a given area of international relations'²³, international regimes bearing particular relevance to policy clustering are transnational policy communities and supranational organisations.

The notion of transnational policy community is encapsulated in Haas' conceptualisation of the 'epistemic community'²⁴ as 'a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue-area' (Haas 1992). Haas (1992) further suggests that policy clustering is brought about by 'the role that networks of knowledge-based experts – epistemic communities – play in articulating the cause-and-effect relationships of complex problems, helping states identify their interests, framing the issues for collective debate, proposing specific policies, and identifying salient points for negotiation'. In a sense, policy clustering is the culmination of cross-fertilisation between 'professional tribalism' (Rose 1988) and professionalisation of policy-making apparatus (Haas 1992); it emerges because a transnational group of knowledge elites manage to convince national decision-makers who buy-in the expert consensus to translate policy prescriptions into public policies in a profusion of jurisdictions (Hira 1998, Krugman 1995). To some, this process signifies a sensible wider trend of transferring public policy 'from politics to expertise' (Brooks 1965) which honours social scientific rationality.

The intimate correlation between the sort of liberal economic ideology and political value underpinning the Asia-Pacific Economic Cooperation (APEC) forum and the outbreak of pro-market reforms seen in Asia Pacific countries during its heyday of the 1990s (Okamoto 2004, Ho and Wong 2011, Drysdale, Zhang, and Song 2000, Kesavapany and Lim 2009, Bisley 2012) is a compelling case in point. The catalysing

²³ Haggard and Simmons (1987) and Hasenclever, Mayer, and Rittberger (1997) provide two detailed appraisals of different regime theories and definitions.

²⁴ Alternatively, DiMaggio and Powell (1983) and other sociologists like to call this 'normative isomorphism'.

community of specialists, out of which APEC evolved, was the Pacific Trade and Development Conference (PAFTAD). The PAFTAD attracted a consortium of like-minded economists, businessmen, diplomats and other intellectual architects to coalesce around a common policy platform in favour of unilateral and concerted trade liberalisation from the late 1960s (Beeson 2009, Drysdale 2009). The free trade ideas incubated at the PAFTAD²⁵ went straight up to policy-making circles through seminars, dialogues and policy consultations²⁶. The establishment of APEC in 1989 therefore heralded a wave of economic opening up and trade liberalising efforts across its growing membership in the 1990s. While APEC has arguably lost some of its early charm (see for example Hu 2008), the process of an epistemic community²⁷ leading to clustered policy-makings with respect to trade is acutely evident.

‘Transnationalisation of policy’ (Stone 2004) can also be achieved by supranational organisations which rise above the level of sovereign statehood. The supranational approach to regional integration is ‘a process whereby national actors forego the desire or ability to conduct policies independently and seek instead to make joint decision or delegate decision-making power to new organs and are persuaded to shift their expectations and activities to this new centre’ (Lindberg 1963b). Clearly, unlike epistemic communities which indirectly shape policy courses through knowledge and persuasion, supranational organisations tend to leverage policy delegation and supranational law to harmonise policy behaviours directly. To take an oft-cited

²⁵ The PAFTAD’s sister organisations, private and semi-governmental, like the Pacific Basin Economic Council and the Pacific Economic Cooperation Council also contributed to the entrenching of the idea of freer trade.

²⁶ Some academic and policy events are even chaired by top leaders themselves like the one hosted by former Australian Prime Minister Malcolm Fraser and then Japanese Prime Minister Masayoshi Ōhira in 1980

²⁷ Apart from formalised organisations like the PAFTAD and APEC, reputed think tanks, scholar networks, research institutes, non-governmental organisations, foundations, knowledge-based advocacy coalitions and even international media all can act as agents and catalysts of transnational policy convergence through ‘capturing the political imagination’ (Stone 1996, Rhodes and Marsh 1992, Sabatier 1987, Carpenter 2007a, b, Hertel 2006, True and Mintrom 2001).

example, policies in the EU are increasingly made at the European level (Börzel 1999, Bulmer and Padgett 2005, Meny, Muller, and Quermonne 2002). Supranational organs such as the European Commission, the European Central Bank and the European Parliament have pushed for convergent state behaviours and clustered policies in areas as diverse as taxation (Kemmerling 2013), environment (Busch and Jörgens 2005), monetary policy (McNamara 1999), immigration (Caviedes 2004), competition (Wilks 2005) and education (Vukasovic and Huisman 2017). In short, policy convergence discussed here is caused by the surrender of sovereignty by integrating countries to a higher authority in accordance with a hierarchical governance structure backed by institutional machinery.

Applying the policy convergence perspective to the clustering of mega-FTA negotiations is quite problematic. It is difficult to find any trans-world epistemic communities advocating *regional* freer trade that are known to be able to exert decisive influences on the specific *regional* trade policy choices of the US, China and the EU²⁸. And needless to say, the three major powers do not belong to any supranational entities that can 'order' them to negotiate mega-FTAs. Even if such an organisation were to exist to act as an overarching policy-pusher, it would presumably broker a trade agreement involving all three major economies instead of three separate mega-FTAs.

²⁸ This is not to say that global epistemic communities advocating freer trade per se are non-existent. Far from it, trade lawyers and policy experts clustered around and networked through the WTO and APEC secretariats are clear examples of the sort of transnational intellectual bases that speak for trade liberalisation. However, they disagree over the optimal format of trade liberalisation; the WTO intellectual elites stand up for multilateral trade liberalisation and the much looser community of intellectuals coalescing around APEC plead for unilateral trade liberalising actions, and noticeably neither groups seem to champion (mega-)regional trade liberalisation. For an account of ways in which experts have shaped international trade policies, see Hannah, Scott, and Trommer (2016).

Policy Transfer

A second class of mechanisms is called policy transfer – ‘a process in which knowledge about policies, administrative arrangements, institutions etc. in one time and/or place is used in the development of policies, administrative arrangements and institutions in another time and/or place’ (Dolowitz and Marsh 1996). Under the umbrella term of policy transfer, two related but not equivalent concepts are noteworthy: learning and emulation.

Policy learning occurs when ‘the decision-making elites in one country import innovatory policy developed elsewhere in the belief that it will be similarly successful in a different context’ (Stone 1999). Here, a demarcating line should be drawn between instrumental learning and social learning, or between what Levy (1994) refers to as tactical learning and deeper learning, so as to differentiate motives behind the policy transfer (Stone 1999). In the case of instrumental/tactical learning, the belief in cross-border policy transferability relates to the ‘bounded rationality’ (Simon 1972, 1990) of policy-makers who look for cognitive short-cuts. Politicians suffering from intrinsic information-processing limitations as human beings (Khong 1992), expertise deficits and time constraints, when confronted with a policy problem, may ‘simplify the task of finding a solution by choosing an alternative that has proven successful elsewhere’. Social/deeper learning, on the other hand, is by and large synonymous to ‘lesson-drawing’ (Rose 1993) or what economists write of Bayesian learning (Acemoglu et al. 2011). It reflects a desire on the part of the officialdom to incrementally improve the rationality of policy-making by taking advantage of the accumulated wisdom of colleagues sitting in foreign capital cities so that better domestic policy outcomes can be engendered (Rose 1991). In both cases, learning is primarily understood as a politically neutral process involving officials who voluntarily avail themselves of objective truth originated from abroad (Robertson 1991).

Dolowitz (1997b) suggests that agents of transfer are typically keen to learn (i) policies, (ii) institutions, (iii) ideologies or justifications, (iv) ideas and attitudes, as well as (v) negative lessons. The archetypal objects of transfer specific to trade policy and FTA mainly include 'capacity' and 'experience' of trade negotiations. If a country, after careful self-assessments, believes that it is in its best interest to strengthen trade negotiating capacity, it may launch talks to practice FTA negotiations. The countries being learned tend to be seasoned FTAers with advanced knowledge of inter-state trade negotiations and relatively marginal economies to prevent FTAs inked predominantly for learning and capacity-building purposes from backfiring, economically or politically. For example, Koo (2006) documents that Korea negotiated Asia's first cross-regional FTA with Chile in 1999 with an aim of learning the art of trade negotiation from veteran Chilean delegates. The same learning-by-doing logic propelled Singapore, New Zealand and Brunei to enter into negotiations with Chile in bilateral and regional settings, leading to a proliferation of FTA talks in the run up to the advent of the TPSEP (Stallings 2009). China's pilot FTAs with Chile and New Zealand are also considered part of a broader learning process via which Beijing familiarised itself with the rules of the international economic game (Yang 2009). In a nutshell, clustered FTA negotiations could take place should there be a widespread perceived necessity to hone trade negotiating skills.

How does experience-based rationale operate to produce policy transfer? Consider the dynamics between three countries, A, B and C. Assuming that A is the most important economy and B negotiates an FTA_{AB} with A, paradoxically country C might opt for firstly holding talks with country B to establish an FTA_{BC}. Only after gaining sufficiently detailed information on A's preferences and negotiation tactics by interacting with B, C then embarks on a one-on-one talk with A. In this way, an initial FTA between A and B triggers the formation of two subsequent FTAs, FTA_{BC} and FTA_{AC}, resulting in spreading FTA negotiations. Notably, experience-oriented learning

can be understood in contrast to learning processes premised on capacity enhancement – country C in this case is more interested in B's *experiences* of bargaining with country A than the inherent negotiating skills of B per se.

Along with learning, emulation (also known as imitation or mimicry) is a powerful horizontal mechanism for policy to transfer from one government to another (Meseguer 2005). Emulation entails 'copying the actions of another in order to look like that other' (Shipan and Volden 2008). It could be driven by an urgency to keep away from national embarrassments, the 'fears of being left behind on an important public issue' or the 'feelings of insecurity about being the odd-man-out' (Bennett 1991a). Alternatively, the impression of behaving like others and conforming to the prevailing social norms helps the policy adopter acquire a certain degree of legitimacy, or immunity in cases of interdicted practices (Elkins and Simmons 2004, Marsh and Sharman 2009). These motives of emulation dictate that oftentimes consideration is not paid by adopters to the specific contents, underlying merits and potential outputs of a policy and other traits important for the development of indigenised solutions best-suited to the emulator (Waltman 1980), but to secondary concerns such as the number (how many governments have already adopted the said policy) and the actor (who have adopted the policy). Indeed, as Finnemore (1996) puts it, it is the symbolic and not the informative value of the particular policy that matters most to the emulators.

The degree of legitimacy and immunity conferred by policy emulation rises with the number (or the proportion) of other governments adopting the policy. Conversely, the likelihood of a government persistently upholding a policy viewed in negative light by the wider community would decrease if the number of other countries with that same unpopular policy decreases (Elkins and Simmons 2004). In a critical sense, the probability of emulation by non-adopters is likely to be subject to what Schelling (1978) and Granovetter (1978) denote as the 'threshold of collective behaviour'. Non-

adopting governments would not sanction the policy below a certain threshold of the number (or share) of participants, but policy adoption could become a self-reinforcing and expedited process once crossing the tipping point provokes a rush to emulate among laggards²⁹ (Finnemore and Sikkink 1998, Holzinger and Knill 2005, Dobbin, Simmons, and Garrett 2007).

The choice of the countries being emulated is also an important factor which governments need to factor in in their emulation calculus. Research suggests that countries are more attentive to ideas, policy practices and institutional settings of their socio-cultural peers, 'psychologically proximate' countries³⁰ (Beckerman 1956, Johanson and Vahlne 1977, Rose 1993, Lenschow, Liefferink, and Veenman 2005), and other 'special relationship' partners (Solís and Katada 2009, Deutsch 1953). In addition, countries tempted to cash in credibility and reputational gains are drawn to the policy choices of prominent nations and countries that appear to be doing best (Haveman 1993). Among others, one reason is that those countries' actions are more available and have stronger demonstration effects (Simmons and Elkins 2004, Solís and Katada 2009). Moreover, adopters by internalising the behaviours of the social leaders cultivate an international image that they are equally progressive and morally admirable (Marsh and Sharman 2009). This is not to mention that the powerful nations themselves, under the sway of 'prestige politics' (Morgenthau and Thompson 1985), often take pride in their ability to socialise others so that their policy practices and normative ideals are ritualistically embraced internationally (Ikenberry and Kupchan 1990, Fordham and Asal 2007). Under this condition, the prominent nation at the epicentre of emulation can be said of possessing soft-power (Nye 2005) assets, that is, the ability of getting people to agree with them through attraction.

²⁹ Gray (1973) proposes that the adoption pattern should follow an S-shaped curve. Only a few countries adopt a policy during the early stage; the rate of adoption increases overtime before it slows down as policy saturation kicks in.

³⁰ These countries tend to have similar linguistic norms, religious beliefs, cultural attributes, historical legacies, bureaucratic resources and political systems.

The forgoing review of policy transfer literature maps out three possible causal paths to explain the diffusion of mega-FTAs. The first is the three mega-FTAs were launched because the US, China and the EU found it necessary to beef up their capacity and capability to negotiate international trade treaties. This hypothesis can be confidently dropped as it is no secret that agencies charged with drawing up trade strategies and executing external negotiations in those countries like the United States Trade Representative (Dryden 1995, Ilott, Stelk, and Rutter 2017), the Directorate General for Trade of the European Commission (Ilott, Stelk, and Rutter 2017) and China's Ministry of Commerce and National Development and Reform Commission (Sheng 2015) all have at their disposal cadres of skilled trade negotiators, formidable financial and non-financial resources and ample cross-departmental coordination experiences. Perhaps the counter-argument holds; it was their proficient existing capacity that enabled them to enter into those exceedingly contentious and long-running mega-FTA talks in the first place.

The second causal mechanism is that a country negotiates the first (mega-)FTA in order to prepare itself to meet the presumably more demanding requirements of negotiating a second (mega-)FTA with a third party. That implies, for example, knowing Japan was negotiating with the US at the TPP table, China wanted to negotiate with Japan under RCEP in order to collect information about America's latest trade strategies so that Beijing would be on a more solid footing when Sino-US trade negotiations eventually get underway. By the same token, the EU entered into TTIP because it valued the US' experiences in terms of prying open, say, Japanese, Australian or New Zealandish markets through the TPP. These rationalisations, while not entirely impossible, are highly improbable because the bottom line of these explanations is that mega-FTAs are more means than ends and that certain excluded countries are somewhat more valuable than the partners inside the mega-blocs in the making. For the EU at least, proponents of this theory would have a hard time in

finding any FTA (perhaps barring potential multilateral and plurilateral accords under the WTO) that could be more important to Brussels than TTIP.

The third hypothesis indicates that mega-FTA diffusion was essentially a herding behaviour because China and the EU flocked to emulate the US' TPP initiative. Arguably, the legitimacy consideration of the emulation hypothesis could help explain why the TTIP was the last mega-FTA launched. It may be right to take the position that the EU, being a normative power (Manners 2002, Whitman 2011), a time-honoured WTO member, an economy willingly refrained from negotiating regional trade deals for a long time, needed the other two world powers to move first through the TPP and RCEP initiatives to make its own mega-FTA, TTIP, lawful, legitimate and socially acceptable. But this hypothesis gives no clue as to why the US pursued the TPP when there was no pre-existing model to imitate. And there is little evidence to support a claim axiomatically flowing out of the hypothesis that China emulated the US' TPP through RCEP in order to exploit possible reputational benefits³¹. More broadly, there is serious possibility that a free-riding China (Bergsten et al. 2008, Leal-Arcas 2010) with revisionist compulsions³² (Deng 2014, Economy 2010) and a unilateralist US harbouring imperial ambitions (Ikenberry 2002, Malone and Khong 2003) see international norms and legitimacy mainly as afterthoughts at best. Besides, bluntly speaking, China and the US are 'pretending to be friends' (Yan 2010) and not the sort of genuine socio-cultural peers (Huntington 1996).

Policy Diffusion

Policy diffusion theorists (and trade economists) start their inquiries into the cause of policy clustering with a proposition that policy choice of a government is wrought by

³¹ Arguably, China's Communist Party may find it more politically advantageous by sharpening China's differences with the US.

³² The question of whether China is a revisionist or a status quo power has been examined by a voluminous of literature and there is no consensual view on this. See Johnston (2003).

external pressure (Simmons, Dobbin, and Garrett 2006). In this approach, a country considering a policy option is situated in a fluid environment where the material payoffs accrued to its policy decisions or the relative desirability of status quo could be altered by external pressure, whereas under policy convergence and policy transfer countries essentially make free, voluntary or consensual decisions about their policy choices on the basis of data generated by natural policy experiments elsewhere, policy prescriptions preached by expert networks, demonstration effects of best-performing nations, or treaty obligations they choose to sign up to. The implication of diffusion is that countries 'are making choices that would not make if left to their own devices' (Elkins and Simmons 2004) or enacting policies long before they plan (or ready) to do so. Analytically, the external pressure can be exercised through coercion or competition.

Coercive policy diffusion is the use of physical force, compellent threats and economic sanction (as in hard/direct coercion) or the manipulation of incentives, externality and conditionality (as in softer/indirect coercion) by one government (or an international organisation) to affect the policies of another³³ (Shipan and Volden 2012, Dobbin, Simmons, and Garrett 2007, Keohane and Martin 1995, Ikenberry and Kupchan 1990). It usually ends up with targeted governments restructuring incumbent regulations and policy paradigms to make way for those preferred by the coercing country. Coercers often ascribe an important role to power asymmetry so that the coercive strategy can be effective (Drezner 2005, Haun 2018). Dobbin, Simmons, and Garrett (2007) and Elkins and Simmons (2004) write of coercion being a 'distinctively antiliberal mechanism' because when coercion occurs, weaker countries are frequently trapped into inappropriate or suboptimal policies designed for the needs of others in a Thucydidean sense. And there are evidences that the governments being

³³ In the international relations literature, coercion is sometimes defined as the ability to get an actor to do something it does not want to do. See Art and Greenhill (2018).

coerced are usually forced to agree to packages of policies reforms and international conventions when the practical possibility of actually implementing them is all but non-existent (Meyer and Rowan 1977, Weick 1976, Cole 2005).

Despite the normative negativity associated with the term³⁴, coercion is seen by academics as one leading driver behind the explosive spread of north-south FTAs and bilateral investment treaties from the 1990s (Manger 2009). Storey (2006) and Stevens (2008) for example claim the EU's Economic Partnership Agreements with African countries have much to do with Brussels' self-interests in unilaterally imposing trade liberalising policies, neo-liberal economic governance norms and its understanding of investment protection on developing countries for which access to European markets is the economic life-line. Similarly, Hurt (2003) finds out that the EU's Cotonou Agreement with the African, Caribbean and Pacific Group of States 'are more heavily based on coercion than on consent'.

Many in the coercion camp have also developed theoretical frameworks to explain the formation and the subsequent enlargement of regional trading blocs (Tilly 1992). The classical domino theory concerning mostly customs union proposed by Baldwin (1993b) and Baldwin and Gylfason (1995) is one such (softer-)coercion theory which sets the theoretical and empirical bars for future studies of contagious regional trade agreements. Baldwin and co-authors present a formalised political economy model³⁵ to tell a coherent story about how the membership expansion of the European Community (EC) – which made the economic costs of staying outside more threatening – tilted the internal political equilibrium between anti- and pro-membership

³⁴ There are of course scholars who take issue with this position. For example, Gathii (2011) argues that neo-liberalist policies inclusive of trade liberalisation were not imposed upon developing countries by the developed; rather, they were more often than voluntarily adopted. Drazen (2002) and Hart (1994) contend that when a government finds it difficult to push through unpopular policies that are in the nation's ultimate best interest, it would be happy to see policy imposition upon itself by outsiders.

³⁵ The domino theory is similar to the juggernaut effect of trade liberalisation (Baldwin and Robert-Nicoud 2015, Edwards 1993).

forces in favour of the latter in non-EC countries. Trade diversions and active lobbying by risk-averse special interest groups then pressurised their governments which had no or insufficient incentives to join the bloc to apply for EC membership. Falling trade barriers in new EC members triggered a fall in the barriers of a raft of other prospective EC entrants. The FTAs and accession agreements multiplied many times over by a 'domino effect', their thinking goes, precipitated the geographically clustered wave of regionalism in Europe in the 1990s.

Much like coercive policy diffusion, competitive policy diffusion is intellectually spurred by a confrontational view of international relations. It also draws on an intuitively appealing analogy stressing on the structural similarities between countries placed in an anarchic international system and corporations placed in the competitive world market³⁶. Specifically, the core background averment is that the world economy is an arena of competition among rational and self-interested states. Any country failing the merciless economic warfare will face the dire consequence of seeing its national interests including power, prosperity, influence, status and even ability to defend itself eroded, so it is too dangerous to give rein to Ricardian comparative advantages (Ricardo 1817) or the Smithian invisible hands working through uncoordinated decisions of individualistic economic agents (Smith 1776) to determine the functioning of national and international markets³⁷. To survive and thrive in this precarious geo-economic ³⁸ world, market-bending, instead of market-conforming or welfare-

³⁶ Former US President Bill Clinton once famously said every country is 'like a big corporation competing in the global market place'. Krugman (1994) rebuts this analogy and criticises what he calls a dangerous obsession with competitiveness. He argues that countries do not have clearly defined bottom-lines and will not go out of business as some companies do. He further suggests that for politicians, defining the economic problem they face as one of international competition is just politically convenient. Similarly, Parrinello (2013) asserts that the notion of 'national competitiveness' is meaningless not least in the context of international trade.

³⁷ For a discussion of the classical liberalism and its intellectual history, see Sally (1998).

³⁸ Luttwak (1990) defines geo-economics as the pursuit of adversarial goals with commercial means.

enhancing, policies have to be high on the agenda of statesmen wedded to this competitive ideology. Constituting what Moran (1993) calls 'an economics agenda for neorealists', and perhaps that for neo-mercantilists (Malmgren 1970, Hettne 1993, Ziegler and Menon 2014) as well, is a savvy blend of deploying interventionist industrial policies (Fishlow, Carrière, and Sekiguchi 1979, Johnson 1982, Katzenstein 1985, Stiglitz and Lin 2013), securitising trade relations (Koo 2011, Higgott 2004b, a, Capling and Ravenhill 2012), espousing strategic trade theory (Krugman 1986, Milner and Yoffie 1989, Grossman and Maggi 1999, Dixit 1987, Jing 2017), and trading more with allies than with adversaries or and simply converting military alliances into free trade coalitions (Gowa 1994, 1989) – measures all geared towards fostering and sustaining superior, if only artificial and short-lasting, competitive advantages (Porter 1985) and other national strengths over one's competitors. Geo-economic insecurity and the prevalent anxiety among self-serving countries to quest relative advantage, except giving rise to economic nationalism (Cable 1995), cultivate a fertile ground for policies to diffuse competitively (Braun and Gilardi 2006).

Competition mechanism operates as follows. When a country's competitiveness or economic interests is undercut by a prior policy of its competitor, it comes under tremendous pressure to counteract by adopting the same (or a similar) policy as a means to readdressing competitive disadvantage even though it would have preferred not to take the policy path *ex ante*; these two countries' sequential policy adoptions create renewed and possibly compounded externalities; and the negatively affected third countries have to respond in kind to level the playing field defensively. Elaborating broadly on this perspective, Elkins, Guzman, and Simmons (2006) argue that the competition among developing countries for the opportunities to host foreign capital helped trigger the race to sign bilateral investment treaties between 1960 and 2000. Swank (2008) demonstrates that the competitiveness erosion in the aftermath of the 1986 US tax reform galvanised other advanced countries in the Organization

for Economic Cooperation and Development to adopt similar neoliberal tax policies. The updated and generalised domino theory (Baldwin and Jaimovich 2012), by developing an empirical 'contagion index' to measure 'the extent to which an FTA between nation- j and nation- k changes nation- i 's interest in signing a new FTA with either j or k ', proves that bilateral FTAs are contagious and that the extensiveness of FTA spread is a function of the magnitude of economic externality (negative profit effects of trade diversion) and the economic importance of the market of j or k from the standpoint of i .

Several pronounced differences between coercion and competition exist. First, competition tends to be an encounter among equals, state-on-state or bloc-on-bloc, while coercion is not (Greenhill and Krause 2018). Second, to explain policy diffusion, the independent variable in coercive accounts could be the preferences and ideologies, and not necessarily any concrete preceding behaviours, of the stronger states. The central reference point for competition theorists, however, is the specific prior policy actions of a country which force its direct competitors to seek shelter under countervailing policies. Third, how the country responds to competitive pressure can help set apart coercion and competition. If the pressurised country chooses to concede to the coercer's demands, the mechanism is unmistakably coercion; but if it plumps for competitive tactics to take on the source of pressure, a competition process unfolds. In light of this distinction and the (a)symmetric power configuration undergirding it, coercion is inclined to produce bandwagoning policy behaviours (Ikenberry 1990) while competition generally leads to balancing- and hedging-type³⁹ outcomes. Fourth, coercive policy diffusion begets momentum towards harmonisation and convergence as the weaker aligns with the policy choices the

³⁹ For definitions and differences between 'balancing', 'bandwagoing' and 'hedging', see *inter alia* Waltz (1979), Waltz (2001), Morgenthau (1948), Walt (1987), Mearsheimer (2001), Jervis and Snyder (1991), Schweller (1994) and Jackson (2014).

stronger deem desirable (Hirschman 1989)⁴⁰, but competitive diffusion tends to spawn pluralistic developments reminiscent of concepts such as multi-polarity, fragmentation, divergence, heterogeneity, inconsistency and ambiguity. Fifth, coercion plays on the politics of inclusion and socialisation, whereas competition logic is more closely tied to the politics of exclusion (Wesley 1997). Last but not least, coercion is a static, vertical process whilst competition is a dynamic, horizontal undertaking characterised by successive and interactive moves of competitive edge creation, neutralisation, restoration and resuscitation.

Unsurprisingly, the two strands in the diffusion theory can be deductively translated into two different answers to the research questions posed by this dissertation. Coercion hypothesis implies that mega-FTAs clustered because the US imposed this particular modality of trade liberalisation on China, the EU and other signatories and would-be participants. This account rightly links the reason why the US built up a mega-scale trade alliance, the TPP, rather than bilateral trade treaty networks with individual Asia-Pacific countries to the imperative of establishing power asymmetry vis-à-vis the excluded China (and to a far lesser extent the EU) for augmenting the effectiveness of the coercive diplomacy. But it is not clear why China and the EU embraced a strategy of balancing⁴¹ by each launching its own mega-FTA, given the expectation that the comparatively weaker states should bandwagon⁴².

⁴⁰ A latest within-case variation relates to the IPR provisions under the TPP/CPTPP. The US initially imposed its preference of setting a copyright term of seven decades (or the author's life plus 70 years) and CPTPP countries drop this clause after the US quitted the bloc.

⁴¹ Here, in terms of behaviour, balancing between mega-FTAs is mostly akin to what defines as inter-institutional balancing in the realm of international security (He 2008). Institutional balancing, as a special case of soft balancing (Paul 2005), broadly refers to a situation where countries counter security threats through international institutions. Inter-institutional balancing occurs when 'a state is excluded by a particular institution, it can support another or initiate a similar institution to counterbalance the pressure from the institution that has excluded it' (He and Feng 2018).

⁴² Baldwinian domino theory's basic intuition of levelling the playing field for disadvantaged domestic exporters would lead us to expect China to actively seek TPP membership or, alternatively, to strike regional or bilateral arrangements with TPP participating economies to

Competition hypothesis, for its part, posits that the mega-regionalism came to pass because there was a full-blown competition between the world's leading trade powers. The US' TPP put China at a competitive disadvantage through trade diversion; China followed suit to defend its interests and competitiveness on the world markets by turning to RCEP; the two mega-FTAs in the Asia-Pacific region drew the EU into the competition with the damage-limiting TTIP; and the US welcomed TTIP so that it was possible for Washington to reinstate the relative advantage which initially sprang from the TPP but was being abraded by China's RCEP. All things considered, competition hypothesis seems to fare better than its coercion counterpart and is systemically tested in this dissertation.

Value Added of this Dissertation

Using policy diffusion theories to study the relatively recent phenomenon of mega-regionalism is the scholarly space relatively unoccupied. Actually, as Baldwin and Jaimovich (2012) point out, little research attention insofar has focused on FTA interdependence in general. This study fills the gap. And by overcoming three imperfections plaguing the competition studies as they stand, this study makes some further contributions to the literature.

The first problem is that the existing scholarship on FTA competition blurs the motivational differences between countries making decisions at different stages of the policy diffusion process by consistently under-studying, or even completely ignoring, the roles and motives of the first movers. Such is the case, for instance, in Baldwin

directly address Chinese business grievances, rather than make fresh start with RCEP. Similarly, if Baldwin's views hold true, we should predict the EU, instead of embarking on TTIP negotiations, to re-energise the stalled EU-ASEAN region-to-region trade agreement negotiations to defend the economic interests of European exporters in Southeast Asia, in the same way as it did in 1995 to begin trade talks with Mexico following the implementation of NAFTA in 1994 and in 2007 to undertake EU-South Korea Free Trade Agreement negotiations in the wake of the conclusion of the US-Korea Free Trade Agreement earlier that year (Sbragia 2010).

and Jaimovich (2012)'s explicit and Whalley (1993)'s implicit pronouncement that the spread of regionalism was driven by defensive FTAs reacting to the economic distress created by third-nation FTAs. But both studies are marred to an extent by an undercooked handling of the reasons why those first-generation, reaction-chain-triggering FTAs were formed in the absence of any tangible defensive impulses. Scholars like Walker (1969) and Graham, Shipan, and Volden (2013) have forcefully criticised this strong homogenising tendency, warning that neglecting early decision makers risks 'misunderstanding the politics of policy diffusion' as there are no reasons to take for granted that 'leaders', 'middle adopters' and 'laggards'⁴³ have the same motivations or are equally sensitive to any given external pressure. This dissertation, echoing Baybeck, Berry, and Siegel (2011) and Shipan and Volden (2012), assumes that countries compete both offensively (e.g. gaining an upper hand) and defensively (e.g. recouping lost ground). Early movers are typically offensive, anticipatory and pre-emptive whereas other belated movers tend to be comparatively more defensive, adaptive and reactive. In this study, I use a process-tracing methodology to contextualise the differing calculations behind the adoptions of mega-FTA policy for the US (the leader), China (the mid-adopter) and the EU (the laggard) in the broad competition context.

The second weakness of the competition literature is that relatively few authors go beyond qualitatively describing the competitive pressure to which countries react. This shortcoming is especially serious in diffusion studies on FTA proliferations (Solís, Stallings, and Katada 2009). To vindicate a competition-driven hypothesis more

⁴³ This classification has much to do with objective definition based on the actual sequence of policy adoption as with a country's self-perception. Indeed, role theory (Thies and Breuning 2012) of foreign policy suggests that how a state perceives its role in an international society or an international process shapes its policy paths.

precisely, it is important to provide proxy indicators⁴⁴ of the magnitude and severity of the external competitive pressure through which one government's decision conditions policy choices made by others. Equally problematic is that some empirical studies, while presenting quantitative evidences, fail to make any direct contacts with the specific policy diffusion mechanisms that operate (Simmons, Dobbin, and Garrett 2008). It could be the case that theorists find achieving advances on the theoretical fronts more intellectually satisfying. Confusions on which indicators are appropriate for different diffusion mechanisms could also be responsible (Maggetti and Gilardi 2012). Still, as Gilardi (2016) argues, the key to moving diffusion literature forward is to 'tweak measures, not concepts'. The ambition of this dissertation accordingly is to quantitatively determine the external diffusion pressure and the driving economic forces in the first step and in the second to use a game theoretical framework to explicitly link that pressure to mega-FTA diffusion. Analogous research procedures have been undertaken by others. For example, Sapir (1997) quantifies trade diversion of the EU with a gravity model before basing his conclusion of non-EU countries seeking membership to avoid trade diversion on the empirical ground that trade diversionary effects peak just before their EU accession. Likewise, Baldwin and Rieder (2007) combine the estimates of trade diversion derived from gravity equations and a linear probability model, discovering that the likelihood of non-EU countries joining the bloc is positively correlated with the intensity of trade diversion.

Thirdly, previous work sketched out above mostly (mis)understands competition as a purely economic and regulatory issue in the sense that governments vying for economic benefits enforce economic discipline and liberalisation (Henisz 2000) or resort to trade wars (Hont 2005) and jurisdictional race to the bottom (Korten 1995) in the provision of regulatory standards (Porter 1999) and redistributive goods (Bailey

⁴⁴ Some studies use very rough proxy. For instance, Baccini and Dür (2011) construct a spatial weight matrix based on export share and the degree of export competition to estimate 'the *potential* for trade diversion' (emphasis in original) of an FTA.

and Rom 2004, Baldwin and Krugman 2004). Competition is more than that. Huntington (1993) defines competition as ‘the struggle for primacy’ among countries. And that ‘international primacy’ has both economic and political roots because economic activity is ‘the most important source of power’ for the determination of international order in a world where military conflicts between major states are unlikely (Huntington 1993). By this view, a competition for economic primacy and favourable ‘distribution of the benefits of and costs of economic growth’ is ultimately a contest for political primacy⁴⁵ which corresponds to a country’s ability to ‘insure their security, promote their interests, and shape the international environment in ways that will reflect their interests and values’ (Huntington 1993). A ‘political domino’ effect instead of a Baldwinian ‘economic domino’ effect, argues Ravenhill (2010), is at work in East Asia because business interests and economic considerations hardly play any major role in either promoting or opposing mostly shallow, trade-light agreements in a region rife with geo-political and diplomatic competitions and order-(re)making. Sally (2004b) in his assessment of Singapore’s trade policy laments that the ‘Achilles heel’ of city-state’s trade policymaking is precisely a lack of a systematic incorporation of business inputs. A careful re-appraisal of their arguments is warranted in an era of deep and comprehensive mega-regionals which would leave huge economic marks on countries in and out, but their insights in terms of highlighting the importance of non-economic factors is also more valid and enlightening than ever.

This dissertation uses the study by Solís and Katada (2009), which refines the concept of competition as a three-dimensional process encompassing economic, security and legal elements as the departure point. I examine the economic component first and then conflate the security and legal motivations into a single

⁴⁵ Some including Jervis (1993) interpret political competition as a struggle for positional goods (Hirsch 1976) such as status, and prestige.

political dimension⁴⁶ before folding it into a broader elaboration of the historical, geo-economic and geo-political origins and inter-connectedness of the three mega-FTAs. In doing so, this study argues that the mega-regionalism also embodies a political competition between the US, China and the EU for status, influence and who gets to write the rules for 21st century commerce.

Methodology and Research Design

The competitive policy diffusion theory rests on a fundamental assumption that decisions of state actors are interlinked, interactive and interdependent. In this study, the decisional interdependence and the hypothesised economic competition are analysed through game theory⁴⁷ (von Neumann and Morgenstern 1944, Binmore 2007, Young and Zamir 2015), a mathematical instrument developed to model situations of strategic and contingent choice-making by rational players; and to avoid 'careless arithmetic' (Krugman 1994), the payoffs associated with various strategy combinations in the game-theoretical set-up are calculated by an advanced computational general equilibrium (CGE) technique. On top of substantiating the payoff matrices, CGE simulations provide primary data and qualified support to the competitive diffusion hypothesis by empirically establishing the connection between one country's prior policy moves and the altered material conditions confronted by other countries. The exercises of CGE modelling and game theoretical analysis, which dissect the mega-regionalism phenomenon primarily through the lens of economics, are then complemented by a qualitative inspection of the political aspects of the competition and a perception survey which assesses the external validity of the findings of this study. As such, this study implements a mixed method research strategy, defined by Creswell (2009) as 'a research design (or methodology) in which

⁴⁶ Legal competition aiming to write 'the rules of the game' by which international trade is played can be seen as political in nature.

⁴⁷ Smith, Booth, and Zalewski (1996) offer a critique of rationalist approaches including game theory.

the researcher collects, analyzes, and mixes (integrates or connects) both quantitative and qualitative data in a single study or a multiphase program of inquiry’.

Game Theory and Theory of Moves

According to Brams (1994b), game theory is ‘a mathematical theory of rational strategy selection used to analyse optimal choices in interdependent decision situations; the outcome depends on the choices of two or more players, and each player has preferences for the possible outcomes’. The five constituent elements of a game are: (i) players; (ii) strategies; (iii) information conditions; (iv) preferences or payoffs⁴⁸ and (v) solution concepts. Hence, the structure of an n -person game G , in its generic form, can be synthesised as $G \equiv \langle N, S_i, s, \pi_i(s) \rangle$ (Lambertini 2011). An analyst needs to make an array of informed and justifiable assumptions with regard to players’ identities, $N = \{1, 2, 3, \dots, n\}$; a complete list of k strategies available to each player in the game, $S_i = \{S_{i1}, S_{i2}, S_{i3}, \dots, S_{ik}\}$; every outcome corresponding to the strategies chosen by the N players in the game, $s = \{S_1, S_2, S_3, \dots, S_N\}$; and the payoff $\pi_i(s)$ accruing to each player i for every possible outcome s of the game. A game is conventionally visualised in its strategic (normal) form in which players make decisions by choosing strategies in a payoff matrix. To give an example, consider a 2×2 game shown in Figure 2.1. There are two players in the game, 1 and 2, and each has two strategies, S_{11} and S_{12} , for her to choose, leading to four possible outcomes. Four entries in the bimatrix are payoffs with those of the row player (1) commonly indicated first, followed by the payoff of the column player (2).

In this study, the US, China and the EU are the players and their individual choices over two trade strategies, launching negotiations for a mega-regional bloc (R) or staying with the status quo (NR), constitute a strategic mega-FTA game. The payoffs in the game are assigned based on real GDP impacts reflecting their capacities to

⁴⁸ A payoff is a measure of the value that a player attaches to a state in a game.

produce and changes in the material bases of power⁴⁹. The competition hypothesis can be confirmed once the game predicts a uniquely rational solution that all three players choose strategy R.

		2	
		S_{21}	S_{22}
1	S_{11}	s_1 $\pi_1(S_{11}, S_{21}); \pi_2(S_{11}, S_{21})$	s_2 $\pi_1(S_{11}, S_{22}); \pi_2(S_{11}, S_{22})$
	S_{12}	s_3 $\pi_1(S_{12}, S_{21}); \pi_2(S_{12}, S_{21})$	s_4 $\pi_1(S_{12}, S_{22}); \pi_2(S_{12}, S_{22})$

Figure 2.1 A generic example of a 2×2 game

The standard game theory has two main troubled areas, without addressing which, game-theoretic studies can be easily discredited. For the first one, a casual look at the game suffices. Note that the values of π in Figure 2.1 are exogenous to the model but directly influencing the solution of the game. This exogeneity is unsettling. The fact that the payoffs have to be provided before any analysis commences means most analysts take payoffs as given or import them from other studies. To many including this author, this amounts to renouncing a significant part of the explanatory power and persuasiveness of the analytic enterprise itself. As Jervis (1988) remarks, ‘The most important issue may be not what happens after these preferences have been established, but the preferences themselves. Much of the explanatory “action”

⁴⁹ Within economic indicators, real GDP figures are more relevant to policy makers following the competition, neo-mercantilist logic than welfare metrics which mainly relate to the capacity to consume. Of course, geopolitical, non-economic factors also have important bearings on how much a player values a specific outcome. But outcomes in the game which allow players to score more geopolitical points presumably are those which make more economic sense. In other words, greater geopolitical utility and higher economic impacts are likely to go hand in hand as far as mega-FTA is concerned. As such, the ordinal payoffs (and not cardinal payoffs) for the players are likely to remain the same even if the sources of preferences are broadened to incorporate factors beyond real GDP impacts. In short, assigning payoffs based on impacts of real GDP is reasonably appropriate, especially considering that the game theoretical analysis is primarily concerned with economic component of the mega-FTA competition.

takes place in the formation of the preferences.’ Similar criticisms are expressed by Nye (1988) who maintains that how preferences are defined and formulated may be more important than the actual choice but game theory is weak in this dimension.

Another issue arising from the inherent difficulty of measuring payoffs in real world cases is that game-theoretic analysis is prone to manipulation in the sense that analysts have the flexibility to induce pre-conceived ‘right’ answers by assigning self-fulfilling and unsubstantiated preference structures. A remedial strategy is to back any proposed preference structure with solid and transparent research. This requires integrating game theory with other empirical perspectives to form an inter-disciplinary, knowledge-based methodology (Bennett 1995). Following this approach, this study scientifically examines and quantifies the payoffs by CGE modelling⁵⁰ and places game theoretical analysis in a reasoning chain spanning over the entire dissertation.

Concerns are also raised over game theory’s most common solution concept, the Nash equilibrium (von Neumann and Morgenstern 1944). The operational meaning of the Nash equilibrium is that under this state any unilateral deviation by a player would not result in a better payoff for herself. In pure strategy games, the Nash equilibrium is often attainable when players pick the ‘dominant strategy’⁵¹ to yield ‘outcomes at least as good as those of any other strategy in all possible contingencies, and a better outcome in at least one contingency’ and avoid playing a ‘dominated strategy’ which ‘leads to outcomes no better than those of any other strategy in all possible contingencies, and a strictly worse outcome in at least one contingency’ (Brams 1994b). The traditional practice of Nash equilibrium searching is found deficient for the purpose of this study in the following way.

⁵⁰ By using CGE technique, this study is more concerned with the accurate and scientific measurement of pre-defined interests or preferences than with the question of how to define and formulate national preferences in a constructivist sense.

⁵¹ It should be pointed out that a player does not necessarily have a dominant strategy. But if the strategies for all players are dominant strategies, it must be a Nash Equilibrium.

The first is that game theory says nothing about the initial state of the players as if they exist and play the game in a vacuum (Malici 2008) whereas it is conceivable that a game begins with players already at some initial state, or the status quo position defined by the interactions of the default strategies. Since players' choices could be sensitive to the 'initial state' in which the game begins, and how the game commences are likely to be as intellectually intriguing and revealing as how the game ends, a lack of explicit representation of the 'initial state' that gives a context of the circumstances facing the players at the beginning of the specific episode of strategic interaction under investigation underscores the possibility that the conventional theory can only tell a partial story. And by positing simultaneous decision-making, the classical game theory implicitly assumes that the phenomenon being modelled is a one-shot event with neither preceding nor intervening processes, which is hardly the case in the real world. The preoccupation with identifying the final equilibrium renders that the standard game theory leaving out most of the richness of interactive decision-making dynamics is better at explaining the outcomes than modelling interactions.

Recalling that mega-FTA diffusion is understood as both an outcome (third wave of regionalism) and a process (major power competition), a dynamic variant of the standard game theory, theory of moves (TOM), is engaged in this study to provide a supplement to the standard theory. TOM depicts a game to be made up of a chain of sequential moves within a single game before a final settlement, called 'non-myopic equilibrium' (NME), is reached. Strategic situations analysed by TOM can be found in a wide range of literatures concerning *inter alia* politics (Maoz and Mor 1996, Zeager and Bascom 1991, Simon 1995, Mor 1995, Brams 2001, Malici 2008), economics (Kirylyuk-Dryjska 2016), law (Meydani and Mizrahi 2010), fiction (Brams and Jones

1999, Brams 1994a), psychology (Brams 1997) and religion (Brams 2011). However, studies using TOM to analyse FTA strategies⁵² are rare.

To keep things simple, consider a game in which each of the two players has two possible strategies, the rules of TOM are:

1. Play starts at an initial state, given at the intersection of the row and column of a pay-off matrix (i.e. one of the four entries in a 2x2 pay-off matrix).
2. Either player can unilaterally switch his or her strategy (i.e. make a move⁵³), thereby changing the initial state into a new state, in the same row or column as the initial state. The player who switches is called player 1 (P1).
3. Player 2 (P2) can respond by unilaterally switching his or her strategy, thereby moving the game to a new state.
4. The alternating responses continue until the player (P1 or P2) whose turn it is to move next chooses not to switch his or her strategy. When this happens, the game terminates in a final state, which is the outcome of the game.
5. A player will not move from an initial state if this move
 - (i) leads to a less preferred final state (i.e. outcome); or
 - (ii) returns play to the initial state (i.e. makes the initial state the outcome).
6. Each player takes into account the consequences of the other player's rational choices, as well as his or her own, in deciding whether or not to move from the initial state or any subsequent state. If it is rational for one player to move and the other player not to move from the initial state, then the player who moves takes precedence: his or her move overrides the player who stays, so the outcome will be induced by the player who moves.

⁵² There are studies that apply classical and dynamic game theory, but not TOM, to examine trade issues. Examples include Hastiadi (2016), Gander (2008) and Baldwin and Clarke (1987).

⁵³ It is assumed that when a player makes a move, calendar time does not play a role in the game.

The payoffs in TOM are *ordinal*. To stick with the 2-person game, the players need to be able to *strictly* rank the outcomes – given at the four intersections of strategies in the matrix – from 4=best, 3=next best, 2=next worst and to 1=worst. By convention, the higher the number, the greater is the payoff. Unlike the classical game theory which starts with simultaneous strategy choices that determine *the* outcome, play in TOM commences when P1 makes a rational assessment of the status quo (i.e. initial state) before unilaterally switching to a different strategy in anticipation of a better outcome for herself. Then P2 will decide whether she would benefit from staying in the new state induced by P1's move, or moving the game to a more desirable state by shifting her strategy, knowing that her response may set off a series of rational counter-moves by P1. The sequence of moves and counter-moves is assumed to be strictly alternating. Play terminates when the strategic interactions between P1 and P2 are according to Rules 4 and 5. Since payoffs are ordinal ranks, rather than numerical values, players cannot accumulate payoffs as they pass through states and the actual payoffs accrue to players are those associated with the final outcome.

Computational General Equilibrium Modelling

The real GDP impacts used to rank preferences in the mega-FTA game are determined by CGE modelling (Dixon and Jorgenson 2012, Ginsburgh and Keyzer 1997, Quirk and Saposnik 1968, Dervis, de Melo, and Robinson 1982, Shoven and Whalley 1992, de Melo and Tarr 1992, von Neumann 1945-1946). The following paragraphs briefly lay out the basic features of CGE simulations; and the technical details regarding the structures and assumptions are taken up in the next chapter.

A CGE model is a system of equations which describe motives and behaviours of producers, consumers, investors and public sectors in an economy⁵⁴ and all the linkages and transactions among them (Burfisher 2011). As a mathematical

⁵⁴ The terms 'country', 'region', 'economy' and 'regional economy' are used interchangeably in this dissertation.

abstraction of the real world embodying simplifying assumptions⁵⁵, a CGE model cannot cover all contexts, factors and nuances that exert influences over economic outcomes, nor can it provide perfect treatment to the parameters that are indeed incorporated. But a well-developed, regularly maintained model of global economy (such as the multi-region, multi-sector GTAP model I work with in this dissertation) is often rich enough to explain the economic phenomenon under study credibly. The term *computable* highlights the usefulness of a CGE model in providing ex ante assessments in a virtual environment of the probable consequences of government policy interventions or contingencies like natural disasters *before* they actually occur. *General* means that *all* economic activities undertaken by *all* economic agents across industries and countries are accounted for simultaneously. *Equilibrium* refers to a situation where there are no pressures for variables to change their values. Under a generic CGE framework, it occurs when the aggregate supply of goods and services equals the aggregate demand and all factor endowments (i.e. labour, capital and land) are employed⁵⁶. It is a vital concept as a CGE policy experiment typically starts with the modeller creating disequilibrium by shocking the values of selected exogenous variables. Then the CGE model will re-solve all the equations to find a new equilibrium under which the aggregate supply is again balanced with demand at certain set of price and quantity. In this controlled manner, the differences between the values of endogenous variables under the new and old equilibriums are interpreted as the effects of the modelled shock.

In essence, to execute a CGE modelling, the modeller needs to specify (see Figure 2.2):

- which model to use,

⁵⁵ Some relevant limitations and implications of a typical CGE modelling framework are outlined in Chapter III.

⁵⁶ An additional identity that must hold is savings equal to investment.

- which database to use,
- the closure,
- the exogenous variables to shock, and by how much,
- which solution method to use (e.g. Gragg, midpoint or Euler), and
- the endogenous variables to focus when analysing the results.

Figure 2.2 Information required to implement a CGE simulation

There is a great diversity of CGE models of varying levels of sophistication⁵⁷. I employ the comparative-static GTAP model (Hertel 1997) and its database (Aguiar, Narayanan, and McDougall 2016, Narayanan, Aguiar, and McDougall 2012) in this dissertation. The GTAP database is regularly updated in a three-to-four-year interval with contributions from a growing global network of individuals and institutions who

⁵⁷ In addition to GTAP used in this study, some other widely used CGE models include the PC Global model (Productivity Commission 2017), Michigan model (Brown et al. 1996, Deardorff and Stern 1990), the Rural-Urban North-South (RUNS) model (Goldin, Knudsen, and van der Mensbrugghe 1993), the LINKAGE model (Anderson, Martin, and van der Mensbrugghe 2005) and the Harrison-Rutherford-Tarr model (Cline 2004).

donate as well as cross-check GTAP data for accuracy and consistency (Hertel 2012). The latest release, Version 9A, represents 2004, 2007 and 2011 reference years as well as 140 regions and a total of 57 economic sectors⁵⁸.

A comparative-static GTAP model provides a before- and after-comparison of an economy once a shock is applied, *without* detailing the intervening adjustment process as the economy gravitates towards the new equilibrium⁵⁹. The off-the-shelf GTAP model adopts a short-term closure under which capital flows across sectors within an economy for the highest return, but cross-borders mobility is prohibited. To reflect the longer-run focus of this dissertation, a modified closure – originally developed by the Australian Productivity Commission (2009) based on Walmsley

⁵⁸ The database is expressed in US dollars; country-specific information is converted using market exchange rates. A shortcoming of GTAP's 57-sector classification for goods and services, as pointed out by Badri, Ciuriak and Singh (2015), is that agricultural sectors display significantly greater detail than industrial sectors. For example, raw milk and dairy products are separated as two sectors whereas pharmaceuticals and rubber are lumped into one sector called 'Chemical, rubber, plastic products (crp)'. This is due to the fact that the classification system of GTAP was originally conceived for an agricultural college programme.

⁵⁹ There is a dynamic version of GTAP, referred to as GDyn or GTAP-Dyn (Ianchovichina and Walmsley 2012a), available. Its main advantage over standard/static GTAP is that it is better positioned to present how the economic impact of the simulated policy change develops and how the economy adjusts itself over time. In the specific context of FTA modelling, the dynamic GTAP is particularly useful if the tariff phase-out schedule is known to the modeller so that the economic benefit of the agreement in a given year can be linked to the percentage of tariffs actually being eliminated at that time. Static GTAP, by contrast, assumes that tariffs are shocked in one go. Still, I decided to employ a comparative-static GTAP mode for three reasons. First, GDyn is not stable. Second, the currently available GDyn is what can be labelled as 'sequential/recursive dynamic model' with the model being solved for one period and then all variable values determined at the end of that period being used as initial values for the following one (UN and WTO 2012). It is not a truly dynamic, inter-temporal CGE model which draws upon optimal growth theory. Moreover, mega-FTAs are likely to reduce tariffs rapidly. In terms of the tariff schedule of the TPP agreement, the majority (more than 75%) of tariff lines are liberalised upon entry into force. It therefore can be assumed that the tariffs are reduced in one attempt. This rapid tariff reduction timetable makes the employment of static GTAP justified and the value-added by a dynamic GTAP less pronounced. Therefore, GDyn results are little more than a series of comparative-static simulations being put together and then plotted against hypothesised timeline. To be sure, I am not arguing to reject dynamic GTAP altogether; rather I hope to point out the limitations of the model and other considerations that had informed my decision of not employing GDyn despite its apparent advantages.

(1998) – which corresponds to a longer-run environment⁶⁰ in which capital is allowed to move between economies is adopted⁶¹.

The exogenous variables I choose to shock in simulating the economic impacts of mega-FTAs include tariffs, non-tariff measures (NTMs), productivity and financial market risk premium in participating economies. Shocking tariffs and NTMs evaluate the more immediate trade liberalising effects. Making positive changes to productivity variables aims to capture the causal relationship between external liberalisation and productivity improvement, although the gains tend to be materialised only over two to three decades. It is observed empirically in many countries that opening trade was followed by enhancement in productivity (Winters 2004) for a motley of reasons discussed in the previous chapter. The other dynamic effect of trade liberalisation accounted for in this study concerns the nexus between liberalisations in the real economy and reforms in the financial sector. Influx of foreign investment, strengthened legal certainty, capital account liberalisation and domestic lobbying are among the factors that could spur development and/or de-regulation of financial markets which might push down risk premium⁶².

⁶⁰ Longer-run impact of policy interventions could be drastically different from the initial effects as the effect of the policy would take time to work through the national and global economies. For example, early investment effect could be negative as it often leads to reductions in expenditure, yet it is generally regarded to be beneficial after it takes time to unleash positive influences over productivity and capital stock. Indeed, the study by Rahman and Ara (2015b) using the standard GTAP model predicts that the TPP would reduce the US' real GDP by 0.05%.

⁶¹ This variant of model closure enables a broader range of market responses than would otherwise be possible, although it does not fundamentally change the short-term nature of the closure as long as the restriction of non-capital-accumulation is not relaxed.

⁶² It should be noted that productivity improvement and financial reform are indirect, if not speculative, products of trade agreements under study and that their quantification involves a heightened level of parametric uncertainty and subjectivity. While discussions in the following chapters will primarily be based on assumptions pertaining to tariffs and NTMs reductions under various liberalisation tracks, simulating productivity and financial market changes provides a fuller evaluation of the possible economic implications of comprehensive trade accords as far-reaching as the TPP, RCEP and TTIP.

The model is to be solved using the multi-step, non-linear Gragg's method, with extrapolation (Harrison et al. 2014). Automatic accuracy function of the GTAP model is activated, ensuring at least 99% of the results to be accurate to at least four figures despite that simulation results reported in this chapter generally keep two decimal places. Post-simulation processing extracts data on four endogenous variables, namely, real GDP, economic welfare, volume of merchandise exports and sectoral output for mega-FTA partners, excluded third countries and the world as a whole⁶³. Comparative-static point estimates of real GDP values attributed to different trade liberalisation scenarios and strategy choice combinations are well suited to obtain ordinal payoffs for standard game theory and preference ordering for TOM analysis.

Perception Survey

The research design also involves a perception survey to accommodate the need to triangulate data. Survey is 'any procedure in which data are systemically collected from a population or a sample thereof through some form of direct solicitation, such as face to face interviews, telephone interviews or mail questionnaires' (McClosky 1969). A useful primary data collection method⁶⁴ (Kerlinger 1964, Parten 1950), survey has made significant contributions to political science (Brady 2000).

Survey methods fall into (i) personal interview; (ii) group interview; (iii) telephone survey; (iv) opinionnaire; (v) mail-in (or email) questionnaire; and (vi) mass observation (Kerlinger 1964, Kothari 2004). Among these, questionnaire-based survey is considered one of the most favoured by both investigators and respondents (Mathiyazhagan and Nandan 2010). Questionnaire refers to a research instrument

⁶³ In common with most CGE studies, this dissertation does not make attempts to estimate confidence intervals.

⁶⁴ Survey's principal advantages include its descriptive, explanatory and exploratory power, wide applicability, linkage to theory, and the ability to have access to less observable and quantifiable data about a population be too large, too remote or too complex to study directly. Some characteristic disadvantages are associated with response bias (Armstrong and Overton 1977, Suchman 1962)⁶⁴ and language ambiguity and inconsistency (Rasinski 1989, Tourangeau et al. 1989, Bird 2009).

building on a set of questions aimed at recording responses from respondents in a systemic and standardised manner ⁶⁵ . Mail questionnaire and opinionnaire, alternatively known as perception survey or focused interview, are differentiated as one being an attempt to gather predominantly factual information (e.g. income and education) of the sample of individuals and the other being an effort to tap into the professional expertise, preferences and beliefs, psychological traits and experiences of the respondents (Kothari 2004).

In this study, a self-administered online perception survey (i.e. opinionnaire) soliciting representative views from Asian policy-making elites and thought leaders with respect to various aspects of mega-regionalism is conducted. The survey is operationalised in accordance with the methodological and ethical guidelines and recommendations offered by Young (1939), Dillman (1991), Couper, Traugott, and Lamias (2001), Miller and Salkind (2002) and de Vaus (2013), among others, in relation to format, sequencing and wording. Pre-testing of questionnaire (Moser and Kalton 1985) among the author and colleagues is also carried out to ensure the substantive quality and technical reliability in the preparatory phase of the study.

E-mail addresses of a sample of identified personnel who are believed to command professional knowledge and/or first-hand experiences in dealing with FTAs and mega-FTAs are compiled by combining and refining the (i) the mailing list of the S. Rajaratnam School of International Studies; (ii) the Singapore Economic Review Conference mailing list; (iii) personal files of the author and the advisors; and (iv) publicly available contacts from top Asian universities, think tanks and research consortiums such as the Asia-Pacific Research and Training Network on Trade (ARTNet). An email request for participation embedding a link to an online webpage

⁶⁵ <https://courses.lumenlearning.com/suny-hccc-research-methods/chapter/chapter-9-survey-research/>

where the questionnaire can be completed at one's convenience is sent to every expert in the sample.

A total of three major themes are investigated. They are (i) the economic costs and benefits of participating in mega-FTAs; (ii) political and strategic rationales behind mega-FTAs; and (iii) the relationship between (mega-)regionalism and multilateralism. The questionnaire includes various response formats including binary responses, ordinal responses, unordered nominal responses and multiple-answer responses. To not pre-dispose respondents to the pre-defined answers and to minimise the bias contained in the way questions/answers are designed and framed, options like 'Others, please specify', 'Don't know' and 'None of the above' are included where appropriate (McGuirk and O'Neill 2005, Oppenheim 1992). Moreover, in addition to the types of structured, closed questions, I put in an open-ended question inviting participating experts to share their final thoughts, whether they be suggestions, further justifications of their choices, extra comments on additional areas (which should be but) not covered by the survey, overall experiences of survey participation, or reactions to this research method.

Concluding Remarks

In this chapter, three horizontal perspectives commonly employed by existing literature to explain the temporally clustering of policies are reviewed. Contrasting hypotheses regarding the specific mechanism through which the three mega-FTAs became clustered are threshed out. I argue that the proposition that the phenomenon of mega-regionalism under study was the result of a process of competitively diffusing mega-FTAs has significantly more explanatory power than convergence or transfer theories.

To test and substantiate the competitive diffusion hypothesis, I propose a mixed method research methodology that incorporates a pluralistic array of quantitative

(CGE and game theoretical modelling), qualitative (case study and content analysis) and perceptual (opinionnaire) techniques and approaches to international political economy. The adoption of such a research design reflects first of all a recognition that the economic aspect of the competitive diffusion cannot be handled exclusively by verbal reasoning and must be dealt with with precision. The political/legal competition is not readily quantifiable, so qualitative methods are employed instead. The main advantage is that qualitative research adds meaning to the numbers derived by CGE modelling and help scan a variety of non-economic and historic reasons that informed major powers' involvement in mega-regionalism. Assessing to which extent my findings and arguments resonate with other observers and stakeholders is the motivation underlying the perceptual plank of this study. Together, a systemic triangulation of the complementary quantitative, perceptual and qualitative evidences enables me to arrive to and justify the conclusions of the dissertation in a more complete manner.

CHAPTER III

POTENTIAL ECONOMIC IMPLICATIONS OF MEGA-FTAs⁶⁶

In this chapter, the potential economic impacts of the TPP (and CPTPP), RCEP and TTIP in terms of real gross domestic product (GDP), sectoral output, export volume and welfare are investigated through a CGE approach⁶⁷. The quantitative exercises to be elaborated are essential for us to understand the three mega-FTAs as, before everything, economic arrangements that liberalise trade and capital flows across participating countries⁶⁸. They are also vitally important for setting the scene for the subsequent game-theoretical explanation of the competitive diffusion of mega-trade deals undertaken by the next chapter.

I begin by sketching an overview of a typical CGE modelling framework, deconstructing the 'black box' to two core elements: a database and a system of behavioural equations. The former is organised as region-specific social accounting matrices. As to the latter, I outline assumptions governing demand and supply, factor endowment, and international trade. I then offer a descriptive account of the existing protection structures among mega-FTA partners before spelling out this study's 'actionability' assumptions on the extent to which the three mega-trade accords would liberalise trade. Economic, and occasionally geo-political, implications are drawn on the basis of the simulation results. I conclude this chapter after comparing my results with other studies of similar nature and focus.

⁶⁶ I am grateful to Paul Gretton who provided me with the modified GTAP closure and generous guidance on CGE modelling during my visit to the ANU as Europa Visiting Fellow.

⁶⁷ Due to the enormous complexities inherent to GTAP simulations, the results obtained in this chapter are highly tentative in nature.

⁶⁸ Some call this modality of achieving free trade 'liberalism from above'. See for example Sally (2004a).

CGE Modelling Framework

A CGE framework at its core has two components: a database describing the economy in an initial state of general equilibrium, and a set of behavioural assumptions and equations predicting how economic agents respond to changes in the system. In other words, the database describes ‘what is’ in the modelling base year while the behavioural functions predict ‘what would be’ at a certain future point in time (Productivity Commission 2010b). A brief discussion of the two components is in order.

Social Accounting Matrix

To operationalise a CGE model that examines economy-wide phenomenon, one must have a database which exhaustively reports the entire structure of an economy and tracks all transactions within it during a given period of time to start with. A CGE model’s database is usually organised into a table called social accounting matrix (SAM)⁶⁹. SAM is built on the circular-flow conceptualisation of an economic system in which every expenditure has a matching income. As its title suggests, an SAM takes the form of a square matrix where each economic agent has both a column (expenditure) account and a row (receipt) account. To close the matrix, the sum of the entries in any row equals the sum of the entries of the corresponding column, and vice versa.

An SAM can be informative in two ways, depending on the level of aggregation. On the one hand, an SAM is a visual representation of all transactions that take place within the economy. The location of the cell records the identities of agents taking part

⁶⁹ While SAM is usually likened to the Input-Output model of the economy (Leontief 1941), some researchers such as Cicowiez and Sánchez (2012) and Round (2003) attributed the origin of the concept to the work on national accounts by Meade and Stone (1941) although they also drew on the input-output system developed by Leontief in the 1930s. The very first SAM is considered to be developed by Richard Stone for the UK in 1962; work on developing countries started in the 1970s (Cicowiez and Sánchez 2012).

in any exchange whereas the value of the cell provides monetary information about the transaction concerned ⁷⁰. On the other hand, aggregations of an SAM's microeconomic data paint a picture of the overall industrial structure of the corresponding region. Such macroeconomic statistics as national and sectoral GDP; commodity and factor compositions in household consumptions and firm productions; import/export ratios; and balance of trade and tax rates can be compiled by summing, and re-organising if necessary, data in an SAM. This way, an SAM comprehensively characterises the state of the economy as it is in the reference year.

Figure 3.1 Multi-regional open economy with government interventions in GTAP
Source: Brockmeier (1996), author's adaptation.

⁷⁰ As such, each cell is governed by an economic equation in a CGE model.

A graphical exposition of the circular flow of an open economy in the GTAP model is given in Figure 3.1. It depicts the value flows among three broadly defined agents – (private) households, firms and government. Households, as the ultimate owners of factors of production (i.e. land, labour and capital), generate income by selling their services of primary inputs to firms. Households then spend their after-tax income on domestically produced goods and services, and of course imported varieties. In the same vein, the government uses its income (i.e. tax and tariff revenue) to consume goods and pay taxes. Firms on their part use resources, hire workers and procure inputs and capital equipment to produce goods and services in response to demand. After selling outputs to domestic consumers and to the rest of the world, firms allocate revenue over endowment payments (e.g. rents, wages and interest payments), sourcing intermediate inputs from local as well as foreign suppliers, and tax payment. All unspent income in the economy is saved and constitutes the source of investment for firms. Savings originating in each region are pooled together in a fictitious ‘global bank’ which re-distributes global savings across national and industrial borders.

At the top of Figure 3.1 is ‘regional household’ which collects all income generated in the economy and allocates total income across private, government and savings expenditure based on static expectations. This ‘super household’, one for each region in a GTAP simulation, is subject to a Cobb-Douglas regional utility function. That is, shares of private consumption, public consumption and savings in the regional income are fixed in nominal terms; a rise (drop) in total income leads to an equi-proportional increase (decline) in private consumption, government expenditure and savings. There is both good and bad associated with the regional household approach. The main advantage is that it provides a more empirically justifiable metric of aggregate welfare, which ought to be determined by a combination of private consumption, public expenditure (providing public goods) and savings (underpinning future consumption), and not the level of private consumption per se as some CGE

models assume⁷¹. The flip side, however, is that the model fails to link government expenditure with tax revenue, as the former is assumed to represent a constant proportion of total regional income. It means that government budget cannot be modelled and fiscal conditions do not affect simulations results⁷².

Behavioural Assumptions

Demand

Consumers (including government) in a CGE setting are assumed to be utility-maximisers who purchase a most satisfying basket of goods and services, subject to preferences and budget constraints. Private consumption⁷³ decisions in GTAP are conceptually thinking of being made in three stages. First, consumers decide on the quantity of each commodity they want to consume. In the second stage, they rationally lower the cost of the desired commodity bundle by allocating their demand between imports and domestically produced goods. One last step allows consumers to further minimise the cost of consumption by choosing the cheapest sources from alternative international suppliers.

The first stage is modelled by using a constant difference in elasticities (CDE) function. The CDE function (Hanoch 1975) has the property that income elasticities of

⁷¹ As of 2015, the World Bank data suggests that the household final consumption expenditure as a percentage of GDP in China was 37.1%. The equivalent figure for Korea was 49.1%, Singapore 36.4%, Thailand 47.3%, and Brunei 20.2%. The figure for East Asia and Pacific as a whole was 48.7%. That said, the standard GTAP does not model FDI and the repatriation of profits from overseas. Hence, the change in national welfare is not fully captured.

⁷² While this fixed share allocation rule is modified in some variants of GTAP closure, notably those attempting to study fiscal policies, Cobb-Douglas function is regarded reasonably acceptable in applied trade policy analysis.

⁷³ Government in a CGE model generally functions to collect taxes, disburse subsidies and purchase goods and services in domestic as well as international markets. While some governmental activities are not utility optimising in nature, the modelling assumptions about public demand are essentially identical to those governing private demand. The key difference is that private demand is governed by CDE function whereas public demand is subject to a Cobb-Douglas function.

demand change in response to variations in price and aggregate expenditure. Income elasticity of demand measures the effect of a change in income upon demand for a commodity. One dedicated parameter is defined for each consumption good in the model. Sources of income elasticity estimates are mainly cross-country demand studies including notably Reimer and Hertel (2004). Consumer decisions in the second and third stages are governed by the Armington import aggregation function⁷⁴. The substitutability between goods from different sources is determined by the Armington import substitution elasticity and relative price. The latest estimates of Armington elasticities are obtained by Hertel et al. (2007). The commodity differentiation between domestic and imported commodities is defined by the 'rule of two' (meaning the elasticities of substitution between imported goods from different country origins are twice those between domestic and imported commodities). This rule was first proposed by the SALTER project of the Australian Industry Commission (Jomini et al. 1991) and subsequently tested by Liu, Arndt, and Hertel (2001).

Once an economy experiences a shock, all prices and quantities change and then consumers adjust their consumption decisions to achieve a new equilibrium. It is natural for household and government alike ask, 'Are we better off with or without the shock?' Most CGE models can quantify changes in a region's well-being expressed in dollar terms, and the equivalent variation (EV) is a common indicator⁷⁵. EV takes incomes and prices in the old equilibrium and calculates the change required to achieve utility levels reached in the new equilibrium (UN and WTO 2012); a positive EV implies welfare improvements. In the context of a multi-country simulation, the overall welfare effect of a shock is obtained by summing up the EVs across regions.

⁷⁴ Note that the Armington function is a homothetic CES function, whereas consumer demand is characterised by the non-homothetic CDE function.

⁷⁵ EV can be further decomposed into six sources of welfare contributions (Huff and Hertel 2000): (1) allocative efficiency, (2) endowment effect, (3) technology effect, (4) commodity terms-of-trade effect, (5) investment-savings terms-of-trade effect, and (6) preference change effect.

Producer Behaviour

As important is the supply side of the modelled economy. Defining the overarching market structure, the GTAP model adopts a standard (but simplistic) assumption that firms operate in a perfectly competitive goods and factor market. Typical of general-purpose CGE simulations⁷⁶, the perfect-competition specification implies that firms sell their outputs at the cost of production. Coupling price with cost also entails that the effects of any modelled policy reform will be passed onto the Regional Household in their entirety.

In CGE models, the production activity is understood as a process of a firm combining intermediate inputs with primary factor inputs to produce homogenous⁷⁷ final goods. The GTAP model's production function (Figure 3.2), when diagrammed, looks like an upside-down tree with a trunk, two branches and a number of twigs under each branch. At the bottom of the 'technology tree', a firm decides on what are the intermediate and primary inputs (twigs) to be used in producing a certain product. Moving above, the firm combines primary inputs into a value-added bundle and intermediate inputs into a composite of intermediate inputs (i.e. the two branches). The top level, the trunk of the inverted tree, describes the final assembly of the outputs using technology available to the firm.

⁷⁶ Some recent CGE models are capable of simulating imperfectly competitive markets (Badri, Ciuriak, and Singh 2015) in the goods market. Primary products market in most practices is still considered to be subject to perfect competition market conditions.

⁷⁷ As such, heterogeneity within products is not accounted for in a typical CGE context.

Figure 3.2 Nested production technology in GTAP

Specifically, the GTAP model assumes that primary inputs and intermediates inputs, as perfect complements, are used in fixed shares to produce final products in accordance with the Leontief production function (Allen 1967). This means that the producer has no possibility of replacing composite intermediates with primary factors or vice versa. It is also assumed that production exhibits constant returns to scale⁷⁸. Second, the same restriction of non-substitution is imposed on the intermediate input side of the production tree where fixed proportions of intermediate inputs are required to produce the composite intermediates⁷⁹. Furthermore, some of the intermediate inputs the firm uses are sourced internationally to minimise the cost. Here, the modelling of the substitution between domestic and imported intermediate goods and that between varied supply by different countries follow the Armington approach (Armington 1969). One last consideration is how the producer employs an optimal mix of land, labour and capital to transform intermediate goods into finished products. In this nested sub-process, a constant elasticity of substitution (CES) value-added

⁷⁸ The economies of scale and scope in production are not considered in the model.

⁷⁹ While intermediate inputs in CGE models are not explicitly conceived to capture value chain effects, they serve as an important channel through which a shock in one industry can set up rippling effects throughout the economy with the fixed share requirement.

production function is incorporated to allow for some degree of substitution among primary factors of production should their prices change in relation to each other.

The firm apportions its outputs to exports and sales in the domestic market to maximise revenue post-production. This stage of decision-making is determined by a constant elasticity of transformation (CET) function which uses a fixed export transformation elasticity. As goods sold on different markets must conform to varying technical regulations, a producer may not be able to shift sales of its outputs towards domestic or foreign markets with ease. The export transformation elasticity describes the ability of a producer to shift sales between domestic and export markets. The flexibility is positively correlated with the value of the elasticity.

Factors of Production

Factors of production are the labour, capital and land that producers employ for the production of goods and services⁸⁰. In the GTAP model, labour is split by skill level in accordance with one-digit occupational classifications specified by the International Labour Organisation. The five labour categories⁸¹ in the GTAP 9A database include (i) officials and managers, (ii) technicians, (iii) clerks, (iv) service/shop workers, and (v) agricultural and unskilled workers. Capital, the only primary factor subject to depreciation, is human-made goods used in the production of other goods. Land is used by agricultural sectors, and natural resources are only used by the forestry, fishing, coal, oil, gas and other minerals sectors.

⁸⁰ For a survey of factor markets assumptions in CGE models, see Banse et al. (2013).

⁸¹ Early versions of GTAP database (versions 4-7) split labour into two categories: skilled and unskilled. The former consisted mainly of professional workers like managers and administrators, and the latter comprises so-called production workers such as farmers and machine operators. From Version 8 onwards, the GTAP database adopted the five-category labour classification. Details about GTAP labour data can be found in Walmsley and Carrico (2016).

In terms of factor mobility (i.e. the readiness of factors to move to a different employment), all five labour categories are assumed to be perfectly mobile in response to differences in wages. Land in contrast is assumed to be a sluggish factor which is imperfectly mobile; its degree of mobility is governed by a factor mobility elasticity function. With respect to capital, it is understandably immobile in the short run. In the medium run, the existing stocks of capital can be retooled to meet the production requirements of other industries in the same country. This medium-run economic environment for policy modelling contained in GTAP cannot predict longer-term consequences when capital moves globally in response to differences in the expected rates of return. To the extent that implementing trade accords as comprehensive and deep as the TPP, RCEP and TTIP requires prolonged adjustments, a modified closure (see Appendix A for technical details) is used in this dissertation to allow capital stocks to move between regions.

Two additional points about factors of production are salient in the context of CGE modelling. First, the quantity of labour, capital and land, taken as a whole, marks a country's fundamental stock of wealth and productive capacity. The distribution and quantity of factor endowments across countries are conventionally fixed in GTAP and unaffected by policy interventions, but the modified closure allows those to fluctuate as capital flows in and out. Second, pursuant to the neo-classical tradition, all production factors are employed in GTAP⁸²; and sectoral adjustments are driven solely by relative factor prices. With the possibility of factor unemployment ruled out, wages or rents will adjust after an economic shock occurs so that each factor can be

⁸² This specification, in combination with the assumptions on firms and market clearance, assures that the economy is right on its production possibility frontier (i.e. it produces all that it is capable of producing) as the role of firms is to transform available material resources in the most efficient possible manner to enhance societal welfare and satisfy human needs based on consumption (Piermartini and Teh 2005).

fully employed⁸³. (Clearly, this full employment assumption is a source of concern for modellers who study countries with rigid labour markets or serious unemployment problems.) For this reason, the majority of CGE models including GTAP are unable to evaluate overall employment effects, costs associated with employment transition between sectors, and temporary unemployment during the course of trade policy reform.

International Trade

What of international trade that links the regions in a CGE model? Of particular interest here is the bilateral import data for each of the 57 traded commodities. Import data has three main components: cost of the goods, trade margin and border protection⁸⁴. Cost of the imports refers to the 'Free-on-Board' (*fob*) price documented by the exporting region. The importer's price, called 'Cost, Insurance and Freight' (*cif*) price, includes the *fob* price and all the other logistics costs incurred by the shipment of the goods from the source region to the region of use. The difference between the *cif* and *fob* valuations is the trade margin. In the GTAP model, a global transport sector is 'invented' to intermediate between the supply and demand of international transport services. And the transport cost is assumed to be paid by a share of the load as if a portion of the goods shipped would 'melt' in transit to cover the trade margin. The foremost advantage of this aspatial 'iceberg cost' approach⁸⁵ is to dissociate transport costs from specific transport routes for each origin-destination country pair (Kurmanalieva 2006).

⁸³ In contrast, for models adopting an unemployment closure, the quantity of factors of production will adjust until factor supply and demand equal at the pre-shock wage or rent level.

⁸⁴ In a similar vein, export data are decomposed to the value of exports, exported trade margin services and export taxes.

⁸⁵ The movement of an iceberg is considered costless except for the part of the iceberg that melts along the way. This concept was first contemplated by von Thünen (1826), theorised by Samuelson (1952, 1954), and then applied econometrically by Krugman (1991a).

A critical shortcoming arising from the practice of narrowing trade costs to monetary shipment costs, however, is that it provides an insufficient account of other price raising factors such as time. An additional variable omitted is the trading cost (and time) disparity among various transport modalities as goods and services can be moved around by land, sea and sky⁸⁶. Homogenising all transport modalities into a single composite transport modality, exporters in standard GTAP are effectively deprived of the flexibilities of switching from higher-cost to lower-cost transport modalities, or from slower to faster means of moving goods and services around⁸⁷.

When imports reach the shore of importing countries, tariffs are often paid. In the GTAP database, the applied rate of tariff protection for each commodity is estimated by comparing the value of imports evaluated at the importer's market price ('VIMS' in GTAP terminology) to the value of transaction evaluated at the world price (VIWS)⁸⁸. This approach has several drawbacks. The first is that the imputed ad valorem tariff rates disregard trade restrictive effects of tariff rate quotas or prohibitive tariffs that prevent trade from taking place. The second is that such methodology of making use of the data reflecting established trade patterns assumes that goods and services untraded in the base year will not be traded in the future even if a trade arrangement opens up new product spaces. As a consequence, the peril is that the capability of GTAP in analysing trade deals involving rapidly developing economies (with

⁸⁶ Research shows that firms and consumers are increasingly willing to pay for faster delivery, and time can be the most important consideration in some industries such as fashion business (Lafourcade and Thisse 2011). For example, Hummels (2001) argues that manufacturing firms would be willing to pay 0.8 per cent of the value of goods to save one day of ocean shipping.

⁸⁷ Lafourcade and Thisse (2011), for instance, observe that switching from slow to fast transport (e.g. from seaborne trade to air shipping) could be equivalent to a four-fold reduction in the tariffs on industrial and manufactured products.

⁸⁸ If $VIMS > VIXS$, there is an import tariff; otherwise there is an import subsidy, or no distortion (when $VIMS = VIXS$). GTAP's data on subsidies and export taxes likewise are obtained by comparing value of exports of tradable commodity evaluated at (exporter's) market prices (VXMD) to that evaluated at world prices (VXWD). If $VXMD > VXWD$, there is an export subsidy; otherwise there is an export subsidy or no distortion.

significantly expanded traded varieties and altered commodity preferences) or truly transformational trade accords that fundamentally reshape the existing landscape of inter-state trading is limited (Yu et al. 2003, Productivity Commission 2009). This is one shortcoming to which this study is subject as well.

An increase in trading activities between regions that come with reduced border protection facilitates international specialisation on the basis of comparative advantage, leading to more productive sectors to boom and less efficient ones to shrink or even disappear. GTAP simulations are able to identify sectoral shifts by quantifying changes in output volume for each industry. The model, as currently constructed, does not seek to put a number to the amount of jobs potentially created or lost by a policy shock as noted in preceding discussions. But probably it is safe to expect expanding sectors to attract more workers while the contracting ones to cut employment – production increases or contractions can be interpreted to reflect employment effects⁸⁹.

The technical discussion presented above on the GTAP model's strength and weakness⁹⁰ serves as a neat starting point to consider shock structures, sources of data and inputs, experimental designs and other modelling considerations which enable us to model as sensibly and realistically as possible the potential economic consequences and implications of the three mega-FTAs to be of use for the purpose of this dissertation.

⁸⁹ Another theme to keep in mind in analysing effect of international trade is that it causes changes in an economy's industrial structure. Should the restructuring of an economy's production structure shows signs of a reallocation of productive resources away from the industrial, manufacturing sectors and toward natural resources exports and services industries, the economy is said to experience the so-called Dutch Disease (Corden 1984, Corden and Neary 1982) with the distinctive symptoms of de-industrialisation.

⁹⁰ Some other helpful introductions to the structures of CGE models and GTAP include Dixon and Jorgenson (2013), Hertel (1997), Ianchovichina and Walmsley (2012b), Hosoe, Gasawa, and Hashimoto (2010), and Gilbert and Tower (2010).

Simulation Design and Scenarios

This study considers three layers of gains from trade liberalisation. First, it quantifies the static effects of tariff reduction on merchandise trade. Second, trade facilitation measures and services liberalisations are taken into consideration. The third aspect⁹¹ concerns some speculative dynamic effects that come from replenishing productivity gains and hypothetical reforms in the financial market which may (or may not) proceed in tandem with real economy liberalisation.

Regional and Sectoral Aggregation

To focus on key results and regions of interest and enhance computational efficiency, original GTAP regions and sectors are bundled into aggregates. Twenty-two regions which take part in at least one mega-agreement are identified and individually retained, with the rest coming under one single residual group 'the rest of the world' (see Appendix B). The regions selected for an explicit analysis include: Australia, Brunei Darussalam (hereinafter referred to as Brunei), Canada, Cambodia, Chile, China, the European Union (EU), India, Indonesia, Japan, Republic of Korea (Korea), Lao People's Democratic Republic (Laos), Malaysia, Mexico, Myanmar⁹², New Zealand, Peru, the Philippines, Singapore, Thailand, the US and Vietnam.

The 57 sectors originally classified by the GTAP database are aggregated into 15 sectors. (Appendix C provides details of the sectoral aggregation.) Of note is that more services sectors are represented in the aggregation scheme than manufacturing

⁹¹ Due to the speculative nature of the last sources of trade gains, the projected benefits of dynamic effects should only be seen as providing one illustrative outer-envelope of the economic gains that a country could be expecting to reap in the long run when trade policy initiatives precipitate positive changes in other areas of the economy.

⁹² In GTAP database, Myanmar is folded into a group called 'Rest of Southeast Asia' (xse) together with Timor-Leste. Since Myanmar's GDP is close to 60 times as large as the economic size of Timor-Leste as of 2015, 'xse' is used to approximately represent Myanmar in this dissertation.

and food processing industries. This caters to the need of modelling the differentiated liberalisation commitments across services industries under the three mega-FTAs.

Tariffs on Goods Trade

Appendix D presents applied ad valorem tariffs on imported goods prevailing in 2011 for each TPP country pair by aggregated industry. Among the TPP/CPTPP countries, Australia, Brunei, Singapore, Chile, the US and Peru have the most liberal import regimes. In contrast, other TPP/CPTPP countries impose comparatively higher tariffs on the flow of goods. Some of them have clustered protection in sectors of economic and/or political sensitivity while others show lesser variations across the gamut of industry sectors. For example, Canada's uniformly low tariff structure is accompanied by a few tariff peaks on New Zealand's dairy products and Chile's meat products. Vietnam, however, tends to have a tariff pattern that is more consistent across the TPP/CPTPP membership. This could be linked to the fact that Vietnam has few intra-TPP/CPTPP trade agreements that liberalise specific bilateral trade ties. It is also worth pointing out that for the TPP/CPTPP grouping as a whole, some industries have considerably higher tariffs than others. The meat, livestock and fishery, and processed food industries are examples.

Applied bilateral tariffs which RCEP members erect against each other are generally higher than those between TPP/CPTPP partners. A visible pattern is that knots of protectionism concentrate in the processed food industry (see Appendix E). This is in stark contradiction to the extractive industries and heavy manufacturing industries where average tariffs are close to zero. In addition to inter-sectoral tariff heterogeneity, some country pairs have distinctly higher bilateral tariff protections than others, considering Korea's tariffs on grains imports from India (317%) and Indonesia (282%), and India's tariffs on processed food imported from Cambodia (85%) and Malaysia (79%).

The pattern of existing border protections between the EU and US is illustrated in Appendix F. In most sectors, the EU's tariff barriers restricting imports are higher than the US', although they are both low by the international standard. The two sectors where the EU's average tariffs are substantially higher than the US' are meat, livestock and fishery, and processed food. For livestock and fishery products, the EU applies an average tariff (21.56%) that is almost twenty times the US' average tariff (1.20%). For processed food products, the EU's average tariff (11.03%) is almost four times higher than the US' (2.50%). In relation to textiles and garments, average tariffs are relatively high (more than 7%) in both markets, but no major differences exist between the US and the EU. Transatlantic tariffs in other sectors are all below 5%.

NTMs on Trade in Services

Unlike merchandise exchange, services trade is more throttled by behind-the-border measures collectively known as non-tariff measures (NTMs). The WTO reckons that while the services industries contribute around 70% of global GDP (in terms of value added) and over half of the world's total employment, its share in international trade is as low as 20% (2014 figures). This mismatch has historically been rationalised by highlighting the intangible nature of services and the preferred spatial propinquity between producers and consumers. Such accounts are increasingly irrelevant thanks in part to the development in information and communication technologies. Increasingly, NTMs are found to exert a drag on more unhindered trade in services. Examples of NTMs (UNCTAD 2010) include technical barriers to trade, anti-competitive measures, licence control, distribution restrictions, restrictions on post-sales services, 'buy national' local-sourcing for public procurement, and involuntary server localisation requirement to the disadvantage of foreign data and e-commerce suppliers.

Collecting globally consistent data on country- and sector-specific NTMs is no easy task. As Dee and Ferrantino (2005) remark: 'Tariff levels are published in tariff schedules, and while these can be large, cumbersome and difficult to read, the numbers are there. [...] By contrast, non-tariff measures are often regulatory, with no immediate "number" attached that captures their economic significance.' Translating NTMs in to ad valorem equivalents (AVEs) – the ad valorem rates of tariffs that would induce the same level of imports as the NTMs – is by far the most common approach to quantifying NTMs. One way of estimation is to tie AVE to the price wedge between domestic price and the price in a benchmarking, NTMs-free or -light reference region (e.g. Hong Kong in the estimation for communication services). Despite the conceptual straightforwardness, this approach often yields inconsistent and incomparable results where data from different studies fall far apart from each other (Ferrantino 2006a). Moreover, most FTAs guaranteeing national treatment target only the NTMs that explicitly discriminate against foreign services providers while leaving a plethora of provisions restricting domestic and foreign companies equally untouched (Dee 2008).

Technicalities aside, there are political obstacles to overcome for economists to collect reasonably accurate information on the presence and level of NTMs. In fact, NTMs are so politically contentious and contested that the term 'non-tariff barriers' with an explicit protectionist connotation is gradually being replaced by the more neutral term 'non-tariff measures' in official documents and scholarly literature. There is a growing recognition and acceptance that NTMs – many of which may have long legislative histories – form part of a national regulatory environment put in place to serve legitimate public policy objectives. NTMs could also arise from predatory lobbying activities of protected industries in the name of fair trade or self-sufficiency. The captured states in turn are averse to NTM data collection and dissemination lest they receive public scrutiny and international attention (Dee and Ferrantino 2005).

The ‘multi-functionality’ and political sensitivity aspects of NTMs suggest that their complete elimination is neither desirable nor feasible.

Concerns over NTM data availability and soundness lead many existing studies on mega-FTAs to refrain from simulating services liberalisation (see, for example, Badri and Sachin 2014, Huong and Kikuchi 2016, Arora, Singh, and Mathur 2015, Mathur, Arora, and Bhardwaj 2016, Cheong and Tongzon 2013, Rahman and Ara 2015a, Meyveci Doganay, Uzun, and Tokpunar 2014, Faruqui, Ara, and Acma 2016, Al Amin 2015). But the methodological trivialisation of services market opening up in previous CGE simulations erroneously under-predict the potential effects of these broad and deep mega-regional agreements that treat services liberalisation as standard fare⁹³. In this study, AVEs in services markets⁹⁴ are taken from CEPII (Fontagné, Guillin, and Mitaritonna 2011) and USITC (2016).

Table 3.1 shows that the estimated market access restrictions differ greatly across regions and services sector. Among the TPP/CPTPP countries, the sector with the lowest level of NTMs is transport service with an average protection/regulation of 25%, followed by other services (34%) and insurance (35%). The highest NTMs are found in construction (75%), financial services (60%), and business-related trade services (50%). In particular, NTMs in the construction sectors in Peru (159%), Mexico (136%), Chile (133%), and Australia (127%), as well as NTMs in Mexico’s business service sector (134%), are all greater than 100%. The trend by and large holds with respect to RCEP countries: the most protected/regulated service industries are financial services (67%), construction (56%), and communication (52%), while

⁹³ For example, the TPP contains provisions liberalising technical barriers to trade (chapter 8 of the TPP texts), investment (chapter 9), cross-border trade in services (chapter 10), financial services (chapter 11), temporary entry for business persons (chapter 12), telecommunications (chapter 13), electronic commerce (chapter 14), government procurement (chapter 15) and competition policy (chapter 16).

⁹⁴ By modelling AVE reductions, this study focuses on the mode 1 services liberalisation. Consumption abroad (mode 2), commercial presence (mode 3) and presence of natural persons (mode 4) are not considered in the simulations.

transport services (28%) is the least protected/regulated sector. The average level of NTMs in Singapore is the lowest in the grouping. India's services market, in contrast,

Table 3.1 Estimated AVEs of NTMs in mega-FTA economies, by industry (%)

	Communication	Construction	Finance	Insurance	Business	Others	Trade	Transport
AUS	31.5	126.8	64.2	44.9	66.6	44.4	64.5	26.8
BRN	49.2	16.1	60.3	56.7	31.0	21.9	31.4	24.7
CAN	27.5	73.9	33.8	16.8	31.3	35.9	51.2	25.7
CHL	33.0	133.3	105.6	48.3	69.9	40.3	45.9	18.1
CHN	85.2	45.6	92.6	40.7	98.1	59.6	32.9	52.8
EUN ^a	27.6	44.3	39.9	41.2	26.7	31.8	35.4	19.2
IDN	80.0	112.9	95.3	38.1	22.2	38.3	29.1	35.6
IND	160.3	153.8	136.8	47.1	48.4	68.4	58.6	49.6
JPN	63.1	25.7	61.0	45.1	43.9	48.4	42.3	26.7
KHM ^b	29.0	21.5	43.6	37.4	32.5	36.1	35.9	29.6
KOR	29.2	101.6	67.2	67.2	25.5	36.2	49.0	13.0
LAO ^b	29.0	21.5	43.6	37.4	32.5	36.1	35.9	29.6
MEX	55.5	135.8	52.6	0.0	133.6	38.9	50.6	35.5
MMY ^b	29.0	21.5	43.6	37.4	32.5	36.1	35.9	29.6
MYS	45.2	8.4	51.8	41.2	0.1	31.6	57.3	19.0
NZL	10.7	18.7	29.5	34.2	9.1	20.2	19.9	17.1
PER	56.9	159.1	73.7	37.6	54.7	44.4	100.3	47.1
PHL	26.4	17.6	58.5	39.5	52.4	58.9	50.1	25.6
SGP	62.9	67.8	52.6	5.4	2.3	15.0	3.9	0.0
THA	43.0	39.6	79.6	14.4	32.5	33.3	30.3	23.4
USA	36.9	95.4	51.3	43.7	42.3	8.8	61.5	17.5
VNM	29.0	21.5	43.6	37.4	32.5	36.1	35.9	29.6

^a GDP-weighted average, excluding Malta.

^b Data imputed from Vietnam.

Source: Fontagné, Guillin, and Mitaritonna (2011), USITC (2016) and own estimates

is the most protected/regulated with AVEs in communication, construction, and financial services sectors amounting to 160%, 154%, and 137%, respectively. When it comes to transatlantic economies, restrictions caused by NTMs are less prevalent in

the EU than in the US. However, there are two exceptions: other services (e.g. government services) and transport. As to the former, the EU imposes an AVE of 32%; that is almost four times as high as the NTMs in the US (9%). Other relatively more protected/regulated services in Europe are construction (44%) and insurance (41%) and the most liberalised sector, as is the case with other mega-FTA economies, is transport services (19%)⁹⁵. In the US, NTMs in the construction sector (95%) is the highest and roughly one and half times those in the next closest sector (62% for trade services).

Actionability

In the following, I set out the *assumed* actionability – a concept defined as the degree to which tariff-based trade hindrances and cost-raising components of NTMs can be removed in a best case scenario (CEPR 2013) – for each of the three mega-FTAs. Here, the discussions focus squarely on the ultimate tariff differentials⁹⁶ before and after the full implementation of a given mega-trade agreement, noting that signatories are likely to retain their rights to re-deploy emergency tariff measures through ‘snap-back’ provisions (New Zealand Ministry of Foreign Affairs and Trade 2018a) and that some tariffs are phased out over a protracted transition period. In so doing, the obvious shortcoming with the present study is that it abstracts from other non-market access provisions such as intellectual property rights and competition chapters that will undoubtedly impact trade and production patterns.

⁹⁵ Note that this region-wide low level of NTMs glosses over the marked regional disparities within the 28-nation bloc. Take construction sector as an example. NTM in the Netherlands is 18.7% while the equivalent figure for Croatia is greater than 130%.

⁹⁶ In so doing, the present study leaves out an analysis of other important, non-market access provisions such as labour and environmental, intellectual property rights and competition chapters that will also impact trade patterns and production chains in areas subject to mega-FTA rules.

TPP/CPTPP Actionability

Despite the proclaimed high standard, not all tariff lines are liberalised under the TPP/CPTPP⁹⁷. Most CGE studies that predate the conclusion of the TPP/CPTPP negotiations assumed a blanket removal of all intra-TPP/CPTPP tariffs. This study, however, allows for the presence of sensitive sectors, carve-outs and other nuances reflected in the final TPP texts⁹⁸ published in November 2015.

Five TPP/CPTPP countries, namely, Australia, Chile, New Zealand, Peru and Singapore, have very low MFN tariff rates without international tariff peaks exceeding 15%. These five open economies and Brunei, Malaysia⁹⁹ and the US¹⁰⁰ with relative scarcity of high trade barriers agree to liberalise (almost) all tariff lines under the TPP/CPTPP agreement. In this study, all import-restricting tariffs in these eight countries vis-à-vis other TPP/CPTPP partners are set to zero.

Mexico pledges to remove 99% of non-zero tariff lines at the full implementation of the TPP/CPTPP (Freund, Moran, and Oliver 2016). The remaining 1% concerns country-specific tariffs (or tariff-rate quotas) on some dairy and sugar products¹⁰¹ originating in

⁹⁷ Notably, a small amount of tariff-rate quotas are retained for agricultural products. Under the TPP, the in-quota tariffs are typically set to zero, or low level close to zero, while out-of-quota tariffs are usually left intact at MFN level.

⁹⁸ The reworked CPTPP will essentially be a replica of the original TPP with tariffs schedules and service liberalisation kept virtually unchanged (ATC 2017).

⁹⁹ Malaysia retains only a narrow range of exclusions on some agricultural and processed food products.

¹⁰⁰ The US under the TPP would still impose tariff-rate quotas on beef meat imports from Japan, dairy products from Canada, and sugar and sugar-containing product from Australia, Canada, Chile, Japan, New Zealand and Peru. Conversely, US exports of rice, wheat and grain to Japan, passenger vehicles to Vietnam and poultry meat to Canada and Malaysia will also face some low level of protection in the form of tariff-rate quotas (USITC 2016). By 2032, these tariffs facing US exports would be almost eliminated except ones applicable to US agricultural exports to Japan (9.9%) and Malaysia (0.8%) according to USITC calculations (USITC 2016).

¹⁰¹ (1) milk and cream, not concentrated or containing added sugar or other sweetening matter; (2) milk powder, (3) evaporated milk, (4) condensed milk, (5) products consisting of natural milk constituents, (6) butter, (7) cheese and (8) dairy-based preparations. Non-milk products that are not fully liberalised include palm oil and palm kernel oil.

Australia, Brunei, Canada, Japan, Malaysia, New Zealand, Singapore and Vietnam. It is therefore surmised that Mexico's tariffs on the aggregated processed food industry ('ProcFood') against imports from those countries reduce by 99%¹⁰².

Canada, while agreeing to eliminate 97% of all tariffs lines (Freund, Moran, and Oliver 2016), exempts its highly protected dairy, poultry and egg markets from full liberalisation by establishing an import licensing system¹⁰³. Likewise, Vietnam drops tariffs on 97% of their tariff lines post-TPP/CPTPP (Freund, Moran, and Oliver 2016). Vietnamese industries that remain protected primarily include motor vehicles and parts, and some products of heavy industries¹⁰⁴. Accordingly, this study applies a 97% shock on Canada's tariffs on processed food and Vietnam's duties on products of foreign heavy manufacturing industries ('HeavyMnfc').

Japan has by far the most extensive exclusions and exceptions in the TPP/CPTPP grouping, leaving more than 300 tariff lines only partially liberalised (Gilbert, Furusawa, and Scollay 2016). Nonetheless, Tokyo agrees to bring almost eight-in-ten tariff lines down to zero when the TPP/CPTPP agreement enters into force. The ultimate share of duty-free tariff lines will reach 95% over the long run (Freund, Moran, and Oliver 2016). Tariffs worth 9% will be applicable to some meat of bovine animals; ad valorem duties ranging from 5.3-26.8% will still be levied on milk, cream, butter and other dairy imports¹⁰⁵. In this study, it is assumed that only 90% of tariff

¹⁰² It should be noted that Mexico agrees to eliminate 99% of the total number of tariff lines bearing non-zero tariffs. It is in fact an indicator of the *breadth* of tariff elimination, not *depth*. In this study, the figure is however used in shocking the model to approximately reflect the fact that not all tariff lines are liberalised. This approximation is due to resource constraints.

¹⁰³ Specifically, Ottawa manages to keep in place a certain level of protection in the form of tariff-rate quotas for imports of milk, cream, milk powders, concentrated milk, yogurt and buttermilk, whey powder, products consisting of natural milk constituents, butter, industrial cheese, mozzarella and prepared and other cheese, ice-creams and mixes, other dairy products, broiler hatching eggs and chicks, chicken, turkey and eggs.

¹⁰⁴ And birds' eggs, cane or beet sugar and salt.

¹⁰⁵ Cereals; products of the milling industry (including malt, starches, inulin and wheat gluten); oil seeds and oleaginous fruits; sugar and sugary confectionary; cocoa and cšocoa

protections in Japan's livestock and processed food industries ('MeatLstk' and 'ProcFood', respectively) would be abolished, and so would only 95% of tariffs in its textiles and clothing sectors ('TextWApp').

Table 3.2 Actionability of NTMs reduction under TPP/CPTPP, by industry (%)

	Communication	Construction	Finance	Insurance	Business	Others	Trade	Transport
AUS	-18.8	-	-	-	-16.5	-7.5	-9.8	-3.2
BRN	-45.8	-	-24.0	-24.0	-40.5	-19.5	-24.8	-9.5
CAN	-18.8	-	-	-	-16.5	-7.5	-9.8	-3.2
CHL	-18.8	-	-	-	-16.5	-7.5	-9.8	-3.2
JPN	-45.8	-	-24.0	-24.0	-40.5	-19.5	-24.8	-9.5
MEX	-18.8	-	-	-	-26.0	-7.5	-9.8	-3.2
MYS	-45.8	-	-24.0	-24.0	-50.0	-19.5	-24.8	-9.5
NZL	-45.8	-	-24.0	-43.5	-40.5	-19.5	-24.8	-9.5
PER	-18.8	-	-	-	-16.5	-7.5	-9.8	-3.2
SGP	-18.8	-	-	-	-26.0	-7.5	-9.8	-3.2
USA	-41.2	-	-11.9	-13.3	-36.7	-18.0	-21.9	-0.1
VNM	-45.8	-	-24.0	-24.0	-40.5	-19.5	-24.8	-9.5

- No liberalisation

Source: USITC (2016) and own estimates

The actionability of NTMs reduction in services sectors¹⁰⁶ is obtained from USITC (2016). The USITC's estimates take into account a host of factors that may affect the depth and scope of NTMs reduction in services industries, including the World Bank's Services Trade Restrictiveness Index, the adoption of a 'negative list' modality and the degree to which a sector receives public attention during negotiations, among others. It concludes that sectors that are more innovative and digitally intensive (e.g.

preparations; preparations of vegetables, fruit, nuts or other parts of plants; leather; textiles; and footwear, gaiters and the like are exempted from full liberalisations.

¹⁰⁶ Shock applied to the 'ams' variable in the GTAP model which is designed to simulate such effects as trade facilitation and services liberalisation.

telecommunications, business services and trade) would undergo larger NTMs reductions, but the labour-intensive sector (e.g. construction) is uniformly exempted from opening up; relatively little liberalisation is expected to take place in transport sectors (see Table 3.2 above).

RCEP Actionability

At the time of writing, RCEP negotiations are on-going. The exact RCEP-required tariff cuttings are unknown. This means the RCEP tariff shocks in the modelling are subject to discretion. The RCEP shocks assigned reflect four sets of considerations: (i) the decision to extend special and differential treatment to less developed ASEAN countries, (ii) publicly declared tariff liberalisation targets under RCEP negotiations, (iii) the levels of tariff elimination in existing ASEAN+ FTAs, and (iv) applied bilateral and MFN rates. The first consideration generally points to the need of applying country-specific tariff shocks; the rest three are elaborated in more detail below.

First, RCEP leaders and negotiators have in various occasions confirmed and reaffirmed the commitment to achieving a tariff removal ratio of 90-95% (Chen 2016, Basu Das 2014). While question marks are indeed hanging over whether this target – which is in many aspects ambitious by the standard of some participating countries such as India – can be met eventually, the figures are nonetheless important for prescribing the base-line shocks. In this study, the starting level of tariff elimination is assumed to range from 90% to 95%.

Second, assumed tariff-cuts under RCEP are benchmarked against the tariff elimination coverage of five ASEAN+ agreements. Without doubt, for negotiating RCEP to be meaningful, the final RCEP agreement has to go beyond what has been achieved in existing agreements. Yet, market access offers under RCEP will have to be built on previous commitments. Table 3.3 shows that six ASEAN member states (Singapore, Brunei, Cambodia, Malaysia, the Philippines and Thailand) and all

ASEAN+ partners except India have agreed to lift tariffs on more than 90% of tariff lines. The commitments of the remaining four ASEAN countries are broadly in the range of 80-90%. If the shallowest ASEAN-India FTA is disregarded in the calculation, all ASEAN states except Myanmar (89.5%) have committed themselves to liberalising more than 90% of all tariff lines. As such, the tariff shocks applied to Australia, New Zealand, China, Japan, Korea, Singapore, Brunei, Cambodia, Malaysia, the Philippines and Thailand are assumed to fluctuate around 95% while those applied to the rest of RCEP members will be in the region of 85-90%.

Table 3.3 Tariff elimination coverage by country under ASEAN+1 FTAs (%)

	AANZFTA	ACFTA	AIFTA	AJCEP	AKFTA	Average
BRN	99.2	98.3	85.3	97.7	99.2	95.9
KHM	89.1	89.9	88.4	85.7	97.1	90.0
IND	93.7	92.3	48.7	91.2	91.2	83.4
LAO	91.9	97.6	80.1	86.9	90.0	89.3
MYS	97.4	93.4	79.8	94.1	95.5	92.0
MMY	88.1	94.5	76.6	85.2	92.2	87.3
PHL	95.1	93.0	80.9	97.4	99.0	93.1
SGP	100.0	100.0	100.0	100.0	100.0	100.0
THA	98.9	93.5	78.1	96.8	95.6	92.6
VNM	94.8	NA	79.5	94.4	89.4	89.5
AUS/NZL	100.0					
CHN		94.1				
IND			78.8			
JPN				91.1		
KOR					90.5	
Average	95.7	94.7	79.6	92.8	94.5	

Source: Fukunaga and Isono (2013)

Notes: HS2007 version, HS 6-digit base. Data on Vietnam under the ASEAN-China are missing. Data on Myanmar under the ASEAN-China FTA are also missing for HS01-HS08. AANZFTA=ASEAN-Australia/New Zealand FTA; ACFTA=ASEAN-China FTA; AIFTA=ASEAN-India FTA; AJCEP=ASEAN-Japan Comprehensive Economic Partnership; AKFTA=ASEAN-Korea FTA.

The third step involves adjusting for the presence of sensitive sectors that may be subject to lower levels of liberalisation under RCEP through a reading of RCEP countries' existing tariff barriers vis-à-vis the rest of the world (i.e. MFN tariff rates, see Appendix G¹⁰⁷). The shocks applied to some highly protected 'sacred cows' will be revised downwards to reflect their entrenched protection status. But for Australia, Brunei, New Zealand and Singapore, no sector-specific revision down of the tariff liberalisation shocks are adopted. Instead a uniform revision-up (i.e. 100% removal) for this group of four countries is assumed given their greater penchant for liberalisation and concurrent participation in the TPP/CPTPP¹⁰⁸ which does not tolerate significant sectoral carve-outs or residual tariffs post-implementation (see Table 3.4). This is apparently not the case for other RCEP countries.

In Korea, the applied MFN tariff rates on milling industry products and cereal imports are approximately 330% and 285%¹⁰⁹, respectively, even though the average MFN tariff rate is a little under 14%. Korea also imposes tariffs of greater than 50% on some vegetable products and dairy products. Similar tariff profiles can be found in India where tariffs on beverages and coffee amount to 121% and 61%, respectively, while India's overall tariff rate is just over 13%. Animal and vegetable oil, dairy products, livestock industry and fisheries are also among the most protected in India. Therefore, I assume that there will be lower tariff cuts on the order of five to ten percentage points in India's processed food industry ('ProcFood') and Korea's grains

¹⁰⁷ The tariff profiles are aggregated by simple averaging scheme. They are calculated by adding the tariffs on all lines and dividing by the number of those tariff lines. Import bans are not considered. In case the protection is defined in ad valorem, specific or compound terms, the ad valorem value is used in the calculations for the sake of simplicity. The source of data is the World Bank's World Integrated Trade Solution (WITS) database.

¹⁰⁸ The Philippines' lead RCEP negotiator Anna Robeniol (Robeniol 2018) sensed that there is a tendency of these countries pushing for a 'TPPnisation' of RCEP agreement.

¹⁰⁹ Cheong (2007) argues that Seoul 'intentionally positioned Korea as a developing country to protect its agriculture and reduce its liberalization burdens in the international trade arena'.

and crops ('GrainsCrops'), meat and livestock ('MeatLstk') and processed food industries.

Table 3.4 Actionability of tariffs reduction under RCEP, by industry (%)

	GrainsCrops	MeatLstk	Extraction	ProcFood	TextWapp	LightMnfc	HeavyMnfc
AUS	-100	-100	-100	-100	-100	-100	-100
BRN	-100	-100	-100	-100	-100	-100	-100
CHN	-95	-95	-95	-90	-95	-95	-95
IDN	-95	-95	-95	-95	-95	-95	-95
IND	-90	-90	-90	-85	-90	-90	-90
JPN	-90	-95	-95	-95	-95	-95	-95
KHM	-85	-85	-90	-90	-85	-85	-85
KOR	-85	-90	-95	-90	-95	-95	-95
LAO	-90	-85	-90	-85	-90	-85	-90
MMY	-90	-90	-90	-90	-90	-90	-90
MYS	-90	-95	-95	-95	-95	-95	-90
NZL	-100	-100	-100	-100	-100	-100	-100
PHL	-95	-95	-95	-95	-95	-95	-95
SGP	-100	-100	-100	-100	-100	-100	-100
THA	-90	-90	-90	-85	-90	-85	-85
VNM	-90	-90	-90	-85	-85	-85	-85

Source: Author's assumptions.

Most of the tariffs lines in Japan, Myanmar, Malaysia and Indonesia have below-RCEP-average rates of import duties. Specifically, Japan has 8 peaks among the 97 HS-2012 chapters, with only 12% (12 chapters) bearing above-regional-average tariffs including sugar and sugar-containing products (SCPs), dairy products, footwear and prepared foodstuff. Malaysia and Myanmar have tariff peaks on 5 and 8 chapters, respectively. The former charges higher tariffs on stones and ceramics, aluminium materials, vehicles and auto parts, and explosives, whereas the latter mainly levies higher duties on processed food (e.g. beverages, tobacco and cocoa) and apparels. In the Philippines, there are 8 tariff peaks restricting meat, sugar and SCPs, auto and

auto parts, and carpets imports. Indonesia has 4 tariff peaks on food preparations, footwear and gaiters, ceramic products and vehicle parts. In China, Laos and Thailand more than three quarters of tariff lines bear above-average tariffs. Commonly protected industries in these three countries include processed food (e.g. tobacco, SCPs and animal/vegetable oil), grains and crops (e.g. cereal, vegetable products) and meat. Thailand also extends significant protection to such sectors as dairy products, auto and auto parts, and textiles and accessories. Tariff peaks in Cambodia concentrate in livestock and fishing industries, dairy products and prepared foodstuff. And Vietnam's tariff structure places higher tariffs on processed food, vehicles and parts and products of light manufacturing industry such as footwear, headgears and umbrellas. Similarly, the degrees of tariff liberalisation in these sectors are knocked down by five to ten percentage points in this study (see Table 3.4).

With respect to the prospect of services liberalisation, I conjecture that RCEP countries would be willing to make concessions in sectors that have a prior history of liberalisation and deregulation. This assumption is in keeping with the fact that services agreement under RCEP will follow the 'positive approach', under which only specifically listed sectors will be liberalised. The guesstimate of RCEP's services actionability adopted in the simulations is based on the research on services liberalisations under concluded ASEAN+ agreements by Ishido (2011) and, more specifically, the Hoekman Index (Hoekman 1995) database he establishes to measure the relative sensitivity of different services sectors¹¹⁰. Table 3.5 presents the assumed NTMs cuts in RCEP countries; these figures are expressed as percentage

¹¹⁰ One example is Malaysia's telecommunication service liberalisation commitment score (Hoekman Index) is 0.69 while the average level of commitment of ACFTA in this sector is only 0.06. It suggests that Malaysia's telecommunication sector is not a very sensitive sector for the country. Appendix H lists a summary of the sectors with highest Hoekman Index scores by country and by agreement. The higher the index, the more liberalised a sector is.

reductions to AVEs¹¹¹. For the RCEP grouping as a whole, my guess is that RCEP-induced services reform will be limited at best given the relatively closed nature of the services markets in most RCEP partners and disproportionately heavy presence of state-owned enterprises and government-linked companies (Park 2013) which are often the revenue-generating machine for government.

Table 3.5 Actionability of NTMs reduction under RCEP, by industry (%)

	Construction	Communication	Business	Finance	Insurance	Trade	Transport	Others
AUS	-5	-5	-8	-8	-5	-8	-5	-5
BRN	-5	-8	-5	-5	-5	-5	-8	-5
CHN	-	-	-3	-	-	-	-3	-
IDN	-	-3	-	-	-	-5	-	-1
IND	-	-5	-	-	-	-	-	-
JPN	-	-3	-5	-3	-3	-	-	-3
KHM	-	-8	-	-3	-	-	-8	-8
KOR	-	-3	-	-	-	-3	-3	-
LAO	-5	-	-	-	-3	-	-3	-1
MMY	-3	-3	-	-	-	-	-3	-3
MYS	-	-5	-	-3	-	-	-3	-
NZL	-	-5	-	-	-	-	-	-
PHL	-	-	-	-	-	-	-5	-
SGP	-3	-8	-8	-5	-5	-5	-5	-5
THA	-	-3	-	-	-	-3	-3	-1
VNM	-	-3	-	-	-3	-3	-3	-

- No liberalisation

Source: Author's assumptions.

¹¹¹ I assume, for example, that RCEP would lead to a reduction of NTMs in Cambodia's communication services market by 8% compared to 5% NTMs reduction in Malaysia, for the reason that Cambodia is committed to liberalising this sector in all four agreements whereas Malaysia does so in only two to three agreements depending on the specific service in question.

TTIP Actionability

Under TTIP, tariffs are assumed to be completely eliminated. The Ecorys study (Berden et al. 2009) argues that in the context of transatlantic trade liberalisation approximately half of the cost/price-raising impact of NTMs can be plausibly removed. Of these 'actionable' NTMs, 40% (or a fifth of total NTMs in Table 3.1) are reduced in this study¹¹².

Trade Facilitation

Apart from swapping preferential market accesses under an FTA, trade liberalising countries often agree on certain reciprocal trade facilitation provisions that further smooth the flow of trade (Maur 2011). The term trade facilitation is broadly defined by APEC (2002) as the simplification, harmonisation, use of new technologies and other measures to address procedural and administrative impediments to trade.

The 'Customs Administration and Trade Facilitation' chapter of the TPP agreement promotes an American-sanctioned vision of trade facilitation as it essentially follows a relatively unchanged template which the US initially drew up for its FTA with Australia. Two key features of the trade facilitating agenda of the TPP agreement are 'Advance Rulings' and 'Express Shipments'. Advance rulings minimise border uncertainty by allowing traders to secure a written ruling from the customs of the importing (exporting) country on areas such as ROOs, valuation criteria and tariff classification for a product ahead of its actual importation (exportation). The latter provision grants express shipments expedited customs treatment while maintaining proper customs control¹¹³. For instance, the TPP stipulates that, under normal circumstances, only a

¹¹² This assumption sits in between the CEPR study's lower bound scenario (assuming 20% of actionable NTMs are eliminated) and the upper bound one (assuming half of actionable NTMs are removed).

¹¹³ Under the CPTPP, this provision is reviewed and partly suspended.

single submission of documentation is required, and express shipments should be released in six hours after the submission.

Trade facilitation provisions in ASEAN's existing agreements (Wille and Redden 2007, Hamanaka, Tafgar, and Lazaro 2010) are not as concrete and binding as comparable provisions in the TPP or other trade deals signed by the US. Typically, trade facilitation measures are not grouped in a dedicated chapter but appear mainly as a series of 'Customs Procedure' clauses under the heading of 'Trade in Goods'. This tendency looks set to be continued under RCEP. Nevertheless, RCEP is likely to contain several trade facilitation provisions that will have the potential to enhance the overall efficiency of the border agencies in RCEP countries.

Several studies have tried to quantify the potential welfare and trade gains that can be derived from trade facilitation (UNCTAD 2001, Engman 2005, Wilson, Mann, and Otsuki 2003). One more recent study by Hillberry and Zhang (2015) suggests that implementation of the WTO's Trade Facilitation Agreement (which entered into force in February 2017) would result in an average trade cost reduction of 0.9% for imports and 1.2% for exports. As such, following USITC (2016), we assume that mega-FTAs would have a small efficiency-enhancing effect (estimated at 1% increase in efficiency for the TPP/CPTPP and TTIP and 0.5% for RCEP), removing the 'sand in the wheels' of international trade (Andriamananjara, Ferrantino, and Tsigas 2003).

This approach to modelling trade facilitation can be understood as 'preferential trade facilitation' (Productivity Commission 2009). But trade facilitation can be thought of being akin to non-excludable and non-rivalry public goods (Maur 2011), and trade facilitation enhancement could alternatively be modelled on a non-preferential and non-discriminatory basis. That said, it has also been argued that trade facilitation provisions under FTAs can be just as discriminatory as preferential tariff reduction for the principle reason that some aspects of trade facilitation provisions such as

concessionary customs fees applicable only to members and mutual recognition of conformity assessments are still discriminatory (Moïsé 2002, Hamanaka, Tafgar, and Lazaro 2010). It seems prudent for this study to adopt the more conservative, preferential approach in light of the still unsettled and debatable nature of the issue.

Productivity Enhancement

An FTA in the long run has the potential to raise output and income by pulling up the total productivity of the economy. Empirical evidence suggests that countries that are more open to international trade experience economic gains that grow larger over time (Edwards 1993). This highlights the need to model productivity enhancement in tracing out the more distant macroeconomic implications of mega-FTAs under investigation. Potential productivity gains stemming from the TPP's investment provisions are illustrated in Figure 3.3 (USITC 2016). It is expected that Brunei, New Zealand, Malaysia and Mexico may receive higher productivity gains given their comparatively higher FDI restrictiveness pre-TPP. In contrast, Chile, Peru, the US, Japan and Canada are believed to have limited room to leverage TPP-facilitated FDI for productivity increase. That said, the numbers proposed by the USITC appear to be the lower bound of productivity gains as there are sources of productivity improvement other than just greater openness to foreign investment.

Figure 3.3 Potential productivity gains from the TPP's investment provisions (%)
Source: USITC (2016)

For TTIP modelling, this study relies on Statista's work which translates the agreement into probable sectoral productivity gains. By 2030, as Figure 3.4 demonstrates, barring some agricultural sectors and heavy manufacturing industry, all European sectors would experience positive productivity movements ranging from 0.1% (communication) to around 2% (textiles and apparel). Interestingly, where the EU's productivity is projected to drop, the US' productivities gain (e.g. grains, crops, and meat and livestock industries). Still, TTIP could constitute a drag on productivity in America's extractive industries, heavy manufacturing and insurance sectors, albeit to varying degrees.

The pattern of TTIP-triggered productivity growth across the sectoral spectrum is best understood when viewed against the present-day comparative advantage of the EU vis-à-vis the US. A study evaluating European countries' international specialisation indicates that, while both the EU and the US have developed comparable comparative advantage in trade in services, the EU has since the 1980s deepened its specialisation in services and even ambitiously embarked on a path of 'servitising' the

bloc's industrial exports (Cheptea et al. 2013). With respect to manufacturing and food processing industries, an examination of the differences between imports and exports¹¹⁴ reveals that the US enjoys comparative advantage in food production and, at the same time, suffers comparative disadvantage in textiles and clothing industries in relation to the EU; and both economies possess almost identical levels of external competitiveness in manufacturing activities (Salvatore 2014). Since trade liberalisation generally fosters more optimal distributions of physical and human resources in favour of pro-competitive industries (Pavcnik 2002), this structure of comparative advantage across the Atlantic would be reinforced if a TTIP could be struck.

Figure 3.4 Potential impact of TTIP on US and EU productivity by sector in 2030 (%)
Source: Statista, author's estimates.

¹¹⁴ The rationale is that if a nation exports relatively more than it imports of a particular product, the nation must have a comparative advantage in that product.

Turning to hypothetical RCEP assumptions, this exercise is mindful of three underlying mechanisms through which the effects of trade liberalisation could spur productivity gains: investment liberalisation, foreign competition and technology-transfer. First, it is assumed that RCEP countries with relatively high barriers to FDI, as measured by OECD's FDI Regulatory Restrictiveness Index (see Appendix I), pre-RCEP such as the Philippines, Myanmar, China and Indonesia would enjoy relatively higher overall productivity gains. Second, open trade forces expose domestic firms to increased competition from lower-cost, more efficient producers located in partner countries. As such, RCEP participants subscribing to more comprehensive tariff and NTM cuts (e.g. Australia, Brunei, New Zealand and Singapore) are conceivably in a better position to take advantage of trade-related productivity and efficiency increase. And finally, research suggests that trade liberalisation typically facilitates the so-called 'trade in ideas' (Eaton and Kortum 1996) in the sense that freer exchange of goods and services tends to usher in more unobstructed flow of technological knowledge and managerial know-how, ultimately boosting an economy's rate of productivity improvement. The size of productivity growth accruing to an RCEP country therefore is assumed to be inversely proportional to that country's existing technological capability, as crudely measured by the share of high-tech products in total manufacturing exports (see Appendix I). New Zealand, India, Indonesia, Cambodia, Myanmar and Laos¹¹⁵ are found to rank low among RCEP economies, presumably leaving more room for them to benefit from foreign technology and capital inflows once RCEP is implemented. It is worth noting that merely 0.002% of Myanmar's manufactured exports were products with high research and development intensity (2010 figure). Among other reasons, the decades-long US economic sanction¹¹⁶ imposed in 1989 that cut off Myanmar's access to foreign technology and technical

¹¹⁵ Lao data is not available.

¹¹⁶ The sanction was lifted in September 2016 under President Obama.

knowledge was to blame. Compressing qualitative interpretations of these factors¹¹⁷ leads to the conjectured figures presented in Table 3.6 below. As for productivity growth in RCEP services sectors, this study adopts the assumption that every one percentage point reduction in NTMs corresponds to 0.001% productivity gains.

Table 3.6 Group definition for productivity enhancement simulation

Group	Countries	Productivity gains (%)
1	Indonesia, New Zealand, China, Myanmar	1
2	Australia, Brunei, Cambodia, India, Laos, the Philippines	0.5
3	Japan, Korea, Malaysia, Singapore, Thailand, Vietnam	0.03

Source: Author's assumptions.

Financial Market Reform and Risk Premium Effects¹¹⁸

In addition to market access improvements, potential financial market reforms and the ensuing risk premium effects that indirectly result from the mega-trade agreements are modelled in this study. While it has been suggested that governments tend to be defensive with regards to further liberalisation and 'second-generation' domestic reforms complementing external liberalisations are rare events in national political economy (Sally 2009, Rana and Chia 2017), there are a few reasons why this aspiring outcome, however remote, is possible in principle.

First of all, the increasingly close real-financial nexus behoves export-oriented communities keen to exploit new commercial opportunities in the newly integrated mega-regional markets to press for the removal of excessive financial market regulations. The (controversial and contested) investor-state arbitration clauses in FTAs provide an additional layer of protection and legal certainty to international

¹¹⁷ In this regard, a challenging extension of this study is to quantitatively determine the extent of productivity enhancement attributable to RCEP using econometric methods.

¹¹⁸ I am indebted to Paul Gretton for suggesting the inclusion of this aspect in my simulations.

creditors against state actions, creating a supposedly more secure investment environment in which investors may demand lower risk premium when undertaking investment. A further reason is that major credit rating agencies commonly consider trade openness as an important determinant in their sovereign rating process. Therefore, a country's cost of borrowing on international markets could be judged to be proportionate to the level of its integration with the global economy (Stoeckel, Tang, and McKibbin 1999). The more open and integrated the country the lower the risk premium, in short.

In this study, an approach similar to that followed in the assessment of the economic effects of Australia's existing bilateral and regional FTAs (Productivity Commission 2009, 2010a) is pursued. It models financial market reforms and endogenous risk premium effects as a decline in rates of return (RORs) on capital in countries within each mega-FTA grouping. Specifically, the model assumes a five basis point reduction in RORs for the TPP and TTIP economies and a three basis point reduction for RCEP members.

ROOs and Preference Utilisation

A regional trade agreement with non-universal membership typically includes an ROO chapter to establish the 'nationality' and eligibility of a product (Brenton 2011, Abreu 2016). To push back against trade deflection or transshipment – a practice of shipping goods produced by non-preferred countries outside of the agreement through a participating country which charges low tariffs into the free trade area to avoid payment of high customs duties (Shibata 1967) – ROOs' *raison d'être* is to ensure that only goods and services originating in FTA partners are eligible for the negotiated and in most cases reciprocal benefits.

Determining country origins for traded goods has become an increasingly onerous undertaking over the past decades, not least because of the international

fragmentation of production (Baldwin 2016a). Nonetheless, leaving aside the simplest rules mainly applicable to wholly obtained or produced goods, there are three common criteria for the purpose of defining country origin (Brenton 2011). The first is 'change of tariff classification' (CTC)¹¹⁹; origin is conferred once the exported products (e.g. ketchup) and imported inputs (e.g. tomatoes) are not classified as the same category under the Harmonised System (HS). The second, regional value content (RVC) approach, examines the level of local content. It may specify either a minimum percentage of the value added to a product by the exporting country or a percentage threshold capping the use of foreign content should the firm wants to claim eligibility. The last, technical criterion delineates the specific manufacturing or processing operations that define (positive test) or deny (negative test) origins¹²⁰. Most trade agreements also include provisions on cumulation, giving FTA partners consents to treat imported materials from specifically identified countries as being of domestic origin in the preference-requesting country where sufficient processing of the product is undertaken.

Both the CTC¹²¹ and RVC¹²² methods are adopted in the TPP/CPTPP. In some cases such as machinery and mechanical appliances, co-equal rules apply to accord firms some flexibility to choose a preferred origin-certifying method to demonstrate compliance. Of the industries covered by the TPP/CPTPP, textiles and motor vehicles

¹¹⁹ The strictness of this method depends on the level of classification of the HS at which category shift is required to occur. For example, rules specifying that change should take place at the two-digit level of the HS (chapter level) are typically more restrictive than rules requiring heading and sub-headings changes (that is, at the four-digit and six-digit level respectively of the HS).

¹²⁰ In general, as stipulated by the WTO Agreement on Rules of Origin, positive tests should be prioritised. But negative tests are permitted as long as they help clarify the positive tests.

¹²¹ The TPP's product-specific ROOs are generally specified at the heading and sub-heading levels.

¹²² Four methods are accepted in the TPP to calculate local value added: (1) focused value method: based on the value of specified non-originating materials; (2) build-down method: based on value of non-originating materials; (3) build-up method: based on value of originating materials; and (4) net cost method for automotive only.

industries are particularly sensitive to ROOs due to the participation of Vietnam and Japan in the agreement. The TPP/CPTPP rules for textiles and apparel (with exceptions) are basically built on the ‘yarn-forward’ principle which requires the use of TPP/CPTPP-made yarns and fabrics in the manufacturing of textiles and apparel products to qualify for preferential access. This makes the TPP/CPTPP more restrictive than other FTAs which embed ‘fabric forward’ formula¹²³ under which producers are allowed to use yarns spun or extruded in non-participating countries. The TPP/CPTPP’s origin rules for cars, trucks and auto parts on the other hand generally follow the RVC approach; automakers choose between a net cost calculation method requiring 45% TPP/CPTPP content and a build-down method requiring 55%¹²⁴ (Jones, Canis, and Platzer 2016). In this writing, the ROOs for RCEP and TTIP are not available. But the EU prefers restrictive ROOs – in terms of settling on a higher local content or mixed criteria certification (referring to the use of two or more of the above criteria in determining origin) (Naumann 2006, Gretton and Gali 2005a). TTIP therefore could write TPP/CPTPP-style, complex product-specific origin rules. Regarding RCEP, given ASEAN’s long-standing preference for simple and inclusive ROO regimes that often take the form of relatively low RVC in addition to generous terms relating to regional cumulation of origins (Wakamatsu 2004), a liberal and permissive system based on RVC method could be established.

ROOs could have positive employment and development implications and help enforce trade agreements. But if they go beyond the need of deterring trade deflection, the ROO provision could become a class of hidden trade barriers of its own (Gretton and Gali 2005b, Estevadeordal, Harris, and Suominen 2009). The

¹²³ For example, the Chile-US trade agreement stipulates that country origin is conferred on textile travel goods if there is a change to sub-heading 4202.12, 4202.22, 4202.32 or 4202.92 from any other chapter, provided that the products use fabrics made in the United States or Chile.

¹²⁴ TPP RVC for auto parts is between 35% and 45%, depending on the type of calculation method used and the product category (Jones, Canis, and Platzer 2016).

administrative costs associated gathering documentation and managing ROO-induced compliance costs¹²⁵ erode the margin of trade preference, leading to under-utilisations of trade preferences and limited price pass through of tariff concessions. Inconsistently specified origin rules in overlapping trade agreements introduce an extra layer of complexities that further prevents companies from taking advantage of the preferential market access available to them. Empirical investigations suggest that the economic costs of ROOs are not insignificant, which in the context of goods traded within ASEAN could amount to a quarter (Pelkmans-Balaoing and Manchin 2007). Similarly, an Australian Productivity Commission (2010c) assessment of the preference take-up of the Australia-US FTA concludes that incomplete utilisation could reduce projected GDP gains to Australia by approximately 25%, in relation to the case of full take up. As a rule-of-thumb, this study follows Gretton (2017) in assuming that mega-FTAs' preferential origin rules reduce the magnitude gains by 25%¹²⁶. This discount also impacts non-members because arguably incomplete utilisations also reduces detrimental effects on them that result from trade diversion and preference erosion.

¹²⁵ A survey by Reuters and KPMG (2015) suggests that complexity with rules of origin or difficulties gathering documentation is one of the primary roadblocks for companies to use the free trade agreements in which their countries participate. The same survey also finds out that underutilisation of FTAs is sometimes driven by lack of knowledge and fear of penalties. In addition to altering trading costs, ROOs could increase production costs should producers be incentivised to increase the use of locally sourced, higher price inputs in order to qualify for preferences.

¹²⁶ Admittedly, as far as sectoral output is concerned, the across-the-board 25% reduction is far from ideal as some sectors such as textiles will be more affected by origin rules than some sectors such as extractive industries. But the point is that it is necessary to scale down the effects derived from GTAP simulations to account for ROOs' impact on say preference take-up. There are adequate hints in the literature as to possible ranges, but 25% would be a reasonable anchor point.

Simulation Scenarios

Scenario 1	(a)	TPP
	(b)	CPTPP
Scenario 2		RCEP
Scenario 3		TTIP
Scenario 4	(a)	Parallel implementation of the TPP and RCEP
	(b)	Parallel implementation of the CPTPP and RCEP
Scenario 5	(a)	Parallel implementation of the TPP and TTIP
	(b)	Parallel implementation of the CPTPP and TTIP
Scenario 6		Parallel implementation of RCEP and TTIP
Scenario 7	(a)	Implementation of the TPP, RCEP and TTIP
	(b)	Implementation of the CPTPP, RCEP and TTIP

Scenarios 1 through 3 examine individual mega-FTAs, exploring their economic implications in a compartmentalised manner. Discussions below principally tap into the simulations results corresponding to what can be called ‘comprehensive’ actionability assumptions, inclusive of tariff removal, trade facilitation and services liberalisation. ‘Limited’ scenario results (i.e. tariff reduction only) and ‘longer-term’ conjectural impacts (including assumptions on productivity gains and risk premium decreases) are summarised in Appendix J and referred to only intermittently. The analytical focus is on the mega-FTA-induced shifts in economic patterns and trade-switching effects; price factors are not discussed at any length.

Scenarios 4-7 simulate situations where more than one mega-FTA is in force¹²⁷. (As the next chapter shows, these scenarios quantify payoffs for the US, China and the

¹²⁷ It is assumed that the mega-FTAs are of the same depth and scope in their respective context. For instance, in scenario 6, the net economic impacts of limited RCEP and limited TTIP, comprehensive RCEP and comprehensive TTIP and long-term RCEP and long-term

EU when more than one player picks strategy R.) It is assumed that countries taking part in two mega-agreements will adopt shocks associated with the more liberalising agreement¹²⁸. It is certainly not the case that the relatively deeper agreement will nullify the shallower one *de jure*. But, voting with their feet, businesses facing two agreements may presumably choose to utilise the more beneficial one based on economic logic, possibly driving a gradual, *de facto* oblivion of the less liberalising agreement. Double counting in productivity gains and financial market reform effects is also avoided. And while I do take into account ROO-related compliance costs, the cost-raising effects arising from the parallel existence of mega-FTAs are not considered by this study. There is in fact a danger that excessive regulatory heterogeneity between mega-FTAs could make cross-bloc trading more costly.

The US withdrawal from the TPP brings about complications to the design of simulation scenarios. On the surface, the Trump Administration walked away from the already sealed TPP agreement in the belief that the US can secure more favourable terms in one-on-one settings with the incumbent TPP countries. Should the bilateral negotiations wind up with countries settling on commitments and market access provisions similar to those contained in the original TPP texts and schedules, the TPP simulation results could still be relevant. That said, four memo-scenarios – Scenario 1(b), Scenario 4(b), Scenario 5(b) and Scenario 7(b) – are included in this dissertation to give an idea about the potential economic fallout from the US' rejection of the TPP. The assessment of the CPTPP is done under a simplistic premise that liberalisation shocks for the rest 11 remaining signatories remain unchanged. Marginal additional improvements under the CPTPP compared to pre-existing TPP agreement are not explicitly accounted for.

TTIP are evaluated. But the possibility of for instance a limited RCEP co-exists with a comprehensive TTIP is not considered.

¹²⁸ In practice, it means countries that take part in both the TPP and RCEP will adopt shock assumptions associated with the TPP.

Simulation Results

This section reports the simulated economic impacts of mega-FTAs. In each of the following sub-sections, the overall macroeconomic impacts¹²⁹ including changes in real GDP, national economic welfare, and exports volume are presented first. Then it proceeds to elaborate on the disaggregated sectoral impacts in terms of real output. Other indicators may be of interest, but they are out of the scope of this dissertation.

Scenario 1 (a): TPP

Figure 3.5 Estimated real GDP impacts of TPP¹³⁰

Figure 3.5 shows that the TPP's impacts on real GDP are consistently positive for its members. Notably, the results indicate that tariff liberalisation alone may lead to Vietnam's real GDP being 3.09% higher than the status quo without the TPP. Since tariff levels between Vietnam and other TPP partners are still relatively high on

¹²⁹ Here, the reported figures can be interpreted as changes in, say, real per capita GDP, since comparative-static modelling holds the size of the population constant. In addition, as Gilbert, Furusawa, and Scollay (2016) point out, the projected gains and losses attributable to trade agreements are not 'one-off' effects, but 'once and for all' changes in the economy.

¹³⁰ Unless specified otherwise, regions are ranked by the value corresponding to the comprehensive assumptions inclusive of tariffs and NTMs reductions.

average (see Appendix D), it is hardly surprising that tariff reduction by itself could lead to substantial growth in Vietnam. By contrast, countries with already low intra-TPP tariffs would not benefit as much. But when liberalisations of NTMs in services sectors are considered, the projections suggest that all TPP partners would reap much more stellar real GDP growth. Services liberalisation would particularly favour low-tariff, service-centric economies like the US and Mexico. In the case of the US where services make up nearly 70% of GDP in value added terms, real GDP could expand by 0.15% (as contrasted to the 0.02% growth under limited assumptions). The equivalent figure for Mexico is 1.03%. In the longer term, the GTAP modelling suggests that Brunei stands out as the largest beneficiary, with real GDP gains standing at 4.78%. Besides, Malaysia's potential gains from an ease of excessive financial market regulation could also be significant as the country's financial systems have long functioned in the context of repressionist and racist policies that provide preferential treatment to certain priority industries and ethnic groups (see for example Ang 2007). The projections suggest that Malaysia's real GDP could be 3.49% higher in the long run; this is nearly a percentage point greater than achievable under just tariffs and NTMs reductions.

As the mirror image of the beneficiaries, there are, however, some noteworthy 'losers' once the TPP takes effect. In China, trade diverting effects of the TPP amount to real GDP losses ranging from 0.07% to 0.06% depending on assumptions. The TPP's negative externalities would affect the EU to a lesser extent, and they are generally small (0.01-0.02%) compared to the size of the vast European economy. For the purpose of this dissertation, the losses could be interpreted as a rough measure of the sort of competitive pressure the US' TPP placed on China and the EU. Moreover, Figure 3.5 airs the TPP's divisive nature as the largest beneficiaries (e.g. Vietnam, Malaysia, Brunei and Singapore) and countries that would suffer greatest trade diversions (e.g. Cambodia, Thailand, the Philippines and Indonesia) are all ASEAN

members, substantiating some claims that the TPP divides Southeast Asia as much as it integrates it. The cost of the TPP exclusion is projected to be largest in Cambodia where 0.56% of real GDP would risk being wiped out. The only ASEAN country that may benefit from the TPP from outside is Laos where real GDP could increase by some 0.02%. This could be explained by the fact that Vietnam is Laos' key trading partner – rapid economic growth in Vietnam following the implementation of the TPP would allow Laos to capture a little of the benefits¹³¹.

Figure 3.6 Estimated welfare impacts of TPP

Figure 3.6 shows that the TPP members would see their national welfare increase. Large gains are projected for Japan (ranging from \$12.43 billion to \$23.73 billion, expressed in constant 2011 US dollars), the US (\$4.69 billion to \$21.62 billion), Mexico (\$0.56 billion to \$23.08 billion) and Canada (\$0.58 billion to \$8.21 billion). Losses are tangible in China, India, and Thailand, which compete with TPP members for very similar markets (including computers, telephones and cars), and in Korea,

¹³¹ China's exclusion from the TPP would also divert some of China's trade with ASEAN TPP countries towards Laos and other non-participating ASEAN countries.

because the TPP would erode that country's existing advantage in the US market conferred by the US-Korea FTA (Petri and Plummer 2016, Cheong 2007). The EU would also suffer a welfare loss of up to \$5.10 billion as the TPP diverts trade from transatlantic economies to trans-pacific partners. That said, the simulations put the total aggregate welfare gains for the world as whole in the \$15-80 billion range, suggesting that the TPP may have a welfare-increasing effect from a global perspective.

Figure 3.7 Estimated impacts of TPP on export volume

Figure 3.7 illustrates the impacts of the TPP on the volume of aggregate exports¹³². Much in common with the pattern of real GDP increase, Vietnam, Malaysia, New Zealand, Japan and Brunei lead the list. In particular, Vietnamese exports may expand by 9% or more. For the US, tariff reductions under the TPP would translate

¹³² In the simulations, import effects are similar to export effects. Hence, they are not reported separately. The study's focus is placed on exports because they are conventionally linked to jobs and current account balance. But as Dee (2008) rightly mentions, increasing exports per se is not necessarily good because exports may push up real resource costs and divert resources away from being used to produce goods and services to be consumed domestically.

into 0.56% expansion of exports whereas the inclusion of NTMs reduction and positive internal changes would more than double the gains (to 1.25% or 1.36% depending on assumptions). Effects on non-members are mixed; some register export gains such as Laos and Myanmar, and most others lose out from the TPP. The general observation is that while the deal could lift the export levels of members drastically, its impacts on third countries are relatively small.

Removal of border protections and market-distortions under a trade agreement facilitated a country's internal resource flow from inefficient industries into those which they can employ in a more productive manner. The redistribution of factors of production across sectors, perforce, leads to changes in real output. The standard GTAP model cannot quantify the number of jobs created and lost as noted, but it is conceivable that jobs would move out of the contracting sectors and into those expanding ones.

The TPP's sectoral impacts are summarised in Table 3.7. It shows that the deal would cause particular problems for Brunei's processed food industries (-17.78%) and Japan's meat and livestock sectors (-14.02%). To the extent that these dwindling goods-producing industries only constitute a small portion of total national output for the oil-rich sultanate, and for Japan where the composition of its advanced economy is oriented towards heavy industries and services sectors, the two countries are projected to enjoy overall economic gains from the TPP. On the other hand, Vietnam's and Malaysia's textiles industries will expand by 39.13% and 25.73%, respectively. Nonetheless, considering the TPP's arduous ROOs constraining the degree of liberalisation in this and related down-stream and up-stream sectors, it is far from assured that the two countries' textiles production could eventually climb to the level predicted by the GTAP model. Some empirical evidence suggests that overly restrictive ROOs may undo the entire trade diversion and trade creation effects of FTAs (Lee 2016).

Table 3.7 Estimated output effects of TPP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	1.62	-0.08	0.26	-1.72	-0.01	0.09	0.02	0.00	-3.57	0.23	0.11	-0.03	-0.18	-0.02	-0.73	0.29	0.07	-0.29	-0.11	0.53	0.93	-1.03	0.02
Meat and livestock	1.91	1.56	2.12	10.82	-0.29	-0.26	0.02	-0.05	-14.03	-0.59	-0.14	-0.38	2.54	-0.05	2.69	2.00	-0.22	-0.19	-0.32	-5.83	2.77	0.52	-0.23
Extraction	0.32	0.96	0.02	-0.23	0.07	0.02	0.06	0.07	-0.29	-0.06	-0.02	0.18	0.20	0.06	0.23	-0.28	0.19	0.07	0.08	0.04	-0.13	-0.54	0.00
Processed food	2.32	-17.78	0.05	1.37	-0.17	-0.14	-0.21	-0.14	0.16	-0.08	-0.53	-0.01	0.21	-0.07	1.97	8.45	0.19	-0.19	12.53	-1.22	0.80	-1.24	-0.14
Textiles and apparels	0.53	12.52	-1.37	-0.47	0.11	-0.14	-0.59	-0.24	1.63	-1.71	0.97	0.25	-0.43	0.41	25.73	-1.16	0.11	-0.65	3.41	0.32	-1.33	39.13	-0.33
Light manufacturing	-3.44	2.93	-0.03	-0.65	-0.11	-0.10	-0.28	-0.02	2.32	-0.05	-0.28	-1.70	1.13	0.28	1.85	-2.23	-0.29	0.02	2.11	-1.30	-0.23	8.48	-0.04
Heavy manufacturing	0.42	-1.50	-0.11	-0.38	0.03	0.03	0.14	0.02	0.18	0.08	-0.05	0.44	0.76	0.00	4.00	-0.53	0.17	0.18	1.29	-0.03	-0.14	-1.05	0.02
Construction	0.62	2.53	0.62	0.59	-0.11	-0.07	-0.17	-0.12	0.44	-1.07	-0.16	0.02	1.33	-0.03	2.47	1.52	0.24	-0.28	1.67	-0.75	0.20	7.96	-0.09
Transport	0.30	3.17	0.03	0.26	0.02	0.16	-0.05	0.01	0.10	-0.33	0.26	0.20	0.86	0.04	1.81	0.39	0.18	-0.05	-0.05	0.05	0.03	4.59	0.06
Communication	0.44	2.36	0.47	0.42	-0.06	-0.05	-0.07	-0.08	0.24	-0.26	-0.14	0.06	1.03	0.01	2.06	0.76	0.20	-0.18	1.52	-0.40	0.11	2.84	-0.07
Trade	0.29	2.76	0.35	0.35	-0.04	-0.02	-0.12	-0.08	0.34	-0.65	-0.13	0.05	1.04	0.01	2.93	0.96	0.17	-0.20	0.96	-0.57	0.10	5.24	-0.05
Financial services	0.39	1.93	0.31	0.39	-0.03	0.04	-0.08	-0.02	0.15	-0.61	-0.08	0.14	0.95	0.03	2.31	0.61	0.17	-0.20	0.29	-0.44	0.05	-0.68	-0.02
Insurance	0.36	2.42	0.70	0.38	0.02	0.00	-0.03	0.04	0.02	-0.33	-0.11	0.45	0.73	0.10	1.67	0.14	0.56	-0.15	0.74	-0.27	0.02	-1.02	-0.01
Business	0.47	2.77	0.55	0.27	-0.07	-0.03	-0.02	-0.11	0.07	-0.61	-0.13	0.10	0.95	0.06	1.72	0.65	0.16	-0.06	1.34	-0.02	0.07	0.02	-0.07
Other services	0.26	1.17	0.17	0.35	-0.06	-0.02	-0.11	-0.05	0.28	-0.61	-0.13	0.02	0.90	-0.02	1.43	0.79	0.11	-0.21	0.94	-0.38	0.11	4.25	-0.03
Capital goods	0.70	2.34	0.68	0.62	-0.12	-0.10	-0.18	-0.14	0.56	-1.16	-0.23	0.00	1.36	-0.03	4.41	1.84	0.25	-0.29	1.88	-0.80	0.24	8.27	-0.11

Scenario 1 (b): CPTPP

Figure 3.8 Estimated real GDP impacts of CPTPP

Figure 3.9 Estimated welfare impacts of CPTPP

Figure 3.10 Estimated impacts of CPTPP on export volume

This scenario simulates the impacts of the 11-country CPTPP. Figure 3.8, Figure 3.9 and Figure 3.10 set out the impacts of the CPTPP on real GDP, welfare and merchandise exports volume, respectively. Table 3.8 summarises sectoral impacts. Based on the results, it can be argued that the US' retreat from the TPP does not fundamentally shake up the overall pattern of trade creation and trade diversion across the countries in the sample. Trade liberalisation under the CPTPP still has positive impacts on its 11 remaining members, whereas those that do not belong to the grouping would face economic losses attributable to trade diversion. A comparison of real GDP impacts of the CPTPP and TPP, shown in Figure 3.11 below, suggests that the preliminary classification of 'winners' and 'losers' from the transition to the CPTPP and the degree to which the US withdrawal dents the economic gains accrue to remaining countries hinge on whether or not they have a pre-existing free trade agreement with the US.

Table 3.8 Estimated output effects of CPTPP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	2.06	-0.13	1.01	-4.34	-0.02	0.08	0.02	-0.01	-1.28	0.07	-0.01	0.02	-0.41	0.00	-0.36	1.78	0.06	-0.05	0.28	0.46	-0.05	0.17	0.02
Meat and livestock	4.67	1.47	12.68	23.68	-0.20	-0.13	0.08	-0.01	-9.74	-0.17	0.07	-0.32	5.43	-0.03	1.77	2.18	0.07	-0.13	-0.16	-4.61	-0.71	-0.08	-0.13
Extraction	0.21	0.84	-0.15	-0.50	0.05	0.02	0.03	0.03	-0.31	-0.01	0.01	0.09	-0.01	0.03	0.27	-0.44	0.11	0.02	0.11	0.04	0.03	0.20	0.00
Processed food	2.26	-17.93	0.38	2.12	-0.08	-0.05	-0.12	-0.08	-0.07	-0.02	-0.17	-0.03	0.08	-0.05	1.64	8.63	0.10	-0.13	13.67	-0.55	-0.17	-0.28	-0.05
Textiles and apparels	0.29	5.72	-1.07	-0.66	0.02	-0.07	-0.05	-0.07	0.62	-0.16	-0.03	0.47	-0.12	0.11	11.37	-2.31	0.14	-0.11	1.46	0.17	-0.17	6.51	-0.12
Light manufacturing	-3.44	2.00	-0.63	-1.07	-0.09	-0.09	-0.28	-0.05	1.89	0.01	-0.23	-2.14	0.36	0.09	1.49	-2.48	-0.22	-0.05	2.39	-1.19	-0.05	3.96	-0.04
Heavy manufacturing	0.20	-1.50	-0.56	-1.25	0.02	0.02	0.08	-0.02	-0.13	-0.92	-0.02	0.13	0.09	-0.11	3.23	-0.94	0.08	0.02	1.27	-0.03	0.07	0.94	0.00
Construction	0.62	2.17	0.30	0.56	-0.05	-0.01	-0.10	-0.04	0.28	-0.11	-0.08	-0.01	0.49	-0.01	1.97	1.40	0.17	-0.12	1.32	-0.53	-0.04	3.08	-0.02
Transport	0.23	2.42	-0.05	0.05	0.01	0.06	-0.05	-0.01	-0.01	0.05	0.11	0.10	0.29	0.01	1.43	0.05	0.08	-0.05	-0.20	0.00	0.03	2.24	0.02
Communication	0.32	2.00	0.09	0.30	-0.02	-0.01	-0.03	-0.02	0.14	0.05	-0.06	0.11	0.32	-0.01	1.61	0.67	0.11	-0.08	0.65	-0.29	-0.02	1.15	-0.02
Trade	0.23	2.33	0.11	0.24	-0.02	0.00	-0.08	-0.03	0.19	-0.08	-0.07	-0.02	0.36	-0.01	2.27	0.80	0.10	-0.11	0.90	-0.42	-0.02	1.73	-0.02
Financial services	0.35	1.60	0.05	0.30	-0.02	0.02	-0.06	-0.02	0.11	-0.08	-0.05	0.05	0.29	0.01	1.82	0.68	0.09	-0.11	-0.03	-0.32	0.01	0.01	-0.01
Insurance	0.23	2.03	-0.14	-0.02	0.01	0.00	-0.03	0.01	0.00	0.01	-0.06	0.35	0.23	0.02	1.22	0.15	0.08	-0.09	0.55	-0.23	0.02	0.11	0.00
Business	0.38	2.33	0.08	0.11	-0.02	0.00	-0.02	0.05	0.08	-0.06	-0.02	0.05	0.29	0.03	1.25	0.53	0.09	-0.02	0.70	0.08	0.00	0.35	0.00
Other services	0.24	1.01	0.08	0.32	-0.03	-0.01	-0.07	-0.03	0.17	-0.06	-0.08	0.00	0.29	-0.01	1.14	0.74	0.08	-0.11	0.77	-0.28	-0.02	1.42	-0.01
Capital goods	0.70	2.01	0.32	0.59	-0.05	-0.02	-0.10	-0.05	0.37	-0.14	-0.13	-0.02	0.50	-0.01	3.47	1.72	0.18	-0.13	1.50	-0.58	-0.05	3.16	-0.02

Figure 3.11 Comparison of real GDP impacts of CPTPP/TPP11 and TPP

From a narrower tariff removal point of view, there could be two types of winners. The first group include countries that already have an FTA with the US in place through either regional or bilateral connections. Canada and Mexico, two NAFTA members for instance, would be economically better off. Mexico's real GDP could be doubled – from 0.10% under the TPP to 0.20% under the CPTPP – as the US

government withdraws from the TPP agreement. The four TPP/CPTPP countries which have a bilateral FTA with the US pre-TPP – Australia, Chile¹³³, Peru and Singapore – would also stand to gain more under the CPTPP. This is partly because, since the original TPP deal did not go through, the US cannot extend similarly preferential market access to business from other countries that thus far have not enjoyed favourable positions in the US market (i.e. no preference erosion in the US market). The second group of winners are the countries that are to be excluded from the TPP/CPTPP. Though GDPs of such countries as China, Korea, the Philippines, India, the EU and others are still set to contract, these countries would ‘gain’ in the sense that their economic outputs would shrink by less under the CPTPP. That being so, the competitive pressure building on those third parties for them to counteract could also diminish.

Conversely, there are two types of losers from the US’ exit from the TPP. The most palpable loser is the US itself, whose economic indicators flip invariably from gains to losses. As the central hub and the biggest economy in the bloc, the US was expected to be the largest beneficiary of the TPP in dollar terms, but Trump Administration’s policy course of non-involvement in the TPP/CPTPP could turn America’s projected \$4.69 billion economic welfare gains into a \$2.92 billion loss. In addition, countries that had hoped to establish privileged trading relations with the US and to lock-in hard-to-sell domestic structural reforms through the TPP would lose under the CPTPP. Vietnam is projected to suffer the stiffest discount of gains. In large part, the culprit is the washing-out of the US textiles and apparel market. Malaysia’s and Brunei’s textiles industries would take a hit for similar reasons. As for Japan, a deal that excludes the US is less attractive economically and diplomatically, but not necessarily politically given that the market opening

¹³³ Among industries, Chile’s meat and livestock industries would benefit the most from the transition to a CPTPP deal.

effect of the CPTPP would be less injurious for its highly protected meat and livestock industries.

Broadening the source of impacts to reflect services liberalisation reveals that all TPP/CPTPP members would be worse off not least because the US is an all-important services market they could have tapped into under the TPP¹³⁴. Barring the US (which could forfeit welfare gains amounting to \$3.66 billion), NAFTA countries would have the most to lose from the forgone opportunity of ratcheting up the 20th century NAFTA's services trade regime which provided significant carve-outs and less enforceable provisions on foreign investment and intellectual property rights protection (Villarreal and Fergusson 2017) to those enshrined in the 21st century TPP. Moving ahead without the US, Canada's real GDP would grow 0.16% and the number is just a third of the TPP's impact had the US remained as a member. For Mexico, it stands to gain 0.34% in extra real GDP from the CPTPP as compared to 1.03% from the TPP. In stark contrast, Australia would be relatively unharmed thanks to the US-Australia FTA which enables Australian companies to compete on roughly equal terms with local firms in most of the services sectors in the US¹³⁵.

For the world as a whole, the CPTPP promises an additional global welfare between \$10.41billion and \$21.32 billion depending on whether or not services liberalisation is considered. For comparison, the TPP12 could generate additional welfare of between \$15.08 billion and \$57.32 billion. With now the CPTPP being a smaller deal in aggregate, covering only around a third as much nominal GDP (2016 figure) as the TPP12, its global welfare enhancement potential is also becoming modest (but by no means expendable) in absolute terms.

¹³⁴ In 2014, services as a share of US GDP in value added terms was 78%.

¹³⁵ Nevertheless, some scholars criticise the agreement for severely disrupting Australia's future trade relations within the Asian region, particularly with China. See Dee (2005) for an example.

Scenario 2: RCEP

Figure 3.12 Estimated real GDP impacts of RCEP

RCEP harmonises existing ASEAN+ agreements. One thus would expect the ironing out of the hub and spoke distortions by removing mutual discriminations among spokes (i.e. ASEAN's dialogue partners) would do a disservice to the ASEAN hub. Quite the contrary, the clear winners under RCEP, according to the CGE simulations, are ASEAN countries like Cambodia and Thailand (see Figure 3.12). At the minimum, tariff reductions would generate 7.37% and 1.57% in additional real GDP in the two countries, respectively. Even the shallow services liberalisation assumption adopted by this study is shown to be able to further raise their GDP growth figures by close to one to two percentage points. For Cambodia, a decomposition of sectoral impacts suggests that its gains are likely to be supported by exceptional expansions in construction (where output goes up by 16.49%) and transport services (16.58%). As for Thailand, real GDP gains are backed by output growth in the construction services and processed food production industries (7.26% and 6.59%, respectively). Vietnam is poised to enjoy

the third-largest gains with RCEP increasing the size of its economy by around 2.67%. Malaysia (2.60%), Laos (2.38%), Korea (2.33%), Brunei (1.88%) and Singapore (1.63%) are projected to cluster at a moderate level of gains. Benefits accrue to the Philippines (1.00%), New Zealand (0.69%), India (0.68%), Indonesia (0.62%), Australia (0.61%), Japan (0.56%), China (0.40%) and Myanmar (0.38%) are somewhat smaller¹³⁶. As would be expected, non-RCEP economies are projected to be affected negatively. This tendency is particularly notable with Chile, but is also evident in the US and the EU. The real GDP drops in the transatlantic and Latin American economies, following the competitive policy diffusion logic, are the approximately the pressure China's regional trade policy might impose on the US, the EU and others.

Figure 3.13 Estimated welfare effects of RCEP

¹³⁶ In some cases, the low increase in economic growth rates is due to the comparatively limited trade liberalisations those governments are assumed to commit under RCEP. For other countries, the relatively insignificant positive growth impacts can be explained by the fact that the additional margins of preference over their existing agreements are low.

Figure 3.13 shows that Japan (\$37.79 billion), Korea (\$22.71 billion) and China (\$20.15 billion) would materialise the largest welfare gains. Thailand, Australia and India follow with gains of \$9.58 billion, \$8.63 billion and \$6.92 billion, respectively. While Cambodia leads in percentage terms, its welfare gains in level terms of \$0.55 billion are in the bottom half of the pack due to its tiny economic size. Likewise, Myanmar (\$0.28 billion) and Laos (\$0.11 billion) make the smallest welfare gains. Large, more developed economies in the grouping appear to be gaining more from the trade pact, but readers are cautioned to take note that these figures must not be misused to draw the (false) conclusion that RCEP is an economic plot by big economies against smaller ones – the absolute value of welfare gains in monetary terms are by definition commensurate with the overall economic size concerned (Scott 2008). The same logic applies to welfare loss as well – the two economies that suffer the greatest welfare losses in absolute terms are the US (-\$9.21 billion) and EU (-\$9.92 billion)¹³⁷. At the global level, net welfare gains coming from RCEP are projected to range from \$71.64 billion to \$151.19 billion, meaning the gains of trade creation outweigh the losses of trade diversion.

Figure 3.14 shows a regional breakdown of the change in exports volume as a result of RCEP. A readily identified feature is that the stronger GDP and welfare effects are projected to go hand in hand with strong export performances. RCEP would drive up Cambodia's exports by roughly a quarter. Vietnam (9.24%), Thailand (9.20%) and Laos (7.98%) also use RCEP as a springboard to jumpstart growths in exports. In the reverse case, exporting activities in Peru (-0.13%), the US (-0.24%) along with Chile (-0.34%) could be set back slightly as their Western

¹³⁷ This prediction is consistent with the fact that the commercial ties between the EU and US and key RCEP partners such as China, Japan, Korea and India are particularly strong; hence, the trading conditions for their exporters are sensitive to tariff-cutting at RCEP. By contrast, RCEP's negative effects on other Eastern Pacific economies including Chile and Peru appear to be rather muted.

Figure 3.14 Estimated impacts of RCEP on export volume

Pacific competitors pick up market share in East Asia and beyond. The Chilean and the US exports of grains and crops supplying the Korean consumer market, for example, are expected to contract by more than sixty percent. And in the case of Peru, exports of processed food to India are estimated to cut by nearly half, and this is accompanied by a drop in the exports of textiles and apparels by a magnitude exceeding 20%.

Table 3.9 provides RCEP's estimated impacts by sector. The projected output changes reflect, among others, the relative sectoral competitiveness. The sectors that are projected to countenance larger output decreases tend to be more protected and less internationally competitive ones; once government protections are removed, international and domestic demand for their products would fall. This, in general, is the case with the RECP countries' processed food, textiles and light manufacturing industries characterised by elevated labour intensiveness, lower trade-exposure, high border protections and/or excessive use of intermediate components from abroad. Specifically, productions of processed food would shift away from Brunei (-18.33%), Cambodia (-6.65%) and India (-6.13%)

Table 3.9 Estimated output effects of RCEP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	-1.07	0.96	-2.06	-0.11	0.97	0.00	0.72	0.20	-3.88	0.74	-9.52	1.46	-0.35	0.61	0.32	1.25	-0.21	-0.23	0.62	3.80	-1.00	1.36	-0.11
Meat and livestock	26.69	2.30	-1.01	-1.45	-0.53	-0.21	0.25	0.44	-3.95	2.61	5.20	-3.90	-0.40	-0.38	2.19	3.95	-0.17	0.34	0.49	-1.56	-0.71	-3.11	-0.16
Extraction	0.08	1.25	0.16	0.47	0.05	0.15	0.16	0.60	-0.41	1.21	1.07	1.51	0.14	0.80	0.44	0.24	0.29	0.42	0.58	1.30	0.15	0.56	0.14
Processed food	4.89	-18.33	-0.37	-1.19	0.15	-0.20	5.56	-6.13	-0.18	-6.65	13.97	-0.53	-0.10	-0.82	7.66	4.85	-0.53	1.01	14.03	6.59	-0.29	-2.21	-0.41
Textiles and apparels	-7.34	4.18	-0.53	0.20	1.36	-0.55	-2.38	0.20	-1.49	18.82	5.81	2.51	-0.64	3.46	1.40	-10.14	-0.23	-0.22	3.22	1.30	-0.44	16.10	-0.83
Light manufacturing	-5.39	-0.35	-0.07	-0.19	0.15	-0.29	-0.59	0.74	2.06	11.58	2.16	-12.98	-0.08	-5.34	1.69	-3.29	0.12	1.67	4.00	5.19	-0.05	4.55	-0.14
Heavy manufacturing	-0.79	-2.96	0.04	-0.41	0.14	-0.07	-1.14	0.69	0.65	7.94	3.14	11.77	0.02	-1.30	3.86	-1.07	0.10	1.35	3.54	6.35	0.05	4.76	-0.53
Construction	1.06	2.78	-0.12	-0.37	0.68	-0.09	0.98	0.69	0.77	16.49	3.47	5.06	-0.16	0.59	2.51	1.07	-0.11	1.38	2.30	7.19	-0.14	6.60	-0.21
Transport	0.27	2.99	0.26	0.38	0.38	0.45	0.41	0.56	0.14	16.58	1.10	3.65	-0.04	0.23	1.99	0.32	0.08	0.99	0.45	3.58	0.15	5.03	0.18
Communication	0.32	2.60	0.01	-0.15	0.29	-0.02	0.09	0.67	0.41	11.27	1.70	3.37	-0.07	0.37	1.93	0.48	0.00	0.76	0.35	3.68	-0.03	2.22	-0.06
Trade	0.36	2.85	-0.03	-0.19	0.26	0.01	0.74	0.22	0.47	8.60	2.70	3.61	-0.08	0.32	3.01	0.56	-0.02	1.04	1.16	4.46	-0.05	3.26	-0.10
Financial services	0.53	1.89	-0.01	-0.17	0.26	0.02	0.40	0.44	0.27	10.68	1.33	4.16	-0.07	0.25	2.27	0.69	0.00	0.94	-0.59	4.18	0.01	0.42	-0.07
Insurance	0.00	2.64	0.03	0.04	0.20	0.00	0.26	0.63	0.12	10.97	1.53	4.85	0.04	-0.25	1.43	0.50	0.07	0.77	0.12	3.10	0.03	0.77	0.00
Business	0.38	2.90	0.07	-0.14	0.35	0.02	0.26	1.13	0.30	8.15	1.13	3.86	-0.06	-0.11	1.16	0.60	0.01	0.67	-0.14	2.62	0.03	1.17	0.00
Other services	0.37	1.28	-0.01	-0.14	0.20	-0.05	0.59	0.28	0.53	6.72	1.55	4.46	-0.07	0.71	1.41	0.48	0.00	0.73	1.22	2.51	-0.04	2.60	-0.08
Capital goods	1.20	2.60	-0.14	-0.40	0.69	-0.17	1.02	0.75	1.01	16.58	4.14	4.81	-0.17	0.59	4.47	1.26	-0.13	1.42	2.63	7.27	-0.21	6.75	-0.26

and to such countries as Korea (13.97%), Singapore (14.02%) and Malaysia (7.66%). For textiles and apparels, Cambodia (18.82%) and Vietnam (16.10%) would substantially expand their productions at the expense of producers in Australia (-7.33%) and New Zealand (-10.14%). The two Oceania economies' grievances could also be indicative of similar concerns raised for some Asian developing countries specialising in textile exports such as Bangladesh, Pakistan and Nepal that are not individually considered in the study. Further, RCEP could prove particularly problematic for Laos' light manufacturing industries and Korea's raw forms of agricultural staples such as wheat, cereals and rice, where decreases in output of 12.98% and 9.52%, respectively, are projected. It is also recognised that although RCEP's aggregated impacts on non-negotiating parties are negative, not all sectors are losing out. Meat and livestock industries, transport services and insurance sectors in non-RCEP economies are projected to make some modest gains. This is especially true for Chile's extractive industries (0.47%) where projected gains even dwarf the output expansion in China (0.04%).

Scenario 3: TTIP

Figure 3.15 Estimated real GDP impacts of TTIP

Figure 3.16 Estimated welfare impacts of TTIP

The overall changes in the quantity of real GDP under TTIP are depicted in Figure 3.15, whereas the corresponding changes to national economic welfare are illustrated in Figure 3.16. For the US, the combination of tariff cuts, reduction of NTMs in services and the introduction of trade facilitation measures increase real GDP by 0.17%. For the EU, the change is similar (0.16%) although for the bloc the projected gains appear back-loaded, thanks principally to greater productivity enhancement following the implementation of TTIP in the long run. In terms of real income, TTIP would generate \$28.16 billion and \$21.85 billion in welfare benefits for the US and the EU, respectively.

It is worth highlighting that while the negative shocks are to be expected by non-TTIP economies, greater specialisation between the EU and US and the resulting shift of resources from less efficient sectors to more competitive sectors within the integrated transatlantic economies may create niche market opportunities, or trade diversion reversal (Baldwin 2014a), for some excluded countries. As an example, consider the heavy manufacturing industry where negative productivity

growth in the EU and US is offset by a bounce-back of exports of relevant products from such non-TTIP countries as Korea into the two TTIP economies. This is partly why the economic harm of TTIP for Korea is only -0.05% and the figure can be further blunted to -0.04% in the fullness of the time. Other economies that would face similar prospects in the long run include Peru, Australia, Japan, Indonesia, Brunei, Chile, the Philippines, Malaysia and Singapore.

As shown in Figure 3.16, the distribution of welfare gains and losses are highly uneven, with gains limited to the US (28.16 billion dollars) and EU (21.85 billion dollars). Mexico (-2.58 billion dollars) and China (-2.89 billion dollars) would suffer the greatest damage if TTIP were to be concluded and implemented. The losses inflicted on other countries considered in the simulations are small so that the exclusion from the TTIP's remit does not put them on too difficult trade and economic ground. The limited tariff and longer-term liberalisation assumptions both yield similar results. Since intra-TTIP trade share is higher than 50%, the simulations results lend support to the 'natural trading partner' hypothesis (Wonnacott and Lutz 1989, Wonnacott 1996), which is in one way put by Summers' statement that 'to the extent that blocs are created between countries that already trade disproportionately, the risk of large amounts of trade diversion is reduced' (Summers 1991b).

When it comes to exports volume (Figure 3.17), the stimulating effects of TTIP are not very significant. The US is projected to see an increase in exports of approximately 1.67%. For the EU, the positive shock is even of smaller scale (around 0.60%). The projection that the US expects a comparatively larger increase in total exports is reflective of the country's relatively higher amount of trade with the EU: around a fifth of the US total trade involves the EU as a trading partner while just about 8% of the EU's total trade is with the US given the sizable

intra-EU trade (Kommerskollegium 2012). The modelling also indicates that there is some scope for EU-US trade liberalisation to produce limited positive effects on third country exports. Again, the eventual materialisation of such positive development hinges critically on the prospect of the EU and US agreeing on less restrictive ROOs. Indeed, there had been calls for TTIP parties to stay away from introducing gruelling ROOs wherever possible (Berger and Brandi 2015).

Figure 3.17 Estimated impacts of TTIP on export volume

Under TTIP, outputs of the manufacturing and services sectors in the EU generally go up, but contractions of agricultural sectors resulting from the removal of relatively high protective tariffs are also evident. One services sector particularly advantaged by TTIP is the EU's insurance sector (0.44%). Since the 1980s, Europe's insurance sector has been operating in an increasingly competitive environment (Hardwick and Dou 1998); and now with assets worth two-thirds of the EU's GDP, it plays a pivotal role in mobilising savings and taking on risks across the EU (ESRB 2015). TTIP would reinforce the EU's long-standing

international competitiveness in this sector and facilitate Europe-based insurers' market penetration into the US (exports into which increase by 7.79%). In the face of losing relative competitiveness to European rivals, the US' insurance industry is estimated to decline by 0.20%. Other than that, the burden of sectoral adjustment in response to TTIP falls mainly on America's textile industries whose output is set to drop by nearly half percent.

Compared to the more tangible economic consequences, the potential reverberation of TTIP negotiation could be more keenly felt in the context of global trade rule-making and standard-setting (more on this in Chapter V). The size of transatlantic economies and the ambitious regulatory cooperation and harmonisation agenda on the table of TTIP have led CEPR (2013) and others to conclude that post-TTIP the EU and the US would emerge as 'a regulatory hegemon' setting 'de facto common, global standards' for other countries to follow in order to have better access to the transatlantic single regulatory space. The logic is when the rest of the world re-regulates their domestic economies in order to gradually converge towards the new international norm agreed by TTIP parties, trade costs rooted in cross-country regulatory divergence and heterogeneity would be lowered globally. If the envisioned spill-over effects of TTIP are incorporated in CGE simulations, a less-preferential TTIP of a public goods nature would generate significant positive effects for third parties, among which ASEAN economies and Eastern European countries are projected to be the biggest winners (CEPR 2013).

Nevertheless, the much touted positive spill-over effects of TTIP on excluded countries are open to criticism at least for the following three reasons. First, there is no priori reason to suppose the EU and the US have common understandings on the benefits from implementing (at least some of) the TTIP provisions on a non-discriminatory basis. The text of TTIP is unlikely to stipulate explicitly that the

Table 3.10 Estimated output effects of TTIP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	0.07	0.04	0.23	0.10	0.03	-0.17	0.02	0.01	0.08	0.02	0.07	0.01	0.19	0.00	0.02	0.10	0.02	0.05	0.08	0.04	-0.08	0.04	0.03
Meat and livestock	0.12	-0.04	0.26	-0.02	-0.01	-0.40	-0.01	-0.02	0.07	-0.06	0.02	-0.02	0.02	-0.02	-0.02	-0.03	-0.02	-0.04	-0.02	-0.08	0.77	-0.03	-0.02
Extraction	0.02	0.00	0.04	0.02	0.02	0.00	0.02	0.04	0.02	0.00	0.01	0.02	0.02	0.01	0.02	0.02	0.02	0.02	0.02	0.01	-0.15	0.02	0.02
Processed food	-0.01	-0.04	-0.09	-0.08	-0.02	0.05	-0.03	-0.02	-0.02	-0.02	-0.11	-0.02	-0.17	-0.01	-0.02	-0.02	-0.04	-0.05	0.04	-0.10	0.35	-0.06	-0.03
Textiles and apparels	0.00	-0.11	-0.02	-0.04	-0.03	0.75	-0.17	0.02	-0.02	-0.26	-0.08	-0.06	-0.35	-0.01	-0.15	-0.03	-0.09	-0.16	-0.06	-0.10	-0.40	-0.33	-0.05
Light manufacturing	0.03	-0.06	0.13	0.03	0.02	0.14	0.01	0.05	0.05	0.05	0.05	0.03	-0.05	0.07	0.01	0.05	0.01	-0.02	0.13	-0.03	-0.02	0.03	0.02
Heavy manufacturing	0.05	-0.05	-0.09	-0.02	-0.02	0.20	0.01	0.00	0.01	0.16	-0.01	0.05	-0.26	-0.01	-0.06	0.02	0.07	-0.02	-0.06	-0.05	-0.06	-0.02	-0.02
Construction	-0.05	-0.08	-0.19	-0.11	-0.06	0.15	-0.06	-0.09	-0.07	-0.22	-0.11	-0.06	-0.36	-0.04	-0.10	-0.08	-0.07	-0.14	-0.16	-0.14	0.28	-0.14	-0.10
Transport	-0.02	-0.10	-0.05	-0.05	-0.02	0.11	-0.02	-0.02	0.00	-0.15	0.02	-0.07	-0.24	-0.02	-0.09	-0.05	-0.04	-0.09	0.03	-0.12	0.05	-0.08	-0.05
Communication	-0.02	-0.07	-0.09	-0.06	-0.03	0.09	-0.05	-0.06	-0.02	-0.16	-0.06	-0.13	-0.24	-0.01	-0.10	-0.04	-0.02	-0.08	-0.18	-0.08	0.17	-0.09	-0.06
Trade	-0.02	-0.05	-0.08	-0.05	-0.02	0.14	-0.03	-0.05	-0.02	-0.11	-0.05	-0.02	-0.24	-0.01	-0.08	-0.04	-0.02	-0.07	-0.05	-0.08	0.12	-0.08	-0.05
Financial services	-0.03	-0.32	-0.14	-0.06	-0.02	0.02	-0.03	-0.06	-0.05	-0.17	-0.16	-0.05	-0.29	-0.04	-0.10	-0.04	-0.03	-0.10	-0.46	-0.08	0.10	-0.37	-0.11
Insurance	-0.05	-0.14	-0.47	-0.22	-0.02	0.44	-0.02	-0.03	-0.04	-0.20	-0.08	-1.28	-0.25	-0.19	-0.28	-0.08	-0.26	-0.08	-0.23	-0.10	-0.20	-1.10	-0.21
Business	-0.02	-0.07	-0.08	-0.05	-0.04	0.08	0.01	-0.19	-0.02	-0.13	-0.07	-0.03	-0.23	0.00	-0.08	-0.04	-0.02	-0.10	-0.11	-0.12	0.09	-0.05	-0.06
Other services	-0.01	-0.02	-0.06	-0.05	-0.02	0.07	-0.02	-0.03	-0.02	-0.12	-0.05	-0.03	-0.22	0.00	-0.07	-0.02	-0.01	-0.06	-0.07	-0.05	0.16	-0.06	-0.03
Capital goods	0.07	0.04	0.23	0.10	0.03	-0.17	0.02	0.01	0.08	0.02	0.07	0.01	0.19	0.00	0.02	0.10	0.02	0.05	0.08	0.04	-0.08	0.04	0.03

implementation of the agreement must be such as to ensure benefits to flow to non-member countries automatically. On the contrary, early signs pertaining to the negotiations on the mutual recognition (MR) of standards underscored the European Commission's preference of *bilateral* MR over *erga omnes* harmonisation, meaning only producers from within the TTIP would spare the encumbrance of complying with two different regulatory systems and therefore reap the benefits of transatlantic regionalism in standards (De Ville and Siles-Brügge 2015, Rollo et al. 2015). Second, the prospect of globalising and multilateralising TTIP rules is directly conditional upon coercing key non-TTIP economies such as China, Japan, India, Russia and Brazil into collectively assimilating the TTIP's norms and rules (which were being set in their absence). This is politically difficult, if at all possible. Recall that for the mechanism of coercive policy diffusion to work, the dominant actors should command superior power advantage vis-à-vis the ones they try to influence. In a multi-polar world, there is, if anything, power parity between the West and the Rest and the evolution of the power balance is moving in the latter's favour (Mahbubani 2018, 2014). Lastly, many policy areas discussed by TTIP negotiating officials are also subjects of negotiation in a range of other international institutions, the value-added content of the TTIP may not be sufficient enough to justify strong spill-over assumptions in CGE modelling. Consequently, this study declines to simulate spill-over effects which may or may not grow out of TTIP.

Scenario 4 (a): Parallel Implementation of the TPP and RCEP

Figure 3.18 Estimated net real GDP impacts of TPP and RCEP

Figure 3.19 Estimated net welfare impacts of TPP and RCEP

Figure 3.20 Estimated net impacts of TPP and RCEP on export volume

This scenario gauges the economic implications of a parallel implementation of the TPP and RCEP and considers the costs of EU exclusion from economic cooperation and trade liberalisation processes in the Asia-Pacific. The findings (Figures 3.18 through 3.20) to a great extent replicate those of the RCEP scenario analysed above; lower middle income ASEAN countries such as Cambodia (7.49%) and Vietnam (6.84%) would be the largest winners in terms of GDP growth and Japan (\$53.12 billion) leads the table of welfare enhancements. If the TPP were formulated to remove tariffs only, the US was poised to lose 0.01% of economic output as the trade creation effects among a league of countries with low initial MFN tariffs are not sufficient to offset the trade diverting trends emanating from trade liberalisation on the RCEP track. The loss could be turned to a 0.11% gain when liberalisation in services trade is accounted for in the simulations. So the overall judgement for the US is that the TPP serves as the insurance policy, guarding the US against RCEP's trade diversionary forces. While the same can be said for other single-track TPP/CPTPP economies such as Canada and Chile, the EU stands out as a loser.

The EU is projected to register welfare losses and a decline in total real economic output, irrespective of actionability assumptions. Although the EU could export more to Singapore and Vietnam¹³⁸, its exports to Japan, India, Laos, Korea and Thailand and others are more dramatically crowded out by increased domestic production and imports from other local exporters. For instance, with TPP members gaining competitive advantage relative to the EU in the meat and livestock sector, Japan would substitute imports originally from Europe to other sources such as Canada, Chile and Mexico. RCEP's trade diverting effect is more evident in the EU's trade in processed food with India where imports from Cambodia, Malaysia and Indonesia displace tariff-inclusive products from the EU. Here, an internal factor that does not work in the bloc's favour is its own Common Agricultural Policy (CAP). The rigidity and politics of CAP may tie the hands of EU countries to make up market share erosion in the Asia-Pacific consumer markets by adopting export-oriented, country-specific policies (Bauer et al. 2014).

A comparison with Scenarios 1(a) and 2 shows that the TPP-RCEP parallel scenario is more beneficial for dual-track economies, namely, Australia, New Zealand, Brunei, Singapore, Japan, Malaysia and Vietnam. For example, real GDP gain of Japan in this parallel scenario is 0.85%, compared to 0.40% under the TPP and 0.56% under RCEP. Interestingly, Myanmar and Laos benefit somewhat more from the parallel scenario than from a pure RCEP scenario even though they do not take part in the TPP. For the former, this could be attributed to the fact that the liberalisation of textiles and construction industries in TPP members also generates additional demand for Myanmar's products and services, which are at present sought after on the North American market owing to price competitiveness. As for the relatively superior performance of Laos under this

¹³⁸ These two countries are the only two ASEAN members that have concluded free trade negotiations with the EU. Neither agreement is in force, however.

parallel scenario, the simulations find that the country's trade in manufactured goods with all TPP members show a sharp increase. In the heavy manufacturing industry, for instance, growth in Laos' export sales ranges from \$12.74 million (to the US) and \$11.27 million (to Peru), rivalling export gains accruing to Vietnam, which is party to both agreements, in this scenario. Moreover, the liberalisation of services sectors through RCEP enables Lao companies to make inroads into some TPP countries' telecommunications and business services markets. The situation is quite different for other economies which would fare worse than in the single mega-FTA scenarios. For TPP-only economies, the real GDP and welfare effects are weakened by RCEP; RCEP-only economies on the other hand may find RCEP-only scenario more economically advantageous without the diversionary costs incurred by the TPP. It is therefore sensible that some RCEP economies that are excluded from the TPP such as Thailand, Korea and Indonesia had indicated the willingness to join the TPP/CPTPP bloc.

As expected, the sector-level reallocations of output (see Table 3.11) largely reflect a nestification of sectoral shifts taking place under the TPP and RCEP separately. As can be seen with the TPP-only scenario, the greatest sectoral gains are found in the textiles and apparel industries in Vietnam (60.05% increase in output) and Malaysia (24.28%). In terms of services sector growth, Cambodia exhibits double-digit growth rates in several 'direct services' sectors with transport (16.04%) and construction (14.92%) at the top gain. On the other hand, Japan's agricultural industries would take a hit. While the share of agriculture in Japan's GDP has been declining continuously in the past decades, stakes remain high considering the strong political clout agricultural lobbying groups still command. Failure to address their concerns may lead to strong domestic resistance to trade liberalisation. Fortunately, Japan has completed ratification of the TPP and the CPTPP in January 2017 and June 2018, respectively.

Table 3.11 Estimated net output effects of TPP and RCEP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	-0.15	0.69	-1.60	-2.03	0.95	0.06	0.72	0.20	-6.25	0.94	-9.56	1.46	-0.52	0.59	-0.19	0.78	-0.14	-0.45	0.23	3.55	-0.07	-0.17	-0.08
Meat and livestock	17.42	2.32	1.91	10.57	-0.87	-0.45	0.14	0.38	-14.26	1.99	4.74	-4.33	2.55	-0.41	3.69	3.60	-0.36	0.17	0.04	-5.75	2.45	-2.09	-0.34
Extraction	0.33	1.45	0.17	0.27	0.09	0.17	0.19	0.65	-0.46	1.21	1.06	1.69	0.34	0.84	0.40	0.25	0.49	0.48	0.54	1.36	0.02	-0.32	0.14
Processed food	5.11	-18.20	-0.28	0.44	0.02	-0.32	5.46	-6.20	0.07	-6.71	13.46	-0.53	0.14	-0.86	8.27	10.01	-0.28	0.90	15.98	6.17	0.55	-3.21	-0.50
Textiles and apparels	-6.76	11.99	-2.21	-0.32	1.61	-0.68	-3.08	-0.08	-0.50	16.23	7.57	2.29	-1.33	3.87	24.28	-9.91	-0.24	-0.98	5.40	1.55	-2.03	60.06	-1.18
Light manufacturing	-5.34	0.69	-0.12	-0.86	0.15	-0.31	-0.59	0.76	2.78	11.73	2.07	-12.19	1.05	-5.18	2.62	-3.39	-0.17	1.77	3.77	5.15	-0.26	11.53	-0.15
Heavy manufacturing	-0.29	-3.24	-0.10	-0.92	0.17	-0.05	-1.07	0.71	1.04	9.77	3.10	12.37	0.76	-1.25	5.22	-0.95	0.25	1.52	3.86	6.52	-0.10	2.06	-0.50
Construction	1.14	3.37	0.51	0.26	0.61	-0.16	0.89	0.59	1.04	14.92	3.40	5.19	1.18	0.57	3.51	1.85	0.13	1.18	3.22	6.85	0.06	13.72	-0.29
Transport	0.38	3.94	0.26	0.60	0.41	0.57	0.41	0.56	0.26	16.04	1.29	3.86	0.83	0.26	2.60	0.73	0.25	0.98	0.55	3.68	0.17	8.54	0.23
Communication	0.56	3.23	0.47	0.29	0.26	-0.05	0.04	0.60	0.57	10.89	1.63	3.40	0.98	0.38	2.80	0.92	0.20	0.64	1.70	3.52	0.08	4.64	-0.12
Trade	0.48	3.52	0.32	0.19	0.24	-0.02	0.68	0.17	0.69	7.73	2.66	3.79	0.97	0.32	4.25	1.13	0.15	0.92	1.79	4.21	0.05	8.07	-0.14
Financial services	0.63	2.36	0.30	0.25	0.26	0.05	0.37	0.42	0.35	9.86	1.29	4.37	0.90	0.27	3.20	0.86	0.17	0.80	-0.17	4.01	0.05	-0.40	-0.08
Insurance	0.27	3.19	0.72	0.42	0.22	0.00	0.26	0.67	0.14	10.46	1.49	5.13	0.76	-0.18	2.24	0.32	0.64	0.68	0.74	2.99	0.05	-0.95	-0.01
Business	0.61	3.61	0.61	0.15	0.31	-0.02	0.26	0.98	0.29	7.34	1.02	4.02	0.89	-0.10	2.01	0.86	0.17	0.60	1.13	2.62	0.10	0.81	-0.07
Other services	0.44	1.61	0.17	0.23	0.17	-0.06	0.55	0.24	0.71	5.95	1.49	4.55	0.85	0.71	2.09	0.93	0.12	0.59	1.74	2.30	0.08	6.44	-0.09
Capital goods	1.28	3.16	0.55	0.26	0.62	-0.26	0.92	0.64	1.33	14.90	4.04	4.94	1.20	0.58	6.32	2.21	0.13	1.21	3.65	6.90	0.05	14.19	-0.36

Scenario 5 (a): Parallel Implementation of the TPP and TTIP

Figure 3.21 Estimated net real GDP impacts of TPP and TTIP

Figure 3.22 Estimated net welfare impacts of TPP and TTIP

Figure 3.23 Estimated net impacts of TPP and TTIP on export volume

In this scenario, I combine the pan-pacific TPP agreement with the transatlantic TTIP agreement to flesh out the economic consequences of a bi-polar international trade architecture built on Western-centric trade initiatives. In the main, the top-10 winners in terms of real GDP boost would be in precisely the same order as in the TPP-only scenario. Even so, it is worth reiterating that the greatest prospective real GDP benefits are projected to accrue to Vietnam (3.94%), Malaysia (2.48%) and Brunei (1.75%) (Figure 3.21). These gains derive from their participation in the TPP, the drag on their growth potential afforded by TTIP notwithstanding. New Zealand (1.11%) and countries that already have preferential access to the US market such as Mexico (0.83%), Canada (0.41%), Chile (0.40%) and Australia (0.40%) record modest economic growth. Singapore (1.21%) tends to fare better; chief among the reasons is that the city-state, as an entrepôt economy in Southeast Asia, is likely to gain not only from its own free trade policy but also from positive economic trends in other TPP economies in the

region¹³⁹. As noted above, the magnitude of welfare gains (Figure 3.22) is proportional to the size of the economy concerned. Thus the three economic heavyweights in the two groupings, namely, the US, Japan and the EU, are projected to reap the most substantial welfare gains which enhance the living standards of their citizens. The pattern of export volume change (Figure 3.23) is similar to that under the TPP scenario (Figure 3.7).

Comparing this TPP-TTIP parallel scenario with the Scenario 1(a) and Scenario 3, two observations emerge. First, it seems that America's dual membership in the TPP and TTIP would pay off. Economically, the US is projected to enjoy higher benefits (0.30% increase in real GDP and an addition of \$47.94 billion in welfare) than in single scenarios. Synchronous economic integrations towards east and west would cause trade creation in particularly America's meat and livestock industry (3.44% increase in output), and such growth is likely to be made possible by a reallocation of resources away from the country's shrinking textiles (1.70% decrease in output) and manufacturing sectors. In the sphere of geopolitics, the TPP and TTIP – forming the twin-pillars of the US mega-regional trade diplomacy (Hamilton 2014a) or the two 'giant spokes' attached to the US hub – would exclude China from what would be the world's two highest standard trade and investment regulatory frameworks. This in turn means that Beijing would be forced to play by the rules laid down by the West. This is not to mention that America's gains would also come at China's expense. It is telling that the scale of China's GDP reduction (-0.08%) is exactly the sum of its losses from the TPP (-0.06%) and those from TTIP (-0.02%). From a policy diffusion perspective, the pursuit of mega-FTAs by the US and the EU is shown to create cumulative economic pressure on China.

¹³⁹ In 2016, four TPP countries, namely, Malaysia, the US, India and Vietnam were among Singapore's top 10 trading partners.

Table 3.12 provides an overview of the sectoral impacts as simulated, giving an indication of the sectors that will expand or contract should the TPP and TTIP were both brought into effect. In general, the magnitude of output change is higher in manufacturing and food processing industries than in services sectors, and sectoral impacts emanating from the TPP dominate the overall sectoral shifts. For the EU, the effects stay within narrow limits: all the changes in the EU output are expected to be below 1%. The same applies to countries with low tariffs across industries such as Chile and Peru. By contrast, countries characterised by the presence of internationally competitive sectors (e.g. Vietnam and New Zealand) and/or tariff peaks imposed to protect less efficient local producers (e.g. Japan) will undergo substantial sectoral restructuring, leading to more optimal employment of finite national factor endowments.

Despite the exclusion from both the TPP and TTIP, China's textiles and apparel industry may paradoxically experience an output increase (0.08%). This is again linked to possible spill-over effects from the TPP – the country which would see the greatest expansion in this sector, namely, Vietnam, sources a significant share of raw and intermediate materials such as cotton, fibres, fabrics buttons and sewing materials from China (USITA 2016). In theory, mega-FTAs' ROOs would shift the sourcing patterns in favour of 'indigenous' suppliers within the integrating TPP markets like Singapore (3.37%), Japan (1.60%), and Australia (0.53%). But it seems that the added 'local' output may be insufficient to satisfy the surging demand for inputs into Vietnam's processing trade in textiles, garment and footwear industries and China is likely to fill the supply gap by producing and exporting more textiles. This finding shows that in the context of vertical specialisation and cross-border production sharing, the distinction between trade creation and trade diversion effects is not clear-cut. Yet, the extent of actual sectoral expansion in China is a function of the TPP's restrictiveness of ROOs.

Table 3.12 Estimated net output effects of TPP and TTIP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	1.69	-0.05	0.48	-1.67	0.02	-0.08	0.03	0.01	-3.48	0.26	0.18	-0.02	-0.01	-0.02	-0.71	0.39	0.09	-0.23	-0.03	0.57	0.84	-0.99	0.05
Meat and livestock	2.07	1.52	2.57	11.02	-0.30	-0.65	0.01	-0.07	-13.91	-0.65	-0.12	-0.40	2.59	-0.06	2.66	1.98	-0.25	-0.23	-0.35	-5.97	3.44	0.50	-0.24
Extraction	0.34	0.96	0.06	-0.22	0.08	0.02	0.08	0.11	-0.28	-0.06	-0.01	0.20	0.22	0.07	0.24	-0.27	0.20	0.08	0.10	0.04	-0.27	-0.52	0.02
Processed food	2.31	-17.82	-0.04	1.31	-0.19	-0.09	-0.23	-0.15	0.14	-0.09	-0.63	-0.02	0.05	-0.07	1.94	8.46	0.15	-0.24	12.59	-1.31	1.13	-1.29	-0.17
Textiles and apparels	0.53	12.33	-1.37	-0.50	0.08	0.56	-0.74	-0.22	1.61	-1.93	0.89	0.21	-0.74	0.40	25.47	-1.20	0.02	-0.78	3.37	0.23	-1.70	38.50	-0.36
Light manufacturing	-3.41	2.86	0.10	-0.62	-0.09	0.04	-0.26	0.02	2.36	-0.02	-0.23	-1.64	1.09	0.35	1.85	-2.19	-0.28	0.01	2.24	-1.33	-0.25	8.54	-0.02
Heavy manufacturing	0.46	-1.55	-0.20	-0.41	0.01	0.23	0.14	0.01	0.18	0.22	-0.05	0.49	0.50	-0.01	3.93	-0.52	0.23	0.17	1.23	-0.08	-0.19	-1.07	-0.01
Construction	0.57	2.44	0.44	0.47	-0.18	0.08	-0.23	-0.20	0.38	-1.26	-0.26	-0.05	0.97	-0.06	2.36	1.45	0.17	-0.41	1.51	-0.89	0.47	7.79	-0.19
Transport	0.28	3.06	-0.02	0.21	0.00	0.26	-0.08	-0.02	0.10	-0.47	0.28	0.13	0.62	0.02	1.71	0.35	0.14	-0.14	-0.02	-0.07	0.08	4.49	0.02
Communication	0.41	2.29	0.36	0.36	-0.09	0.05	-0.11	-0.13	0.22	-0.41	-0.20	-0.06	0.79	0.00	1.95	0.72	0.17	-0.26	1.32	-0.47	0.27	2.74	-0.12
Trade	0.28	2.71	0.28	0.30	-0.05	0.11	-0.14	-0.11	0.32	-0.74	-0.17	0.04	0.80	0.00	2.84	0.92	0.16	-0.26	0.91	-0.65	0.21	5.15	-0.09
Financial services	0.36	1.58	0.17	0.33	-0.06	0.07	-0.11	-0.08	0.11	-0.77	-0.24	0.08	0.67	-0.01	2.21	0.58	0.14	-0.29	-0.17	-0.52	0.15	-1.01	-0.12
Insurance	0.31	2.27	0.20	0.16	-0.01	0.44	-0.05	0.00	-0.02	-0.53	-0.19	-0.83	0.47	-0.08	1.38	0.05	0.28	-0.23	0.50	-0.37	-0.17	-2.12	-0.22
Business	0.44	2.69	0.46	0.23	-0.10	0.05	-0.02	-0.29	0.05	-0.72	-0.20	0.08	0.72	0.06	1.64	0.61	0.13	-0.16	1.22	-0.13	0.16	-0.02	-0.12
Other services	0.25	1.16	0.12	0.32	-0.08	0.05	-0.12	-0.08	0.26	-0.72	-0.17	-0.02	0.69	-0.01	1.37	0.77	0.11	-0.27	0.87	-0.43	0.26	4.17	-0.05
Capital goods	0.63	2.24	0.47	0.50	-0.19	0.08	-0.24	-0.23	0.47	-1.38	-0.34	-0.06	0.99	-0.07	4.24	1.74	0.17	-0.44	1.70	-0.95	0.58	8.09	-0.22

Scenario 6: Parallel Implementation of RCEP and TTIP

Figure 3.24 Estimated net real GDP impacts of RCEP and TTIP

Figure 3.25 Estimated net welfare impacts of RCEP and TTIP

Figure 3.26 Estimated net impacts of RCEP and TTIP on export volume

Scenario 6 deals with a possible situation in which RCEP and TTIP are implemented. This scenario remains (remotely) possible since Trump has not rejected TTIP officially¹⁴⁰. Economy-wide (see Figure 3.24), the real GDP growth pattern across countries does not deviate much from the basic pattern under the pure RCEP scenario – the performances of several developing RCEP economies such as Cambodia (8.11%), Thailand (4.47%) and Vietnam (3.29%) are as spectacular as under the RCEP-only scenarios. Exports gains (Figure 3.26) for RCEP partners range from 1.67% (Brunei) to 18.74% (Cambodia), whereas those for TTIP participants range from 0.33% (EU) to 1.44% (US). Opening up America's market to Europe through TTIP entails that NAFTA members would have to swallow preference erosions¹⁴¹. A peculiar feature of this parallel scenario is that limiting the actionability assumptions to tariff-cutting only will see the EU's

¹⁴⁰ That said, the trade relations between the EU and the US under Trump are extremely bumpy. The US' import tax on steel and aluminium from the EU (and Canada and Mexico) came into effect on 1 June and the EU looks set to retaliate.

¹⁴¹ The parallel implementation of RCEP and TTIP would, over time, lead to Canadian exporters being 2.40% a year worse-off, while Mexico would lose 3.27% per annum.

welfare deteriorate (Figure 3.25). This is not the case under a pure TTIP scenario in which even tariff removal would enhance the bloc's economic welfare. That adding the enactment of RCEP into the picture changes the direction (and magnitude) of welfare implications for the EU reflects the relative strength of the Asian pact's trade diverting capacity and TTIP's trade creating potential. The former demonstrably trumps the latter as the transatlantic economy is already robust and highly integrated even without TTIP.

We now move to looking at the corresponding changes at the industry level (Table 3.13). As is the case with real GDP growth, the breakdown of sectoral impacts does not differ significantly from that of the pure RCEP scenario. The biggest expansion takes place in Australia's meat and livestock sector. This is realised through substantially increased Australian exports to Cambodia, China, Japan and Korea. Table 3.13 also shows that Cambodia's textiles and clothing industry (18.51%), transport services (16.17%) and construction services (16.24%) are exhibiting the greatest increase in production. Parallel to these changes in the real economy, the country would benefit from a drastic increase in its capital stock (16.17%). On the other hand, the changes in sector-specific output are found to be rather small for the EU and the US. For the EU, all sectoral changes are less than 1%. As far as manufacturing is concerned, only processed food and heavy manufacturing are projected to see a slight output expansion. Output expansion will occur in all services sectors. For the US, the increase in output is felt most strongly by the country's transport services, whereas production losses are comparatively more notable in grains and crops, and textiles and clothing sectors.

Compared to the economic impacts, perhaps more notable is the potentially seismic consequences this scenario implies for regional trading architectures in the Asia-Pacific. First, the co-existence of RCEP and TTIP is likely to create two sets of different trade rules (on top of differing tariff liberalisation schedules and

Table 3.13 Estimated net output effects of RCEP and TTIP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	-1.03	1.01	-1.85	-0.02	1.01	-0.18	0.73	0.20	-3.83	0.77	-9.50	1.47	-0.17	0.61	0.32	1.32	-0.19	-0.18	0.69	3.84	-1.07	1.39	-0.08
Meat and livestock	26.86	2.26	-0.76	-1.49	-0.53	-0.62	0.23	0.43	-3.91	2.54	5.23	-3.92	-0.39	-0.39	2.17	3.94	-0.20	0.30	0.46	-1.66	0.10	-3.14	-0.17
Extraction	0.10	1.25	0.20	0.49	0.07	0.15	0.17	0.64	-0.39	1.22	1.08	1.53	0.15	0.81	0.45	0.25	0.30	0.44	0.59	1.31	0.01	0.57	0.15
Processed food	4.88	-18.38	-0.45	-1.28	0.14	-0.16	5.52	-6.14	-0.20	-6.67	13.94	-0.54	-0.26	-0.82	7.63	4.84	-0.56	0.96	14.06	6.48	0.07	-2.28	-0.44
Textiles and apparels	-7.34	4.07	-0.53	0.17	1.32	0.19	-2.53	0.22	-1.51	18.52	5.74	2.45	-0.97	3.44	1.26	-10.18	-0.31	-0.36	3.17	1.21	-0.83	15.71	-0.86
Light manufacturing	-5.36	-0.41	0.06	-0.16	0.17	-0.16	-0.58	0.79	2.10	11.65	2.21	-12.97	-0.12	-5.29	1.70	-3.25	0.13	1.65	4.12	5.17	-0.08	4.59	-0.12
Heavy manufacturing	-0.74	-3.02	-0.06	-0.44	0.13	0.13	-1.13	0.69	0.66	8.13	3.13	11.82	-0.26	-1.30	3.80	-1.05	0.17	1.34	3.48	6.30	-0.02	4.75	-0.56
Construction	1.01	2.69	-0.31	-0.49	0.61	0.06	0.92	0.60	0.69	16.25	3.38	5.00	-0.53	0.55	2.42	0.98	-0.18	1.24	2.14	7.04	0.13	6.45	-0.31
Transport	0.26	2.90	0.22	0.33	0.36	0.56	0.39	0.53	0.14	16.40	1.13	3.58	-0.28	0.22	1.90	0.28	0.04	0.90	0.47	3.46	0.20	4.95	0.14
Communication	0.30	2.54	-0.08	-0.21	0.26	0.08	0.05	0.61	0.40	11.09	1.65	3.24	-0.31	0.37	1.83	0.44	-0.03	0.68	0.17	3.60	0.14	2.13	-0.12
Trade	0.35	2.81	-0.11	-0.24	0.24	0.14	0.71	0.18	0.45	8.49	2.66	3.59	-0.32	0.31	2.93	0.53	-0.03	0.97	1.10	4.38	0.08	3.18	-0.14
Financial services	0.50	1.57	-0.15	-0.23	0.24	0.05	0.37	0.38	0.23	10.49	1.19	4.10	-0.35	0.21	2.17	0.65	-0.03	0.84	-1.02	4.10	0.11	0.08	-0.17
Insurance	-0.05	2.49	-0.44	-0.18	0.18	0.45	0.24	0.60	0.09	10.76	1.46	3.49	-0.21	-0.42	1.16	0.43	-0.20	0.69	-0.10	3.01	-0.17	-0.32	-0.21
Business	0.36	2.84	-0.02	-0.19	0.31	0.10	0.26	0.94	0.29	8.01	1.07	3.84	-0.29	-0.11	1.08	0.56	-0.02	0.57	-0.26	2.50	0.12	1.13	-0.06
Other services	0.37	1.28	-0.07	-0.20	0.18	0.02	0.57	0.25	0.51	6.59	1.51	4.43	-0.29	0.71	1.35	0.46	-0.01	0.67	1.15	2.46	0.13	2.54	-0.10
Capital goods	1.14	2.51	-0.35	-0.53	0.62	0.01	0.96	0.65	0.93	16.30	4.04	4.74	-0.54	0.56	4.31	1.16	-0.20	1.28	2.45	7.11	0.14	6.60	-0.38

ROOs, see Table 1.3), each governing a significant chunk of the global economy. While RCEP and TTIP could liberalise trade within their respective jurisdiction, inter-bloc regulatory divergence and heterogeneity carry the risks of creating renewed trading costs for exporters who trade across the bloc boundaries. The availability of two trading templates would feed into great power politics as to whose rules prevail at the multilateral level. Second, as firms, responding to ROOs, intensify intra-bloc sourcing, trade and investment, RCEP and TTIP would threaten to draw a line down the Pacific. Undermining the geographical, commercial and institutional space of the Pacific as we know it, such regional trade architectures bifurcate the APEC membership into RCEP contracting parties and TTIP signatories; both APEC itself and its founding vision of establishing an integrated and intimate Asia-Pacific community may fade away as a result.

Scenario 7: Parallel Implementation of TPP, RCEP and TTIP

Figure 3.27 Estimated net real GDP impacts of TPP, RCEP and TTIP

In this final scenario, all three mega-regional trade agreements are assumed to be operational side by side¹⁴². The results refer to the net effects of these three mega-FTAs' intertwining trade creation and trade diversion forces that would pull countries in directions. Looking at the GDP results corresponding to limited assumptions (Figure 3.27), Mexico and Chile are estimated to experience negative impacts despite their TPP membership. While deteriorating terms of trade (-0.21%) is a plausible contributing factor to Mexico's descending economic trajectory, preference erosion plays a larger part in explaining Chile's unfavourable projections. Chile currently maintains free trade relations with 16 countries¹⁴³ in the sample where more than four-fifth of Chilean exports are bound for (2015 figures). Therefore, when Chile's free trade partners open their markets to other countries through the TPP, RCEP or TTIP, Chile loses out. In Korea for example, Chilean farming products exporters would see their market share drop sharply as such RCEP producers as India and Indonesia which are currently constrained by high tariff barriers (see Appendix E) gain strength on the international market. The same holds for Chilean agricultural commodities sales to Thailand, India and, to a lesser extent, the EU. In addition, as the world's largest copper producing and exporting country, Chile's heavy manufacturing industry is under threat because the TPP and RCEP would lower trade barriers for other major producers including Peru, the US, Australia, Canada and Mexico.

Things look rather different when we consider the results derived from comprehensive assumptions. All countries in the sample are projected to benefit from their respective mega-FTA memberships although variations across

¹⁴² In the mega-FTA game to be elaborated in the next chapter, this is an outcome where all three players pick strategy R.

¹⁴³ Countries in the sample that have effective trade agreements with Chile include Thailand, Vietnam, Malaysia, Australia, Japan, Peru, China, New Zealand, Singapore, Brunei, the US, Korea, the EU, Mexico, Canada, and India. For a history of Chile's FTA endeavours, see Stallings (2009).

countries are again large. In percentage terms, the highest performing countries are Cambodia (7.40% growth in real GDP), Vietnam (6.77%), Thailand (4.29%), Malaysia (3.66%) and Laos (2.07%). The five countries with the largest absolute welfare gains (Figure 3.28) are Japan (\$51.80 billion), the US (\$39.61 billion), Korea (\$21.34 billion), China (\$13.44 billion) and Australia (\$8.93 billion). The largest increases in exports are expected in Cambodia (17.66%) and Vietnam (17.15%), albeit from low levels (see Figure 3.29). The presence of the TPP and RCEP which would drive trade away from Europe leads to muted gains for the EU, whose export volumes would expand by merely 0.31%, placing the 28-nation bloc in the last position in the sample.

Figure 3.28 Estimated net welfare impacts of TPP, RCEP and TTIP

Figure 3.29 Estimated net impacts of TPP, RCEP and TTIP on exports

Sector-wise, the aggregate output shifts across industries largely make a repeat of the TPP-RCEP parallel scenario outcome (see Table 3.14). Anticipated expansionary effects are most felt in Vietnam. The TPP and RCEP would join forces to unlock additional production of Vietnam's textiles and apparel in the order of about 60% with more exports shipped to Mexico, Canada, the US and Peru. Other sectoral winners include Malaysia's textiles (24.05%), Australia's meat and livestock industry (17.59%) and Singapore's processed food industry (20.64%). Import-competing sectors like Brunei's processed food industry (-18.23% decline in output), Japan's meat and livestock industry (-18.10%), and Lao light manufacturing industry (-12.16%), however, would probably wince at the three mega-FTAs as the effects on them are projected to be devastating.

Figure 3.30 collapses the changes in real global GDP, economic welfare and trade volume for the world as a whole. At the risk of over-simplification, I argue based on the preliminary data that mega-regionals, individually or collectively, generate net global benefits. Of all the simulated scenarios, the world may most

welcome a situation where all the three mega-regionals are implemented in order to realise a net real GDP gain of 0.32%; the parallel scenario of TPP plus RCEP is the next best outcome (0.26%), followed by the RCEP plus TTIP scenario. And the trade-expanding and well-being enhancing effects of RCEP are larger than the TPP and TTIP combined. Similar are the cases with trade volume and economic welfare. In addition, Figure 3.31 shows that mega-regionals, when tallied up, are welfare-enhancing, yielding global welfare gains in the range of \$31.58 billion (TTIP) to \$174.25 billion (TPP+RCEP+TTIP). (Conceivably, even higher global welfare gains can be expected if the three mega-FTAs are wrapped into one.) The positive global well-being impacts raises the intriguing notion of ‘welfare compensation’ or lump sum transfers at the international level, i.e. one way of reducing discrimination against excluded countries is for winners (i.e. mega-regional partners) to make some transfers to the losers to ensure that the latter are not worse off. As a cautious note, however, it must be pointed out that there is hardly any political impetus for mega-FTA partners to do so. Nonetheless, the simulations suggest that it is in theory possible for all countries to be at least as well off when some WTO members move forward with trade liberalisation.

Figure 3.30 Estimated global impacts under various scenarios

Table 3.14 Estimated net output effects of TPP, RCEP and TTIP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	-0.10	0.73	-1.39	-1.97	0.97	-0.11	0.73	0.22	-6.18	0.96	-9.54	1.46	-0.34	0.59	-0.17	0.85	-0.11	-0.41	0.30	3.59	-0.15	-0.14	-0.05
Meat and livestock	17.59	2.27	2.37	10.76	-0.88	-0.85	0.12	0.37	-14.14	1.93	4.77	-4.35	2.60	-0.42	3.66	3.59	-0.39	0.13	0.01	-5.87	3.15	-2.12	-0.35
Extraction	0.35	1.45	0.20	0.28	0.11	0.16	0.20	0.69	-0.44	1.21	1.06	1.71	0.35	0.85	0.42	0.26	0.50	0.50	0.55	1.36	-0.12	-0.30	0.15
Processed food	5.11	-18.23	-0.36	0.37	0.01	-0.27	5.42	-6.21	0.05	-6.72	13.43	-0.54	-0.03	-0.86	8.24	10.02	-0.32	0.85	16.04	6.06	0.88	-3.27	-0.52
Textiles and apparels	-6.76	11.82	-2.19	-0.35	1.58	0.00	-3.21	-0.06	-0.52	15.99	7.49	2.25	-1.61	3.86	24.04	-9.95	-0.31	-1.09	5.36	1.47	-2.37	59.36	-1.20
Light manufacturing	-5.31	0.62	0.01	-0.84	0.17	-0.17	-0.58	0.80	2.82	11.78	2.12	-12.16	1.00	-5.12	2.62	-3.35	-0.16	1.76	3.89	5.13	-0.27	11.60	-0.13
Heavy manufacturing	-0.24	-3.29	-0.20	-0.95	0.15	0.14	-1.06	0.71	1.04	9.93	3.09	12.42	0.49	-1.25	5.15	-0.94	0.31	1.51	3.79	6.47	-0.15	2.05	-0.53
Construction	1.09	3.27	0.32	0.14	0.55	-0.01	0.83	0.50	0.96	14.70	3.30	5.13	0.81	0.53	3.40	1.77	0.06	1.05	3.06	6.71	0.33	13.53	-0.39
Transport	0.36	3.83	0.21	0.55	0.39	0.67	0.38	0.54	0.26	15.86	1.31	3.78	0.58	0.25	2.50	0.68	0.21	0.89	0.57	3.56	0.21	8.43	0.19
Communication	0.53	3.15	0.37	0.23	0.23	0.03	0.00	0.54	0.55	10.71	1.58	3.28	0.73	0.38	2.69	0.88	0.17	0.56	1.51	3.44	0.25	4.54	-0.18
Trade	0.47	3.47	0.25	0.13	0.22	0.12	0.66	0.12	0.67	7.64	2.62	3.78	0.72	0.32	4.16	1.09	0.14	0.85	1.73	4.13	0.17	7.97	-0.18
Financial services	0.59	2.02	0.15	0.19	0.23	0.07	0.34	0.36	0.30	9.68	1.16	4.31	0.61	0.23	3.09	0.82	0.14	0.71	-0.61	3.93	0.15	-0.69	-0.18
Insurance	0.22	3.02	0.22	0.18	0.20	0.45	0.23	0.63	0.11	10.25	1.42	3.78	0.50	-0.36	1.94	0.24	0.35	0.60	0.50	2.90	-0.15	-2.02	-0.21
Business	0.58	3.53	0.52	0.09	0.27	0.06	0.26	0.79	0.28	7.22	0.97	4.00	0.66	-0.09	1.93	0.83	0.14	0.51	1.01	2.51	0.18	0.77	-0.13
Other services	0.44	1.59	0.11	0.19	0.15	0.01	0.53	0.21	0.70	5.83	1.46	4.52	0.63	0.72	2.02	0.90	0.11	0.53	1.67	2.25	0.23	6.36	-0.12
Capital goods	1.22	3.06	0.34	0.13	0.56	-0.08	0.86	0.54	1.24	14.65	3.93	4.87	0.82	0.54	6.14	2.11	0.05	1.07	3.46	6.75	0.38	14.00	-0.47

Comparisons with Other Quantitative Studies

In this section, I provide a concise comparison of the main findings of this chapter with those of other major CGE studies. With few papers available that shed light on the net effects of the potential parallel existence of mega-FTAs, the comparisons are only applicable to results of scenarios 1-3 (in terms of relative annual changes in real GDP). Given that the initial tariff levels and protection structures is an important determinant affecting trade policy simulation outcomes, I mainly compare my results to papers that employ the latest GTAP database, i.e. Version 9 or 9A. Studies based on earlier GTAP database tend to predict larger gains and losses.

TPP

The most influential work on the impacts of the TPP¹⁴⁴ is the updated estimates by Petri and Plummer (2016) published by Peterson Institute. A second study by Nguyen et al. (2015) of the Vietnam Institute for Economic and Policy Research (VEPR) is also included in the comparison due to its primary focus on Asian countries. Table 3.15 compares the percentage change in real GDP for each of the twelve TPP participating countries as reported.

While all studies project positive real GDP gains for all members, it is immediately noticed that the VEPR study stands out for it consistently under-predicts the benefits. Take Malaysia. VEPR reports real GDP gains ranging from 0.14% (tariff removal only) to 0.30% (inclusive of 7% reduction in services NTMs), whereas Petri and Plummer¹⁴⁵ put the figure in the range of 5.2% to 7.9% (in 2030). The finding of this study (1.63% to 3.49%) is around ten times as large as the VEPR's predictions. Variegated assumptions on actionability and aggregations in regions and industries could be responsible, but stark differences appear mainly because the three studies deploy three different CGE models. Petri and Plummer adopt a recursive dynamic model

¹⁴⁴ For a comprehensive survey of TPP studies, see Gilbert, Furusawa and Scollay (2016).

¹⁴⁵ In this work, changes in real income (which are similar to gains in real GDP) are reported.

developed by Zhai (2008). Compared to this study, Petri and Plummer predict larger effects¹⁴⁶ of the TPP owing to their model's ability to capture intensive margin (i.e. more trade of the same varieties), as well as extensive margin (i.e. increased trade of new products). GTAP model used by this study does not grasp extensive margin, thus missing some of the potential gains. On the other hand, VEPR predicts smaller gains because Nguyen and colleagues use the standard GTAP model without modifying the default short-run economic closure. As such, if anything, their results should be best interpreted as the magnitude of the immediate effects of the TPP.

Table 3.15 Comparison of scenarios and changes in real GDP in different TPP studies (%)

	USITC		Peterson Institute			VEPR		This study	
	2032	2047	2020	2025	2030	Tariffs-only	Tariffs and NTBs ^a	Tariffs-only	Tariffs and NTMs
Australia	-	-	0.0	0.4	0.6	0.07	0.12	0.23	0.40
Brunei	-	-	1.1	3.3	5.9	0.19	0.19	1.28	1.78
Canada	-	-	0.4	0.9	1.3	0.22	0.34	0.07	0.48
Chile	-	-	0.1	0.5	0.9	0.01	0.11	0.14	0.44
Japan	-	-	0.9	1.9	2.5	0.21	0.23	0.20	0.40
Malaysia	-	-	1.6	5.0	7.6	0.14	0.30	1.63	2.54
Mexico	-	-	0.2	0.6	1.0	0.03	0.15	0.10	1.03
New Zealand	-	-	0.5	1.5	2.2	0.06	0.11	0.53	1.14
Peru	-	-	0.4	1.6	2.4	0.00	0.10	0.05	0.18
Singapore	-	-	0.5	1.9	3.9	0.01	0.07	0.31	1.30
US	0.15	0.18	0.1	0.4	0.5	0.00	0.01	0.03	0.14
Vietnam	-	-	2.3	5.8	8.1	1.03	1.32	3.09	4.00

^a Tariff removal plus 7% reduction in NTBs

One additional study that must be mentioned is the report by the USITC (2016), which despite its exceptional quantitative and analytical richness only studies the TPP's macroeconomic and sectoral impacts on the US. USITC basically estimates that the

¹⁴⁶ Indeed, Gilbert, Furusawa and Scollay (2016) argue that incorporating imperfect competition into traditional static CGE models seems to double the estimated gains vis-a-vis perfectly competitive models.

TPP would add 0.15% in 2032 and 0.18% by 2047 to America's real GDP, roughly in line with our projection of around 0.14% (comprehensive scenario) in gains. The numerical resemblance between the results is expected as this study largely follows the USITC's modelling assumptions, making it a 'statelike study' of the more comprehensive work by the USITC.

RCEP

With respect to RCEP studies, I review three papers that display relatively greater methodological transparency and data reliability. Since not all studies are designed specifically for the purpose of conducting detailed analysis on each of the sixteen RCEP countries, data is not available for some countries (due mainly to regional aggregation). The comparison is summarised in Table 3.16.

Differences in the results in terms of real GDP gains (and members' relative standing in the grouping) across studies are remarkable and it is apparent that Jungbluth, Aichele and Felbermayr (2016) present results that are radically different from others. This analysis, carried out by Ifo Institute, adopts what the European Commission (2013) describes as 'a rather untested methodology that departs from the standard approach used so far'. One of the major controversies of the Ifo's structural method (Aichele, Felbermayr, and Heiland 2016)¹⁴⁷ is that, instead of making assumptions about tariff reductions and NTM cuts directly, it uses existing economic integration projects such as the EU and NAFTA as benchmarks to indirectly infer the impact of RCEP as if a deep RCEP could slash trading costs in ways comparable to how the European Single Market and NAFTA facilitate intra-Europe and intra-North America trade, respectively. This unusually (and unjustifiably) bold presumption that RCEP can replicate the trade creation effects of the EU and NAFTA is by no means realistic.

¹⁴⁷ The Ifo trade model was initially developed for the analysis of transatlantic trade liberalisation. For a more detailed critique of model, see EPRS (2014).

Table 3.16 Comparison of scenarios and changes in real GDP in different RCEP studies (%)

	Cheong and Tongzon (2013) ^a		Itakura (2013) ^b		Jungbluth, Aichele and Felbermayr (2016)		This study	
	2013	2027	Tariffs-only	Tariffs and NTMs	Tariffs-only	Deep RCEP	Tariffs-only	Tariffs and NTMs
Australia	0.02	0.42	-	-	-	-	0.49	0.61
Cambodia	-	-	3.0	9.5	-1.43	18.17	7.37	8.22
China	0.09	0.88	-	-	0.04	7.98	0.31	0.40
India	0.04	2.78	-	-	0.34	5.76	0.57	0.68
Indonesia	-	-	0.4	5.8	0.82	6.91	0.45	0.62
Japan	0.02	0.63	-	-	0.27	4.06	0.47	0.55
Korea	0.04	2.11	-	-	0.53	9.84	2.03	2.33
Laos	-	-	0.6	3.0	0.24	12.76	1.99	2.38
Malaysia	0.33	0.66	1.6	5.0	1.31	24.50	2.02	2.59
New Zealand	0.02	0.79	-	-	-	-	0.50	0.69
Philippines	-	-	0.5	3.3	-	-	0.55	1.00
Singapore	0.08	4.10	0.4	2.9	0.50	12.70	1.07	1.63
Thailand	-	-	3.0	8.3	0.50	10.75	3.82	4.53
Vietnam	0.92	5.87	4.7	13.4	-0.54	22.82	2.67	3.34

^a Tariff-only scenarios. Based on GTAP Version 8, 2007.

^b Based on GTAP Version 7.1, 2004.

– Data not reported

Cheong and Tongzon (2013) use the dynamic GTAP model. Their work takes into account existing FTAs involving RCEP members when constructing the baseline, but it adopts a simplistic assumption of complete tariff removal among sixteen countries. Itakura (2013) looks at the economic impacts of forming a region-wide FTA on the basis of ASEAN+6 (identical to RCEP in practice). His analysis devotes much attention to the potential improvements in connectivity and trade flows within ASEAN countries, but does not report gains accruing to non-ASEAN economies. Although there are variations in the simulated results, the studies (including the present one) tend to converge towards a reasonable range of results. In tariff-only scenarios, their key limitation is that older versions of the GTAP database are used. In NTM

scenarios, Itakura study yields gains that are larger than the results put forward by this study. This is because Itakura opts for a much more aspiring and ambitious modelling approach which assumes AVEs of services trade and ad valorem time costs among ASEAN+6 countries can be cut by 20%.

TTIP

The impacts of TTIP as calculated by this chapter are compared with alternative studies conducted by three research teams based in Europe: the CEPR (2013) study by Francois et al., the CEPII study by Fontagné et al. (2013) and the Dutch Bureau for Economic Policy Analysis (CPB) study by Rojas-Romagosa (2016). Overall, the figures produced by this study are more conservative than others (see Table 3.17).

Table 3.17 Comparison of scenarios and changes in real GDP in different TTIP studies (%)

	Real GDP		
	Scenarios	US	EU
CEPR ^a	Limited	0.08	0.14
	Less ambitious	0.21	0.27
	Ambitious	0.39	0.48
CEPII	Tariffs+NTMs	0.3	0.3 ^b
CPB ^c	Tariffs	0.10	0.02
	Tariffs+NTBs	0.94	1.19
This study	Tariffs	0.05	0.04
	Tariffs +NTMs	0.17	0.16

^a Percentage change with respect to the baseline in 2027.

^b EU27 excluding Croatia

^c Percentage change with respect to the baseline in 2030.

Though not in fundamental disagreement with CEPR or CEPII in terms of modelling assumptions or the simulated results, this study shows three points of difference. First, I do not subscribe to the view that the conclusion of TTIP will lead to positive spill-overs that reduce trading costs for excluded economies, as discussed above.

Both CEPR and CEPIL studies include conjectured expanded commercial opportunities for third parties in applying shocks. Second, the levels of assumed NTMs reduction are different. This study adopts an across-the-board 20% cut in the prevailing level of NTMs for services trade, whereas CEPR (in ambitious scenarios) and CEPIL researchers assumed a 25% cut in NTMs for both goods and services. In this respect, my comparatively more modest actionability assumptions yield lower predicted gains. This brings to the third distinguishing characteristic of this study, namely the treatment of compliance costs associated with ROOs and incomplete TTIP preference utilisation. Such considerations, however, are not factored in by the CEPR or CEPIL paper.

The third study is the CPB's report on the potential effects of the TTIP. It makes use of a different CGE approach, based on the in-house WorldScan model (Lejour et al. 2006). As a recursively dynamic CGE model, its core structure is similar to GDym, the dynamic version of standard GTAP model. Model difference notwithstanding, an additional point to highlight is that the CPB, following a pan-European consensus reflected in Egger et al. (2015), assumes that 50% of total NTBs restricting manufacturing and service sectors trade can be eliminated by TTIP. This assumption is much more ambitious than the one adopted in this study. And as is the case with CEPR and CEPIL, cost-raising effects of ROOs are neglected in the CPB study.

Concluding Remarks

This chapter quantifies the potential national and sectoral economic impacts of the TPP/CPTPP, RCEP and TTIP using a modified GTAP model. As a deterministic and comparative-static CGE model, GTAP produces point estimates of changes in endogenous economic values that are attributable to the shocks modelled, abstracting from all other policy interventions. In this study, real GDP, economic welfare, growth in export volume and real output change by sector are chosen as key

variables collectively representing the overall economic performances of various participating economies and key excluded parties. Based on the educated assumptions on the TPP/CPTPP and best guestimates about the potential outcome of the RCEP and TTIP negotiations, it is tentatively found that trade liberalisation brings economic benefits to mega-FTA members, although the gains could be of a different order of magnitude for different countries. Under the TPP, Vietnam and Malaysia (in terms of real GDP and export growth) and Japan and the US (in terms of economic well-being) are estimated to benefit the most. The withdrawal of the US reduces the scale, and by extension the benefits, of the TPP deal. Under the watered-down CPTPP, the parties which already have an FTA with the US (e.g. Australia and Mexico) could actually do better due to weakened preference erosion effects in tariff-only scenarios. While the lost epoch-making opportunity of prying open the US services market leaves every participant worse off, the US itself stands out as the main loser with gains flipping to losses.

With respect to RCEP, two findings are particularly noteworthy. The first is that developing and transitioning ASEAN economies appear to have the most to gain partly for tariff reasons and partly for catch-up reasons. While ASEAN-plus countries (except Korea) hardly obtain real GDP gains exceeding 1%, Cambodia has an increment of close to 9%. Second, tariff liberalisation alone is able to deliver substantial gains to RCEP partners, whereas under the TPP and TTIP gains from tariff elimination per se are largely negligible. In addition, the simulations of TTIP indicate that the deal may have only moderate impacts on the EU and the US. In line with other CGE studies on TTIP, this chapter concludes that the lion's share of potential gains comes from cutting non-tariff obstacles to more frictionless transatlantic trade. Sectoral impacts of the three mega-FTAs tend to concentrate in a few sectors that either are protected by high tariff barriers pre-FTA (e.g. Korea's grains products) or boast international competitiveness (e.g. Vietnam's textile

industries). When trade barriers are abolished, the less efficient sectors would see declining output with more costly domestic production being substituted by cheaper imports from mega-FTA partners and even non-participating countries – provided that this is possible under ROOs.

In parallel scenarios where two or more mega-FTAs are implemented, this study projects greater gains for dual-track economies such as Singapore and Vietnam. As such, an important policy implication that follows from this study is that countries should strive to join more than one mega-FTA to maximise possible gains from external trade liberalisation commitments. That said, complications arising from criss-crossing ROOs and inconsistent and possibly incompatible provisions across mega-free trade areas may render dual- or multi-mega-FTA membership less economically sound. Moreover, negotiating mega-scale FTAs embedding forward-looking and WTO-plus provisions is a demanding undertaking which necessitates massive political, diplomatic, and administrative capital commitment. Potential entrants should pragmatically put the RCEP framework before the TPP/CPTPP and pursue multiple-mega-FTAs only when capacity permits. On the other hand, the results show that countries excluded from mega-FTA negotiations are disadvantaged and would have to confront more challenging trading conditions abroad. The world as a whole could be better off in terms of welfare. The prospect of global welfare enhancement is significantly more remarkable in parallel scenarios, but is also reasonably evident in single mega-FTA scenarios. The positive global total suggests that the trade creating effects of mega-FTAs eclipse their trade diverting potential. The real GDP findings of this study are also compared to previous studies on mega-FTAs. Model choice and features, actionability assumptions, regional as well as sectoral aggregation and database version, among others, all affect the results in important ways. Hence, a wide range of results are reported, and figures presented in this chapter are generally in the middle range of these.

CHAPTER IV

DIFFUSION OF MEGA-FTAS: A GAME-THEORETIC ANALYSIS

This chapter presents a game-theoretic reconstruct of the competitive diffusion of mega-regionals, conceptualising the successive launches of (the negotiations for) the TPP, RCEP and TTIP as the results of interactive trade policy-making among the world's leading economic powers. In addition to providing a post hoc illustration of the causal relationship between the three mega-regional agreements (and rationalising the US' TPP withdrawal), the game-theoretical model to be presented below yields three generalised observations reflecting the unique status of trade policy as the nexus of politics and economics.

Setting up the Game

A three-player non-cooperative game in which the US, China and the EU¹⁴⁸ are the players is set up to illustrate the diffusion of mega-FTAs. In the game, every player has two context-dependent strategy choices¹⁴⁹. For the US, the choices are either to launch the negotiations for a mega-regional pact (R), i.e. the TPP, or to stay with the status quo of stagnating multilateral liberalisation (NR). China faces similarly binary choices between pursuing RCEP negotiations (R) and maintaining the status quo (NR). By the same token, the EU is assumed to make a choice between pursuing the TTIP initiative (R) and holding on to its long-term trade policy paradigm of standing by

¹⁴⁸ It is worth reiterating that the selection of the US, China and the EU as the most relevant principal players in the game is because the thesis focuses on the three major economies given the assumption that the US drove the TPP, China RCEP and the EU/US TTIP as noted in Chapter I. Internal dynamics in the 28-nation EU and the role of Japan are excluded from the analyses in the chapter despite their importance and relevance.

¹⁴⁹ The choices available to China and the EU are mutually exclusive as they can choose either to pursue a mega-regional agreement, RCEP for the former and TTIP for the latter, or to maintain the status quo. The US' options are not strictly exclusive because it is a dual-track economy. NR strictly refers to a choice not to negotiate the TPP. So, a strategy of NR would not prevent the US from negotiating TTIP as long as the EU picks R.

multilateralism and the WTO (NR). The three players and two specifically defined strategies¹⁵⁰ give rise to eight outcomes as shown in Figure 4.1.

		US			
		NR		R	
China		EU		EU	
		NR	R	NR	R
	NR	I ($\pi_{US}; \pi_{China}; \pi_{EU}$)	II ($\pi_{US}; \pi_{China}; \pi_{EU}$)	V ($\pi_{US}; \pi_{China}; \pi_{EU}$)	VI ($\pi_{US}; \pi_{China}; \pi_{EU}$)
	R	IV ($\pi_{US}; \pi_{China}; \pi_{EU}$)	III ($\pi_{US}; \pi_{China}; \pi_{EU}$)	VIII ($\pi_{US}; \pi_{China}; \pi_{EU}$)	VII ($\pi_{US}; \pi_{China}; \pi_{EU}$)

Key: ($\pi_{US}; \pi_{China}; \pi_{EU}$)=(payoff to the US, payoff to China and payoff to the EU)

Figure 4.1 Basic structure of the game between US, China and EU

Preference Ordering

Mapping the CGE modelling results elaborated in the preceding chapter onto the eight entries of the games, the obtained preference ordering is summarised in Table 4.1. The ordinal ranks of the states/outcomes are based on real GDP impacts. Figure 4.2 condenses the empirical findings into payoff matrices.

¹⁵⁰ Admittedly, the assumption of the game that players each has a single dichotomous trade strategy is a radical simplification. There is, in fact, a continuum of trade policy options – ranging from unilateral, to bilateral, sub-regional and cross-regional agreements and possibly sectoral paths to deep trade reforms – available to a government. The mega-FTA game constructed for the purpose of this study could thus be best understood as part of a more comprehensive game in which each player has a wider variety of strategy choices. Depending on the substantive problem at hand and the paradigmatic priorities for studying the same, different statements can be made as to which of the two game configurations – a comprehensive $3 \times i$ ($i > 2$) game and a frugal 3×2 game – are more applicable. If the ultimate purpose is to pinpoint the most optimal trade policy courses for a given government among an exhaustive list of available policy options under every conceivable contingency involving foreign state actors from a public policy perspective, it is only sensible to opt for the comprehensive game. But if one is concerned with the usage of game-theoretical language to understand the interactions between major economies in a pre-determined international political economy context such as the diffusion of mega-FTAs, it suffices to employ the more succinctly framed 3×2 game, since evaluating the relative merit of the mega-regional approach to liberalisation vis-à-vis alternative policy prescriptions implying other modalities of trade liberalisation is beside the point. Therefore, the 3×2 game shown in Figure 4.1, although not without limitations, is adopted by this study.

Table 4.1 Preference orderings for US, China and EU

	Scenario (see Chapter III)	Cell (in Figure 4.2)	Preference ordering ¹⁵¹ (percent real GDP change in parenthesis)		
			US	China	EU
No liberalisation	Baseline	I	2 (0.000)	4 (0.000)	4 (0.000)
TPP	1(a)	V	5 (0.138)	2 (-0.060)	3 (-0.021)
RCEP	2	IV	1 (-0.038)	8 (0.398)	2 (-0.045)
TTIP	3	II	6 (0.168)	3 (-0.022)	8 (0.160)
TPP+RCEP	4(a)	VIII	3 (0.103)	6 (0.367)	1 (-0.062)
TPP+TTIP	5(a)	VI	8 (0.304)	1 (-0.081)	7 (0.137)
RCEP+TTIP	6	III	4 (0.132)	7 (0.377)	6 (0.115)
TPP+RCEP+TTIP	7	VII	7 (0.270)	5 (0.347)	5 (0.097)

Source: Author's simulations

			US		
NR			R		
EU			EU		
	NR	R		NR	R
China	NR	I No mega-FTA (2, 4, 4) II TTIP (6, 3, 8)	China	NR	V TPP (5, 2, 3) VI TPP+TTIP (8, 1, 7)
	R	IV RCEP (1, 8, 2) III RCEP+TTIP (4, 7, 6)		R	VIII TPP+RCEP (3, 6, 1) VII TPP+RCEP+TTIP (7, 5, 5)

Key: (π_{US} ; π_{China} ; π_{EU})=(payoff to the US, payoff to China and payoff to the EU)

8=best; 7=second best; 6=third best; 5=fourth best; 4=fourth worst; 3=third worst; 2=second worst; 1=worst

Figure 4.2 Mega-FTA game with empirically determined payoffs

In the three-player game, the US chooses the matrix, China chooses the row and the EU chooses the column. Note that every player has two moves, R and NR, and let us

¹⁵¹ Preference orderings for the three players are the same if GDP figures associated with tariff liberalisation only scenarios are used.

consider the payoffs of every possible combination of moves, starting from the upper left-hand state in the left matrix and moving in a clockwise direction to the matrix on the right-hand side:

- I. **No mega-FTA: (2, 4, 4).** This is the initial state of the game for TOM. No negotiations for any mega-FTAs are launched by any players. The default choice of NR gives the US the second worst payoff, and China and the EU each the fourth worst payoff.
- II. **TTIP: (6, 3, 8).** This is the best state for the EU and the third best state for the US. But it is the third worst state for China for it is excluded from transatlantic economic integration under TTIP.
- III. **RCEP+TTIP: (4, 7, 6).** In this state marking the parallel existence of RCEP and TTIP, the US, China and the EU receive payoffs of 4, 7 and 6, respectively.
- IV. **RCEP: (1, 8, 2).** This is the most favourable state for China; its choice of R leads to a payoff of 8. On the other hand, the choice leads to the two worst payoffs for the US and the EU which are both excluded from RCEP.
- V. **TPP: (5, 2, 3).** The US' choice of R leads to the fourth best state for itself, and second and third worst state for China and the EU, respectively. China despises this state comparatively more than the EU because many TPP members are also China's top trading partners.
- VI. **TPP+TTIP: (8, 1, 7).** China receives the worst payoff, if it sticks to NR strategy when the other two players choose R. By contrast, the US achieves its best possible state by concurrently pursuing the TPP and TTIP. The EU would also find this state favourable because of the positive economic implications entailed by transatlantic trade liberalisation despite moderate trade diversion from the TPP.

- VII. **TPP+RCEP+TTIP: (7, 5, 5).** This combination of moves leads to the second-best state for the US. China has the same rank ordering as the EU, that is, the fourth best state. The US is a higher-ranked player in this state because it is a dual-track economy which enjoys cumulative benefits from its participation in the TPP and the TTIP initiatives.
- VIII. **TPP+RCEP: (3, 6, 1).** This is the worst state in the eyes of the EU, which is completely shut off from two Pacific-centric mega-regional trade agreements.

Assuming that the game is played under complete information (i.e. the players know their strategies and the associated payoffs, and those of the other players), solutions based on both classical game theory and TOM can be identified.

Solving the Game

A simple analysis of the game shows that the solution, according to the standard game theory, is State VII. TPP+RCEP+TTIP: (7, 5, 5). The reason is that all the players have a strictly dominant strategy of R, which maximises the payoff irrespective of other players' behaviours.

For the US, R is unconditionally better than NR whatever moves China or the EU makes. That is to say, for each combination of China's and the EU's strategies, the US' payoff is invariantly better in one of the four cells of the right matrix than in the corresponding cell in the matrix on the left. To see this, assume both China and the EU choose NR, the US does better by choosing R to obtain 5 (in State V) as opposed to 2 (in State I) if NR is chosen; when China chooses NR and the EU chooses R, the US would also prefer state VI to State II since $8 > 6$. State VII (7, 5, 5) is better for the US than State III (4, 7, 6), so is state VIII (3, 6, 1) in relation to state IV (1, 8, 2). The dominance of strategy R over strategy NR also holds for China and the EU, and they will adopt R rationally. The dominant strategies bring the players to the unique Nash

equilibrium of (R, R, R), yielding payoffs (7, 5, 5), which is in line with the fact that the US, China and the EU had each pursued at least one mega-FTA.

While the standard theory presents a reasonable explanation to the mega-regionalism under study as an outcome, it cannot shed light on the rise of mega-regionalism as a process. In other words, the conventional game theory offers no description as to how the players' sequential decision-making leads to the *proliferation* and diffusion of mega-FTAs. This is partly due to its methodological restriction of every player moving all at once, thus preventing the game from passing through a few non-equilibrium temporary states. Turning from the classical game theory to TOM, I will demonstrate how the dynamic process of spreading mega-regionalism plays out (see Figure 4.3) in the matrices and the way in which TOM determines the sequence of moves endogenously.

		US	
		NR	R
	China	EU	
		NR	R
	NR	<i>I No mega-FTAs</i> (2, 4, 4)	II TTIP (6, 3, 8)
	R	IV RCEP (1, 8, 2)	III RCEP+TTIP (4, 7, 6)
		NR	R
	NR	V TPP (5, 2, 3)	VI TPP+TTIP (8, 1, 7)
	R	VIII TPP+RCEP (3, 6, 1)	VII TPP+RCEP+TTIP (7, 5, 5)

Key: (π_{US} ; π_{China} ; π_{EU})=(payoff to the US, payoff to China and payoff to the EU)

8=best; 7=second best; 6=third best; 5=fourth best; 4=fourth worst; 3=third worst; 2=second worst; 1=worst

Initial state italicised

NME marked in rectangle

Figure 4.3 Solving the game with theory of moves

Assume the game starts at State I (2, 4, 4). Observe that the US is more unsatisfied with the initial state than China or the EU, as it only receives its next worst payoff. The US therefore has more incentives to depart from this 'inferior' state by choosing an

alternative strategy of R. A series of events telescoped into this move are as follows. In September 2008, Susan Schwab, then the United States Trade Representative (USTR) of the out-going Bush Administration, in New York announced the US' decision to join the Trans-Pacific Strategic Economic Partnership Agreement (TPSEP) which took effect in 2006. Highlighting the TPSEP's potential economic significance in terms of '[strengthening] the United States' competitiveness and [generating] growth and prosperity in the years ahead' (Schwab 2008), the US wanted to sell the TPP on jobs and growth and saw pursuing a modest regional agreement a better option than sitting on their hands to see the Doha Round gradually collapse. The incoming Obama Administration continued to support the US' participation in the TPSEP (while infusing it with a geopolitical overtone under its 'Rebalance to Asia' agenda); Obama's USTR Ron Kirk in December 2009 officially notified Congress of the government's intention to enter into formal negotiations for the renamed and enlarged TPP with P4 countries and other new entrants including Australia, Peru and Vietnam (Fergusson and Vaughn 2011). Though the initial US enthusiasm was tempered temporarily by the outbreak of sub-prime mortgage crisis and uncertainties about the renewal of the Trade Promotion Authority (Fergusson and Davis 2017), the first round of the TPP negotiations got under way in Melbourne, Australia in March 2010. Taking the step to switch the strategy from NR to R, the US rationally chooses to play the game within the right matrix instead of in the left one. The move from the initial state of I to a new state of V gives a better payoff of 5 to the US while placing China and the EU at a disadvantage.

In the new state, China becomes the most distressed player in the game by receiving a payoff of 2. Beijing then threw its weight behind the ASEAN+6 based RCEP initiative in November 2011. The RCEP initiative was officially launched a year after, at the November 2012 ASEAN Summit in Phnom Penh, Cambodia. First round of RCEP negotiations was held in Bandar Seri Begawan, Brunei in May 2013. One

might think that in many ways RCEP resembles an ASEAN-centric proposal linking up ASEAN with its existing FTA partners in a hub-and-spoke configuration, but the project would surely die stillborn had it failed to win support of China. As the next chapter shows, RCEP was not China's first choice when it comes to the preferred vehicle for advancing regional economic integration and trade liberalisation as Beijing had long expressed its predilection for the smaller ASEAN+3 grouping excluding Australia, New Zealand and India. But the US' prior trade policy move (i.e. the TPP) created a new status quo that was not in the interest of China to continue resisting ASEAN+6. As noted in Chapter II, in a competitive policy diffusion process, the pressurised countries may adopt policies that they may feel contempt for when left on their own. China's reluctant endorsement of RCEP is apparently such a case. From a game-theoretical perspective, the launch of RCEP negotiations can be seen as a rational counter-move by China to switch its strategy from NR to R, in order to induce a better outcome of (3, 6, 1) for itself.

Left with the worst state after America's move and China's counter-move, the embittered EU sees no choice but to take action to address this depressed situation by following in the footsteps of China and the US. Picking the strategy of R to move the game to (7, 5, 5), the EU receives an improved payoff of 5. Washington's interest in TTIP arises out of a desire to restore its relative advantage established before China's counter-move; and also because pursuing both the TPP and TTIP increases its payoff from 3 to 7. The road to TTIP is as follows. On 28 November 2011 (and literally eleven days after ASEAN leaders endorsed the 'Framework for Regional Comprehensive Economic Partnership'), the EU and the US established a High-Level Working Group on Jobs and Growth (HLWG) under the Transatlantic Economic Council to look for cooperative opportunities to increase trade, investment and international competitiveness across the Atlantic. The HLWG published their final report on 11 February 2013, formally advising the launch of negotiations for a

comprehensive trade and investment pact. Then US President Barack Obama, European Commission President José Manuel Barroso and European Council President Herman van Rompuy accepted the recommendation in a joint statement issued on 13 February 2013¹⁵². The European Commission received negotiating mandate (technically, 'negotiating directives') from the Council of Ministers and the European Parliament on 14 June authorising Brussels to open TTIP negotiations. The initiative was officially unveiled at the 2013 G8 Summit at the Lough Erne Resort, Northern Ireland a few days later. The inaugural negotiating round was held in Washington, DC in July 2013 with the locations of subsequent rounds alternating between the EU and the US.

It is now the first-moving (game-initiating) US' turn to make a decision as to whether to switch strategy again or not. If it moves, the game reaches State III (4, 7, 6). Knowing that it can do better by staying in State VII, the US, as one would expect, rationally chooses to terminate the game at this point (TOM's Rule 4), thereby making State IV (7, 5, 5) the final outcome (the non-myopic equilibrium). The US obtains a better payoff of 7 once the process of moves and counter-moves comes to an end, reaffirming the rationality of the US' very first departure from the initial state. Emphatically, it should be noticed both the standard theory and TOM predict the same outcome, as the Nash equilibrium and the non-myopic equilibrium coincide at State VII TPP+RCEP+TTIP (7, 5, 5). This is important because it shows that the solution to the mega-FTA game is robust to alternative rules of play (although the dynamic TOM demonstrably provides a richer picture of the competitive diffusion and clustering of negotiations for mega-FTAs).

¹⁵² Prior to that date, and one day after the issuance of the final report, Obama in his State of the Union Address on 12 February 2013 already proclaimed that the US 'will launch talks on a comprehensive Transatlantic Trade and Investment Partnership with the European Union - because trade that is free and fair across the Atlantic supports millions of good-paying American jobs'.

Reconciling Trump's TPP Withdrawal

The story in real life, however, does not neatly stop at the predicted outcome. Obama's successor President Donald Trump signed a presidential memorandum to withdraw the US from the TPP agreement on 23 January 2017, switching America's strategy from R to NR and further moving the game to State III (4, 7, 6). Because China is, if only inadvertently, made better off by the US' move, at this choice point China will rationally end the game instead of going from its second best (7) to its third worst (3) state. Arguably, scraping the TPP by Trump would have been an outcome welcomed by China and the EU politically, because the competitive pressure from the US' trade and foreign policy would disappear for China and the US might shift negotiating emphasis to Europe by according more priority to the TTIP negotiations. Unfortunately, TTIP negotiations also lost momentum following Trump's election victory. Although the US repeatedly indicated the willingness to re-open TTIP negotiations, Washington's neo-mercantilist efforts to resurrect TTIP are likely to face strong headwinds in Europe (Korteweg 2016b, Lawson and Hudson 2015) where anti-Americanism and populism is taking hold. If, as seems extremely likely, TTIP falls through eventually, the game will settle at State IV (1, 8, 2) with the US and the EU receiving their worst and second worst payoffs, respectively. So, why did Trump backtrack on the US' TPP commitment?

One possible explanation is that the preferences orderings presented in Table 4.1 are simply incorrect. This explanation can be rejected firstly because, if the preference structures posited by this study are fundamentally flawed, it would take a very long story to explain why the payoff matrices rather accurately trace the sequential adoptions of strategy R for the US, China and the EU, *until* the unaccounted-for strategy switch by the US. And it would be empirically unwarranted to square the circle by claiming that the US either genuinely or is forced (or even strategically deceived) to dislike the TPP agreement – detailed official as well as independent

assessments of the economic impacts of the TPP abound, and they (including this study) converge towards the shared conclusion that, citing the USTR webpage, the 'TPP will significantly expand the export of Made-in-America goods and services and support American jobs'. Even considering that Trump disposed of the TPP notionally in favour of bilateralism, the US withdrawal looks like a massive 'own goal'. The remaining countries have soldiered on with the CPTPP. The CPTPP gives incumbent members and aspiring countries alike a tangible alternative to one-on-one talks with the US, offering them more leverage to push back against undesirable demands from an increasingly belligerent Trump Administration which often offers no concessions in return (Allen-Ebrahimian 2017, Gibbon and Vestergaard 2017). And for Canada and Mexico which are mired in difficult renegotiation of NAFTA with the US in particular, the CPTPP is keenly sought after as a minimal fall-back should NAFTA talks collapse (Rana and Ji 2017). Clearly, the explanation for the US move is not to be found in the payoff matrices.

The problem could instead lie in the 'irrationality' of the US under Trump from a national interest point of view. After all, in general terms, neither game theory nor TOM can predict irrational behaviours of a player who acts in a way that undermines its own interests. Trade liberalisation, as with other economic reforms, through creative destruction processes inevitably creates 'winners' and 'losers'. More often than not, the benefits of home market opening up are dispersed in political and geographical terms, and back loaded over time. In contrast, the losers who have to deal with concentrated, short-term damages can be more institutionally organised and politically effective in terms of exploiting the trade policy making edifice to their advantage. As Destler (2005) sharp-wittedly (and somewhat presciently) identifies, 'It is the embattled losers in trade who go into politics to seek trade protection'. In the case of the TPP, while it would be seen as a plus for the US as an integrated whole, some American industries such as textiles, garments and manufacturing sectors

essentially saw it as an unambiguous minus since foreign competition squeezes profits while displacing jobs. Many of these vulnerable, import-competing industrial sectors are found in the 'Rust Belt' states stretching from Pennsylvania to Ohio, Wisconsin, and Michigan and to Iowa. Traditionally being swing states (Brownstein 2016), the five states, without exception, all pledged their presidential allegiance to Trump who stigmatised the TPP as a job killer, an economic disaster and the culmination of the incompetence of past leaders who ran the US like a 'third world country'¹⁵³.

Scholars like Ahmad (2008) and Baccini and Dür (2011) have expressively argued that, to self-serving politicians, the foremost attraction of FTAs springs from their potential of advancing the preference of manufacturing industries rather than the gross domestic product or aggregate gains. Their political economy accounts imply that FTAs bringing injuries to domestic manufacturers have a good chance to fail. Indeed, on the national level beyond the five 'Rust Belt' states, there was evident positive correlation between Trump-vote share and the percentage of manufacturing employment¹⁵⁴ per state in the 2016 presidential election (see Figure 4.4). The figure is anecdotal (and tacitly indicative of mono-causal relationship¹⁵⁵), but instructive nonetheless. It suggests that Trump abandoned the TPP not so much because he was behaving irrationally; it was rather because he was calculatedly rational in appeasing his electoral base composed of pro-protection forces and those who resent globalisation and other structural economic changes. It appears that, to Trump, some harm to national interests (or at the very least forgoing some aggregate benefits) was

¹⁵³ For a summary of Trump's views and speeches on US trade policy and the TPP, see Ballotpedia (2016). Direct rebuttal of his views on the TPP can be found in Blackwill and Rappleye (2017) and Schott (2017).

¹⁵⁴ In addition to blue-collar workers, farming communities are also core Trump constituencies.

¹⁵⁵ For instance, Griffin and Teixeira (2017) argue that cultural factors such as views on immigrants, Muslims, minorities, and feminist women and non-trade economic concerns explain much of Trump's appeal throughout the election.

the necessary evil for achieving personal political ascendancy and rewarding the special interests and the socio-economic forces that propelled him to power¹⁵⁶. Here an interesting situational contrast is worthy of drawing between Trump and his predecessor. While Obama was no less critical of the TPP and NAFTA during the 2008 election, his indictment of trade was largely an electoral strategy – he was quick to renege on his trade-wary campaign declarations¹⁵⁷ in showing unwavering support to virtually all Bush-era trade deals including the TPP once he took office. Obama justified his reversal on campaign promises by citing the supremacy of national interests over partisan and electoral politics (and twisted the arms of his fellow Democrats occasionally in order to do so). As such, he could be thought of as a ‘rational’ player¹⁵⁸ in our game wherein payoffs are assigned based on aggregate real GDP impacts; precisely, it was the US under his presidency which made the first move in the mega-FTA game by switching to strategy R.

For those who expect to rationalise Trump’s TPP abandonment by sensing the possibility of offsetting national economic losses by strategic gains at the international level, they are likely to be disappointed (Griffith, Steinberg, and Zysman 2017, Walt 2017). Trump seemed to make every effort to rail against China during the election campaign, vilifying China as, among others, a cheater in trade, a currency manipulator and a militarising bogeyman who bullies neighbours ruthlessly in South

¹⁵⁶ Methodologically speaking, Trump’s ‘irrationality’ points to the limitations of state-centric international political economy theories – while states could be considered as unitary actors in overriding issues like international security and national survival, this assumption could be problematic when studying international economic relations (Jervis 1988). What appears to be an irrational or sub-optimal policy decision in international bargaining may actually be preferred by some sub-national actors (Lipson 1984) who are influential in trade policy making.

¹⁵⁷ Jerit (2004) offers a good analysis of rhetorical strategies of candidates in US presidential elections. For a book-length holistic elaboration of the politics of American election, see Polsby et al. (2012).

¹⁵⁸ One possible counter-argument is that trade had never been as polarising and controversial as it was throughout the 2016 elections. Enduring media income growth stagnation, job losses and widening income inequality in the past decades scapegoat international trade for all these domestic economic hardships.

Figure 4.4 Share of votes won by Trump and share of manufacturing employment by state

Source: Author's illustration based on employment data from National Association of Manufacturers (NAM 2016) and election results from Politico (2016).

China Sea disputes (China Institute 2016). Yet, his sweeping opposition to the TPP was at variance with his rhetoric, sending an exact opposite signal that Washington is prepared to leave the entire dynamic Asia-Pacific region (and the erstwhile American leadership in global trade governance) in the hands of Beijing, the US' supposed rival (Hufbauer and Cimino-Isaacs 2017). This self-contradiction was captured by the farewell speech of the former USTR Michael Froman (2017) – the brain behind the TPP enterprise – about the US' baffling decision to axe the TPP: 'We heard a lot about the importance of being tough on China during this recent campaign... But here, I have to admit to being a little perplexed. There simply is no way to reconcile a get-tough-on-China policy with withdrawing from TPP. That would be the biggest gift any US President could give China, one with broad and deep consequences, economic and strategic. It would be huge for China. China has a regional strategy. It

has the One Belt/One Road Initiative, the Silk Road Fund, the AIIB, its South China Sea excursions and RCEP – separate initiatives, but in combination designed to position China at the center of the Asia-Pacific. They are executing on their regional strategy; the question is whether I will execute on ours’.

Interpreting the Game

Having solved the game and rationalised the US’ withdrawal that poses an immediate empirical puzzle, this section fleshes out three observations about the mega-FTA game. First, it is apparent from the matrices that, for each of the three players, strategy R strictly dominates NR. In practical terms, it means the US, China and the EU all have incentives to pursue (mega-)regional trade accords to improve their own economic prospects. To the extent the players’ shared propensity to pursue regional agreements typifies the incentive structures facing other countries in the world, FTAs formed out of individual economic rationality are likely to continue to sprout up across the globe (though the agreements in the pipeline may not necessarily take the form of mega-regionals). This potential outcome will not go down well with multilateral purists who maintain that (mega-)FTAs distort the pattern of international consumption and production from a most efficient optimum that arises in the absence of policy intervention or in the presence of omni-directional, efficiency-maximising universal market liberalisation.

Based on the mega-FTA game constructed by this study, there seems to be two ways to stem the tide of (mega-)regionalism. The first, obviously, is to increase the economic payoffs corresponding to the status quo, so that the three players can improve their economic conditions without resorting to (mega-)regional trade instruments. This inevitably entails the conclusion of the existing Doha Development Agenda (DDA) or potential DDA-like multilateral deals. The WTO (2011) itself acknowledges that ‘If a multilateral trade agreement such as the GATT/WTO is in

place, there is no rationale for signing a preferential trade agreement'. But in many aspects the long-running DDA had been pronounced dead in the aftermath of the 2015 Nairobi ministerial (Wilkinson, Hannah, and Scott 2016). The WTO's Trade Facilitation Agreement which entered into force in February 2017 offered a shot at progress but not to the extent satisfactory to meet the needs of low-flying major economies. Looking forward, Hannah, Scott, and Wilkinson (2018) put a pessimistic spin on the 2017 WTO MC11 held at Buenos Aires by concluding that 'there appears little chance that genuinely multilateral outcomes will emerge anytime soon'.

If manipulating payoffs of a (mega-)FTA game is not attainable¹⁵⁹, advocates of multilateralism could still pin their hope on a global hegemon to fend off what they see as a damaging proliferation of FTAs. A hegemon can literally prevent the game from being played in the first place or coerce players not to choose strategy R even if the game were to be played. This argument finds theoretical support in the hegemonic stability theory (Keohane 1980, Krasner 1976, Kindleberger 1973, Olsen 1965, Milner 1998) which generally prescribes that an open, stable and seamless world economy with inclusive multilateralism as the bedrock can exist only if there is a willing and able global hegemon capable of disciplining (or buying off) states to abide by commonly agreed rules and principles in the interest of public goods. While whether international institutions are up to the task of promoting global peace and prosperity has been questioned (Mearsheimer 1994/95), it is widely accepted that the de facto institutionalised hegemon (Bailin 1993) in the realm of international trade has historically been GATT/WTO which, after all, successfully brokered eight 'stable "world arrangements"' (Cutter, Haass, and Tarullo 2010) and incorporated countries like China and Russia into a global system of free trade rules (Chorev and Babb

¹⁵⁹ In theory, China and the EU could still leverage multilateral trade liberalisation to address discrimination from the TPP. This possibility is ignored by the present study as it relates to factors exogenous to the game. In the game, China and the EU are assumed to have two strategies at their proposal: pursuing a mega-FTA or sticking with the status quo.

2009). The GATT/WTO, however, is confronted with challenges too stiff for it to assume the hegemonic role effectively in the new century.

The WTO's self-induced problem starts with a treaty 'backdoor', Article XXIV of GATT, which grants members the legal right to sign FTAs provided that tariffs on 'substantially all' intra-bloc trade are eliminated before a reasonably specified deadline (Michalak and Gibb 1997). Virtually no influence beyond cataloguing FTAs can the WTO wield over any agreements' initiation or conclusion (Cohn 2016). The prominence of the WTO itself is also degraded given the perennial failure in producing concrete results on the multilateral front. More profoundly, one can say that it is the continual weakening of the WTO as the institutional anchor of a transparent, rules-based multilateral system that sits at the dawn of an ever more anarchical and competitive neo-mercantile world. In such a volatile economic terrain, insecure countries are susceptible to self-help measures (Yarbrough and Yarbrough 1992) such as (mega-)FTAs and possibly unfair practices and murky form of protectionism (e.g. export subsidy, industrial policy, buy-national rules, currency intervention and social dumping) in trying to get hold of self-interest.

A pertinent corollary to this discussion is the possibility of the US taking on the mantle of a hegemonic state to shift the pendulum back towards multilateralism. Can the US fix up a multilateral trade pact and maintain trade openness under a WTO-centred framework? Is the US willing to pay the system-maintenance costs? The answers are in the negative (even pre-Trump) for three reasons. To start with, the golden era of US leadership and systemic uni-polarity is likely to be behind us, casting doubt on whether the US still possess the necessary material capability (and political will) to fulfil the hegemonic obligation of pushing the other 163 WTO members into restoring the supremacy of multilateralism. Though it may seem counter-intuitive, the founding of the WTO is explained in large measure by a waning US hegemony looking for a helping hand from the multi-polar global community to share the burden of ensuring

cooperation in international trade. Second, the US' 'defection' from a committed defender of multilateral regime to a spirited regionalist – beginning in 1985 with a (foreign policy motivated) trade pact with Israel – is held responsible by prominent scholars like Bhagwati (1993) as a driving force behind multiplying regional trade agreements across the world¹⁶⁰. Last but not least, the US is no less disaffected by the dysfunctionality of the WTO as a negotiation forum, dispute arbiter or a monitor mechanism, feeling that the Geneva-based institution is not a platform to advance America's national interests but an unwanted incursion on sovereignty for its judicial overreach and administrative activism. The US' negative characterisation of the WTO and the underlying multilateral trade order escalated to an unprecedented level when then-Republican nominee Trump threatened to pull the US out of the WTO in 2016. (And as we shall see in Chapter VII, Trump's continued enervation of the WTO and multilateralism is all the more remarkable when he invoked Cold War era national trade law to slap tariffs unilaterally on allies and adversaries alike.)

The second major finding is that the outcome of the mega-FTA game (7, 5, 5) is on the one hand a Pareto-optimal situation in terms of making every player better off relative to the status quo and on the other hand one of the (three) socially optimal outcomes, for it maximises the sum of the payoffs for all three players. The dual optimums attest to the postulation that mega-FTAs increase the *individual* and *collective* economic pies of the US, China and the EU. As such, our game-theoretical modelling supports arguments in favour of regionalism and its latest organisational expression – mega-FTAs such as the TPP/CPTPP, RCEP and TTIP.

In the war of ideas waged between regionalists and multilateralists (Panagariya 1999, Winters 1996, Lawrence 1996a, Devuyst and Serdarevic 2008), Summers (1991a) and Hufbauer (2007) provide two of the best accounts so far about the merits of

¹⁶⁰ In a more general sense, the crisis the liberal global economic order faces is the upshot of the US actively undermining it (Ikenberry 2018).

regional arrangements as one of the vehicles to advance trade liberalisation. Their views have been paraphrased by ADB (2002) as 'trade liberalisation is trade liberalisation' so long as they get trade barriers down; and it is only appropriate to revisit some of their ideas here. Summers (1991a) suggests that 'holding the degree of multilateral progress constant, the world will be better off with more regional liberalisation' because it is verifiable that enhanced intra-bloc trade tends to do more good than reduced extra-bloc trade would do harm to insiders and the world; and the competitive pressure of one FTA, runs his argument, would push other countries into adopting similar trade liberalising measures. Continuing in this vein, Hufbauer (2007) places special emphasis on the spirit of pragmatism embodied in regionalism by saying:

The whole purpose of all this trade system is to lower barriers, to get tariff down and other barriers down. [FTAs] enable a couple of countries [...] to really get those barriers way down, to zero in many cases, as has happened in Europe and as has happened in NAFTA and some other agreements. And you know you have to ask what's wrong with that? The big goal is to get the barriers down, and this gets the barriers down. They do it a lot faster than the WTO or the GATT has been able to do it. They go a lot further. They go to areas like services and investment which the WTO has not been able to do.

While (mega-)FTAs might be inferior to a multilateral trade agreement, countries are likely to be better off with some sorts of regional trading agreement than without one (Ji et al. 2018b) according to the game and our CGE simulations. And measured by the projected positive net welfare gains for the world as a whole, there seems to be net global efficiency gains arising from the broadened geographical coverage of mega-FTAs which lessen the detrimental scope of less efficient within-jurisdiction producers undercutting more efficient out-of-jurisdiction exporters. This makes mega-regionalism potentially superior to the older generation, narrower bilateralism¹⁶¹.

¹⁶¹ In fact, Dee and Gali (2005) using a gravity model find that even deep and comprehensive agreements reached in the late 20th century such as the EU, NAFTA, MERCOSUR were net trade diverting.

Moreover, mega-FTAs make unique contributions as ‘incubators of ideas and sources of experimentation’ (Low and Yeo 2016). All three agreements aspire to venture into many 21st century trade and investment policy issues, which have proven too frontier to broach at the multilateral level. The short-run salubrious effect of writing new trade rules among like-minded partners is that mega-FTA helps remove regulatory heterogeneity and market fragmentation across constituent economies of the integrated market places (Bull et al. 2015, Wiener and Alemanno 2015). In the long run, there is talk of rolling up kindred mega-FTA provisions into a plurilateral deal (mega-regional-to-plurilateral, M2P) to revive the WTO. Plurilateralism, in contrast to the all-encompassing nature of multilateralism in terms of membership and issue coverage, rests of the notion of variable geometry, allowing a subset of WTO members to pursue deeper integration in selected sectors of common interest. An M2P process can be catalysed if mega-FTAs’ higher-order rules and standards on specific emerging policy issues such as digital economy and environment (WEF 2016b) converge to serve as the basis for a potential plurilateral agreement. Since the TPP/CPTPP, RCEP and TTIP each represents a sizeable share of the world GDP and trade, plurilateralising mega-regionals into several vertical plurilateral agreements involving all mega-FTA participating economies is not entirely impossible. To accelerate the realisation of M2P and, if possible, that of a mega-regional to multilateral (M2M) process, the priority for the WTO should be to analyse where WTO rules are behind the curve and which new disciplines drawn up by the TPP/CPTPP, RCEP and TTIP could (and should) be plurilateralised or multilateralised, before taking the initiative to facilitate inter-bloc confluences (Bown 2016, Schott 2014).

Before going on to examine the third implication about the mega-FTA game, I would like to take a detour to rebut a popular objection to (mega-)regional and bilateral trade accords: the (allegedly) low utilisation rate of trade preferences written into them. This is an empirically outdated and biased view in urgent need of correction. The WTO in

its 2011 annual report states clearly that '[preference] utilization rates are uniformly high for most exporting countries, preferential regimes and types of products', adding that '[information] on the value of imports under different preferential regimes from the EU and US reveal preference utilization rates of 87 and 92 per cent respectively' (WTO 2011). Adding to the WTO report, Keck and Lendle (2012) furnish new statistical evidence proving that 'preferences are more widely used than previously thought' in four major importing countries, namely, Australia, Canada, the EU and the US. While less developed countries may experience relatively lower preference utilisation rates, the number and share of firms including micro, small and medium sized enterprises that take advantage of FTAs are on the rise globally especially in developing countries like Thailand (Udomwichaiwat 2012) and the Philippines (Wignaraja, Lazaro, and de Guzman 2009).

Moreover, viewing FTAs with suspicion or rejecting them altogether just because a portion of exporting companies is as of now not making use of the negotiated preferential market access is unjust. It not only denies the exporters which want to utilise them the opportunity to do so, but also closes the door for those currently not in a position of using FTAs to take up the preferences in the future (perhaps after witnessing how they are out-performed by competitors which engage in preferential trade and/or as their expertise and capacity to meet compliance requirement grow over time). Since the essential (economic) objective of a government pursuing FTA is to create an enabling environment (e.g. improved market access in partner economies) for its businesses to prosper, rather than bestow seemingly egalitarian benefits on every single trading company, regional trade policy is not too drastically different from other horizontal policies such as competition and taxation policies, or even health care and education policies, in spirit. Those disaffected with the (largely inevitable) incomplete and unequal use of FTA trade preferences ought to ask themselves whether other socio-economic policies which generate much less

controversy than FTAs are put into good use by *all* intended beneficiaries to the *identical level*.

Last but certainly not the least, the game lays bare the inherent contagiousness of (mega-)FTAs by showing how one player's strategy switch brings about successive changes in the strategies pursued by others. In a pure economic sense, the extraterritorial effects of trade policy – that is, a policy move on trade by one major country, irrespective of its intention, can have rippling economic effects elsewhere – following decades of (hyper)globalisation is an antecedent to (mega-)FTA contagion and diffusion. Conversely, trade policy and FTAs would be significantly less contagious should their effects stay within national or regional boundaries. This seemed to be the case not long ago. Hanson (1998), for instance, observes that the continual deepening of European integration in the 1980s did not cause foreign leaders to raise an eyebrow over the so-called Fortress Europe's external effects when the world economy was still pretty much compartmentalised. And Baldwin (1993c), when developing his elegant domino theory, characterises the European Single Market and NAFTA as 'two idiosyncratic events' unfolding independently from each other. But rapid globalisation, which accelerated in the trail of the 20th century and into the 21st century, has resulted in a qualitatively (and quantitatively) different global economy in which the economic fates and policy decisions of major economies are more and increasingly intertwined. Additionally, the game spotlights that mega-FTA negotiations clustered essentially because trading powers responded like fire-fighters to the losses that they suffer from the prior trade policy of others. Therefore, understanding (mega-)FTA solely as an offensive policy instrument is incomplete; it presents itself as an indispensable tool for aggrieved countries to combat trade diversions while, if possible, pocketing some gains arising from trade creations. Those who criticise RCEP and TTIP exclusively for the former's perceived lower standard

(vis-à-vis the TPP) and the latter's limited room for traditional tariff cuts probably fail to see the picture in full.

From the political vintage point, mega-FTA's attractiveness stems from an underlying unity between absolute and relative gains¹⁶². Let's go back to the mega-FTA game portrayed in Figure 4.3. It is shown that by pursuing a mega-FTA, the payoff to the strategy switching player increases (absolute gains) at the expense of the other two (relative gains). As such, free trade initiatives, while traditionally being known for their pacifying effects of dampening animosities and rivalries among states, have more recently been exploited by major powers caught up in geo-economic competition for them to attain an upper hand over competitors (Wesley 2008, 2011, Sbragia 2010, Baccini and Dür 2011). One can think of the exclusive nature of a mega-regional trade bloc (e.g. the TPP) as allowing country A (the US) to selectively liberalise with certain countries within the grouping while weaponising it by imposing targeted economic losses on deliberately excluded country B (China). B then has an incentive to reciprocate A's move by pulling off its own mega-FTA (RCEP) excluding A defensively. The countervailing accord championed by B in turn creates its own trade diversionary pressure and policy externalities that may galvanise country C (the EU) to respond in kind (TTIP).

The dynamics as described point to a spiral model of mega-FTA diffusion. And for those versed in the language of international politics, this chain reaction rings a bell for its affinity with the concept of 'security dilemma' (Tang 2009, Butterfield 1951, Herz 1951). The dilemma in one way posits that 'many of the means by which a state tries to increase its security decrease the security of others' (Jervis 1978). Analogously, in the context of competitive trade policy making, one would argue that

¹⁶² Grieco (1988) is one of the first neo-realist scholars who pioneered the concepts of relative versus absolute gains. The dichotomy of gains which states are assumed to want to maximise is at the heart of the so-called neo-neo debate between neo-realists and neo-liberal institutionalists. See Baldwin (1993a) and Lamy (2014).

an economy's mega-FTA initiative to make it more prosperous could have the negative consequence of reducing the prosperity of excluded economies which will be forced to initiate rival mega-trading blocs to make up for the losses. But unlike security competition that is likely to result in a zero-sum game of perpetuating insecurity (or war), competitive trade liberalisation through successive mega-FTAs, if implemented, would foster the extension of free markets and abatement of barriers to commercial transactions across political borders (Cato 2017) in Asia-Pacific and North Atlantic countries in a welfare-improving process of 'globalisation of liberalisation' (Simmons and Elkins 2004), as the mega-FTA game and CGE modelling in Chapter III demonstrate. It seems that the paradox of the mega-FTA competition is that it has the potential of harnessing a set of non-altruistic and confrontational economic aims in the service of producing a collectively and economically desirable outcome.

Concluding Remarks

Using standard game theory and the dynamic TOM, this chapter illustrates the competitive diffusion of mega-FTAs from the TPP to RCEP and TTIP. The mega-FTA game suggests that the US' decision to pursue the TPP set off a chain reaction, leading to the initiation of negotiations for RCEP and TTIP. While the classical game theory and TOM both shed light on mega-regionalism as an outcome, the latter yields insights in relation to the dynamic process of proliferating mega-FTAs that is missed by the former. TOM also endogenously identifies the sequence of moves – it is always the most grieved player in a given state that initiates a move. Specifically, it is predicted that the US as the player least satisfied with the status quo would switch trade strategy first to negotiate the TPP, followed by China which was forced to defend its economic interests by acceding to RCEP. The causal cycle repeated as the EU followed suit to push the TTIP agenda to stand up for its economic interests.

However, neither theory provides an answer to the question of why the US, under President Trump, dumped the TPP, defecting to the dominated strategy NR from the dominant strategy R. I argue that Trump was behaving ‘irrationally’ as far as collective national interest is concerned. The self-defeating move by the US can be explained by Trump’s desire to appease his constituencies who are disaffected with the deal in particular and globalisation in general, to the detriment of the economic interests of the nation as a whole. That being said, the failure to predict the US’ abdication of its dominant strategy in the game exposes the inherent limitation of a state-centric rational approach trade policy analysis. While states, assumed as unitary actors, could well be the most appropriate unit of analysis on issues concerning security and survival, it is not necessarily the case when it comes to international economic relations since trade policy is best dissected as a two-level game (Putnam 1988) – consisting of both a domestic political game and an international game. While the *initiation* of mega-FTA negotiations can be explained by the international game, the conclusion and ultimate *implementation* of the agreements seemingly depend more on the outcome of the domestic game.

Lastly, the mega-FTA game presented in this chapter yields three observations with policy implications. First, countries are shown to have a constant temptation to pursue regional trade agreements to improve their economic positions compared to no (multilateral) liberalisation at all. Second, the game suggests that the diffusion of mega-FTAs could increase the economic pies and result in net global welfare gains, the competitive elements behind the three mega-initiatives notwithstanding. The third observation is that mega-FTAs are contagious in the context of globalised economic relations. Mega-FTA decision of one country adversely affects the economic interest of outsiders, driving their quest for remedial measures to neutralise the negative cross-border implications.

CHAPTER V

HISTORY, GEO-ECONOMICS AND GEOPOLITICS OF MEGA-FTAs

The diffusion of mega-FTAs is also the result of political competition as the stakes of foreign trade policy for major economic powers are inevitably extended beyond the economic realm to the wider spheres of international politics and security (Griffith, Steinberg, and Zysman 2015). As former US Secretary of State John Kerry states, ‘foreign policy is economic policy and economic policy is foreign policy’¹⁶³. In a more succinct manner, former USTR Michael Froman argues that ‘influence follows trade’. Their assertions cannot be more relevant when applied to the process of spreading mega-regionalism. This chapter therefore is dedicated to spell out the interwoven political-economic motivations and rationales that drove the successive launches of the negotiations for the TPP, RCEP and TTIP.

An important caveat is that, in looking into *motivations* underpinning the interconnected geneses of the three mega-FTAs, a plurality of equally, if not more, burning questions including if a mega-FTA is the most appropriate instrument to attain the intended policy goals, if proponents’ arguments on the strategic promises of mega-FTAs stack up and continue to hold true over time¹⁶⁴, and what implications pursuing mega-regionalism and external liberalisation would have on other domains of domestic and foreign policy (Defraigne 2014) will only be alluded to briefly, if any. And as it is often said that a person ignorant of history is like a leaf which is unaware it is part of a tree (Crichton 1999), contemporary mega-regional trade policies cannot be

¹⁶³ Similarly, Nobel Prize laureate Thomas Schelling once remarked that ‘Trade is what most of international relations are about. For that reason, trade policy is national security policy’. Earlier characterisation of trade policy as standing at the intersection of a nation’s ‘high’ and ‘low’ politics dates back to Richard Cooper’s article entitled *Trade Policy Is Foreign Policy* (Cooper 1972b).

¹⁶⁴ Indeed, as van Ham (2016) points out, shortly after the TTIP initiative was announced, the European Commission lost its grip on the TPP narrative. The sceptical European public did not buy into Brussels’ geo-economic and geopolitical arguments.

adequately understood without taking into account the enduring historical patterns and themes that indirectly came before or directly animated the involvement of the US, China and the EU in mega-regionalism. Bearing this in mind, in analysing each of the three mega-FTAs, I generally start by situating them in their respective historical contexts to trace their origins. Moreover, it should be noted that each of the three mega-FTAs was, or is being, negotiated over a span of many years. The evolving international circumstances necessarily throw new strategic meanings, connotations and relevance at the three mega-FTAs. But, emphatically, many arguments put forward to rationalise mega-FTAs in hindsight appear overhyped for an exercise that examines what motivated policy-makers to embark on mega-FTA negotiations in the first place. Therefore, this chapter gives attention to what I believe to be the key national, regional and global developments leading to the *initiation* of these trade talks, and refrains from elaborating on a host of other rationales whose appositeness are mainly derived from newer developments unfolded *after* the commencement of negotiations.

Specifically, the chapter proceeds as follows. First, I describe the special place the TPP (once) held in the US' grand strategy vis-à-vis Pacific-Asia and China. The TPP was an integrated economic, diplomatic and security tour de force, holding out massive potential in simultaneously advancing several core US interests in this region marked by geopolitical flux and power transition. Second, I briefly review the evolution of China's policy stance over Asian regionalism, before illustrating how RCEP nicely fits into China's regional agenda despite the likelihood that China would not embrace RCEP absent the TPP. Third, I argue that the prime strategic and geo-economic merits of the TTIP lie in offering the EU an opportunity to reassert leadership on global trade governance and to heal the transatlantic drift that had become more entrenched under the George W. Bush presidency (2001-2009).

TPP: Economic Anchor of US Asia-Pacific Policy

Connecting US to Asia

To begin the discussion on the strategic motivations and importance of the TPP, it is useful to examine the chequered relationship between the US and East Asian regionalism at large. For much of the post-war era, the US behaved as a facilitator of economic development and free flow of commerce among East Asian countries (Cai 2010, Aggarwal 2010). The US guaranteed regional peace and stability for private sectors to flourish, provided support to Japan for the war-torn country to achieve sensational economic renaissance, embraced the development of regional value chains that knitted together newly industrialised economies (e.g. South Korea and Taiwan) and some second-tier 'flying geese' (Akamatsu 1962) in Southeast Asia, practiced benign neglect to economic and development principles that it did not necessarily approve, and pushed for the normalisation of trade relations with China while consciously ushering the communist rival into the WTO.

The list does not stop there. But the US' congeniality with market-oriented economic development stood in stark contrast with its resolute hostility to official regionalism attempts, which Washington feared would over time lay the groundwork for a formalised pan-Asian economic architecture excluding the US. Determined not to allow 'a line to be drawn down the middle of the Pacific' with the US on one side and an Asian-only bloc on the other, as former US Secretary of State James Baker put it, Washington vehemently opposed the Malaysian idea of establishing an East Asia Economic Group/East Asia Economic Caucus, vetoed the Japanese proposal of pulling off an Asian Monetary Fund, and more recently demanded the lending decisions of Chiang Mai Initiative Multilateralisation, a regional financial safety net based on currency swaps, be tied to the conditionality of the International Monetary Fund (IMF). The repeated episodes of American obstructionist interference in regional

institution-building and economic integration movements earned lasting resentment against US economic leadership, which in turn provoked a profound reflection in Washington as how to confront the vision of exclusive Asian regionalism in a more benevolent way with greater finesse than the ones it had historically pursued.

The re-calibrated US strategy had then undergone two phases: trans-Pacific minilateralism and bilateralism. Initially, the US pushed to replace any potential Asian(-only) regionalism with a broader trans-Pacific regionalism, an inspiration that would give it a legitimate insider, and conceivably leadership, status. To do this, the US elevated the then-17-nation Asia-Pacific Economic Cooperation (APEC)¹⁶⁵ from a ministerial-level forum to an annual leaders' summit in 1993, and had since then been championing the efforts to form a Free Trade Area of the Asia Pacific (FTAAP)¹⁶⁶. The guiding expectation was that a US-dominated APEC and a trans-Pacific FTAAP would pre-emptively ensure any narrower Asian-only trade configurations be embedded within a wider regional framework inclusive of the US (Bergsten 2007, Nesadurai 1996). However, the founding principles of APEC centred on voluntarism and informality¹⁶⁷, and the forum's operational modality of allowing each nation to liberalise unilaterally and sectorally (Wesley 2001, Dent 2007b, Ravenhill 2001) ran contrary to Washington's strategic venture of creating a formalised bloc spanning the Pacific Ocean under an institutionalised US leadership (Nesadurai 1996). When George W. Bush assumed office, Washington, while willing to engage APEC for economic reasons, largely abandoned trans-Pacificism as a channel of American influence in Asian affairs and shifted attention to cross-Pacific bilateral trade diplomacy (Barfield 2012). The logic was that bilateral FTAs and partnerships would

¹⁶⁵ Chile, Peru Russia, and Vietnam joined after the Seattle Summit. Chile became APEC member in 1994, and the latter three joined the forum at the 1998 Kuala Lumpur Summit.

¹⁶⁶ But in much of the intervening period, APEC did not play a major role in US trade policy.

¹⁶⁷ Indeed, ASEAN members have since day one made their interest and participation in APEC activities conditional on what Dent (2007a) calls 'three nos': no legal binding authority, no negotiating right and no agreement beyond GATT/WTO commitments.

give rise to a US-centric hub-and-spoke system, allowing the US to tap into Asian economic dynamism while projecting its influence. To operationalise the new strategic thinking, the US reached deep-integration FTAs with Singapore, Australia and South Korea between 2003 and 2007. But for all these deals with long-standing security allies, American bilateralism did not live up to the geo-strategic credo spelt out for it. Washington's relentless drive to securitise economic arrangements (Higgott 2004a) and persistent push for highly legalistic trade treaties (Solomon and Quinney 2010) drew a dividing line between the US and Asian countries sitting opposite the negotiation table. For example, trade negotiations with Malaysia and Thailand were suspended, and the proposed FTA with Indonesia did not progress beyond the feasibility study phase.

Another important contextual factor was that the US started the bilateral path at a time when its economic relations with Asia paled in significance when comparing to China's increasingly dominant position in regional geo-economic hierarchy. It is possible to identify a series of parameters and issues across which changes in the relative economic standing of the US and China occurred, and a good barometer in this regard was the US' and China's respective trade exchanges with ASEAN. According to ASEANstats, merchandise trade between China and ASEAN's ten members soared from under \$40 billion in 2000 to more than \$540 billion in 2015. Over the same period, China's trade share in ASEAN rose from around 8% to nearly a quarter. By contrast, although two-way trade between the US and ASEAN increased modestly in absolute terms (up from over \$120 billion in 2000 to roughly \$210 billion in 2015), the US' comparatively unimpressive trade share plummeted from below a third to less than one-tenth¹⁶⁸. Shrewdly adjusting to this new economic reality, a number of prudent Asian countries raised the priority of their respective

¹⁶⁸ Similar, albeit less drastic, trends could also be observed with respect to China's and the US' evolving trade relations with Northeast Asian countries.

economic and trade relations with China, to the extent that the initial concatenation of US bilateral FTAs did not trigger a meaningful 'domino effect' in the region which was necessary to establish a US-centred Asian trading architecture¹⁶⁹. The hopes that Asian countries not having a bilateral accord with America would fall over each other to offer concessions to Washington lest they fell behind in the US market was effectively defeated in the shadow of an expanding gravitational pull of China's economic ascendancy.

As the two strategies successively ran into difficulties, the US asserted a third strategy; that was to build (on) a bespoke coalition of the willing among like-minded and cooperative Asian (and non-Asian) states. This new strategy represented a mid-way path between instituting a network of US-centric bilateral trade relations and constructing an overarching all-inclusive FTAAP. This is where the TPSEP involving Brunei, Chile, New Zealand and Singapore, came into the picture as a mid-course adjustment for the US' Asia Pacific policy. While the TPSEP, colloquially known as 'P4' agreement, appeared to be rather trivial in economic terms at first blush, a few distinctive features about both the composition of membership and the substance of the deal itself made the TPSEP an ideal trade vehicle to mitigate the danger of US being left out in Asian regionalism.

The most distinguishing trait of the TPSEP was that it was explicit in welcoming the entry of new members (such as the US). And to the extent that the grouping included four relatively liberal APEC members generally receptive to, if not passionate about, the concept of FTAAP, participation in the TPSEP was viewed by Washington as an interim step towards the ultimate realisation of FTAAP. In addition, the TPSEP was a rarely ambitious and high-standard FTA, not commonly seen in Asian countries' FTA portfolios. It eliminated *all* non-zero tariff lines and incorporated visionary chapters on

¹⁶⁹ The US managed to conclude FTAs with Singapore, Australia and South Korea also because these agreements carried significant military and diplomatic implications.

such emerging trade policy issues as trade facilitation, technical barriers to trade, competition, intellectual property rights and transparency¹⁷⁰. Acceding to such a bloc that already reflected quintessential American priorities in trade negotiations could reduce the negotiation difficulty and shorten the lead time. Besides, joining a small, distant and relatively less well-known regional constellation would spare the US government much of the sort of acrimonious trade politics usually plaguing the US' participation in external trade liberalisation (Barfield and Levy 2009). As such, through its participation in the TPSEP/TPP, the US conveniently gained a solid institutional foothold in the world's most vibrant economic region.

Economic Arm of 'Rebalance to Asia'

Just when the US joined the TPSEP and subsequently led the negotiations for an expanded TPP, the Obama Administration proclaimed a 'strategic turn' towards Asia-Pacific to intensify America's all-round engagement with the region (Campbell and Andrews 2013). The self-declared objective underpinning the so-called 'Rebalance to Asia'¹⁷¹ strategy (Manyin et al. 2012) was to provide what Washington saw as 'public goods' – including most prominently rules-based regional order, multilateralism and economic openness – to a region prone to geopolitical uncertainties, territorial disputes, as well as traditional and non-traditional security risks. The term 'rebalance' was deliberately chosen to reflect Obama's intention to shift America's existing centres of gravity for military planning, diplomacy and economic policy decisions from the Middle East (and Iraq and Afghanistan), Europe and North America, respectively, all towards Asia-Pacific for it to utilise capacity and influence in a more coherent fashion in this newly identified high-priority region.

¹⁷⁰ By the time the US expressed interest in joining the agreement, P4 countries were about to negotiate the outstanding chapters on investment and financial services.

¹⁷¹ The strategy was initially known as 'Pivot to Asia' and was later revised to 'Rebalance to Asia'. This was in part because 'pivot' sounded unnecessarily harsh and raised a few thorny policy questions hard to provide answers to. To understand how words mattered in this new US strategy toward Asia, see Dews (2014).

Execution of the rebalance strategy started in the conventional domain of defence, because it was believed that greater US military presence and more geographically dispersed defence elements would have a desirable pacifying impact to cool the temperature in the nuclearising Korean peninsula, and in East and South China Seas where tensions arising from recurrent sovereignty disputes over overlapping maritime territorial claims had caused widespread concerns regarding freedom of navigation and over flight¹⁷². As part of the military pivot (Green et al. 2016, O'Hanlon 2013, Manyin et al. 2012, Nguyen 2016), the US reinforced its defence posture in southern Pacific Ocean by rotating up to 2,500 marines in Darwin in northern Australia and signing an agreement with Canberra permitting the US Air Force to use Australian facilities on a rotational basis. In Southeast Asia, the US amplified its military existence through striking an Enhanced Defence Cooperation Agreement with the Philippines and unveiling new plans of naval deployment to Singapore¹⁷³. America's long-standing military alliance with Northeast Asian countries (home to more than 80,000 American military personnel) were bolstered with the allocation of additional ballistic missile defence destroyers to Japan. A supplementary effort made was to provide security assistance (Linczer 2016) to states such as Laos, Myanmar and Vietnam to 'ensure collective capability and capacity for securing common interest' and to emphasise regional ownership in finding and implementing best solutions to shared security challenges (DOD 2012, Manyin et al. 2012). On the whole, in line with what former Secretary of State Hillary Clinton (2011) referred to as 'forward-deployed diplomacy', the Department of Defence (DOD) was on track to position 60% of US Air Force and Navy forces in the Asia-Pacific by 2020 (Davidson and Dickey 2015).

¹⁷² Threats posed by Russia and non-state actors (e.g. terrorism, natural disasters and piracy) also motivated the military dimensions of the US' rebalance agenda.

¹⁷³ Currently, two Littoral Combat Ships (LCSs) are deployed in Singapore. As the US Navy sees LCS as an important asset for the US in Southeast Asia, it was announced that two more LCSs will be made operational out of Singapore by 2018 (Gady 2015).

America's flexing of military muscle was complemented by proactive multilateral diplomacy. Addressing a Tokyo audience in November 2009, Obama (2009) stated that: 'we also believe that the growth of multilateral organisations can advance the security and prosperity of this region. [...] So let me be clear: those days have passed. As an Asia Pacific nation, the United States expects to be involved in the discussions that shape the future of this region, and to participate fully in appropriate organisations as they are established and evolve'. For some sceptical observers (Tan 2015, Cossa et al. 2009, Mauzy and Job 2007), the verbally professed belief in multilateralism looked set to repeat another cycle of over-promising and under-delivering given with the history of the US' ambivalent diplomatic engagement with Asia in multilateral settings. But the US showed unprecedented commitment to and more genuine strategic interest in the region's multilateral diplomacy (Manyin et al. 2012). Under the reign of Obama, the self-proclaimed America's 'first Pacific President', the US acceded to the Treaty of Amity and Cooperation in Southeast Asia (TAC) in July 2009, which paved the way for America's formal participation in the East Asia Summit (EAS) ¹⁷⁴ in November 2011. As additional signs of diplomatic progresses that had been made, the US helped inaugurate the ASEAN-US Leaders' Meeting in November 2009 and the ASEAN Defence Ministers' Meeting Plus (ADMM-Plus) mechanism in October 2010. In June 2010, the US notably became the first non-ASEAN country to establish a dedicated, permanent mission to ASEAN in Jakarta.

America's forward military deployment and multilateral diplomacy carried significant geo-economic risks. There was a perennial danger that China could retaliate against the high-visibility US strategic manoeuvre in its backyard through punitive economic means. China could potentially restrict market access for American companies and become less cooperative on global economic governance reforms (Manyin et al.

¹⁷⁴ For a discussion of the pros and cons of bringing the US into the EAS, see Cook (2008).

2012, Mertha 2007). Obama's identification of the Asia-Pacific as a high-priority region came when there was a deepening US economic interdependence with China (and corresponding declining commercial relations with other key Asian economies, see Figures 5.1 and 5.2). The symbiotic trade relations, famously termed as 'Chimerica' by Ferguson and Schularick (2007)¹⁷⁵ – in conjunction with China's hold on to US finance¹⁷⁶ following decades-long trade imbalance¹⁷⁷ – gave rise to structural vulnerabilities and tight constraints with negative implications on America's freedom of action vis-à-vis China (Dell 1987, Keohane and Nye 2012). At times the overarching mutual hostage conditions drained the confidence of those Asian leaders who looked to America to rein in China's growing regional dominance about if the US would really stand up against China when called on. Against this backdrop, the TPP weighed heavily in Washington's attempts to get the US economy prepared for any adverse economic fallout from the 'Asia pivot' while recouping a certain degree of strategic autonomy/independence. Keenly aware that a complete breakup of trade with China was neither possible nor rational, the key to bringing reasonable relief to the foreign policy 'shackles' caused by Chimerica lied in rebalancing America's inequitable economic engagement *within* Asia¹⁷⁸. Helpful in this vein was the TPP's distributive effects of diverting trade away from non-members and creating trade among

¹⁷⁵ In addition to trade, the interwoven relationship in finance was framed as 'balance of financial terror' by former Treasury Secretary Lawrence Summers (2004). According to Summers, China relied upon the US for demand for its output and the US depended on China for financing.

¹⁷⁶ China is the largest holder of US treasury bonds, with around \$870 billion.

¹⁷⁷ China's trade surplus with the US hit a record high in 2017, reaching over \$275 billion.

¹⁷⁸ Ely Ratner, former deputy national security advisor to Vice President Joe Biden, argues that 'the vulnerabilities associated with being overly interdependent with China is a problem in and of itself' (Friedman 2018) not least because interdependence 'puts a premium on sustaining US military power backed by a robust forward presence' in the context of Asia rebalance. Ratner was one of many within the Obama Administration who advocated the usage of the TPP to address the issue.

Figure 5.1 Comparison of selected Asian countries' shares of the value of US goods trade
Source: USITC Trade Map

Figure 5.2 Comparison of selected Asian countries' shares of the value of US services trade
Source: USITC Trade Map

members. The TPP would allow the US to shore up trade with ‘friendly’ Asian member-partners such as Japan, Australia, Vietnam and Malaysia at the expense of China while simultaneously reducing the relative importance of Sino-US trade. To use a metaphor, the TPP was expected to perform the function of the lever in a railroad switch mechanism, which would work to guide a portion of American trade with Asia from China to other markets inside the TPP¹⁷⁹. The resulting realignment of geo-economic balance would help bend the regional distribution of power from China dominance to a more stable balance of power in Asia (Campbell 2016).

Critically, on the receiving end of it, the TPP’s trade flow switching effect resonated with some Asian countries’ own proclivity for enhanced economic partnership with the US and with one another. It stemmed from a perceived strategic imperative to reduce Chinese coercive leverage arising from asymmetric trade relationships so that they could be less susceptible to any Chinese economic and political pressure (Basu Das 2017, Gaens 2016). As such, participating regional countries firstly doubled down on the TPP as a godsend to bind them closer to the US economically and politically and as an opportunity for the latter to demonstrate lasting ‘long-distance leadership’ (Beeson 2008) in the region – because, after all, as one prominent Singapore diplomat has insightfully put it, China is a geographic fact whereas the US presence in Asia is more of a consequence of geopolitical and geo-economic calculations (Kausikan 2016). They continue to forge ahead and put a high value on CPTPP¹⁸⁰

¹⁷⁹ In this regard, Barry Naughton, a prominent China expert, asserts that ‘the TPP will pull Vietnam (especially) and other signatories economically closer to the United States, and thus reduce Chinese economic preponderance. Given that South Korea is likely to quickly join in any completed TPP agreement, these shifts can have a long-run economic impact on China’ (Naughton and Webster 2015).

¹⁸⁰ Negotiations for the CPTPP concluded on 23 January 2018 and the agreement was signed on 8 March 2018 in the Chilean capital of Santiago.

even in the aftermath of the US withdrawal as a means of cultivating stronger intra-CPTPP trade links and achieving more diversified economic relations¹⁸¹.

Global Economic Leadership

Besides making the ‘Rebalance to Asia’ strategy more geo-economically sustainable, the TPP negotiations also marked a watershed in the long history of the US’ global economic and trade leadership.

Recognising that the lack of a rules-based global economic architecture was one of the underlying reasons that a stock market crash on what is remembered today as ‘Black Tuesday’ touched off a chain of beggar-thy-neighbour trade policy fights and currency warfare that precipitated The Great Depression, one of the first priorities for the US global economic leadership after the WW II was to set up international economic institutions that opened the way for a more civilised global economic environment, one underpinned by policy coordination among sovereign nations on development, financial and monetary stability and open trade. As part of the Bretton Woods system (Scott-Smith and Rofe 2017), the US led the international efforts to establish the General Agreement on Tariffs and Trade (GATT) in 1947, despite the aborted preparatory work for an International Trade Organisation (ITO). GATT sponsored eight rounds of multilateral negotiations on trade liberalisations, thereby creating a liberal and transparent global trading order that spread the benefits of free trade across countries. In parallel to the US’ continued push for multilateral tariff reductions in an expanding GATT membership, Washington also committed itself to applying (ultra-)low applied tariff rates – a practice akin to unilateral trade liberalisation – and from 1974 to granting preferential market accesses to designated developing countries, many of which were among the least developed at the time,

¹⁸¹ The very hope that the US will ‘re-dock’ onto the revived and revised TPP at some point in the future was another reason to preserve the framework and core elements of the TPP in the form of the CPTPP (Cook 2017).

through the Generalised System of Preferences (USITC 2009). In the early 21st century, America put forward a novel vision of 'Competitive Liberalisation' (Zoellick 2001a, b, Schott 2003), the crux of which was to unleash a global competition of lowering trade barriers in exchange for greater access to the large and dynamic US markets. The US signed agreements with such countries as Morocco, Bahrain, Panama and Oman under the George W. Bush presidency to showcase the benefits of cooperative trade liberalisation. While the effectiveness of the strategy was debatable (Evenett and Meier 2008), it reaffirmed the US' economic magnetism and central role in the world trading system, even outside the framework of GATT/WTO. The TPP represented the latest attempt for the US to sustain this track record of global trade leadership¹⁸², but with two features not seen before.

The first was that the US started to give palpable preference to one regional economic area – in this case, the Asia-Pacific – over many others in terms of trade policy attention and negotiation resources allocation, whereas the preceding zeitgeist could not be more different. In the words of Barfield (1998), it was once believed by Washington that 'regional trade agreements [...] is a flawed strategy for advancing US national economic, political and security interests which are worldwide in their scope and reach and which will inevitably be subverted with regional tilts in favour of one or more geographic areas'. The second is that the US began exercising leadership by upgrading rules and other software components of the global trading architecture that reflect new economic realities than simply cutting tariffs¹⁸³. Current multilateral trade

¹⁸² The continuous US leadership in international economic relations was not without major setbacks. For some time in the 1990s and early 2000s, partly due to the intermittent lack of the Trade Promotion Authority and of the domestic political consensus in favour of globalisation, the US administration had no right to lower barrier at home, nor did it have sufficient leverage to catalyse reduction in protectionism abroad. For a concise analysis of the difficulties the US faced in exercising international leadership, see Bergsten (2001).

¹⁸³ Given the intricate relationship between the TPP and the Asia pivot, the TPP also underscored the US strategy of the so-called 'securitisation of economic globalisation' (Higgott 2004b).

regime put in place when exchange of final products was the main game in town fell short to meet the radically different demands of 21st century international commerce based on such notions as production fragmentation, value added trade, and 'trade-investment-service' nexus (Baldwin 2011b, 2014b). At a time when the conventional rule-writer of choice, the WTO, was functionally paralysed by controversies surrounding its decision-making procedures (Jones 2015, Low 2011) and the agenda of trade negotiation moved from at-the-border measures to more politically contentious behind-the-border regulations (Wolfe 2004), the US and a dozen common-view partners around the Pacific Rim saw the TPP as an alternative forum to discuss and legislate enforceable WTO-plus and WTO-extra commitments that can bring the regional trade rulebook up to date and ratchet up global standards incrementally. Specifically, to the market access provisions addressing tariff and non-tariff barriers to trade that are conventionally part of the FTA repertoire, the comprehensive TPP agreement added new market entry plus market presence provisions on services, public procurement, intellectual property rights, investment protection, labour and environmental standards, digital economy, customs and trade facilitation, small- and medium-sized enterprises, monetary policy, competition, anti-corruption and transparency, regulatory coherence and cooperation (Fergusson and Williams 2016). Also notable is that the TPP was envisaged as a 'living agreement' whose reach as negotiated could be progressively deepened and broadened when necessary by various standing review committees established under different chapters of the agreement (WEF 2016a). This merits emphasis because the TPP would provide the US a platform to shape rules of the road on an on-going as opposed to a one-off basis, thereby giving Washington an enduring say in the way the regional trade order is structured.

Coercive Socialisation of China

The tenet of the US' Asia policy in the past 15 years centred around strategies and tactics to socialise a rising China into the prevailing regional and global order which was constructed to Washington's strategic benefits. Washington initially opted for a co-optive socialisation strategy (Wesley 2015), which was based on a belief that by welcoming China into regional institutions while demonstrating the material benefits China received from such arrangements, the US hoped to convert the potential challenger into a 'responsible stakeholder' (Zoellick 2005) of the international community. However, the unwillingness and inability of the US to adapt the enduring order by shifting its representational structures and decision-making authority to accommodate the interests and influence of China entailed that the strategy ran into deep trouble in around 2010 – China, while not necessarily seeking to overturn the entire existing order from which it benefited greatly, refused to be socialised further and started to shift the existing order towards serving its own interests.

In this context, an alternative socialisation strategy, one of coercion, emerged. The TPP began life as a tactical manifestation of this new strategic thought in relation to China, as one analyst put it 'China is the ultimate target of every US major proposal in this "new generation, twenty-first century agreement"' (Kelsey 2013). In contrast to the co-optive socialisation strategy based on a benign notion that inclusiveness induces convergence, the logic of coercive socialisation prescribes that exclusion forces compliance. This was an assumption that by locking China out of the TPP bloc while demonstrating the costs Beijing would have to suffer as a consequence of trade and investment diversion and the more competitive commercial landscape Chinese companies must confront in the integrated TPP markets, this would compel China to join the TPP on the condition of socialisation. Even if China were eventually to say no to the TPP membership for whatever reasons, Washington was presumably in a position to explain to the rest of the world that China was being isolated by its own

choice and not by the US or its TPP allies who kept the door open upfront for China's accession. In this coercive socialisation strategy, the substance of the TPP agreement served to clearly frame the US' expectation with respect to what economic (and potentially political) reforms Washington seeks from Beijing (Naughton and Webster 2015) and the strict accession clause enabled the US to extract extra bilateral concessions from China as a price of admission to the TPP.

But for this strategy to work, the US needed to enlist the help of 11 other Asia-Pacific countries. Forming an ABC ('Anyone But China') club (Pilling 2013) would magnify the short-term costs of exclusion and the longer-term benefits of inclusion, applying regional – as opposed to bilateral – pressure on and providing a stronger incentive for Beijing to change its behaviours on trade in accordance with the TPP rules. China would have to do away with many allegedly 'unfair' and protectionist trade practices and other policy leverages¹⁸⁴ that were perceived to have helped prop up much of the country's exports competitiveness (Sonnad and Horwitz 2015, Chow 2016). Second, while the essence of the TPP agreement reflected predominately American trade policy preferences as approximately 45% of the TPP texts was copied-and-pasted from the US' past agreements with non-TPP countries (Ilott, Stelk, and Rutter 2016), calling the agreement a benchmark of best practices and regionally accepted rules – abided not only by the US but also by a group of other signatories including Japan – significantly aggrandised the authority of the TPP. For one, it reinforced the legitimacy of the TPP template as a socialisation mechanism, and as the marker for China to move towards if it wishes to become part of the trade grouping. For another, it made it

¹⁸⁴ One target under the TPP is competitive manipulation of currency to improve exports and restrict imports. China has long been criticised by America as a country that systematically manipulates the value of renminbi to stimulate exports and accumulate foreign reserves (Bergsten and Gagnon 2012). Addressing exchange rate manipulation, the TPP commits countries to refraining from competitive devaluation and to not targeting their exchange rate for competitive and protectionist purposes. If China joins the TPP, it has to obey this rule.

less justifiable and tolerable for China, after acceding to the bloc, to re-engineer the TPP rules to its advantage from within.

The involvement of Vietnam, a developing country with the lowest per capita GDP and a lacklustre external liberalisation history, in the grouping was particularly intriguing to many policymakers and observers, but it becomes relatively comprehensible if the country's demonstration effect in the context of socialising China is considered. The inclusion of Vietnam was meant to create a precedent that a non-market, non-capitalist economy could take part in the rules-heavy, 21st century trade agreement like the TPP. A potential success story of Vietnam would address Beijing's unsureness of whether it was indeed possible for China to live up to the TPP standards; the message Washington tried to send was this, if Vietnam could, why not China? Perhaps just as importantly, Vietnam was a crucial litmus test that would encourage the TPP participation of other Southeast Asian countries of similar level of development (Solís 2017).

Many TPP's adherents were optimistic regarding the success of the strategy. To them, an article of faith was that the interaction between China and the TPP would be a replay of China's quest for WTO membership. As Bush (2014) argues, the incentives and disincentives facing China with respect to the TPP were aligning in important ways that replicated the late 1990s pattern: the TPP would offer a circle of prosperity that China ignored at its own peril and growth-oriented reform blueprints much needed by liberal reformists in Beijing. And the deep concessions that China pledged in areas like tariff reductions, services liberalisation and trade related activities in exchange for WTO accession (Rumbaugh and Blancher 2004, Martin, Bhattasali, and Li 2004) showed that Beijing might be willing to engage with the prevailing regional and global economic order on harsh terms. Supporting this optimistic working assumption was a nearly stereotyped hyperbole of China's political economy. That was, for a one-party authoritarian country that excessively relied on

rapid and sustained economic growth to hold up regime legitimacy, economic coercion (and inducement) would almost always work¹⁸⁵.

However, as the next section illustrates, the US provocative strategic manoeuvring was subject to a loud geo-economic Chinese response, i.e. RCEP. Although in many ways inferior to the TPP (and thus not an instrument for reverse socialisation), RCEP, if it receives the final seal of approval, would represent real progress in the push for expanded and liberalised trade in the Pacific Asia and can go a long way in neutralising each of the host of key US strategic intentions behind the TPP initiative.

RCEP: China's Defensive Regional Trade Policy

RCEP, as a strategic response by China to the challenges posed by the US-led TPP, cannot be sufficiently understood in clinical isolation from the overall pattern of the country's punctuated engagement with East Asia. Prior to 1978 when Deng Xiaoping launched the 'Reform and Opening Up' campaign, there was arguably no such thing as a regional policy for China because the inward-looking country was consumed by a non-stop wave of internal strife¹⁸⁶ that set it on a backward and near implosion path. In the following few decades, China's evolving regional trade and economic policies had often been driven by crises (Ye 2012, 2015a) and by the roles the US played in those critical historical junctures – including the launch of the TPP. A recurrent theme was that 'China has been encouraged to improve relations with its neighbours diplomatically and economically at least in part as a hedge against U.S. power and the fear of encirclement by a coalition led by the United States' (Christensen 2006).

¹⁸⁵ The Financial Times quoted then EU Trade Commissioner Karel De Gucht in 2014 as saying: 'The Chinese realise that they have to engage more and more in international trade. They realise that they cannot stay outside of the club' in an article entitled 'China craves invitation to join global trade club'. See Donnan (2014).

¹⁸⁶ Major campaigns of the Communist Party of China that had deep economic implications include Anti-Rightist Movement (1957-59), Great Leap Forward (1958-60), Socialist Education Movement (1963-66), Down to the Countryside Movement (1968-78), and Great Proletarian Cultural Revolution (1966-76).

Punctuated Regional Policy Post-1978

As far as China's regionalism policy is concerned, the first crisis arguably came in 1989¹⁸⁷. Western countries' imposition of economic sanctions and arms embargoes on China following the Tiananmen incident forced Beijing, eager to break diplomatic isolation and economic encirclement, to strive for improved ties with its immediate neighbourhood where diplomatic breakthrough was still within grasp (Ye 2012). In the early 1990s, China established diplomatic relations with Singapore (1990), Brunei (1991) and South Korea (1992), and drastically enhanced the commercial and political bonds with Japan¹⁸⁸. The warming ties with other Southeast Asian countries such as Indonesia, the Philippines, Thailand and Vietnam¹⁸⁹ paved the way for China's engagement with ASEAN as a bloc. In 1991, China attended ASEAN's annual post-ministerial meetings for the first time and was subsequently invited to be the bloc's 'consultative partner'¹⁹⁰ (Ba 2009).

The 1997-98 Asian Financial Crisis (AFC)¹⁹¹ marked the second crisis that pushed China into accelerating regional integration under a framework known as 'ASEAN+3'

¹⁸⁷ Between 1978 and 1989, China's foreign policy concentrated disproportionately on bilateral relations with the Soviet Union and with the US, though the Cold War fermented the formulation of such policies as 'periphery policy' (*zhoubian waijiao* 周边外交) and 'good neighbour policy' (*mulin zhengce* 睦邻政策) in the late 1980s (Chung 2009).

¹⁸⁸ Although Japan, urged by the US, suspended aid to China, its out-bound investment destined to China steadily increased. And the visit in December 1989 by Japan's External Trade Organization (JETRO) delegation was the first foreign official group to land in China after the Tiananmen Incident.

¹⁸⁹ These countries either remained silent over the June Fourth Incident or noted it as China's 'internal affairs'.

¹⁹⁰ The status of Sino-ASEAN relations was upgraded to one of 'strategic partnership' in 2003.

¹⁹¹ In contrast, the Global Financial Crisis (GFC) starting in 2008, apart from country-specific stimulus programmes and unfulfilled rhetoric about an 'Asia-Pacific Community', did not trigger major institution-building in Asia (Emmers and Ravenhill 2011). As such, the GFC is not particularly considered in this dissertation as a moment memorable in terms of the evolution of China's regional policy. Moreover, the AFC was considered a success of China's good-will diplomacy. As Zhang and Wang (2017) note, 'The relationship much improved when at the time of the Asian financial crisis of 1997 China insisted not to devalue the yuan and provided financial support to those countries most severely affected by the

(Stubbs 2002, Emmers and Ravenhill 2011). In the AFC, Washington propagated unsympathetic political rhetoric towards the sufferings of crisis-hit Asian countries; and the US-dominated IMF dictated ill-conceived policy prescriptions that exacerbated and prolonged the crisis. These experiences taught Asian countries, including China, a bitter lesson that they needed to have regional self-help and mutual-aid mechanisms to head off future financial distresses and balance-of-payment emergencies (Bowles 2002). Accordingly, Asian countries made stride in fostering collective resilience building in the realm of finance in the aftermath of the AFC. A Chinese proposal in 1998 calling on central bank governors and deputies of finance ministers to meet regularly sowed the seeds for the institutionalised ASEAN+3 process. In terms of trade, sensitive to ASEAN countries' consternation about possible competition for trade and investment¹⁹² engendered by China's imminent accession to the WTO (Braunstein and Epstein 2002), China in 2000 proposed to negotiate a China-ASEAN Free Trade Agreement (CAFTA) (Wong and Chan 2003), in which a generous 'early harvest scheme' was embedded to proffer unilaterally expedited reductions in tariffs on some ASEAN goods even before the agreement fully took effect in January 2010¹⁹³. In the political-security arena, China's posture also demonstrated a remarkably high willingness to court ASEAN – despite the bloc's historical origin as a bulwark against communism – by signing, among others, the Southeast Asia Nuclear Weapon Free Zone Treaty, the Joint Declaration

crisis, which made ASEAN countries feel China was a true partner extending a helpful hand at a difficult time'.

¹⁹² In 2002, then-Prime Minister of Malaysia, Mahathir Mohamad, was quoted by *Nihon Keizai Shimbun* [Japan Economic News] as saying 'China has a big and attractive market, but it is a potentially tough competitor to ASEAN nations'.

¹⁹³ In addition to CAFTA, China and ASEAN signed such agreements as the 'Framework Agreement on Economic Cooperation', the 'Framework Agreement on Comprehensive Economic Cooperation' and the 'Memorandum of Understanding on Agricultural Cooperation'.

on Cooperation in the Field of Non-traditional Security Issues, the TAC¹⁹⁴, the Declaration on the Conduct of Parties in the South China Sea and the ASEAN-China Strategic Partnership for Peace and Prosperity. All these efforts, of course, were also aimed at cultivating regional influence in the absence of comprehensive economic prowess¹⁹⁵ while creating a peaceful international environment conducive to economic take-off at home¹⁹⁶.

Several years after the AFC, Northeast Asia eclipsed Southeast Asia as the focal point that dominated China's foreign policy agenda, as diplomats scrambled to cope with traditional security crises sparked by North Korea's nuclear provocations¹⁹⁷. Beijing convened an emergency trilateral meeting involving North Korea and the US in April 2003, and in August, hosted the first round of 'Six-Party Talks' with the addition of South Korea, Russia and Japan as regional stakeholders in a search for more permanent solutions to the nuclear crisis. The six rounds of China-sponsored diplomatic consultations – typically written off as a futile effort – turned out to be a decisive shift in the gear of Chinese foreign and regional policy as Beijing started to take the initiative to drive regional affairs rather than merely tag along with existing

¹⁹⁴ China was the second non-ASEAN country to accede to the treaty, after Papua New Guinea.

¹⁹⁵ China's reputation soared in the region during the AFC. China was praised to behave as a responsible power because China did not devalue its currency to stimulate exports at the expense of neighbouring countries.

¹⁹⁶ According to an American-Chinese scholar (Zhao 2011), another factor driving China's institutional cooperation with ASEAN and later in Central Asia through Shanghai Cooperation Organisation was to deal with the danger of secessionist, state-seeking movements along China's inland border areas. In those provinces bordering foreign countries, trans-border nationalities and cross-border ethnic minorities (e.g. Miao in China and Thailand, and Tibetan in China and Nepal) was a source of concern for Beijing. Therefore, China sought to forestall their independence movements by cooperating with its neighbouring countries.

¹⁹⁷ Other sources of tensions among three Northeast Asian countries included territorial disputes, controversies surrounding school textbooks, and spats over then Japanese Prime Minister Junichiro Koizumi's Yasukuni Shrine visits.

agenda pushed by other actors, and to pursue self-defined interest rather than mould them to fit those of others (as was the case in the 1990s and the era before).

Therefore, unsurprisingly, when the TPP, as a 'encirclement by a coalition led by the United States', represented a renewed affront to Beijing's economic interest and regional leadership aspiration, China swiftly responded to the (mini-)crisis by resorting to a regionalist approach. As noted by Frank Lavin (2017), former US Under-Secretary of Commerce for International Trade, when it comes to Sino-US trade relations, China usually works to *reciprocate* America's policy moves rather than *escalate* any trade disputes. So instead of (ab)using its political and economic clout to intimidate Asian partners of the TPP to leave the negotiation table at once¹⁹⁸ – as the US did in (unsuccessfully) discouraging its allies from joining the China-proposed Asian Infrastructure Investment Bank (AIIB) – China competitively emulated the US mega-FTA strategy by endorsing RCEP, an Asianist regional bloc that excludes the US.

In the next sub-section, I will provide a brief review of Sino-Japanese contests for regional leadership which provides further clue to why China picked RCEP as its tactical solution to counter the TPP given Beijing's well-known preference for ASEAN+3.

Leadership Contest between China and Japan

It is fair to claim that the course of Asian regionalism was largely shaped, if not determined, by the regional leadership race between China and Japan¹⁹⁹ (Deng 1997, Dreyer 2006), thus far the only two countries possessing the requisite 'material, technocratic, ideational and agential' capacity to provide regional public goods (Dent

¹⁹⁸ That being said, South Korea's decision of not joining the TPP talks in spite of repeated invitations from the US was apparently motivated by a desire not to antagonise China.

¹⁹⁹ Needless to say, the US is and has been an important extra-regional architect. But we shall focus on narrower Sino-Japanese relations in this section.

2012). China was arguably a late-comer in the contest – before China’s deepening engagement with Asia (Shambaugh 2003, Kang 2007) and growing material capacity made it a peer competitor (see Figure 5.3 for a comparison between GDP figures for China and Japan), Japan was in effect performing a one-man show on the regional stage. It was just that the lingering memories of Japanese imperialism²⁰⁰ forced Tokyo to lead from behind, exerting influence mainly through its official development assistance programmes (Arase 1995) and private production networks (Pempel 2005, Hatch and Yamamura 1996). Japan’s low-key diplomacy ran its course in the second half of the 1990s (Mochizuki 2007) when its economy abruptly plunged into recessions and China, a country which was increasingly standing taller economically, started vying for a leading position in the regional order.

In the decade up to the mid-2000s, China got a head start over Japan on almost every major diplomatic manoeuvring, leaving the former with a clear high ground as the champion of Asian regionalism. China put an FTA deal to ASEAN before Japan hastily drafted a sub-standard counter-proposal of Japan-ASEAN Comprehensive Economic Partnership; China acceded to the TAC and promised not to resort to force as a mechanism for conflict resolution when Japan’s reluctance to sign on to the same treaty aroused distrusts and suspicions in the region; and China actively tendered for hosting the EAS²⁰¹ when Japan only belatedly got its head around the prestige and significance of providing venue to and thereby shaping the agenda of this important forum as the region’s first official level security dialogue.

²⁰⁰ For example, there were recurrent massive anti-Japanese protests in several Southeast Asia countries during the early 1970s.

²⁰¹ The first EAS was hosted by Malaysia with the support of China. China actively sought to host the second EAS. The Second EAS was eventually hosted by the Philippines on 15 January 2007 because it was decided that the EAS will be held annually on the margins of the ASEAN summit in Southeast Asian countries only (Malik 2006).

Figure 5.3 GDP (current US dollar) for China and Japan, 1960-2016

Source: World Bank

While Japan did make some diplomatic victories over China occasionally by for example hosting the 2003 ASEAN-Japan Commemorative Summit in Tokyo for which ASEAN leaders met for the first time in their official capacity outside Southeast Asia, China came out on top repeatedly in the bilateral leadership contest. Tokyo, nonetheless, did not back down. Believing that Beijing's strategic thinking on regional affairs was predominately staked around safeguarding common interests and organising joint activities and other practical areas of commonality (Zhang 2009), Japan under the neo-conservative prime-ministership of Junichiro Koizumi and Shinzo Abe (first term) deployed an ambitious ideology-driven approach to compete with China for influence. In 2007, Japan launched a campaign of value-oriented foreign policy which put a strong emphasis on spiritual bonds and shared values as the fundamental driver of regional integration and cohesiveness (Sohn 2010). However, Japan's search for distinguishingly Asian values achieved only ambiguous results at the end. Troubled relations with many Asian neighbours aside, the popular perception that Japan was only a half-hearted Asian nation, one identified itself more with the Anglo-American community of capitalist democracies than with the specific

geographic region it is located in, raised questions about the legitimacy of Japan holding a torch for Asia values²⁰². More fundamentally, Asia, as essentially a heterogeneous socio-cultural and socio-political construct of an otherwise arbitrary geographic space, is too diverse, not least in terms of history, religion, ethnicity, politics, linguistics and economics, and the need to identify a set of 'common' or 'shared' Asian values was not strong (Sohn 2010). These difficulties led Tokyo to admit, in the 2004 'Issue Papers', that it was too difficult to establish uniquely Asian values because they are 'often shared among people of the same ethnic group and other belongings'.

Therefore, a succession of approach occurred – with Japan instead choosing to partner with like-minded countries in promoting 'universal' (and not 'Asian') principles like freedom, democracy, human rights and rule of laws. Under the sway of this new strategy, Japan devoted much of its economic and diplomatic resources to a string of inventive initiatives that defied the conventional Asian politico-economic geography, including the 'Arc of Freedom and Prosperity' involving countries along the outer rim of the Afro-Eurasian continent and the 'Democratic Security Diamond' linking up Australia, India and the US as liberal maritime powers²⁰³. At the same time, to counter China's dominance within the closed framework of ASEAN+3, Japan tirelessly pushed for alternative geometric formula of open Asian regionalism, whose geographical boundaries could be redrawn politically when new partners take part in the process along the way²⁰⁴. This 'variable geography' (Dent 2012) approach to East Asian regionalism stood in contrast with China's pre-conceptualisation of rightful

²⁰² According to Yeo (2006), it is the 'US first, Asia second' mentality which generally hinders Tokyo's acceptability and ability to lead in the path toward East Asian regionalism.

²⁰³ The Security Diamond is understood by analysts as the precursor to Trump Administration's 'Indo-Pacific' doctrine (Ji 2017a).

²⁰⁴ By the same token, the boundary specifying regionalism membership could also shrink when an old participant for some reason decides to withdraw from the integration process. Here, Brexit – Britain leaving the EU – is an example to illustrate this point.

participants being just ten ASEAN member states alongside three Northeast Asian countries. As part of the open regionalism strategy, Japan supported the inclusion of Australia, New Zealand²⁰⁵ and India as (equal) partners in the EAS²⁰⁶. Tokyo even took the effort to convince Canberra to sign the TAC in order to gain a seat at the Summit²⁰⁷ (Terada 2006). Thanks to Japan's diplomacy, the ASEAN+6 framework (or what many Chinese analysts preferred calling 'ASEAN+3+3' in to imply a peripheral status of Australia, New Zealand and India) inclusive of a mix of pro-Beijing and China-balancing countries slowly took hold (Terada 2010). It was soon placed on par with ASEAN+3 as another institutional backbone of burgeoning Asian regionalism²⁰⁸.

The parallel existence of ASEAN+3 and ASEAN+6/EAS had profound implications for trade liberalisation in Asia, leading to competing templates of FTA emerged from each of the two definitions of East Asia. The thrust was that China regarded ASEAN+3, whereas Japan placed a greater premium on ASEAN+6, as the 'natural' grouping for East Asian countries' cooperation on trade and investment and the basis of a prospective East Asia Community (Kawai and Wignaraja 2007, Li 2014, Chia 2013,

²⁰⁵ The participation by Australia and New Zealand was opposed not only by China, but also by South Korea and some ASEAN countries such as Malaysia whose leaders denounced the two Caucasian countries as 'US proxies', ethnically unfit to be part of an Asian community (Malik 2006). Some other ASEAN countries were comparatively more receptive to their involvement.

²⁰⁶ Realising that blocking the participation of Australia, India and New Zealand was a non-starter, China pushed for a two-tiered EAS structure and tried to relegate the three countries to a peripheral status, secondary to the core ASEAN+3 group. Japan, with the support from Singapore and Indonesia (and Washington), resisted China's move. At the end of the first EAS, China took advantage of Japan's call for inclusiveness and openness by supporting Russia's EAS membership to beef up its influence within EAS.

²⁰⁷ In a *People's Daily* commentary published on 7 December 2005, China criticised Japan for trying to 'drag countries outside this region such as Australia and India into the Community to serve as a counter-balance to China', and lashed out at India for mooted the idea of an 'Asian Economic Community' stretching from Bombay to Christchurch while being 'arrogant' and failing to understand the 'East Asian way' (quoted in Malik 2006).

²⁰⁸ Notably, in the Chairman's Statement of the inaugural EAS, Japan successfully inserted one delicate sentence confirming that 'the EAS together with the ASEAN+3 and the ASEAN+1 processes could play a significant role in community building in the region' (ASEAN 2005).

Zhang and Shen 2011). In November 2004, China urged ASEAN+3 Leaders to summon a Joint Expert Group for Feasibility Study on EAFTA (JEG) in Beijing to conduct the feasibility study on a potential East Asian Free Trade Area (EAFTA)²⁰⁹. A generic Track-II report was finalised by the JEG in 2006, and ASEAN+3 Economic Ministers in 2007 instructed the JEG to carry out in-depth, sector-by-sector studies on the prospect of negotiating an EAFTA under the chair of South Korea. Experts concluded in 2009 that an EAFTA harmonising and consolidating the existing ASEAN-China, ASEAN-Japan and ASEAN-South Korea should be pursued immediately (or at the latest by 2012) as a major regional integration initiative to economically 'enhance the resilience of the East Asian regional economy against external shocks and sustain regional economic growth' and socio-politically 'increase awareness of a common [East Asian] destiny'. An ideal deadline for concluding negotiations should be 2020, the year in which all APEC members should have achieved unilateral trade liberalisation as per the Bogor Declaration (Zhang 2006).

Japan, singing a defiantly different tune in favour of ASEAN+6 or EAS-wide trade liberalisation, proposed in August 2006 a rival accord, named Comprehensive Economic Partnership for East Asia (CEPEA). A study group imitating the JEG was set up in 2007, two months after Phase I study of EAFTA was finished. Reporting the results of Phase I and II analyses to ASEAN+6 Economic Ministers in 2008 and 2009, respectively, the CEPEA feasibility study group argued (without explicitly setting out a negotiation timetable) that an ASEAN+6 CEPEA was necessary for 'deepening economic integration, narrowing development gaps, and achieving sustainable development' in Asia and beyond. While it was suggested that the EAFTA and the

²⁰⁹ The idea of forming an EAFTA was first proposed by an East Asia Vision Group (EAVG) in a report to the ASEAN+3 Leaders in October 2001.

CEPEA could proceed in parallel (Hatakeyama 2007)²¹⁰, Asian capitals not willing to become more divided into Chinese and Japanese spheres of influence knew that without a genuine Sino-Japanese thaw resulting in an orderly convergence between EAFTA and CEPEA a deadlock was all but the only possible outcome. Though between October 2009 and May 2011 leaders tasked officials to consider recommendations of both the EAFTA and CEPEA studies, material progress was scant (Petri and Plummer 2014b). It was apparent that the entire region was held hostage to Sino-Japanese bilateral rivalry and struggle for regional supremacy.

America's TPP that started in 2010 (and Japan's of possible TPP admission), however, came as a pivotal game changer that ended the Sino-Japanese shadow boxing. Sensing the mounting competitive pressure from the US' charm offensive and the recalcitrant Japanese message that 'Take it or Leave it' with regard to the CEPEA, China was forced to make a U-turn on its policy preference to endorse ASEAN+6. The Sino-Japanese compromise – a development that for years had seemed unattainable – culminated in August 2011 in the issuance of a joint 'Initiative on Speeding up the Establishment of EAFTA and CEPEA', which was adopted by ASEAN leaders as the 'Framework for Regional Comprehensive Economic Partnership'. Table 5.1 summarises the evolutionary paths of the EAFTA and CEPEA before they were united under RCEP.

The Sino-Japanese rapprochement also brought about strengthened 'ASEAN Centrality'²¹¹ (Petri and Plummer 2014b), with both sides allowing ASEAN to take the driver's seat (although the two economic heavyweights especially China prove to be backseat driving during negotiations.) A year later, RCEP was formally unveiled in

²¹⁰ Some pundits also suggested that the EAFTA could be understood as the fast-track approach to realising Asian regionalism while the CEPEA should be pursued at a lower, more steady speed as a sort of more distant goal.

²¹¹ For instance, seven RCEP working groups as well as four sub-working groups were all chaired by ASEAN member states (Fukunaga 2015).

Table 5.1 Origins and parallel development of EAFTA and CEPEA

	EAFTA	CEPEA	RCEP
October 2001	East Asia Vision Group recommends establishing EAFTA in report to ASEAN+3 leaders	-	-
November 2002	East Asia Study Group backs formation of EAFTA	-	-
2004	Joint Expert Group set up at ASEAN+3 Economic Ministers meeting to conduct feasibility study	-	-
August 2006	Phase I Report submitted to Economic Ministers recommending an EAFTA be launched in 2007	Japan proposed CEPEA, encompassing ASEAN+6	-
January 2007	10 th ASEAN+3 Summit welcomes proposal for a Phase II Study by the Joint Expert Group involving more in-depth sectoral analysis	Parallel process (Track II) launched at the second East Asia Summit, investigating a CEPEA among East Asian countries	-
August 2008	-	ASEAN Economic Ministers+6 Meeting agrees to Phase II Track Two Study on CEPEA	-
June 2009	Phase II Report submitted with proposals for achieving an EAFTA	Report of Track Two Study Group submitted (Phase II Report)	-
August 2009	Report considered by ASEAN+3 Economic Ministers	Report considered by ASEAN+6 Economic Ministers	-
October 2009	East Asia Summit Leaders task officials to consider recommendations of both the EAFTA and CEPEA studies		-
October 2010	Leaders declare they will redouble efforts on regional integration through the ASEAN +1 free trade agreements and wider regional economic integration efforts, including CEPEA and EAFTA. Leaders task ASEAN Plus One Working Groups to report to the 2011 Summits on specific targets and timelines		-
May 2011	ASEAN Leaders discuss CEPEA and the five priority areas at the 6th East Asia Summit. Leaders instruct Working Groups to accelerate their work on consolidating ASEAN's +1 FTAs		-
August 2011	East Asia Summit Economic Ministers welcome a Chinese and Japanese joint 'Initiative on Speeding up the Establishment of EAFTA and CEPEA'		-
November 2011	-		ASEAN Leaders endorse a 'Framework for Regional Comprehensive Economic Partnership', replacing references to CEPEA and EAFTA with references to ASEAN's FTA partners
November 2012	-		Regional Comprehensive Economic Partnership (RCEP) negotiations launched in Phnom Penh.

Source: Australian Department of Foreign Affairs and Trade, author's compilation.

Phnom Penh, Cambodia. The onset of RCEP process not only served to bail East Asia out of the deadlock over architectural blueprints to get on with the real business of liberalising trade and integrating regional economies, but also bolsters China's geo-economic interests, enabling Beijing to counter Washington's stratagem behind the TPP through an agreement branded as an ASEAN-centric initiative in a way that avoided direct confrontation with the US.

Geo-economic Promises of RCEP for China

How RCEP would help China offset the economic blow dealt to its economy by the TPP is illustrated by the CGE simulations detailed in Chapter III. I will elaborate on other geo-economic benefits of RCEP for China. Essentially, the juxtaposition of RCEP and the TPP suggests that the former is no longer seen as the extension of Sino-Japanese struggle for mastery over Asia, but a fresh phase in Sino-American order rivalry in a cross-regional context. In this regard, a most conspicuous geo-economic merit of RCEP for China is that the US is excluded in the grouping. True, China acquiesced in the participation of Australia, New Zealand and India in the RCEP process, but the accord could prove a blessing in disguise – pointedly shutting the US out of a key Asian mega-FTA in the making was considered an impressive diplomatic achievement in itself by Chinese strategists preoccupied with pushing back against the US' attempts to build greater influence across Asia at China's expense.

Of more importance, RCEP ascended to a core Chinese anti-TPP FTA strategy because it provides an opportunity for China to present an alternative regional leadership style that differentiates itself from the US. The prime distinction was that the US pursued TPP in a way that divided ASEAN, whereas China pushes forward RCEP which is also attractive to its neighbours. In the case of the TPP, the US engaged only four individual ASEAN countries (Singapore, Malaysia, Brunei and Vietnam) on the ground that other ASEAN countries were not yet ready to conform to

the rigorous TPP standards. Some respected scholars claim that the TPP would actually confer benefits to ASEAN by creating a two-speed Southeast Asia in which some reform-minded countries having the capacity and appetite for deeper economic and investment relations with the US are granted a channel to do so via the TPP and the rest could remain focused on pursuing internal and regional capacity-building, connectivity enhancement and policy reform at their own pace (Petri and Plummer 2014b). However, at least in the short to medium run, the reality is that the TPP is a divisive and polarising issue in ASEAN from both economical²¹² (see Chapter III) and political²¹³ (ADB 2014, Kanaev and Korolev 2016, Davies 2016, He 2017, Basu Das 2016, Pakpahan 2012b, Fukunaga 2015, Pakpahan 2012a) perspectives. This goes without saying that the touted idea of hatching a multi-speed Southeast Asia to facilitate members' extra-regional engagement went against the cherished 'ASEAN Way' (Acharya 1997, Cockerham 2010) that prioritises regional teamwork and community-building.

The presupposition of the region's less and least advanced economies acceding to the TPP to restore ASEAN Centrality while uplifting the region's collective external competitiveness might be far-fetched. Non-TPP ASEAN members would find it practically impossible to eliminate all border protections within a relatively short transition period as stipulated or to translate the TPP *acquis* including intrusive behind-the-border disciplines into relevant domestic laws. (Even the TPP/CPTPP

²¹² In addition to GDP figures, another important consideration relates to regional value chains. The advent of the TPP would have potentially negative industrial relocation implications for some ASEAN as countries like Mexico and Chile would become more attractive locations than before for hosting at least some stages of cross-national manufacturing. However, consolidating regional supply chains is a major policy motivation for RCEP countries.

²¹³ On 19 April 2015, at the 24th World Economic Forum on East Asia, Cambodian Prime Minister Hun Sen criticised the ASEAN-splitting TPP by saying: 'We should review again...why Trans-Pacific Partnership did not include ten ASEAN members. What is the purpose, real intention of establishing [the] Trans-Pacific Partnership...that they include half of ASEAN to be partners...and leaving half of ASEAN outside' (quoted in Parameswaran 2015).

incumbent Malaysia admits that amending 19 domestic laws covering labour, governance and environment and others in order to ratify the CPTPP is a politically demanding endeavour.) Besides, the TPP's accession clause (Article 30.4) spells out that priority will be given to APEC members and customs territories, but Cambodia, Laos and Myanmar (CLM) are not party to the forum. Their TPP applications would conceivably be put at the back of the queue, after those tabled by such ASEAN countries as Indonesia, the Philippines, and Thailand, which are APEC members that had already expressed interest in joining the TPP (Ong 2017). In other words, the TPP through its accession clause may drive a wedge even between non-TPP ASEAN countries. These peculiarities per se do not preclude CLM countries' prospective participation, but their road to TPP membership will be a lot more tumultuous than previously suggested²¹⁴.

To be fair, slicing up ASEAN was far from an explicit policy objective for Washington and, all else being equal, the US would rather have a united, preferably pro-US ASEAN than a fragmented one sitting on China's doorstep²¹⁵. And historically speaking, the US was viewed in Southeast Asia as the 'least distrusted power' (Goh and Simon 2007) with no ambitions running afoul of those of ASEAN countries. But the fact that the US engaged a subset of ASEAN countries at the beginning of the TPP process and came up with a trade deal which imposed prohibitively high entry barriers for other ASEAN countries to join at the end suggested that the US either completely disregarded the collective interest of ASEAN as a whole or failed to think through all the negativities the TPP entails for the organisation. More generally, it shows that the US is more concerned with forcefully seizing strategic advantages in its geopolitical rivalry with adversarial countries (e.g. China) and less constrained, if at

²¹⁴ The US withdrawal from the TPP does not make it any easier for aspiring countries to join the bloc as the CPTPP enshrines the TPP's rulebook almost in its entirety.

²¹⁵ Private conversation with a retired senior Singaporean diplomat.

all, by the potential collateral damage its policies may impose on other stake-holding actors (in this case, ASEAN).

In contrast, China exercised regional economic leadership through RCEP negotiations in which ASEAN countries participated as a group. Chinese leaders including Premier Li Keqiang and his predecessor Wen Jiabao, Minister of Commerce Gao Hucheng, Foreign Minister Wang Yi²¹⁶ and spokesperson Hua Chunying in various occasions reaffirmed ASEAN's linchpin role in Asian regionalism (Ye 2015a, Wang 2013). Not everyone was convinced by the rhetoric, but the win-win approach China took was largely in line with the historical pattern that China had always prioritised engagement with ASEAN as a unitary actor (and an integration process) in regional economic affairs and had a greater appreciation of ASEAN's sensitivities and insecurities as a lesser power (Zhang and Wang 2017). It was worth recalling that the first external FTA ASEAN countries negotiated as a bloc was the CAFTA proposed by China. While it can be argued that strengthening ASEAN Centrality was an essentially by-product, albeit a crucial one, of China's attempt to safeguard national interests in the face of TPP exclusions, China skilfully distances itself from the comparatively more 'selfish' US²¹⁷ in projecting an image of being a considerate and compassionate power which pushes geo-economic goals with the interests of 'junior' partners in economic partnerships in mind.

One calculated national agenda for China was to reorient its economic relations away from the US – in the same way as the US ventured to rebalance its trade with Asia through the TPP. This was because China's hitherto heavy dependence on the American consumer markets in powering its externally oriented economic growth (Chang 2012, Dunaway 2009) infringes on Beijing's strategic autonomy vis-à-vis

²¹⁶ Wang visited ASEAN three times four months into his foreign ministership, calling ASEAN-China a 'big family' (Ye 2015a).

²¹⁷ Tang and Wang (2014) argue that the TPP is the product of 'selfish [US] hegemony'.

Washington as well. To borrow Secretary Clinton's famous joke that the US cannot 'deal toughly' with its banker (i.e. China)²¹⁸, presumably Chinese leaders would ask themselves an equivalent question: 'How do you deal toughly with your customer?' Knowing that any attempt to decouple the Chinese growth dynamism from the US demand for Chinese products is difficult without causing major employment dislocations, RCEP was an attractive geo-economic proposition for Beijing to scout new markets for Chinese exporters in the neighbourhood region where a financially and demographically promising population is on the horizon.

It is estimated by Kharas (2017) that an overwhelming majority of new 'middle classers' will live in Pacific Asia and, by 2030, the Asian share of the global middle class would reach 65%, or 3.49 billion. At the same time, the share of North America and Europe combined would drop from 35%, or 1.06 billion in 2015 to 21%, or 1.09 billion (Kharas 2017). It was expected by Beijing that RCEP would accelerate the shift of the demand centre for Chinese goods and services from the West to emerging RCEP countries to sustain the export-led development model while supporting some 200 million jobs (Norris 2017) linked to export industries²¹⁹. From a geopolitical perspective, forging closer ties with RCEP countries enables Beijing to leverage its blooming economic power to prevent unfavourable development in its periphery while achieving regional trade dominance in a controlled manner.

²¹⁸ Former US state secretary Hillary Clinton said in private at a lunch with Kevin Rudd, then Australian Prime Minister, that China's economic might had made it difficult for the US to stand up to Beijing when necessary. Documented in a US Department of State cable, Clinton asked Rudd "How do you deal toughly with your banker?" See MacAskill (2010).

²¹⁹ Making inroads into old and relatively untapped markets in RCEP countries like India in the era of what President Xi Jinping calls 'New Normal' becomes ever more important since there is a renewed emphasis placed on the habitual exports-led growth model after the economic transformation towards domestic consumption proves much harder and slower than expected and investment fails to pick up the slack to the extent desirable (Norris 2017).

RCEP as the Response to TPP

As discussed above, a strategic selling point for the TPP was that it formed part of a long-term US strategy to set up an economic template that eventually guides China's change in trade behaviours and economic and political reforms. While China generally looks favourably to measures that advance its further integration with the global economy and its rejection of the TPP was not set in stone, Beijing showed no real interest in signing on to the TPP after it found that fundamentally restructuring its economic model while giving up many policy levers that it enjoyed, both within and outside the remit of WTO law, were among the preconditions for TPP accession²²⁰.

Key to the success of the coercive socialisation is one of calibration regarding the magnitude of trade diversion and the bar for the policies required of China (see Figure 5.4). If the economic cost of exclusion is high and the bar for requisite policy reforms is set low, China would choose to join the TPP. If both the economic cost and political cost stemming from the TPP are low, the agreement would not have much impact on China's strategic and policy choices. If the effect of trade diversion is trivial but the bar for reforms is set too high, China could ignore the TPP outright. One last possibility is that both the economic and political costs are prohibitively high, China would be left with no choice but to take retaliatory measures to pull together a competitive bloc to defend its economic and political interest. Considering the empirical evidence that China chose to back RCEP as a countervailing pact, it can be argued that the conditionality for China's TPP accession was so high and harsh by American policy-makers that it fell short of the core strategic ambitions set for it. Even if China could agree to high standards on labour, environment, intellectual property protection and services, investment liberalisations and even monetary policy rules, expecting

²²⁰ This is not to argue that there were no supporters of the TPP in China. A pro-TPP camp existed within the Chinese policy and academic communities, which interpreted the TPP as a positive spur for domestic reform and opening-up. See, for example, Song and Yuan (2012), Zhang (2015) and Ye (2015a).

Chinese adherence to such rules as competitive neutrality for SOEs and e-commerce seemingly went beyond the bounds of possibility (Chang 2015, Wang 2016b). Prohibiting the provision of ‘non-commercial assistance’ and government procurement preference to SOEs as per the 36-page TPP rules would strike at the very heart of China’s current ‘socialist market economy’ or state capitalist economic model that places public ownership and SOEs ahead of market and private sectors in the national economy – even China’s supposed legally binding WTO accession protocol did little to discipline Beijing’s violation of competition-neutrality rules to offer preferential treatment to SOEs and other designated monopolies (Qin 2004). The requirement of free flow of data and non-forced localisation of server associated with the TPP’s electronic commerce chapter would force the authoritarian Communist party to permit wider internet access and less content censorship, which they see as one primary source of regime instability. It also proves misguided in making a historical analogy to China’s quest of WTO membership, due in part to contextual differences. China submitted its request to ‘resume’ China’s status as a founding contracting party of GATT (Chan 1994) in July 1986, when its per capita GDP (under \$300 in comparison to \$19 thousand for the US) and hence bargaining position vis-à-vis the US was extremely weak. It was also a time when a creditable case could be made that the momentum of Deng’s liberal reform and socialist modernisation drive was still felt. None of those enabling factors that had underlain the success of WTO strategy existed in the geo-economic environment in which the TPP was promoted, unfortunately. In short, the US should not have treated China as if, say, 2016 was 1986²²¹.

²²¹ Even the answer to the question if the WTO membership has, in the words of former US President Bill Clinton, ‘[moved] China faster and further in the right direction’ is far from certain (Bromund, Gardiner, and Coffey 2014). Many observers were of the opinion that the answer is ‘no’. For example, *The Economist* (2011) newspaper argues that ‘the last decade has seen huge social changes [in China], but these have been a legacy mainly of pre-WTO membership reforms, such as the privatisation of housing and the loosening of controls on international migration’.

Figure 5.4 Matrix mapping out China's possible responses to TPP

Indeed, China has never seriously sought TPP membership²²². What's more, China went from passively refusing to play along to proactively hitting back at the US' masked 'conspiring' towards itself by creating a competitive trade bloc. To see how RCEP made it possible for China to step out of the American rule-setting sphere of influence, consider the wisdom of pushing forward RCEP at three levels. First, at a *symbolic* level, being a core member and the driving force of RCEP augmented China's right of discourse in regional and global rule-making. It sent an unambiguous signal to Washington that the US could not unilaterally declare the terms of trade liberalisation and economic integration in the Asia-Pacific without China's consent. Beijing's message was received by the White House, which wasted no time in coming

²²² Beijing also declined the invitation extended to China after the withdrawal of the US to lead the bloc.

to terms with the fact that it was in a race with China to define the rules for the road in this fast-growing region. The advent of RCEP means that the interactive dynamics was transformed from one-way socialisation to a two-way race to define the future trade rules. Washington's desire to stay a step ahead in the Sino-American legal competition was enunciated in Obama's speech in the Beaverton Nike factory located on 8 May 2015. Obama made a case for the TPP, claiming 'We have to make sure America writes the rules of the global economy. ... Because if we don't write the rules for trade around the world – guess what – China will'²²³ (Obama 2015a).

At a substantive level, RCEP – despite its yet unknown final texts at the time of writing – offered China a vehicle to promote an alternative and preferred trade template which maintained the status quo while bearing out many distinguishing features of China's earlier FTAs (Araujo 2017). First of all, as noted by Zhao and Webster (2011),

²²³ In addition, Obama said in 2016 that 'as we speak China is negotiating a trade deal of its own [RCEP] – one that would carve up the growing Asia-Pacific markets at our expense, risking American jobs, businesses, and goods. Unless we act now to set our own high standards, the fast-growing Asia-Pacific will be forced to play by lower-standard rules that we didn't set. We can't let that happen' (Obama 2016b). A year earlier, he said: 'When more than 95 percent of our potential customers live outside our borders, we can't let countries like China write the rules of the global economy. We should write those rules, opening new markets to American products while setting high standards for protecting workers and preserving our environment' (Obama 2015b). In the oft-cited op-ed piece written for *The Washington Post*, Obama argued that 'This past week, China and 15 other nations met in Australia with a goal of getting their deal, the Regional Comprehensive Economic Partnership, done before the end of this year. That trade deal won't prevent unfair competition among government-subsidized, state-owned enterprises. It won't protect a free and open Internet. Nor will it respect intellectual property rights in a way that ensures America's creators, artists, filmmakers and entrepreneurs get their due. And it certainly won't enforce high standards for our workers and our environment... But building walls to isolate ourselves from the global economy would only isolate us from the incredible opportunities it provides. Instead, America should write the rules. America should call the shots. Other countries should play by the rules that America and our partners set, and not the other way around... The world has changed. The rules are changing with it. The United States, not countries like China, should write them'(Obama 2016a). In an email sent to the White House mailing list, then President Obama said: 'My top priority as President is making sure more hardworking Americans have a chance to get ahead. That's why we have to make sure the United States – and not countries like China – is the one writing this century's rules for the world's economy [...] Right now, China wants to write the rules for commerce in Asia. If it succeeds, our competitors would be free to ignore basic environmental and labor standards, giving them an unfair advantage over American workers.'

'the greatest defining feature of Chinese FTAs is their malleability', meaning that China tends to craft bespoke trade deals that attend to national circumstances specific to its FTA partners (Salidjanova 2015). A common operational manifestation of the 'malleability' is that China generally extends special and differential (S&D) treatment to lower-income participants of its FTAs in terms of recognising their specific interests, imposing fewer obligations, granting of longer adjustment and transitional timeframes, providing technical assistance and writing off debts owed to China (Wattanaputtipaisan 2003). Since the negotiation and the implementation of CAFTA, differential and flexible implementation for CLM countries as well as Vietnam has become a norm with respect to trade negotiations in the region. The guiding principle of RCEP negotiations fortified this approach by stipulating that 'RCEP will include appropriate forms of flexibility including provision for special and differential treatment, plus additional flexibility to the least-developed ASEAN Member States, consistent with the existing ASEAN+1 FTAs'. American trade template takes a drastically different approach by adhering to such principles as uniformity ('one-size-fits-all') and equal treatment of members in most cases – S&D treatment for members of different levels of development was ruled out on the first day of the TPP negotiations although trade capacity building did break into the TPP's agenda (Lim, Elms, and Low 2013). Moreover, a second salient feature of Chinese FTAs is that they focus primarily on traditional elements of inter-state trade negotiations and show distastes for deep regulatory issues. While China has a propensity of slowly expanding the coverage of its FTAs, especially those with countries like South Korea, Iceland and Switzerland, to services and investment, labour and environment and intellectual property rights (Wang 2016a), it tries to shun intrusive and 'non-trade' FTA provisions that are legally enforceable. China's preference in this regard was taken cognisance of and accommodated by RCEP's guiding principle which shies away from emphasising rules and disciplines concerning SOEs, labour, environment, transparency and anti-corruption and other regulatory coherence and alignment found

in the TPP text (Lewis 2013b, Du 2015). Last but not least, Chinese FTAs, including CAFTA, China-Australia Free Trade Agreement (ChAFTA), and China-New Zealand FTA (CNZFTA), typically require partner countries to treat China as a full market-economy at the WTO (Lee 2007). RCEP could therefore compel Japan and India which refuse to confer China market-economy status (Meszaros, Oosterhout, and Pervès 2016) to lock in the practice of CAFTA, ChAFTA and CNZFTA in terms of recognising China as a market economy in conducting future economic relations (Hsieh 2017).

Competition took place at the ideological level²²⁴ as well. By making RCEP a model for state-centric regionalism (Rüland and Bechle 2014), China hit out at the TPP as a ‘conditioning institutional framework’ (Grinspun and Kreklewich 1994) that promoted, imposed and solidified a neoliberal, laissez-faire Anglo-Saxon economic model in Asia²²⁵. By eliminating border protections, reducing regulatory hurdles to trade, mandating regional harmonisation of rules and standards and pooling trade policy making authority, the TPP would effectively isolate the integrated market from the direct control of governments in order to realise free trade in a more purist sense and market-driven efficiency maximisation and welfare enhancement. Determined not to see the TPP’s de-regulationist, market fundamentalist doctrine win the argument in becoming a normative basis for regionalism in Asia, China felt compelled to bring a state-centric regionalism which asserts the legitimacy of its state capitalism philosophy (Kurlantzick 2016) as an ideological counterpoint to the table. A state-centric paradigm ensures that regionalism proceeds without incurring sovereign costs for participating countries or constraining governments’ ability to determine the appropriate content of domestic regulation. Despite being an international trade

²²⁴ In his account of ‘The Third World’ rebellion against global liberalism advocated by the North, Krasner (1985) goes so far as to argue that developing countries were mainly waging wars on the rules of the game rather than merely reacting to economic disadvantage.

²²⁵ Alternatively, Terada (2018) characterises that the US model focuses on liberalisation whereas Chinese model focuses on development.

regime, RCEP not only provided shields to governments' lawful policy space²²⁶ by explicitly stressing 'governments' right to regulate' but also made 'economic integration, equitable economic development and strengthening economic cooperation'— not free trade per se – the centrepiece of economic relations among RCEP members (Bello 2015). The state-centric nature of RCEP was played to China's advantage in its competition against Washington.

Analysts of The Heritage Foundation sum up the failure of the coercive socialisation strategy with the observation that: 'In short, the approach of using a rules-based trading order to reform China's business practices has already been tried. This history points out a strategy of reforming [China] by applying external rules that cannot touch its internal behaviour unless the Chinese government wants them to do so is easy to state but hard to apply' (Bromund, Gardiner, and Coffey 2014). In every sense, the case of the TPP illustrates an arguably unsuccessful outcome of a socialisation process in which the US crafted a mega-FTA in an attempt to change China's behaviour while China adopted a countervailing accord to deflect the pressure of socialisation.

TTIP: Repositioning Atlantic Economy in an Asian century

There is a common understanding that European leaders generally do not see developments in the Asia-Pacific region as 'typically vital enough to necessitate urgent policy responses' (Wickett 2018), but the geo-economic and geopolitical competitive pressure unleashed by the TPP and RCEP seemed to be an exception. The two mega-FTAs fuelling Asia-Pacific regionalism not only challenge European commercial interests in this economically vibrant region (see Chapter III) down the road, but also forced Europe to face the fundamental question of how to maintain its

²²⁶ As per the definition provided by UNCTAD's Sao Paulo Consensus, policy space refers to 'the space for national economic policy, i.e., the scope for domestic policies, especially in the area of trade, investment and industrial development, is now often framed by international disciplines, commitments and global market considerations' (UNCTAD 2004).

relevance in the 21st century with the opposite end of the Eurasian landmass becoming the centre of gravity.

In what follows, I will discuss the strategic rationales attached to TTIP by the EU which pulled the US to the negotiation table²²⁷ within the confines of three inter-related contexts, all of which deeply affected Brussels' decision to put TTIP onto the launching pad: namely, the historical context, reviewing the past ups and downs of Europe's economic cooperation with the US; the bilateral context in which TTIP is understood as a second anchor to the long-standing military alliance; and, last but not the least, the global context wherein TTIP was sold as a European response to the TPP, RCEP and, more generally, to the resurgence of Asia (see Figure 5.5).

Figure 5.5 Evolution of world economic centre of gravity from AD1 to 2025
Source: McKinsey Global Institute analysis using data from Angus Maddison

²²⁷ The reason of focus being placed on the EU is that Brussels was seen 'as the demandeur, or at least as exhibiting a greater sense of urgency in quickly and successfully completing the negotiations'. Actually, USTR Froman, who was initially quite sceptical about launching TTIP negotiations, had to be persuaded by 'European interventions at the highest level' for the talks to start. See Barfield (2015).

A Tale of Two Economies

To explain why and how the TTIP was initiated, it is helpful to first reflect on past governmental endeavours towards realising transatlantic free trade. The history of the Atlantic Economy lasts for centuries (Acemoglu, Johnson, and Robinson 2005), but early ideas on fostering unhindered cross-Atlantic commercial relations through formalised and regularised means were only floated after the Cold War²²⁸, as leaders hunted for an alternative ‘high-visibility common project’ (Hayes 2015) to take the place of the security blanket that was being pulled aside by the disintegration of the Soviet Union. In addition to the demise of the mutual security threat that rendered ‘the high-water mark of transatlantic security cooperation [being] past’ (Walt 1998-1999), Atlanticists saw the America’s ‘Pacific tilt’²²⁹ in foreign policy orientation and Europe’s inward-looking turn to focus more on eastern enlargement (Donges, Freytag, and Zimmermann 1997) as providing two extra geopolitical justifications to institutionalising bi-continental free trade to stave off any potential undermining of the special bonds between the US and Europe. As a result, in February 1990, the US and the European Community (EC) agreed to The Transatlantic Declaration (TD), which established biannual EC/US Summit meetings²³⁰ while identifying economic liberalisation as one of the three priority agendas²³¹.

²²⁸ For a catalogue of US-European economic cooperation between the end of WW II and Cold War, see Cowles and Egan (2016).

²²⁹ In this term, ‘Pacific’ referred to both Pacific Asia and Latin America along the east Pacific Rim at the time.

²³⁰ The frequency of the supposedly biannual meetings was reduced to once a year gradually. And since 2010, EU-US summits have no longer been organised automatically every year, but only when there are particular issues to be discussed.

²³¹ Following the adoption of the TD, one of the first post-Cold War institutions dedicated to transatlantic economic cooperation, the Transatlantic Policy Network (TPN), was set up in 1992. Originally supported by European Parliament and the US Congress only, the TPN now becomes a non-governmental network of politicians, business, academics, think tankers and other participants with an interest in promoting transatlantic cooperation.

More a cosmetic political memorandum showcasing transatlantic solidarity (Pollack 2003), the TD did not provide sufficiently detailed working plans for officials to execute it. So, it was soon supplemented by high-level European calls for the negotiation of a Transatlantic Free Trade Agreement (TAFTA). Between 1994 and mid-1995, a streak of high-ranking European officials including then European Trade Commissioner Sir Leon Brittan and German foreign minister Klaus Kinkel rallied support for a potential TAFTA, which in their shared opinion could match the development of then embryonic NAFTA in North America. European advocacy did not bear fruit eventually, however. Hesitations from trade policy bureaucracies, which were fatally pessimistic about the possibilities of overcoming huge and widening differences on such sensitive issues as agriculture, textiles, apparels and cultural exception, were one daunting obstacle that helped shoot down the European proposal.

Unsurprisingly, when the New Transatlantic Agenda (NTA) emerged at the Madrid EU-US Summit in December 1995, it stopped short of the much-discussed TAFTA. The European Commission instead furnished a new concept called New Transatlantic Marketplace (NTM)²³². The NTM aimed at removing technical barriers to trade, eliminating industrial tariffs by 2010 on a conditional MFN basis, and liberalising trade in services, investment and public procurement. Though more practical than the previously pondered TAFTA thanks to the special focus on tackling regulatory barriers to trade, the NTM negotiations were hamstrung by French opposition. Paris, accusing Brittan for discussing the NTM with Washington without receiving a formal mandate from the EU member states²³³ (Peterson 2001, CEO 1998), vetoed the NTM at the

²³² Besides the NTM, the NTA set up four non-governmental 'transatlantic dialogues' on business (Transatlantic Business Dialogue), labour (Transatlantic Labour Dialogue), environment (Transatlantic Environment Dialogue) and consumers (Transatlantic Consumer Dialogue). See Grabowski and Pugacewicz (2017).

²³³ Describing the NTM as a 'personal initiative by Sir Leon Brittan', then French President Jacques Chirac criticised Brittan for 'running off to negotiate a free trade area between the US and Europe, without a mandate' (Peterson 2001). Another hypothesis is that France was

Council of Ministers in April 1998 and subsequently removed the item off the agenda of the London EU-US Summit held in May. Quietly burying the NTM, the EU and the US adopted a far less concrete, four-page-only Transatlantic Economic Partnership (TEP) initiative as a replacement. The TEP committed the two sides to achieving the largely undefined goal of achieving 'substantial' trade and investment liberalisation by 2000 (Peterson 2001) through 'a framework for ongoing consultation, cooperation and negotiations'. While Brittan insisted that the transition from the NTM to the TEP did not amount to any downgrade in technical ambition or political eagerness, the TEP was criticised as no more than a token show of unity²³⁴, wherein active investment of political capital from the top leadership level was all but absent (Peterson 2001, Hayes 2015, Pollack 2003).

Transatlantic economic cooperation set off on a more constructive track at the beginning of the new millennium. In 2002, the EU and the US came to the agreement on the Positive Economic Agenda (PEA)²³⁵. Major activities under the banner of the PEA included the implementation of the Guidelines on Regulatory Cooperation and Transparency for enhancing 'effective regulatory co-operation and for improving access to each other's regulatory procedures'. Two years later at the 2004 Shannon

wary about the prospect of the TAFTA's liberalisation agenda encroaching on France's cultural diversity which Paris was determined to protect (Hindley 1999).

²³⁴ Perhaps the only noteworthy achievement loosely linked to the TEP was the completion of the negotiations in 1998 on a series of mutual recognition agreements (MRAs) for testing and certification requirements covering multiple sectors, including for example, telecommunications, pharmaceuticals and medical devices and electronics. But it should be stressed that the MRAs reached, despite its name, were not the sort of MRAs as we know them today. Instead of directly providing for mutual recognition of product standards, the MRAs only served to identify the certification agencies in the exporting country authorised to carry out conformity assessments of goods according to standards of the destination country. Not surprisingly, as one analyst reckons, 'MRAs did not result in any kind of binding legal agreement between the United States and the EU' (Ahearn 2009).

²³⁵ The PEA was launched under Spain's EU presidency in 2002. One key national agenda for Madrid was to resume exports of Spanish clementine to the US. The US in 2001 banned the import of clementine citrus fruit from Spain because live Mediterranean fruit fly larvae were found in stores in a few American states. The issue was resolved within a year of the existence of the PEA.

Summit, the EU-US Declaration on Strengthening Our Economic Partnership was put in writing. Unlike with previous initiatives, the European Commission invited the public to send in their views on transatlantic economic relations. This then-unorthodox act of soliciting views from the civil society and non-governmental stakeholders reflected Europe's concerns that 'more far-reaching ideas' were needed to jumpstart a new phase of EU-US cooperation. More essentially, it marked the first time that policy-makers in Brussels and Washington openly acknowledged that '[promoting] transatlantic economic integration would have to take account of [...] public attitudes, which also shape our transatlantic economic relationship and can be a source of misunderstanding and sometimes friction'. The Shannon Summit and the ensuing public consultation facilitated the introduction in 2005 of the Initiative to Enhance Transatlantic Economic Integration and Growth²³⁶, which put together strong emphases on minimising 'unnecessary regulatory divergences' to meet '[citizens]' desire to have access to the widest possible range of goods and services'.

Euro-American economic cooperation picked up speed once again in 2007 when the free-trade-oriented Germany (Hanson 1998) took up the EU presidency and hosted the G8 Summit that year. The Framework for Enhancing Transatlantic Economic Integration, spearheaded personally by German Chancellor Angela Merkel and outlined in the April EU-US summit, created the Transatlantic Economic Council (TEC), a body tasked to facilitate policy coordination and exchange of regulatory best practices across the Atlantic. Unfortunately, the TEC attracted relatively little attention (Gregosz and Walter 2013), and had become mired in micro-details (Sally 2010) and single-issue political gridlock (Bertelsmann Stiftung and Atlantic Council 2009). Worse, the TEC quickly devolved into a forum that highlighted transatlantic divergences rather than gave a hand to regulators on two sides to overcome policy

²³⁶ As a result of this initiative, a high-level Regulatory Cooperation Forum was established to promote regulatory cooperation, especially on devising common methodologies for generating good regulatory practices.

Table 5.2 Past efforts to strengthen and integrate transatlantic economies

Agreement/Summit	Year	Impact on transatlantic economic cooperation
Transatlantic Declaration (TD) on EC-US Relations	1990	- Signals a broad commitment to economic cooperation and multilateral trade liberalisation.
New Transatlantic Agenda(NTA)/Joint Action Plan (JAP)	1995	- Includes a chapter on 'Contributing To The Expansion Of World Trade And Closer Economic Relations' given Euro-American 'special responsibility to strengthen the multilateral trading system'; - JAP pledges to create a 'New Transatlantic Marketplace [NTM] by progressively reducing or eliminating barriers that hinder the flow of goods, services and capital'.
Transatlantic Economic Partnership (TEP)	1998	- Aims to hold regular consultations on bilateral and multilateral issues including technical barriers to trade, services, procurement, intellectual property, environment, labour, consumer and competition etc.; - Establishes Early Warning and Problem Prevention Principles and Mechanisms to 'ensure the identification and prevention of potential trade disputes at an early stage before they escalate'.
Positive Economic Agenda (PEA)	2002	- Adopts the Guidelines for Regulatory Cooperation and Transparency - Encourages regulators on both sides of the Atlantic to voluntarily improve regulatory cooperation and to promote transparency to the public in establishing and amending regulations.
Strategy for Strengthening EU-US Economic Partnership	2004	- Engages the public on the deliberations of transatlantic trade issues; - Commits leaders to continue to assess the feasibility of a potential transatlantic free trade agreement.
EU–US Initiative to Enhance Transatlantic Economic Integration and Growth	2005	- Outlines nine main goals including promoting regulatory cooperation; stimulating competitive capital markets; spurring innovation; enhancing trade; promoting energy efficiency; protection of intellectual property rights; investment; competition policy and procurement.
EU-US High-Level Regulatory Cooperation Forum	2005	- Establishes a platform for senior-level regulators to agree on areas for cooperation and promote cooperation on cross-cutting regulatory topics – such as new technologies or policy developments that may impact multiple authorities on each side.
Framework for Advancing Transatlantic Economic Integration	2007	- Aims to reduce regulatory burdens; - Identifies 'Lighthouse Priority Projects' including 'Secure Trade'; - Established the Transatlantic Economic Council (TEC) to facilitate economic policy coordination.
EU-US Summit	2011	- Directs the TEC to establish a joint High Level Working Group on Jobs and Growth (HLWG), co-chaired by the USTR and the European Commissioner for Trade, to identify and assess options for strengthening the transatlantic economic relationship, especially those that have the highest potential to support jobs and growth.
EU-US Summit	2013	- Launches the concept of TTIP.

Source: Author's compilations, Workman and Smith (2013), Pollack (2003), Frydman and Weiss (2011) and Kerremans and Switky (2000)

differences. Nevertheless, at the helm of the TEC, a High-Level Working Group on Jobs and Growth (HLWG) formed in 2011 to 'to identify policies and measures to increase US-EU trade and investment to support mutually beneficial job creation, economic growth, and international competitiveness'. The expert group pushed comprehensive trade liberalisation to top of the transatlantic agenda, for the first time since the TAFTA motion fell through, as both its interim and final reports (HLWG 2012, 2013) spoke favourably of 'a comprehensive, ambitious agreement that addresses a broad range of bilateral trade and investment issues' being launched 'as soon as possible'. Leaders soon, following the HLWG's recommendations, gave their consent to TTIP, whose first-round negotiations took place on 7–12 July 2013 in Washington, DC. The dense 'alphabet soup of frameworks' (Aggarwal and Fogarty 2005) summarised in Table 5.2 paved the way for the initiation of TTIP, which nevertheless stood out for two reasons. First, if completed, TTIP would be an all-encompassing single-undertaking FTA, which locks in discrete, piecemeal achievements under previous efforts driven by a range of disparate agencies into one unified agreement. Second, one can immediately spot a degree of congruity between TTIP and TAFTA. Indeed, it can be said that the TTIP negotiations bring us back, to borrow the words of Dent (2007a), 'full circle' to TAFTA's antecedent vision of strengthening transatlantic ties through trade liberalisation. Although the original proposal of TAFTA failed to gain traction, it set in train an evolutionary process of continuing collaboration between rule-setters that eventually culminated in the onset of TTIP negotiations. In this process, a mix of internal, bilateral and international factors as will be elaborated in turn enabled the seeds planted roughly two decades ago to take root in 2013.

Legitimacy Deficit of the EU

Ever since the establishment of the European Coal and Steel Community (ECSC) in 1952, the project of European integration leading to what is known today as the EU has always been seen as an elite-driven, technocratic process associated with chronic 'democratic deficit' (Scicluna 2015). The undersupply of democracy by the EU became more acute after the 'permissive consensus' paradigm under which European citizens voluntarily gave their informed consent to EU institutions and civil servants without being consulted directly (Hix 2005) collapsed in the early 1990s, as witnessed in the problematic ratifications of the Maastricht Treaty of 1992 in Denmark and France. That being the case, for a considerable period of time, the EU managed to keep Eurosceptic sentiment under control primarily because it successfully anchored popular support for its existence and governance mechanisms in 'output legitimacy' (Scharpf 1999, Lindgren and Persson 2010) it enjoyed, i.e. the EU's track record of achieving collectively wanted results, whether it was rapid economic growth or sustained stability in both the enlarging EU itself and the regions bordering the bloc. Indeed, the EU became the world's largest economic entity in 2007 and was awarded the 2012 Nobel Peace Prize for its unwavering advancement of peace and reconciliation.

One perspicuous downside of the EU's disproportionately heavy reliance on this results-oriented justification, however, is that whenever the EU fails to effectively and satisfactorily deliver on the promise of weaving a better future for its ordinary citizens, the political foundation of the EU necessarily falters in the absence of a supporting democratic pillar as a fall-back solution. It is therefore only to be expected that after the European Single Market integration slowed in the late 1990s, the 2000 Lisbon Strategy (Rodrigues 2009) aimed at making the EU 'the most competitive and dynamic knowledge-based economy in the world' lapsed, mismanagement of the single currency opened the door for massive internal imbalances and euro crisis (Ji

2015, Sally 2012), imposition of unpopular austerity measures stoking up backlashes against the 'Troika' (Featherstone 2015), and the Europe 2020 strategy adopted in 2010 displayed no convincing signs of lifting the Union out of the economic and financial malaise, there was engulfing disaffections with the bloc and the workings of Brussels establishments. As Eurobarometer records, the percentage of Europeans who trusted the EU fell from majority to minority and an increasingly number of disillusioned respondents felt that the EU could not conjure up a positive image for them (Nancy 2016). In addition, the political undercurrent of Euroscepticism, marked by concerns about whether the EU's modus operandi of pooling sovereignty may deliver 'better' results than would be possible via national policies implemented by democratically accountable governments of nation state, was increasingly gaining ground in the political landscape of Europe.

As the vibrancy of the EU model came under increasing strain, the EU was desperate to turn the its plummeting socio-economic and political acceptability around. But in practice, the toolbox available to the Brussels for it to grapple with the legitimacy crisis was fairly limited. This is mainly because there is a binding division of labour between the EU and its member states given the institutional design of the EU as a supra-national institution and not a super-state. The EU may only act within the boundaries of the 'competences' conferred upon it by its member states. The European Commission, the EU's executive branch, has maximum scope for action (including the ability to legislate) with minimal national influences in areas that fall within the remit of the so-called 'exclusive competences'. Trade policy is one such exclusive competence²³⁷ as established by Articles 3, 207 and 218 of the Treaty on the Functioning of the European Union, and represents a field wherein the EU 'appears to

²³⁷ Since TTIP is a comprehensive trade agreement, it would be categorised as a 'mixed competence' agreement which requires the ratification of not only EU institutions (e.g. European Parliament) but also more than 30 national and regional parliaments of 28 member states.

be most powerful as a policy actor' (Dür and Zimmermann 2007). Therefore, the EU made negotiating free trade agreements a priority for winning back Europeans' hearts and minds, though the EU's complex and opaque trade policy-making process based on 'delegation, executive authority and technicality' often arouse suspicions of illegitimacy of its own (Meunier 2003). It is no coincidence that the TTIP was announced at a time when the public trust in the EU hit all-time low in 2013 with close to 60% of respondents saying they did not have faith in the EU (Nancy 2016).

Entering TTIP served the political interests of the EU in several specific ways, and substance, procedure and symbolism all mattered for Brussels. First, though TTIP was not viewed as a panacea to the economic malaise of the EU, it could bring about positive economic changes to the lacklustre European economy by leveraging extra-territorial economic vitality to compensate for low growth of the internal market (Hübner 2014). Second, negotiating TTIP signalled that the EU was taking active steps to improve the economic prospect of 'the people of Europe the consumers of Europe, [and] the entrepreneurs of Europe' (Malmström 2015) by generating economic opportunities at home and aggressively prying open the large and affluent US consumer market abroad. Besides economics, a third added benefit was that FTAs enabled Brussels to strengthen external sovereignty as trade negotiations like those pertaining to TTIP pit the EU on the one side against one or more foreign economies on the other. One relevant factor to consider here is that TTIP represented an opportunity for 28 EU member states to push themselves towards common positions on a wide range of complex and emerging trade and investment issues. In other words, negotiations and preparations for TTIP made valuable contributions to internal consensus-processes within the EU through which 28 EU members aggregated their distinct trade policy preferences into a unified EU-level position and a set of trade preferences (which could be leveraged in the EU's trade negotiations with other parties). On the symbolism, the EU saw the legitimacy it derived from

entering into TTIP negotiation with the US as the main prize (Bromund, Gardiner, and Coffey 2014), something the Commissions needed to fire up its base but unattainable in other agreements with relatively smaller economies. In a real sense, irrespective of the eventual negotiation outcome, the mere fact that the EU and the US were conducting give-and-take trade bargains in the same room was a reason for cheer for Brussels as it flagged up a message that Europe, consisting of many relatively small countries, would only be taken seriously on equal terms by Washington if it acted as a collective economic and political power through the EU.

Reversing Transatlantic Discord

The domestic dynamics of declining EU legitimacy and popularity²³⁸ coincided with a period of transatlantic policy drifting apart on a range of pressing issues. This broader trend of Euro-Atlantic political relationship forms an important background against which the strategic calculus behind TTIP must be viewed.

One early transatlantic fissure in political and security spheres was opened by the US' antipathy towards the prospect of an economically empowered Europe growing into an independent global security actor (Grosser 1980). While what Mark Eyskens had famously said in 1991 of the Europe being 'an economic giant, a political dwarf and a military worm' is still as relevant today as decades ago, this characterisation masks the long-term institutional efforts the EU has made in developing operational hard power for meeting foreign and security challenges in real time (Yeo 2013, Smith 2014). Through the Single European Act (SEA) of 1986, the European Community formally acquired a purview over defence businesses. The SEA was followed by the 1992 Maastricht Treaty, which provided a legal basis for implementing a Common

²³⁸ A corresponding domestic development in the US was a growing trend towards isolationism.

Foreign and Security Policy (CFSP)²³⁹ which advances collective security interests²⁴⁰. In 1999, the EU put forward a European Security and Defence Policy (ESDP)²⁴¹ to restructure the military assets of the member states in such a way that they could be mobilised at the EU level when necessary²⁴² (Toje 2008).

This momentum of European cooperation on matters of foreign and security policy unsettled the US, which while broadly favouring a greater role for the EU in security affairs had a deep aversion to the EU's moves and motives which could call continued American military supremacy into question. European security cooperation was viewed with suspicion in Washington as attempts to give rise to a bipolar West in the military realm or a US-versus-EU leadership contest within NATO. An example was that, in 2001, the Bush administration warned, if the EU proceeded to create the proposed Rapid Reaction Force separated from NATO, the US would reconsider its obligations at the military alliance (Gegout 2010). However, the tensions surrounding CFSP/ESDP lasted only briefly as hints of the EU's new-found security 'unity' being largely illusory become apparent in the post-9/11 conflicts in Afghanistan and the subsequent war in Iraq. First-hand experience of witnessing the consensus-based, loosely-framed CFSP/ESDP being torn apart by intra-EU disputes and the extended split between the UK and France within the United Nations Security Council about Iraq (Menon 2004, Chari and Cavatorta 2003) reassured Washington that a unified EU capable of behaving as a credible security competitor, or an alternative security provider, was not forthcoming in the near future.

²³⁹ An important trigger in this regard was the American unwillingness to consider the use of ground forces in Kosovo and the broader European dissatisfaction with the US' role in the breakup of Yugoslavia in the early 1990s.

²⁴⁰ Despite the introduction of CFSP, the EU still could not formulate a coherent response to the first Balkan war (1992-1995) in Bosnia.

²⁴¹ The ESDP was later renamed Common Security and Defence Policy (CSDP) in the Lisbon Treaty.

²⁴² One headline goal was for the EU to deploy a 60,000 strong corps in six weeks (Yeo 2013).

At the face value, the EU's debacle over the Middle East was the direct result of the difficulties for member states to coalesce around a shared EU military position and the lack of an independent military capability to support such position if any, the problem was deeper, however. It more profoundly brought the crucial differences in how the EU and US perceived the world to the fore. An important reason that the EU could not make any type of real security impact in Afghanistan or Iraq was that the majority of European political elites could not make the connections between the US' campaign of 'global war on terrorism' and ordinary European electorates' daily lives necessary for them to go to pains to convince the mass citizenry that it was in the EU's best interest to shoulder part of the burden in policing volatile security hotspots of the world. Rather, European leaders regarded challenges rooted in their 'near abroad' (e.g. North and sub-Saharan Africa) as high on their agenda. By contrast, the US had more extensive foreign and security engagements across the globe.

Naturally, the globally-oriented United States and the regionally-focused EU (Bunde 2014) did not share the same analysis of the world or the same geopolitical priorities. Their contrasting bilateral relations with China and Russia were particularly illustrative (Niblett 2010, Howorth 2016). The US' support for IMF quota reform to reapportion voting rights from European members to China and Obama's conciliatory overture to Russia despite push backs from Central and Eastern European (CEE) countries convinced EU leaders that Washington might well turn a blind eye to European interests in its own dealings with other world powers. Conversely, Europe's disinterest in following the lead of the US to contain China and Brussels' starkly more hard-nosed approach towards Moscow to protect the interest of CEE and Baltic states frustrated Washington.

On top of the mismatching geostrategic interests, there was a growing alienation between Brussels and Washington with regards to the fundamental way in which international affairs ought to be handled and shaped. The unique journey of European

integration through institution building and sovereignty pooling made the EU a committed multilateralist which sees multilateralism and the legitimacy of international norm as the dominant foreign policy guideline (Mações 2018). On the contrary, the unchallenged hegemonic international power position of the US after the WW II and heightened homeland security threats manifested in the 9/11 attacks had predisposed Washington to devise unilateralist solutions to global as well as regional problems²⁴³. While it is true that the US at times veers between assertiveness and self-restraint and the EU frequently provides only selective support to multilateralism, the basic distinction between a unilateralist America and a multilateralist Europe is a foundational element animating transatlantic rifts. A series of American actions under the presidency of George W. Bush including the US repudiation of the 1972 Anti-Ballistic Missile Treaty, rejection of the Kyoto Treaty, eschewing several international human right treaties, and refusal to accept the jurisdiction of the International Criminal Court (Peterson and Pollack 2003, Cowles and Egan 2016) buffeted the transatlantic relations and laid bare how distant the two partners' views and assessments on world affairs had become. The European resentment was additionally tied to the perception that the American-style unilateralism risked derailing Brussels' long-term vision of promoting EU-style multilateralism (Niblett 2010) and Europeanising international relations.

By the end of the Bush presidency, the transatlantic relationship found itself at a low ebb and badly in need of repair. The election of President Barack Obama – who opposed the Iraqi war and appeared pitching anti-Bush lines in every policy aspect in the presidential campaign – therefore was greeted with optimism and fanfare in European capitals (Hamilton 2014b), prompting a thorough re-evaluation of the health of the transatlantic alliance. The impetus to put a stop to the 'erosion from within'

²⁴³ Describing the contrast between the EU and the US in this regard from a different perspective is provided by Hamilton (2014b) who argues that 'the US looks for efficiency and concrete outcomes, European institutions seek legitimacy'.

(Risse 2016) in resurrecting the goodwill of the past was evident on both shores of the Atlantic²⁴⁴. Perhaps the most picturesque description of the readiness to heal transatlantic rifts could be found on 24 July 2008 when tens of thousands of young and cheerful Germans gathered in the centre of Berlin to listen to then President-elect Obama (2008) who asserted that time had come for America and Europe 'to join together, through constant cooperation, strong institutions, shared sacrifice, and a global commitment to progress, to meet the challenges of the 21st century'. In the end, the EU realised that despite the vicissitudes of transatlantic relations it literally could not afford to turn its back on the country that most shares Europe's core values, interests, economic interactions and human bonds (Malmström 2015, Hamilton 2014b); letting transatlantic discords perpetuate and spin out control would only make it harder for the lonelier and weakened EU to navigate the choppy waters of a multi-polar world. Since further stretching the concept of common security may be 'a recipe for weakening rather than strengthening the transatlantic relationship' (Niblett 2010), a renewed sense of common purpose centred on more functional, interest-driven and issue-specific modes of cooperation was necessary to soothe the mutual tensions and for the transatlantic partnership to start a new lease of life.

Never before had crafting an institutionalised²⁴⁵ transatlantic market been tasked to help overcome policy disputes and keep Europe and the US on a cooperative track. European leaders fell in with the logic that TTIP which advances shared economic interests over trade, finance, energy and regulatory spill-overs would ultimately act as a self-correcting mechanism to prevent disunity in geopolitical and strategic dimension from inflicting lasting damage on the transatlantic ties. And couching the

²⁴⁴ Arguably, the 'healing' process to curb transatlantic disputes started in the second term of the Bush administration in light of President Bush's high-profile trip to Brussels in 2005 and close cooperation with Europe on resolving Iran nuclear crisis.

²⁴⁵ That said, to some, the degree of institutionalisation of the economic relations is irrelevant. By this view, as Risse (2016) argues, it is not the agreement per se that is the glue; rather it is the regular exchanges among transatlantic economic operators, regulators and lawyers associated with forming various frameworks that help improve political relations.

trade initiative in the language of fostering transatlantic integration carried symbolic value of connoting American validation of the EU's integrationist and multilateralist worldview.

Labelling TTIP as the 'Economic NATO', former US Secretary of State Hillary Clinton envisioned a reworked, more holistic transatlantic partnership to be built up on the one hand by NATO for coordinating transatlantic political-military resources to address threats to their security and on the other hand on TTIP for the US and the EU to team up in international economic affairs. Some commentators were of the opinion that the sharp term of 'Economic NATO' could easily be misunderstood in the American political discourse (Hamilton and Blockmans 2015) while causing anxiety among EU members who are not part of NATO (e.g. Ireland, Finland, Sweden and Cyprus). The catchphrase's proponents nevertheless had a point. Just as NATO operated with an eye on the military threat from the Soviet Union, TTIP was seen as a source of leverage vis-a-vis Asia, whose resurgence had resulted in a realist notion of systemic pressures that encourage Europe to cooperate more with the US (Kupchan 2012).

Response to TPP, RCEP and the Rise of Asia

Much of the steam towards a 'transatlantic renaissance' was generated by the relative decline of the West in the global (economic) order as emerging economic powerhouses (Korteweg 2016a). Eurostat (2015) Dataset shows that the European and American share of the world economy fell steadily from 60.4% in 2003 to 45.9% in 2013, the year TTIP was launched. This downward trend is likely to persist. The US Department of Agriculture (2017) predicts that the EU(28) and the US would each account for 10% of the world GDP whereas Asian and Oceania economies together would make up just under 40% in 2030. Fast forward another twenty years, the PricewaterhouseCoopers, a management consultancy firm, estimates that the GDP of

China by itself would be larger than the combined economic output of the US, Germany, the United Kingdom and France in 2050 (Hawksworth and Chan 2015). This new geo-economic reality puts enormous pressure on the global roles of US and Europe in the evolving international order, especially on the latter as the former is monitoring what happens in Asia closely and moving accordingly to cope with the eastwards shift of global centre of gravity through the TPP and the Asian pivot. While embarking on a European version of rebalancing (Casarini 2013, Barichella 2017) was certainly on the cards for the EU, the bandwagon strategy had inherent flaws that made it less attractive for Brussels. These included, in contrast to the multi-pronged American pivot that involved a blend of mutual-reinforcing hard and soft power, a lack of military underpinning, and the limited spare political capital Asia could devote to engaging with Europe given their near all-out commitment to TPP and RCEP negotiations. In these circumstances, the EU saw reinvigorating transatlantic axis through negotiating an ambitious TTIP with the US as the most forceful response to a wide range of challenges it faced in this changing geopolitical and geo-economic dynamics.

First of all, forging a mega-regional free trade area of its own was meant to mitigate the trade diversionary effects of the TPP and RCEP by strengthening the attractiveness of the transatlantic market to international companies and capital. This is why Hübner (2014) argues that TTIP was 'an attempt to reground the *Atlantic Economy* in order to make it fit for the coming *Pacific Order*' (emphasis in original). The stylised rule of thumb in understanding the basic economics of FTA is that any regional trade agreement will generate trade among its contracting parties while diverting trade flows away from non-members outside the trade bloc. The short-term shifts in trade pattern would also have negative investment and productivity implications for excluded countries in the long run. As such, the TPP and RCEP would spur the migration of economic activities from Europe to the faster-growing and

faster-integrating Asia-Pacific. More to the point, looking at the TPP that integrated 'Factory North America' with some segments of the 'Factory Asia' and RCEP which consolidated the position of the latter as a whole in global value chains, the EU founded itself in a position of weakness in the absence of a comparable trade treaty that stood up for the interest of 'Factory Europe'²⁴⁶. As a matter of fact, the EU has since 2006 published several successive trade policy documents (e.g. Global Europe in 2006 and Trade, Growth and World Affairs in 2010) identifying such economies as ASEAN, Mercosur, Gulf Cooperation Council, South Korea and BRICs (i.e. Brazil, Russia, India and China) as potential FTA partners (Laursen 2014), but it was the US – a country hardly mentioned in the Commission's policy papers – that turned out to be the partner of choice for the EU at the end of the day. If anything, this was largely because the mega-regional nature of the TPP and RCEP proved to Brussels that it had to initiate a trade pact that was equally, if not more, wide and deep – nothing short of that outcome was vital if the EU were to fight its corner as a latecomer who was playing catch-up in the mega-FTA game.

Second, there was also a reassurance element to the agreement (Hamilton and Blockmans 2015), reflecting the EU's eagerness of putting itself back to the centre of the foreign policy and trade diplomacy agendas in Washington. TTIP was essential to silence an increasingly fashionable rhetoric that Europe was sliding towards a 'secondary theatre' far removed from the centre of major power interactions. As detailed above, the growing importance of Asia had translated into the US upping its economic, diplomatic, military and institutional game in the Asia-Pacific at the expense of its preferential relations with many other regions of the world. In the shadow of the pivot to Asia strategy, a 'European abandonment' narrative suggesting that Europe was fading rapidly from the radar screen of the US – which was preparing

²⁴⁶ The terms of 'Factory North America', 'Factory Asia' and 'Factory Europe' are coined by Baldwin and Forslid (2014).

for an emerging 'G2' order (Brzezinski 2009) involving China – caused enduring alarms in Brussels and unnerved many who had become accustomed to having Washington turn first to Europe on major issues of global consequence (Hamilton 2014b). Having been the poster child of America-enabled economic recovery, the arena where great power politics played out, the home to most of America's historic allies, and the continent received most frequent top-level attention post-WW II, Europe was sent to uncharted waters by America's major policy transition. The perceived diminishing strategic significance of Europe to the US only became more pronounced when the US downsized military presence in the region called America's time-honoured devotion to the security of and in Europe into question.

While the Obama administration worked hard to mollify European allies that the pivot doctrine should be interpreted as 'Pivot to Asia with Europe' and decidedly not as 'Pivot to Asia from Europe' (Campbell 2016), from the perspective of European capitals, nothing signified America's firm and long-term commitment to Europe better than for the US to tie its economic future to Europe by entering into a transformative and value-generating transatlantic trade pact like TTIP that encompasses 800 million people. Stepping up American commercial diplomacy with Europe would also be indicative of Washington's continued designation of the EU as, in the words of Hillary Clinton, 'partner of first resort' in world affairs despite the trend that the fulcrum of world powers is moving away from Europe (Brattberg 2015, Cowles and Egan 2016).

The geo-economic promise of negotiating TTIP as an EU strategy extended beyond confronting deleterious trade diversion and demonstrating that Europe still matters to persevering and strengthening the international economic leadership which Europe (and the US) has long enjoyed through its leading role in the current institutional arrangements and power configurations of international economic governance (Irwin 2016). After all, it is estimated that the EU and the US account for about four-fifths of

the rules and regulations that govern the functioning of global commerce (Sapir 2007).

From the 1970s, the operation of GATT and the formulation of global trade agenda were dominated by Europe and the US, with deals between the 'Big Two' calling global shots (Dee 2015, Meunier and Nicolaïdis 2006). The duopolistic management of global trade carried on in the early years of the WTO. Since the turn of the century there had even been a proliferation of beliefs of the EU being *the* 'leading actor' and 'multilateral champion' in promoting free trade (Elgström 2007). The EU became the first WTO member to advocate a wider and deeper 'Millennium Round' in 1996 (Dee 2015), articulated a far-reaching 'managed globalisation' doctrine in 1999 which postulated that international trade be regulated by a rules-based participatory system (Jacoby and Meunier 2010), exercised a self-imposed moratorium on FTA negotiations in support of nascent WTO programmes (Woolcock 2007), played a leading role in the launch of the Doha Round in 2001, and provided its trade commissioner Pascal Lamy to head the WTO Secretariat between 2005 and 2013.

Despite its long-term trade leadership role²⁴⁷, the EU's (and US') primacy was increasingly challenged by competing power brokers in the WTO (Steger 2007, Heydon and Woolcock 2012). The duopoly were firstly joined by Canada and Japan to form a 'Quad' leadership in the 1986-1994 Uruguay Round, and the Quad itself was later progressively replaced by various more representative G_n group (e.g. G5, a G10 or a G7+7) and depending on the issues at hand (VanGrasstek 2013). While the EU and the US remain fully represented in all these ad hoc decision-making groupings and more controversial ones like 'Really Good Friends' keen on deep services liberalisations, the days of transatlantic hegemony of providing public goods in the field of trade were gone for good (Laïdi 2008). The new power dynamics within

²⁴⁷ In addition to trade, the EU also played a leading role in other Bretton Woods institutions.

the WTO, which arguably democratised the institution, served to cripple the negotiation function of the WTO. Accordingly, trade rule-making and standard-setting authority was systemically transferred to more nimble and deep-integration regional trade deals. The TPP and RCEP showed that Asia-Pacific countries were taking the lead in negotiating and experimenting with rules and obligations that fit 21st century trade. This unenviable state of affairs of the EU being outside looking in on setting the new rules and disciplines of international trade governance threw Brussels aback.

It is in this context that the EU dug out the TAFTA and pursued TTIP – it was a European conscious plan to reassert its global economic leadership role in making up ground lost to the Asia-Pacific. In his speech at Wrocław Global Forum in 2014, former EU trade commissioner Karel De Gucht, the brainchild of TTIP, proclaimed that the EU and the US ‘need to maximise [their] influence by sticking together’ in an age of shrinking combined economic leverage of the West. Similar statements had also been made on the American side. For example, in the words of former US Assistant Secretary of State for European and Eurasian Affairs Victoria Nuland, TTIP represented ‘a political and strategic bet we are placing on each other and our shared future’. Put differently, TTIP is understood by both the EU and the US as a ‘transatlantic pivot to each other’ (Brattberg 2015), which could catalyse a more broad-based resurgence of Atlanticism to strengthen their hands in shaping international trade governance.

For European leaders, the bold decision they undertook to start TTIP was grounded not in a nostalgic impulse of recreating the glorious past with the EU sitting at the apex of power pyramid concerning trade governance, as some observers have unapprovingly argued (Bromund, Gardiner, and Coffey 2014), but in a pragmatic realisation that there was a fleeting opportunity and a closing window on their ability, individually and collectively, to shape the development of regulations and standards affecting international trade because of the rise of new powers and the broader

adverse economic trends outlined above²⁴⁸ unless they harness TTIP and the preeminent economic forces of the transatlantic economy to purpose (Korteweg 2016a). Relatedly, it was hoped that by better aligning the way in which the EU and the US regulate their respective markets and developing joint approaches to emerging issues on a rolling basis (by being a 'living agreement'), TTIP would once again set global trade and investment rules based on the core and long-standing trade preferences and practices of the West.

The soft-power and normative strength of TTIP seemed to be unrealistic, nonetheless. TTIP, however skilfully crafted, is unlikely to automatically generate the global spill-over effects on other countries, considering the competitive regulatory clouts of the TPP and RCEP which are collectively backed by more than 20 Asia-Pacific economies²⁴⁹. There is no denial that exporters wanting to sell goods in the EU and the US have a strong incentive to comply with prospective TTIP rules being applied in the transatlantic marketplace (Bradford 2012), but they must also meet TPP and RCEP standards at the same time should they wish to sell into the Asia-Pacific markets. Paradoxically, it is the TPP and RCEP that raise the stakes for the EU. Without TTIP, the prospect looms large that the EU could become a rule/standard-maker rather than a rule/standard-taker²⁵⁰ (Hamilton and Pelkmans 2015, Hamilton 2014b), playing by TPP and RCEP rules which were (or are being) developed to the disenfranchisement of Europe. Conversely, a successfully and properly constructed TTIP, at its minimum, would enable the EU to retain a seat in the trade governance high table, have a say in the rules while playing the game and uphold its own

²⁴⁸ Sigmar Gabriel, wearing the hat of German Minister for Economic Affairs and Energy, said in 2015 that 'failure to agree a free trade deal with the United States could lead to a loss of influence for Europe' (Fox 2015).

²⁴⁹ That said, the prospect of setting global rules by leveraging the size and scope of the transatlantic economy was a key driver behind the EU's pursuit of TTIP.

²⁵⁰ For a brief discussion on the mechanism and theories of trade rule-maker and rule-taker, see SNIS (2017).

economic models. On the whole, the most appropriate characterisation of TTIP should be a defensive pact that would prevent the EU from being outpaced and outmanoeuvred by Pacific economies in setting the rules for international trade or becoming a marginalised player in the steadily Balkanising global trade governance. The reactive and defensive nature of TTIP underscores the argument put forth by Cowles and Egan (2016) that 'transatlantic relationship has moved from shaping global governance to redefining its role in a more complex world'.

Concluding Remarks

This chapter illustrates the historic, geo-economic and geopolitical origins and rationales behind the three mega-FTAs from the perspective of the US, China and the EU. It argues that mega-scale trade deals lend themselves to pursuing broader objectives in addition to narrower trade liberalisation agenda at a time when international trade negotiations have become a consequential vehicle in the geopolitical and geo-economic competition between Washington, Beijing and Brussels.

The US' decision to join the TPSEP and later the TPP was first of all congruent with its long-standing strategic appetite for being included in Asian regionalism. Preceding strategies of cultivating a US-centric bilateral FTA network and promoting an all-inclusive FTAAP under APEC were not effective in part because of the economic rise of China made China loom larger than the US in the geo-economic calculations of Asian countries. The US then adjusted its strategy by proposing a third approach in between the bilateralism and FTAAP; that was to build a coalition of the willing through the TPP to get a grip on how Asia-Pacific works.

Following the introduction of the 'rebalance to Asia' strategy, a flagship geopolitical initiative by the Obama administration that sought to reposition the US closer to Asia, the TPP was broadly recognised as the economic correlate of the 'pivot'. The TPP

would work to rebalance America's economic engagement within Asia, which insofar was dominated by trade with China, to provide some relief to the mutual hostage situation that reduced American freedom of action vis-à-vis China while empowering regional allies like Japan and Australia. The TPP was welcome in many participating and aspiring Asian countries because there was a wide-spread desire to reduce over-dependence on China. Therefore, even with the US out of the picture after the election of Trump, 11 remaining countries proceeded to sign an agreement without the US in an attempt to diversify their trade relation portfolios.

In addition, the TPP represented the latest phase of the US' liberal global trade leadership that began with establishing rules-based Bretton Woods institutions, and was continued by to the competitive liberalisation strategy that encouraged countries to embrace liberal economic policies. But the TPP differed from previous episodes of US leadership as Washington began to prioritise setting the 'rules of the road' for international trade as the central agenda to cement its leadership role. As such, the US and 11 partners negotiated a gold-standard agreement with WTO-extra and WTO-plus rules, rising to the needs of international commerce rooted in trade fragmentation and digital trade while protecting labour and environment to unprecedented levels. Nevertheless, the US through the TPP also advanced one core national strategic agenda. That was to coercively socialise China. The TPP agreement set out the terms of integration and what changes China would have to make if it wants to become a TPP member. If China does not adjust to TPP rules, its growth prospect would be curbed and if it does, China would have to abandon many trade practices the US disapproves. Either way, the US would stand to win.

The geopolitical origins of RCEP could be explained by China's encounter with Japan at the regional level and with the US and the TPP at the global level. China had historically preferred to limit the core membership of Asian regionalism to ASEAN+3. Japan wanted a larger membership, involving ASEAN+3 and Australia, New Zealand,

and India to help provide a counterweight to China. China proposed an ASEAN+3-based EAFTA, and the EAFTA looked set to become reality after experts group completed both generic and sector-specific feasibility studies. However, Japan's counter-proposal of a broader CEPEA pushed the region into a deadlock and a crossroads. The negotiations of the US-led TPP spurred China's U-turn on its opposition to CEPEA. The convergence between the EAFTA and CEPEA proposals led to the conceptualisation of RCEP.

Given a choice, China would have ranked EAFTA ahead of RCEP, but policy-makers in Beijing understood that RCEP would still confer major benefits to China. The most tangible geopolitical prize was that the US is excluded in the RCEP grouping and the US' influence over the course of Asian regionalism would be diminished as result of deprived direct participation. Other benefits in terms of geo-economics included enabling China to gradually wean off its over-reliance on American markets in hedging against the risk of potential showdown with Washington. This was because RCEP would accelerate China's economic rebalancing towards Asian countries included in RCEP where demographic and economic trends are comparative more promising than the declining West. But more importantly, through including ASEAN as a whole in RCEP negotiations, China projected an alternative leadership style that recognises, respects and reinforces ASEAN Centrality. The US-led TPP which divided ASEAN, in contrast, cast doubt on Asian countries as to whether America will uphold joint interests in its strategy and actions when pursuing self-interest.

To the extent that the TPP was sold by the Washington hierarchy as a China policy, RCEP should be understood correspondingly as a symbolic and practical assertion of Chinese disobedience. China through spearheading the regional efforts to negotiate RCEP hit back on America's socialisation strategy at three levels. Symbolically, China sent a message to the US that Washington cannot dictate the terms of trade in the Asia-Pacific. Substance-wise, China proposed a trade template that focused on

traditional trade liberalisation measures and granted less developed countries 'special and differential treatment'. Ideologically, RCEP was a response to the laissez-faire economic philosophy the TPP represented. China's economic success was enabled by statist policies to a great extent. But if TPP agenda were to prevail, there would be a regional acceptance of neo-liberal, deregulationist norms in East Asia, a situation amounting to ideologically containment against China. As such, China strove to defend its economic model in the negotiation of RCEP by pushing a mode of state-centric trade regime where countries retain the authority to intervene and see economic cooperation – and not free trade – as the core tasks at hand.

With respect to TTIP, the ambition of negotiating a transatlantic free trade area was not unprecedented. Tracing the historical evolution of Euro-Atlantic institutional fabric shows that TTIP is the latest addition to the long list of frameworks put in place since the end of Cold War for better managing the deeply integrated transatlantic economy. So, the big question is, why was TTIP launched this time? This chapter argues that the answer lies in three inter-related geopolitical and geo-economic trends.

The first related to the waning legitimacy of the EU following decades of relatively successful, elite-driven integration process. Brussels needed TTIP, a trade policy instrument falling within the exclusive competence of the EU institutions, to engineer a change in public perception about the EU, to demonstrate its commitment to liberal economic values, and to showcase that it was only a united EU28 – and not individual European countries – that would be treated by Washington as an equal partner. The second logic behind Europe's pursuit of TTIP was to exploit potential unity on trade for putting the EU-US political relations on a stronger footing, preventing the strained transatlantic relations from drifting further apart in the 2010s. After tensions over Europe's chase after strategic autonomy, diverging understanding of geostrategic priorities facing the Atlantic alliance, and differing views on how to conduct international relations put a question mark over the long-term viability of the EU-US

partnerships, Europe was anxiously looking for ways to shore up the transatlantic community with a renewed purpose. TTIP therefore was referred to a geo-economic instrument that could play a major role in revitalising the old military alliance. On the other hand, however, this also made the stakes of TTIP negotiation high as it would be seen as a harbinger of whether the EU-US special relationship would rekindle or cool off.

The third strand of rationale behind Europe's interest in seizing the TTIP initiative needs to be understood with Asia's growing weight in world political and economic affairs in mind. The EU faced a multitude of geo-economic risks in terms of outright trade diversion with businesses capital pulling to the Asia-Pacific by the TPP and RCEP, American abandonment (or political indifference) and marginalisation in global trade governance as rule-takers. Accordingly, enlisting the US as a strategic trading partner in the TTIP was expected by Brussels to compete with the TPP and RCEP for trade and investment flows, to help the EU regain ground in Washington and to provide the EU with a distinct and a comparable channel to enhance its voice and leadership in setting international standards and rules.

In view of the fact that there is no higher hierarchy of rules and authority to reconcile differences across the TPP, RCEP and TTIP, the desire of the US, China and the EU to all have a hand in writing trade rules consolidates the fragmentation of world trade governance, pushing it towards a 'multi-hub' system marked by substantive pluralism (Burke-White 2015) under which various powerful states (i.e. 'hubs') with the support from less powerful ones gravitating towards the hubs (i.e. spokes) put forward competing normative visions and distinctive rules on international trade regulations based on their national and/or collective preferences. While spoke countries can align themselves with multiple hubs and the associated regulatory system, the same cannot be said about the hubs as the politics of exclusion is often the reason why there are multiple hubs in the first place. The foregoing analysis on competitive

dynamics behind the three mega-FTAs and the geo-economic and geopolitical stakes for the US, China and the EU suggests that mega-regionalism might have negative implications on the emergence of a globally coherence trading system in the short to medium run.

Chapter VI

A PERCEPTION SURVEY OF ASIAN OPINION LEADERS

Spreading mega-regional trade agreements is a complex phenomenon with profound implications for signatories, excluded parties, global trading system and the WTO. To assess the external validity of the findings and arguments in the previous chapters and to broaden the generic understanding of mega-regionalism under study, I conducted a perception survey among Asian opinion leaders. The emergence of mega-FTAs coincides with a period in which the once centralised global economic architecture (GEA) built on key Bretton Woods institutions (i.e. the World Bank, the IMF and the WTO) gradually moves towards decentralisation in the sense that national, regional and non-traditional institutions co-exist and work together with more ‘senior’ global organisations (Kawai, Morgan, and Rana 2014b). An added focus of the survey therefore was to find out the drivers for this trend and to figure out what should be the appropriate relationship between regional institutions and their global counterparts. As far as I am aware, this is the first time such a survey on mega-FTAs and GEA had been conducted.

Survey Methodology and Responses

As noted in Chapter II, the implementation of the survey started with constructing a master email bank of opinion leaders. The master email bank was then tightened up according to the contacts’ affiliations²⁵¹. The procedure was aimed at maximising the probability that the final sample were relatively better informed on topics related to trade agreements and economic governance so as to provide meaningful responses to the survey. In the end, I identified a stratified sample of 5,879 opinion leaders in

²⁵¹ For example, members of the general public and officials from Ministry of Defence and armed forces were systemically rejected from the email bank on the assumption that they may not be adequately informed on the topics at hand to take part in the survey.

four categories: government officials, academics, representatives from business sectors and media, encompassing trade experts, policymakers, managers of import-export companies, scholars and consultants.

The questionnaire (see Appendix K) was sent out to potential respondents in the sample through the online platform SurveyMonkey™. The survey lasted for five weeks from 1 February to 4 March 2016. In the cover letter that accompanied the questionnaire, I briefed opinion leaders about the background and the objectives of the survey without attempting to lead responses. I also assured the respondents that their responses would be kept anonymous and would not be used in any other identifiable manner. After sending out the invitations, I sent out regular reminders. At the end of five weeks, a total of 648 responses (including 551 complete responses and 97 partial responses) from more than 31 economies were collected (see Table 6.1), corresponding to 11% of the sample. More than 140 respondents also took the trouble to send us their feedbacks. (Selected comments can be found in Appendix L) The response rate is considered reasonably high²⁵² for this type of survey using digital format to ask technical questions.

In terms of the regional distribution of responses²⁵³, 161 were from Singapore, accounting for about 25% of the total responses; 92 from India (14%); 62 from China (10%); 39 from Indonesia (6%); and 33 from Malaysia (5%). In addition, I reached a handful of Asian expats and opinion leaders currently based in such countries as

²⁵² To put the figure into perspective, a similar survey conducted by the Asian Development Bank (2008) which engaged a professional survey firm and telephone calls had a response rate of 15%.

²⁵³ Our responses were admittedly biased towards Singapore and academics, possibly due to the inclusion of the Singapore Economic Review Conference mailing list in the master email bank. We deem this bias generally acceptable because Singapore is one of the 'forefathers' of the TPP and scholars tend to be relatively well versed on policy matters related to trade agreements. Nonetheless, it should be noted that the utility of surveying academics could be limited to gauge 'bottom up' pressures that policy-makers are subject to for the reason that academics are not genuine trade policy-making constituents or key societal stakeholders especially in countries where strong policy-academia links are not apparent.

Canada, France, Germany, Britain and the US. Of the respondents, nearly half (49%) came from academia, 18% from government officials, 14% from business sectors, 5% from media and 14% from those who identified themselves as 'others' including retired diplomats, international civil servants and trade unionists.

Table 6.1 Survey response profile by region and category

	Academia		Business		Government		Media		Others		Total Num
	Num	%	Num	%	Num	%	Num	%	Num	%	
Afghanistan	1	50	1	50	0	0	0	0	0	0	2
Australia	16	76	3	14	0	0	0	0	2	10	21
Bhutan	1	13	2	25	5	63	0	0	0	0	8
Bangladesh	6	46	0	0	3	23	0	0	4	31	13
Brunei Darussalam	3	50	0	0	3	50	0	0	0	0	6
Cambodia	0	0	0	0	1	50	1	50	0	0	2
China	36	58	13	21	4	6	1	2	8	13	62
Hong Kong	3	75	1	25	0	0	0	0	0	0	4
India	43	47	6	7	10	11	10	11	23	25	92
Indonesia	20	51	2	5	9	23	5	13	3	8	39
Japan	16	80	1	5	2	10	0	0	1	5	20
Korea, DPR	0	0	0	0	0	0	0	0	1	100	1
Korea, Republic	4	80	0	0	1	20	0	0	0	0	5
Lao PDR	1	17	0	0	5	83	0	0	0	0	6
Lebanon	0	0	0	0	1	100	0	0	0	0	1
Malaysia	19	58	1	3	5	15	1	3	7	21	33
Maldives	0	0	1	50	0	0	1	50	0	0	2
Mongolia	0	0	0	0	0	0	0	0	2	100	2
Myanmar	1	33	0	0	0	0	1	33	1	33	3
Nepal	8	31	1	4	8	31	4	15	5	19	26
New Zealand	8	89	0	0	0	0	0	0	1	11	9
Oman	1	100	0	0	0	0	0	0	0	0	1
Pakistan	10	45	2	9	7	32	0	0	3	14	22
Philippines	11	38	1	3	9	31	0	0	8	28	29
Singapore	60	37	52	32	35	22	5	3	9	6	161
Sri Lanka	3	38	0	0	1	13	0	0	4	50	8
Taiwan	3	100	0	0	0	0	0	0	0	0	3
Thailand	13	67	1	5	2	10	1	5	4	29	21
Turkey	4	67	0	0	0	0	0	0	2	33	6
United Arab Emirates	0	0	0	0	1	100	0	0	0	0	1
Vietnam	10	83	0	0	2	17	0	0	0	0	12
Others	14	52	3	11	5	19	2	7	3	11	27
Total	314	48	91	14	119	18	33	5	91	14	648

Survey Results

Costs and Benefits of Mega-FTAs

I first asked opinion leaders how they rate the costs and benefits of participating in mega-FTAs. The options for them to rate about the costs included (i) trade diversion; (ii) adjustment costs; (iii) the risk of propelling excluded economies to forge their own exclusive regional blocs; (iv) a loss of enthusiasm for multilateral negotiations; (v) greater economic inequalities; and (vi) sovereignty erosion by investor-state dispute settlement (ISDS) clauses. The benefits of forming mega-FTAs which I listed for respondents to rate were (i) trade creation; (ii) closer political relationships among mega-FTA partners; (iii) unified regional voices in other international fora as countries as mega-regionals negotiations eventuate in policy alignment and convergence; (iv) deeper regional economic cooperation and integration; (v) reduced propensity for trade disputes; and (vi) the prospect of being the rule-writers instead of rule-takers in the global trade governance.

Figure 6.1 Costs of mega-FTAs for participating countries

Figure 6.1 summarises the responses to the first set of questions²⁵⁴. More than half of the respondents were concerned with the adverse distributional effects of mega-FTAs within countries: greater economic inequality (54%) and high domestic adjustment costs (51%)²⁵⁵. The rational course of action, intrinsically, seems to be devoting more political capital and economic resources to helping vulnerable communities and pre-sheltered industries weather the storm of trade liberalisation, in turn making ‘free trade worker friendly’ (Douglas 2015). The cost with the second-highest relevance-rating relates to the loss of enthusiasm for more inclusive multilateral trade liberalisations (47%), followed by the danger of inducing the formation of other off-setting trading blocs (43%). That not many Asian opinion leaders (41%) labelled ISDS provisions of mega-FTAs – which critics claim would allow companies to sue governments in secretive international tribunals – as a prominent threat stands out in the survey, especially considering that the ISDS as the most controversial issue nearly singlehandedly derailed the TTIP negotiations. In addition, only 38% of the respondents saw trade diversion as a significant cost, probably on the ground that this deleterious effect is likely to affect outsiders rather than participants.

²⁵⁴ For simplicity, I combined responses 5 and 4 into high (or relevant) and 2 and 1 into low (or less relevant).

²⁵⁵ For a detailed analysis of the adjustment and income distribution impacts of the TPP, see Lawrence and Moran (2016).

Figure 6.2 Benefits from participating in mega-FTAs

As shown in Figure 6.2, 70% of the opinion leaders cited trade creation as the top benefit that countries would look forward to. At a time when the efficacies of conventional macroeconomic policies were watered down by liquidity trap and budgetary constraints, there seemed to be a widespread belief in policy circles that regional trade agreements, especially mega-FTAs, could be particularly useful in terms of stimulating underperforming economies by for instance helping exporters exploit economies of scale and scope in expanded 'domestic market'. While reaffirming this conviction, the survey shall not rule out the possibility that an adverse economic climate may also disproportionately polarise trade politics by intensifying the adjustment burden of already stagnating sectors (Takacs 1981). Many respondents also hailed that mega-FTAs could be conducive to regional economic integration and cooperation (68%), enabling signatories to speak in one stronger voice when partaking collectively in other negotiations and agenda-setting activities

(64%)²⁵⁶. Some (63%) of the respondents were of the view that strengthened economic ties could translate into improved political solidarity, potentially enhancing mutual trust and/or stabilising otherwise conflictual relations among mega-FTA partners. A case in point is Japan's participation in the TPP; Sugawara (cited in Solís and Katada 2015) notes that Japan's surprising announcement of its interest in joining the TPP negotiations in October 2010 was largely driven by a desire to mend political rift between the US and Japan following the Futenma base disputes. Moreover, 55% of the respondents felt that negotiating mega-FTAs (while others do not) allows those 'first movers' to write and interpret the rules for regional and global trade conveniently to their advantage. This figure is somewhat low given that provisions enshrined in mega-FTAs could set legal precedents and serve as benchmarks for future negotiations. This is partly why Baldwin (2011b) talks about '21st century regionalism' posing an existential threat to 'the WTO's role as a rule writer, not as a tariff cutter.' Finally, the value of mega-FTAs as an effective forestaller of trade disputes (36%) was seen to be the least prominent (or least likely) by respondents, underscoring the 'two-edged sword' nature of trade liberalisation – that entrenched economic interdependence may backfire by fomenting inter-state tension in some instances (Barbieri 1996).

I then asked the opinion leaders if pursuing mega-FTAs is a good trade policy option on balance and whether countries should seek to join more than one mega-grouping. Figures 6.3 and 6.4 present their views. Respondents preponderantly judged that engaging mega-regional is a good trade policy decision (79%) and that countries should seek multiple mega-FTA memberships if possible (77%). In theory, concurrent mega-bloc participation would allow countries to greatten the trade creation/trade

²⁵⁶ In this regard, Söderbaum (2008) argues that inter-regionalism or 'regional multi-lateralism' based on regions as units within the global economy is functionally better than the prevailing trade multilateralism based on nation-states. The reason is that multilateralism 'will work more effectively when it is built on interaction among fewer regional blocs that are more equal in economic and political size compared to present-day WTO with 200 nation-states'.

diversion ratio while ensuring that their national priorities are represented in multiple negotiation forums. In practice, however, as one respondent points out, countries with a dense pattern of FTA memberships and corresponding commitment would find it more challenging to reconcile the notorious conflict between internal economic policy objectives and a profusion of binding external obligations²⁵⁷. Currently, there are no countries that are party to all three mega-FTAs, but a total of 8 countries take part in two²⁵⁸.

Figure 6.3 Is pursuing mega-FTAs generally a good trade policy decision?

²⁵⁷ For a discussion on how international constraints reduce domestic policy options, see Walsh (1994).

²⁵⁸ The eight countries are Australia, Brunei, Japan, Malaysia, New Zealand, Singapore and Vietnam in the CPTPP and RCEP, and the US was in both the TPP and TTIP. If the CPTPP and RCEP are both implemented, Singapore and New Zealand would have as many as five layers of trade treaties linking these two economies.

Figure 6.4 Do you think it is desirable for economies to join more than one mega-FTA?

Timing, Sequencing and Interactive Dynamics of Mega-FTAs Diffusion

I asked opinion leaders for their views on when or whether the three mega-FTAs could be ratified and implemented. It is clear from the survey results (Figure 6.5) that most of the respondents believed that all the three mega-FTAs will eventually enter into force, albeit at different times; only 2-3% said 'Never'.

As the TPP agreement was already signed at the time of survey, 21% of the respondents felt that the TPP would enter into force before 2017. Fifty-seven percent of the respondents were of the view that the TPP is more likely to be effective after a new American president assumes office and before 2020, rightly disregarding the possibility that the TPP could be passed in the lame duck session. Similarly, the most feasible window of RCEP ratification and implementation, according to the respondents, is between 2017 and 2020 (45%), although there were a significant minority of opinion leaders (32%) who expected RCEP to see pushback and come into force after 2020. In the case of TTIP, 37% of respondents felt that TTIP would be implemented sometime between 2017 and 2020. Thirty-four percent thought that

TTIP's entry into force will only take place after 2020²⁵⁹. Now, with president Trump in office, the TPP is being replaced by the CPTPP and TTIP is suspended.

Figure 6.5 Timing of mega-FTA ratification and implementation

The first round of negotiations for the TPP commenced in March 2010, and this was followed closely by the introduction of RCEP and the inauguration of formalised negotiations in November 2011 and May 2013, respectively. A month later in June 2013, negotiations for TTIP were launched by the EU and the US at the G8 Summit. This tight sequencing of events gave rise to speculations that the three mega-regionals are interlinked via a ‘domino effect’ wherein the TPP activated the negotiations for RCEP and TTIP, as measures of competitive adjustment, through negative economic and/or geopolitical externalities. From Figure 6.6, it is shown that most of the opinion leaders (77 %) felt that there could be a ‘domino effect’ in

²⁵⁹ The data in Figure 6.5 also suggest that TTIP had a relatively lower degree of awareness among Asian opinion leaders – who understandably pay more attention to the TPP and RCEP that are closer to their shores – with more than one-fifth of them (22%) ticking the box of ‘Don’t know’.

operation, triggering off, in one respondent's words, 'a made race of FTAs with countries rushing to join them'.

Figure 6.6 Is there any 'domino effect' driving mega-FTA negotiations?

Figure 6.7 Relationship between mega-FTAs

I further asked the respondents to characterise the relationship between the three mega-blocs. Specifically, are they 'competitive', 'complementary', 'neutral/overlapping' or 'irrelevant'? The majority of the surveyed Asian opinion leaders gravitated towards

the perception that the three mega-FTAs are not unrelated, idiosyncratic developments (Figure 6.7). However, the respondents appeared to be divided when it came to how to best depict the connections between the mega-FTAs troika. Forty-one percent of the respondents preferred to understand the TPP, RCEP and TTIP as neutral, *geographically* overlapping free trade groupings without holding solid connotations of either complementariness or competitiveness. The rest of the respondents were evenly divided, with 29% of them feeling that the mega-FTAs are competitive²⁶⁰ against each other, and the other 29% feeling that they are complementary.

It seems that while the respondents were generally sympathetic to this study's conceptualisation of mega-regionalism as a policy diffusion process, there was no expert consensus as to whether the diffusion process was competitive or not. Nevertheless, the competitive diffusion arguments advanced by this dissertation seem to enjoy a certain degree of support among opinion leaders. As one respondent put it, the TPP is 'a way to exclude countries outside the agreements. For China, to keep itself relevant, it has to pursue other FTAs in order to counter the effect of the TPP. RCEP would be this case.'

Geo-economic and Strategic Motivations for Pursuing Mega-regionals

Ever since the gradual confluence of trade policy and foreign policy (Cooper 1972a) in the aftermath of World War II, the use of trade agreements as an instrument to gain strategic advantage offensively or to restore strategic parity defensively has been a powerful engine of proliferating FTAs (Wesley 2008, Ravenhill 2010). Indeed, although the sustainability of the negotiated texts depend ultimately more on the soundness of the economic calculus involved, countries and state elites are often informed by strategic and geo-economic rationales when setting trade negotiations in

²⁶⁰ Notably, the majority of Chinese and Japanese respondents chose the 'competitive' option.

motion (Schwab and Bhatia 2014). To ascertain the geo-economic and geopolitical motivations of the so-called 'pivotal states' (Solís and Katada 2015) – including the US, China, ASEAN and the EU – behind their pursuit of mega-FTAs, and the pretext in which mega-FTAs become preferred trade policy vehicles, I formulated four questions in the survey. This focus on the 'pivotal states' stemmed from the recognition that rationales of great powers may be different from those animating other smaller participants.

The TPP was not a US-contemplated framework, yet two successive administrations before Donald Trump promoted the TPP enthusiastically. George W. Bush notified Congress of his administration's intention to join the TPSEP's deferred negotiations on investment and financial services chapters in September 2008, and Barack Obama referred to the TPP multiple times in presidential debates and State of the Union addresses. As elaborated in Chapter V, many described the TPP – which excludes China – as an attempt to 'socialise' the rising power through international regimes moulded to Washington's favour, so as to shape Beijing's future policies and behaviours, in very much the same way the initial exclusion of China in the WTO compelled China to follow 'international rules' to make inroads into the liberal economic order. The aspiration to recast the story of 'China and WTO' (Bush cited in Ye 2015b), the argument went, explained why the US deliberately excluded China in the negotiation phase of the TPP, but ostentatiously claimed that all countries including China are welcome to join as long as they meet the requirement of the high-standard TPP. As Tellis (2015) argues potently that '[w]hile the diplomatic necessity for appearing inclusive is understandable, the strategic necessity for excluding China is overwhelming'. Figure 6.8 shows that over three quarters of the respondents (76%) tended to concur with this line of thinking. If this logic of socialisation through coercion holds, the TPP – crafted in 'a spirit of confrontation and containment' (Bhagwati 2011) – could mark a major departure from the comparatively more benign 'competitive

liberalisation' approach (Bergsten 1996), devised mainly to leverage privileged accesses to the US market to induce liberal reforms in foreign countries creating in the long run a conducive environment for multilateral liberalisation.

Figure 6.8 Percentage choosing 'Yes' 'No' or 'Don't know' (Q.11)

Q.11 Some commentators note that the US Strategy since the 1990s has been to entice China into institutions that operate according to Western rule like the WTO. This explains the US' position of excluding China from the TPP negotiations at the present but welcoming it only after pro-Western TPP rules have been written and established. Do you agree?

RCEP was the second deal in the wave of mega-regionalism. Given that ASEAN has bilateral FTAs with all the other participants of RCEP, many had wondered what was the value-added for ASEAN. I asked opinion leaders to rate the factors that could have affected ASEAN's positions. Figure 6.9 shows that the majority of respondents (68%) felt that ASEAN wanted to capitalise on RCEP to facilitate ASEAN-driven regional economic integration, a process that began with the ASEAN Free Trade Area in 1992 and was continued by the ASEAN Economic Community (AEC) 2015 and the AEC Blueprint 2025. Since ASEAN countries take part in RCEP as a whole, RCEP could give a major boost to the production sharing networks in ASEAN, constituting an important step towards the AEC's goal of constructing a single market and production base in Southeast Asia. Respondents ranked preservation of 'ASEAN Centrality' (Petri and Plummer 2014a) not far behind (64%). This political impetus

shall be best understood in the context that the TPP's selective engagement of some but not all ASEAN members allegedly put regional cohesiveness to a test. In addition, Andal (2017), employing network analysis, shows that ASEAN is not upholding centrality due to its low level of integration with the broader Asia-Pacific economy. Moreover, simplifying convoluted trade relations among RCEP partners that result from five heterogeneous ASEAN+1 FTAs was ranked a mid-rated contributing factor (49%), and counter-balancing the US-led TPP (36%) was less of a priority from the ASEAN perspective according to the respondents.

Figure 6.9 ASEAN's motivations for pursuing RCEP

In addition to ASEAN, China is also a 'pivotal state' in the absence of which negotiations could not have gained sufficient political traction to take off the ground. In the build up to RCEP, China's vision for regionalism centred firmly on the proposal of an East Asia Free Trade Agreement that included ASEAN+3, but not ASEAN+6, a larger grouping supported by Japan's Comprehensive Economic Partnership in East Asia initiative (Hamanaka 2014, Terada 2010). Given that the membership composition (and to a lesser extent agenda setting) of RCEP resembles more of

Tokyo's vision as opposed to Beijing's own and China's wariness of 'ASEAN centrality' in Asian regionalism (Ye 2015b), we asked opinion leaders to assess the reasons behind China's buy-in of RCEP. Three quarters of opinion leaders felt that China was reacting defensively to the TPP, since it was excluded from the TPP negotiations (Figure 6.10). A majority of respondents (69%) also felt that Beijing was trying to formulate and disseminate China-friendly trade rules through RCEP negotiations lest the US imposes supposedly stringent TPP rules on it. Some respondents (49%) felt that China turned to RCEP to expand trade in the face of a deadlocked Doha Development Agenda (DDA). Additionally, 46% of the respondents were of the opinion that greater trade policy coordination between China, Japan and Korea post-RCEP could presage the much-anticipated China-Japan-Korea Free Trade Agreement among the old antagonists in Northeast Asia. Most sceptical opinion leaders were not convinced that China wanted to create stronger economic bonding with India, which was repeatedly accused of being a 'foot-dragger' of RCEP negotiations, although, as Panda (2014) argues, RCEP would have direct implications for Sino-Indian relations.

Figure 6.10 China's motivations for endorsing RCEP

I then dissected the rationales behind the EU's pursuit of TTIP. Figure 6.11 shows that surveyed Asian opinion leaders ranked the perceived urgency to jump onto mega-FTA bandwagon (Bhagwati 1991) since EU trade policy-makers see countries negotiating the TPP and RCEP substantially ahead of other factors (65%). More than half of the respondents (56%) viewed the economic significance of TTIP as an important contributing factor at a time when the European debt crisis still afflicts many euro zone economies. In addition, around half of respondents (52%) attributed the launch of TTIP negotiations to the US' and EU's shared determination to buttress Western liberal economic order and political value – which according to van Ham (2014) could be rules-based market economy and liberal democracy, respectively. In a similar vein, Schott and Cimino (2014) contend that the TTIP is a concrete strategy for the US and EU to synchronise their otherwise separate responses to Asia's economic rise, jointly upgrading the strategy from 'competitive regionalism' to 'cooperative regionalism', one with an amalgamated hemispheric economic bloc at its core. A same proportion of respondents (52%) felt that the genesis of TTIP reflects the EU's eagerness to tackle the trade diversion effects of the TPP and RCEP. It seems that the respondents by and large do not see the two Asia-Pacific trade pacts as an economic threat to Europe which necessitates countervailing measures. Though this dissertation has argued otherwise, some hold that there is a risk of reciprocal 'big treaties' of producing 'small effects' (Gowa and Hicks 2018).

Figure 6.11 EU's motivations for pursuing TTIP

Relationship between (Mega-)regionalism and Multilateralism

In international trade, there is a perennial debate on whether FTAs are friends or foes of global trade liberalisation²⁶¹ (Baldwin and Seghezza 2007). Regional blocs are portrayed to be 'building blocks' if they complement and inject dynamism to multilateralism, whereas deemed 'stumbling blocks' if they undermine or crowd out multilateral negotiations. Critics (for example, Bhagwati 1991, 2008b, Hallett and Braga 1994) assert that FTAs are discriminatory in nature, and that the proliferation of FTAs leads to a tangled web of intersecting, and sometimes incompatible, trade rules that increase (and not cut) transaction costs. This phenomenon is metaphorically referred to as the 'spaghetti bowl' (Bhagwati 1995), or 'noodle bowl' in the Asian context, that impedes multilateralism. From a legal perspective, the establishment of adjudicating platforms under the auspices of FTA would also risk side-lining the multilateral dispute settlement mechanism, the 'crown jewel' of the WTO. On the other

²⁶¹ Some such as former WTO chief, Pascal Lamy (quoted in Cheong 2007), argue that such debate is meaningless because regionalism is so popular that its relationship with multilateralism hardly matters.

hand, sympathisers make the point that politically more attainable regionalism constitutes a stepping stone towards multilateralism, by generating net welfare gains and by cultivating a bottom-up demand for multilateralised regional accords (Summers 1991b, Desker 2004, Baldwin 2006, Anderson and Snape 1994). In this regard, Baldwin and Robert-Nicoud (2015) formalise a juggernaut effects of tariff cutting. Their models show that a one-off regional trade liberalisation systemically strengthens pro-competition forces at the expense of pro-protection forces from a political economy perspective; the tilted power balance and the entry of exporters and exit by least competitive producers in national markets render that it is politically optimal for governments to seek further tariff cutting to entertain pro-liberalisation camp which would be empowered every time trade liberalises. As the juggernaut rolls forward, regionalism feeds into multilateralism.

Figure 6.12 Are mega-FTAs ‘building blocks’ or ‘stumbling blocks’ to multilateral trade liberalisation?

The debate is still alive, and there is a renewed disagreement among scholars on whether the mega-FTAs represent ‘building blocks’ towards multilateral convergence or ‘stumbling blocks’ towards regional fragmentation (Urata 2016, Bown 2017). The

survey results suggest that 62% of the respondents felt that mega-FTAs are catalytic ‘building blocks’, while only 29% framed mega-regionals as ‘stumbling blocks’ to multilateralism (Figure 6.12). This clearly expressed affinity for mega-FTAs could help explain why Asian countries are among the most active participants in the regionalism movement. Despite the prevailing optimism, many respondents called for caution because, in their opinion, mega-FTAs would decelerate progress on unilateralism and multilateralism, constituting an obstacle to domestic reform efforts and tariff reduction on a most-favoured-nation basis. One respondent opined that ‘[mega-FTAs] may not motivate countries to unilaterally undertake necessary domestic reforms. Instead, it may even provide excuse to countries to avoid and/or delay domestic reforms because market access can be given even without reforms.’ The other argues that ‘[if] respondents were thinking small, they might have a lot of good things to say about the TPP and especially RCEP in microcosm, before being reminded that in the macrocosm they undermine [multilateralism]’.

Figure 6.13 Are trading powers switching their loyalty from multilateralism to regionalism?

The US, the EU and China were among the most fervent supporters and major beneficiaries of the global trading system over which the GATT/WTO presides, but had been assimilated into negotiations for mega-regional blocs one after another.

Could the successive launches of mega-FTA negotiations signal a redirection of commitment and loyalty for economic powers from the multilateralism/WTO to (mega-)regionalism? As illustrated in Figure 6.13, close to 60% of surveyed Asian opinion leaders felt that the WTO could be losing its appeal among its most influential members. While perceptions may not exactly reflect realities, there seems to be a growing concern that the pole position in governing world trade relations is being ceded to mega-FTAs. An apparent contradiction between Figures 6.11 and 6.12 is noteworthy. Asian opinion leaders appeared to believe that mega-FTAs are building blocks to multilateralism, yet they acknowledged that governments are drifting away from the WTO supremacy to mega-FTA centrality. A possible explanation is as follows. Respondents felt that, in the short term, major economic powers prioritise mega-regionals for pragmatic purposes; but in the long run, there will be greater need to revitalise the WTO to rationalise a multiplicity of mega-FTAs. For this matter, one of the respondents provided a fitting account: 'in the short run, [mega-FTA] may balkanize international trade, but [...] it will reach saturation point where its utility will not increase any further even with the onset of new ones. States will realize that, in the end, there is no substitute to a global trade regime'. In short, our survey suggests that mega-FTAs could be best understood as short-term 'stumbling blocks'²⁶² and long-term 'building blocks'.

²⁶² In the immediate future, Baldwin (2016b) suggests that the most likely outcome is 'a two-pillar structure' in which the WTO continues to govern its '1994-era rules' and mega-regional agreements write new rules for international value chains.

Figure 6.14 Which agreement(s) should serve as the template(s) for FTAAP?

Whether mega-FTAs are pathways to establishing the Free Trade Agreement of the Asia-Pacific (FTAAP) that involves virtually all countries from across the Pacific Ocean has also been a matter of debate (Petri and Abdul-Raheem 2014, Capling and Ravenhill 2011, Lewis 2013a). I accordingly asked opinion leaders which of the three FTAs should serve as the ‘template(s)’ for FTAAP in terms of membership and agenda: (i) the TPP; (ii) RCEP; and (iii) the potential China-Japan-Korea FTA (CJKFTA), should they all come to fruition. In this question, I allowed the respondents to select multiple options. Both the TPP and RCEP stand out as the preferred prototypes (Figure 6.14). This parity is likely to evanesce as the TPP fizzled out and morphed into a smaller CPTPP. Nevertheless, three extrapolations are being warranted. First, despite the proclaimed adherence to the ‘open regionalism’ approach by participants of the TPP/CPTPP and RCEP, each agreement has unique in-built institutional obstacles for them to be multilateralised by broadening memberships. The TPP/CPTPP is a cluster of heterogeneous bilateral arrangements in character, which accession modality treats ‘late-comers’ less favourably by extracting more concessions (Hamanaka 2014). The participation of RCEP is confined to countries that have signed FTAs with ASEAN. Second, countries may in

the future have to fit a plethora of parallel mega-scale trade regimes together before a coherent, pan-Asia Pacific free trade area could be achieved. Mega-FTAs aside, a more onerous task countries may have to confront is to 'deconstruct the preferentialism' (Dent 2007b) embodied in a growing thicket of bilateral FTA networks in the region. Third, Japan could be considered to be in a propitious position to bridge several key overlapping FTAs, thanks to its concurrent participation in the TPP/CPTPP, RCEP and the CJKFTA (and the EU-Japan FTA, as one respondent pointed out) especially when its pledged TPP/CPTPP commitments might help Tokyo overcome the 'credibility deficit' which had long plagued Japan's economic diplomacy undertakings (Solís and Katada 2015).

US-led versus China-led Institutions

Following decades of multilateral and unilateral trade liberalisation, average applied tariffs are already low globally. As such, there could be diminishing returns to attempts that aim at bringing down tariff barriers further. In light of fragmenting production and growing mass of intra-industry/intra-firm exchange, trade flows nowadays seem to depend more on logistics and other non-price determinants of trade competitiveness. With this in mind, I asked the Asian opinion leaders if they agree with the hypothesis that 'infrastructure development and financing schemes such as China's "One Belt, One Road" initiative (BRI) and the Asian Infrastructure Investment Bank (AIIB) are more relevant than the TPP in the context of the 21st century world'. As shown in Figure 6.15 (a), there is a widely held belief (61%) that the BRI and the AIIB could be more relevant comparatively. This orientation seems to cast doubt over the argument of Ansar et al. (2016) who conclude that China's infrastructure investment model is not one to follow, but for other countries to avoid. While the relationship between the TPP and BRI have clearly acquired a politicised, competitive overtone, there could be scope for the two grand strategies and RCEP to work in tandem (Ye 2015b) not least because sprawling transport networks made

possible by BRI entail innovative rules (Ji 2017b) – including those written under the TPP/CPTPP and RCEP – for them to function optimally.

Figure 6.15 Percentage choosing 'Yes', 'No' and 'Don't know' (Q.18 and Q.19)

Closely related to the perceived competition between the TPP and the BRI/AlIB is the anxieties over the potential conflicts between the US-led institutions and China-centric institutions. Asian opinion leaders were asked if there is need for a 'New Bretton Woods' (NBW) system (Kawai, Morgan, and Rana 2014a) – meaning a comprehensive reform of the old architecture – to accommodate the rise of China and to diffuse potential tensions between the parallel economic governance frameworks that are taking shape. The sample split considerably as shown by Figure 6.15 (b); only 41% of respondents were receptive to the idea of redesigning a whole new system. Paradoxically, while this question saw a high proportion of the sample choosing 'Don't know' (19%), it is also one of the questions that attracted many comments from the respondents. Advocates of an NBW argued that the Western-backed system must 'change to accommodate China's increasing economic and political role internationally'. Opponents, for their part, played down the necessity of

mapping out new global master plans. They reasoned that there is ‘nothing wrong with the evolution of global governance’ and that we just need create the space for co-existing architectures to evolve and interact. There are also some respondents who felt that an over-emphasis on reconciling US-led vis-à-vis China-centric systems misses the point of restructuring the GEA. The priority, as they noted, should be for countries to shake off the ideological and doctrinal shackles of Bretton Woods institutions, and then agree on a new set of indicators that correspond to a higher level of economic development in evaluating global institutions’ performances, rather than dismantling the hard-earned establishment altogether.

Global and Regional Institutions

The post-war global economic governance architecture is built on the back of three key institutions – the World Bank, the International Monetary Fund (IMF) and the GATT/WTO. This once centralised framework is now becoming decentralised and multi-layered (Kawai, Morgan, and Rana 2014a). In the aftermath of the Asian financial crisis of 1997-98, ASEAN+3 countries accelerated their efforts in monetary integration and adopted various regional self-help measures. Notably, the Chiang Mai Initiative Multilateralisation (CMIM), a multilateral currency swap arrangement, and its independent surveillance unit, the ASEAN+3 Macroeconomic Research Office (AMRO), were put in place to serve as the institutional skeleton of East Asia’s regional financial safety nets. Figure 6.16 (a) shows that a vast majority of the respondents (86%) felt that the IMF and other global institutions alike should work together with regional financing arrangements in preventing and resolving future financial crises in Asia. Furthermore, a similar number of Asian opinion leaders (81%) believed that regional institutions and their global counterparts should forge complementary partnerships in delivering global public goods, as seen in Figure 6.16 (b). The collaboration and division of labour should be done with the understanding that regional and global institutions should not try to undermine each other, or perform

tasks in which they do not possess the comparative advantage. These findings are consistent with the results of a previous survey by Rana, Chia, and Jinjark (2012) and Rana and Pardo (2015) that underscores the importance of complementarities between regional and global institutions. That said, healthy inter-institutional competition should be welcomed as it will provide countries with alternative funding sources, while spurring policy innovations and promoting mutual organisational learning between the competing institutions in question (Ji 2017b).

Figure 6.16 Percentage choosing ‘Yes’, ‘No’ and ‘Don’t know’ (Q.20 and Q.21)

Concluding Remarks

In this perception survey, I consulted opinion leaders based in Asia and beyond about various economic, geo-economic as well as geopolitical facets of spreading mega-regionalism. While the majority of the respondents viewed mega-regionals’ trade creation and catalytic effects on regional integration as the chief benefits for countries taking part in mega-FTA negotiations, more than half of them also expressed concerns over the potential adverse distributional effects (e.g. economic inequality and adjustment costs) commensurate to mega-FTAs’ unprecedented scope and

depth of economic liberalisation. Moreover, there seemed to be a widespread belief among the respondents that striking mega-scale regional trade agreements is a good trade policy in general, to the extent that multiple mega-bloc memberships were deemed superior to single mega-FTA participation.

Given the temporal clustering of mega-FTA negotiations, 77% of the respondents believed that there could be a 'domino effect' at play driving the diffusion of mega-FTAs. According to the respondents, the Obama administration's attempt to socialise China through writing the 'rules of the road' for trade in the 21st century underpinned the US participation in the TPP; the launch of the TPP talks in turn sounded alarm bell in Beijing, forcing the latter to hold out suspicions towards economic cooperation under the ASEAN+6 umbrella to assuage the fear that the TPP exclusion would result in subservience to the 'gold standard' trade and investment rules that the US and others negotiated into the TPP in its absence; China's strategic imperative to counter the rules and influence of the TPP conflated with ASEAN's interests in strengthening regional economic integration while preserving 'ASEAN centrality', collectively paving the way for the ultimate adoption of RCEP framework in 2012. As to the EU's rationale behind the TTIP negotiations, approximately two in three respondents felt that Brussels wanted to join the mega-FTA bandwagon and not to be marginalised in the latest wave of mega-regionalism. Liberalising trade and investment mutually with the US – as an exogenous economic stimulus – to put an end to the lingering euro crisis was also considered by our respondents to be an important contributing factor that has precipitated TTIP.

Despite the perceived loose causal linkages and the undercurrent of competitive dynamics, more respondents preferred to characterise the relationship between the mega-FTA troika as 'neutral' instead of 'competitive' or 'complementary'. This is in keeping with the another shared perception arising from the survey that mega-FTAs are 'building blocks' of multilateralism, and not 'stumbling blocks' that fuel regional

fragmentation. Yet as some 60% of the opinion leaders also indicated that by pivoting towards respective mega-FTAs great economic powers including the US, China and the EU had redirected their loyalty to regionalism and away from the multilateral decision-making modality championed by the WTO. To reconcile this contradiction, I (and some respondents) argue that mega-FTAs shall be best understood as 'stumbling blocks' in the short term in the face of a deadlocked DDA and 'building blocks' in the long run when the WTO is needed to rationalise criss-crossing mega-FTAs and related bilateral arrangements. One way for mega-FTAs to make a positive impact on global trade liberalisation is to enlarge and multilateralise themselves in a transparent and non-discriminatory manner. In Asia-Pacific, both the TPP and RCEP were rated by the respondents to be viable templates informing the formation of a Free Trade Area of the Asia Pacific.

In addition, as tariff barriers are already low almost universally, 61% of the respondents opined that China-backed BRI and infrastructure financing institutions such as the AIIB could be more relevant than the TPP in the context of international trade centred on global value chains. However, Asian opinion leaders appeared reluctant to fully endorse the establishment of a 'New Bretton Woods' system that implies an overhaul of the existing Bretton Woods institutions and ensuing economic orders. Nevertheless, Asian opinion leaders that responded to the questionnaire were unified over the assertion that the prevailing economic architecture should reform to reflect the emergence of new geo-economic power centres that are ready to take part in global governance. Regarding the relationship between 'senior' global institutions and their regional counterparts, the respondents overwhelmingly judged that they should complement each other in a mutually reinforcing way; explicit was also the idea that the IMF, CMIM and AMRO should work cooperatively in preventing and resolving financial crises and instabilities in Asia.

CHAPTER VII

CONCLUSION: MEGA-REGIONALISM AT CROSSROADS

The course of regionalism has proceeded in waves. The first, championed by the war-torn European nations, came about in the aftermath of the World War II to consolidate peace and overcome hatred. The second wave of regionalism developed in the post-Cold War era of the 1990s with the advent of continental trading blocs such as the European Single Market, NAFTA, Mercosur and AFTA. The third wave which started in mid-2000s consisted of three mega-scale FTAs, namely, the TPP (which morphed into the CPTPP due to the US pull-out), RCEP and TTIP. The three mega-FTAs are unprecedented and unparalleled in terms of economic size, geographical coverage, liberalisation scope, commitment depth, regulatory forward-lookingness and cross-cutting membership structure. Interestingly, yet puzzlingly, the three first-of-a-kind mega-FTAs were launched one after another between 2010 and 2013. This study began by asking the following research questions. What were the drivers behind the sudden emergence of the TPP, RCEP and TTIP mega-regional trade proposals? What motives including specific national contexts and international considerations were driving the involvement of the US, China and the EU in this wave of (mega-)regionalism? Was the triad of mega-FTAs causally linked with each other?

The existing literature on regionalism tends to analyse regional trade treaties as independent and separate phenomena. As a consequence, explanations predicated on idiosyncratic national considerations (e.g. trade stimulus, national welfare, political economy, foreign policy and 'bargaining chip' in international negotiation propositions) and prevalent global and regional factors (e.g. ineffective multilateralism and major economic crises) are developed by scholars to account for the existence of various FTAs among diverse country dyads and groupings. But the intellectual discourse has to date largely neglected the crucial inter-connectedness between FTAs initiated and

negotiated sequentially (or simultaneously) for failing to approach the waves of regionalism as the aggregate upshots of temporally clustered FTAs. In other words, the mainstream academic study of regionalism views the genesis – and to a lesser extent ramifications – of trade agreements through exclusively ‘vertical lens’ (Jetschke and Lenz 2013). It thus is in urgent need of complementary insights generated from ‘horizontal’ viewpoints to provide a broadened understanding of (mega-)regionalism which has become the central platform for governments to organise inter-state trade relations as the WTO falters.

This study makes contribution to the regionalism scholarship by comparing, contrasting and refining several horizontal analytical perspectives (i.e. convergence, transfer and diffusion) in Chapter II and then undertaking a policy interdependence research agenda to explain why and how the latest wave of (mega-)regionalism betided. Drawing on the policy diffusion theory which basically postulates that the negative externalities of a prior FTA policy adoption or those of an already-existing agreement put pressure on others to respond in kind, this study hypothesised that diffusing (mega-)regionals is a process where the US’ TPP triggered a countervailing RCEP advocated by China and the mounting competitive pressure from the two Asia-Pacific mega-trade pacts propelled the EU to push for TTIP to counter marginalisation. Moreover, this study narrated the way in which the US, China and the EU, driven by offensive and/or defensive motivations, successively instrumentalised mega-FTAs to compete with each other economically about taking advantage of gains from free trade and geopolitically over the incompatible goal regarding whose preferences prevail when shaping the emerging regional and international trade architecture. In short, this dissertation on mega-FTA diffusions told a story of great powers using politically constructed arrangement to jumpstart economic growth and economic means to advance political goals.

Main Findings and Arguments

Chapters III of this dissertation shed light on the type of peacetime economic competition between the US, China and the EU which led to the diffusion and clustering of mega-FTA proposals. I employed a computable general equilibrium model of the world economy – the comparative-static GTAP model with a modified longer-run closure – to provide an indication of the likely individual and net economic consequences of the three mega-FTAs. GTAP estimations on real GDP impact, national welfare, export volume and industry-specific output effect demonstrate that the participating countries would make gains at the expense of excluded parties who would incur losses as a result of trade diversion. For example, the US' TPP was projected to take a toll on the economy of China and the cumulative trade diversions from the TPP and RCEP would disadvantage the EU. At the same time, the simulation results suggested that by pursuing RCEP China can effectively alleviate the economic woes attributed to its exclusion from the TPP/CPTPP. In the same vein, the EU could recuperate the lost economic dynamism attracted to the Asia-Pacific through entering into a Euro-Atlantic free trade area with the US under TTIP. While the modelling results were inconclusive and preliminary in some aspects, research impacts were felt quite expeditiously; the figures presented in this dissertation were quoted or requested by media outlets (e.g. *The Straits Times* and *The Business Times*), government agencies (e.g. Vietnamese Ministry of Planning and Investment), business associations (e.g. Minerals Council of Australia) and think tanks (e.g. Council on Foreign Relations) to inform public debates and policy planning.

In connection with the purpose of this study, the GTAP modelling exercises quantified the magnitude of the economic pressure one mega-FTA would impose on third-party economies and empirically substantiated the prospect of leveraging the mega-FTA to which one is a party to offset the undesirable consequences from another mega-FTA, thus setting the scene for a game theoretical analysis of the diffusion of mega-FTAs

from the TPP to RCEP and to TTIP. Using the conventional game theory and its dynamic variant, the theory of moves, to solve a 3×2 game in which payoffs were assigned on the basis of real GDP impact, I in Chapter IV illustrated that the moment the US started on the mega-FTA route to its own benefit an economic competition was unleashed; China and the EU became incentivised to pursue a mega-FTA to induce a comparatively more rewarding outcome, instead of passively accepting the inferior 'new' status quo determined by the policy moves of one's geo-economic competitors. More profoundly, the mega-FTA game unravelled three underlying reasons why (mega-)FTAs have a tendency to multiply in number. What I found first was strategy R was the dominant strategy for all the three players in the game, meaning that the US, China and the EU (and other countries not analysed in the study) are under a constant temptation to pursue a (mega-)regional trade agreement to increase their respective payoff. Absent a successfully concluded Doha Round or a public-spirited global hegemon to uphold the centrality of multilateralism, FTAs formed out of individual rationality are likely to proliferate further. The second finding was that the combination of strategy R led to an outcome that was both Pareto-optimal (increasing individual payoffs) and socially optimal (maximising the sum of payoffs accruing to all players). This finding highlighted the net welfare enhancing potential of (mega-)FTAs, and it would be understandable if more policy makers are drawn to them. Third, the game showed that mega-FTAs could be contagious. Once the US made the TPP move, it was only rational for firstly China and then the EU to also play the mega-FTA card, becoming change-makers themselves. The rush to mega-FTAs as portrayed in the game pointed to a spiral model of mega-FTA diffusions. Tellingly, it echoed the security dilemma and Baldwin's domino mechanism. But it differs from the former in the sense that economic (security) competition through forming trade groups (arms races) would give rise to a positive-sum (zero-sum) game²⁶³. The

²⁶³ However, this argument does not take into account that (mega-)FTAs reduce barriers while possibly erecting new ones (e.g. inter-bloc regulatory heterogeneity and criss-crossing

difference between the mega-FTA game and domino mechanism appertains to whether the competitive pressure is converted to action through a top-down channel in the form of government strategy (as in the case of mega-FTA game) or a bottom up channel resulting from business lobbying for loss-aversion (as in the domino effects).

Complementing the two chapters on the trilateral economic competition, Chapter V emphasised political/legal pressure as a source of mega-FTA diffusion. I argued that for the US the TPP represented a continuation of Washington's long-standing Asia strategy whose central credo has been to fortify American presence, influence, and by extension, interests in the Asia-Pacific. It was born out of the failures of preceding bilateral and pan-Pacific initiatives and occupied the top rung of America's geo-economic strategy in the region when being characterised as a vital ingredient of Obama's multi-pronged Asia rebalancing strategy. At that time, China and Japan were being locked in a regional jostling over the question of whether to advance Asian regionalism through the smaller vehicle of ASEAN+3, which China preferred, or an expanded ASEAN+6 constellation backed by Tokyo. China's reluctance to accept Japan's proposal was eventually overcome by the US' aggressive pursuit of the TPP. China acquiesced in the decision of letting ASEAN drive the process along the contour of the Japanese CEPEA proposal, but has since been leading RCEP negotiations with enthusiasm. The US' pivot strategy of assigning higher priority and resources to Asia stirred up the rhetoric of 'European abandonment'. Brussels' fears of losing political and diplomatic ground in Washington were aggravated by the overall chequered and downward trending transatlantic relations post-global war on terror. TTIP became the EU's answer to the dissensions internal to the transatlantic alliance. Brussels' desire to preserve the EU's legitimacy also played a key role in the launch of TTIP. There were additional legal elements to the political competition as leading

ROOs). But as I will mention later, the parallel existence of (mega-)FTAs create incentives for harmonisation and convergence in the long run.

economic powers seek to regionalise and multilateralise their trade preferences through mega-FTA negotiations. The US aspired to leverage the TPP to coercively socialise China, pushing Beijing into accepting revised trade rules and changing external trading behaviours accordingly. Responding to the US' neo-liberal, capitalist crusade, China turned RCEP into a non-legalistic platform which preserves its preferences in terms of focusing on traditional trade issues, respecting sovereignty and the right to regulate, and leaving quintessential TPP chapters on labour, environment, ISDS and SOE out. Just as the US and China competed fiercely over who gets to write the rules of the road, the EU joined the competition with TTIP in an attempt to maintain Europe's voice over global trade governance. Through TTIP, the EU tried to advance an EU-sanctioned trade template alternative that was sustainable and enforceable by a stand-alone multilateral investment court. The observations of China's U-turn on RCEP and the EU's deviation from a multilateralism-only position were clinically in line with the prediction of the competitive diffusion theory that a pressurised government may pursue a course of policy which it would not pursue if left to its own devices.

Chapter VI presented the results of a perception survey, to which 648 opinion leaders based in 31 regions responded. The results on the whole offered a fairly positive assessment of mega-FTA as a trade policy to create trade, upgrade political ties and improve regional cohesion. As such, respondents strongly felt that countries should join more than one mega-FTA to capitalise on the cumulative economic and political benefits from individual agreements. Their other responses with respect to major powers' interconnected motivations, whether it's the US' coercive socialisation intent behind the TPP, China's pursuit of RCEP as an anti-TPP manoeuvre and the EU's endeavour to retain relevance with TTIP, were broadly compatible with my research findings. But the respondents' preference of understanding the three mega-FTAs as parallel trade liberalisation initiatives with partially 'overlapping' memberships (41%)

instead of 'competitive' trading blocs led by geo-economic rivals (29%) ran slightly counter to some arguments of the dissertation. Perhaps most strikingly, the respondents proved overly optimistic about the likelihood of mega-regionals under negotiation being put into effect. Few had anticipated the enormous difficulties that got in the way of negotiating and ratifying the three mega-FTAs and many believed (unrealistically in hindsight) that the three mega-FTAs could be operational by 2020. Such perception-reality gap begs the question of why the headline-grabbing momentum towards mega-regional trade liberalisation has stalled. But before sketching a short explanatory note on why mega-regionalism is now put on the back foot, I would like to continue the discussions so far on the 'rise' of mega-FTAs in the next two sections, spelling out three themes emerging from the research findings and calling attention to the major deficiencies of this study.

Implications of the Research Findings

The Vinerian dichotomy of trade creation and trade diversion, briefly introduced in Chapter I, is the most definitive and celebrated conceptual framework in unpacking the effects of an FTA. However, there are at least three perspectives one can take when seeing FTAs through the eyes of Jacob Viner. Most economists have traditionally focused on the net national welfare effects (i.e. trade creation minus trade diversion) for signatories and for the world as a whole (e.g. Kemp-Wan Theorem). By calculating the efficiency differentials between producers inside and outside the free trade area, they separate FTAs and CUs into net trade creating, net trade diverting and welfare-neutral camps. Political economists on the other hand tend to restrict their studies on the distributional changes and stratified consequences entailed by an FTA. Their research efforts are mainly dedicated to scrutinising how a trade regime allocates commercial benefits and adjustment burdens between pro-competition and pro-protection forces while pinpointing the economic sectors in which trade is created and those from which trade is diverted following the enactment of an FTA policy. IR

scholars for their part often weigh into the trade creation versus trade diversion debate from an international angle, concerning themselves with the task of naming countries that enjoy trade creation and those to suffer from trade diversion. The present study incorporated the 'perspective trinity' as a coherent ensemble. The classical economic viewpoint was accommodated by the computation of aggregate economic measures such as real GDP growth and national welfare figures. The political economy aspect of each mega-FTA was (partially) covered by breaking up the economy-wide impacts into sectoral output effects. The discussions on the directionally divergent economic implications for the US, China and the EU as insiders or outsiders to a particular mega-FTA certainly fit in with the IR approach.

In fact, it is the international distributional effects of selective free trade and exclusive bloc formation, as per the IR perspective, lie at the very heart of mega-FTAs being practiced by major powers as thinly disguised economic statecraft on a global scale. Take the TPP as an example. The 'ABC' member configuration of the TPP allowed the US to reap the benefits from freer trade while hitting China with trade diversion. In addition, it picked off regional countries economically dependent on China with closer economic ties with the US, deepened its security footprint in the Asia-Pacific and aimed at forcing China into signing onto new trade rules and standards. That China did not spinelessly show deference to the US, but resorted to RCEP to offset the US' geo-economic encirclement attests to the utility of (mega-)FTA being used for defensive and counter-attacking ends. In addition to mitigating the trade diversionary threat of the TPP, RCEP offered China arguably the best chance to open the relatively closed yet formidable Indian and Japanese markets, lessen hub-and-spoke distortions of the ASEAN+ 'noodle bowl' and project preferences that are starkly different from the TPP regulatory regime. Even in Europe arguments framing TTIP as a defensive, influence-preserving project for Europe to shield itself against competing mega-blocs and rising economic centres gained currencies (Demarty 2015, Erixon

2013). The conventional 'job and growth' offensive argument aside, they tried to sell TTIP on a 'what if we don't do' narrative. The perceived steep costs of inaction in terms of deteriorating comparative economic magnetism of Europe vis-à-vis the rapidly liberalising and integrating Asia-Pacific and being left behind in the race to write regional trade rules that could serve as benchmarks for multilateral trade negotiation rounds were among the most cited defensive arguments. All in all, the TPP, RCEP and TTIP's pure economic case might have been viewed by some less careful observers to be (deceptively) weak, their overall significance went straight up if the full picture of the dual nature of mega-FTAs against the backdrop of great power politics was recognised.

What do the current format of competitive mega-regionalism and the instrumentalisation of mega-FTA as an offensive-cum-defensive strategy tell us about the future of global trade governance? Though I had argued in the dissertation that the mega-FTA competition could lower impediments to trade and investment across a vast part of the world economy and lead to net global welfare gains, this potentially positive outcome was by no means achieved by coordinated and benevolent trade cooperation among leading trade powers. Nor did it arise out of an open-minded, liberal theorising of the mutual benefits of external liberalisation and economic freedom. The opposite is true. The triad of mega-FTAs, in the words of Erixon (2013), '[built] on conditional views of free trade and free competition, [...] soft mercantilism, a growing urgency for [global] trade leadership, and a pragmatic desire to support economic growth'. The rise of mega-FTAs marked the twilight of an emerging interventionist, power-based, results-oriented trading system that allow countries to strategically manage trade (e.g. wittingly and pointedly manipulate the direction and volume of trade in favour of the countries allied into a mega-regional bloc and to the detriment of the excluded). It damagingly shakes the foundation of the post-war liberal, internationalist economic order which promoted free trade with an omni-

directional, inclusive and rules-based system. And the strategic motives of the US and China behind their respective pursuit of the TPP and RCEP to lower trade exposure to each other in the interests of strategic autonomy also threw the traditional understanding of trade liberalisation as a pacifying force into serious question. Instead of creating a meeting point for countries to ease or negotiate away tensions, the movement towards mega-regionalism through its distinctively toxic membership politics gave rise to new fault lines and friction points among major powers (and forced others to walk a tightrope between the US/TPP and China/RCEP). The competitive impulses and the mutual deleveraging dynamics on the part of leading trade powers were more likely to fracture than to nourish multilateralism. For all that, as respondents to the perception survey alerted to us, there would be calls from not least the business communities engaged in daily trading activities to amend the trading architecture that is steering towards balkanisation. To which extent they come out to defend genuine open markets while taming government's ill-will will help determine the future trajectory of global trade.

Limitations of the Study

It should be borne in mind that the robustness of the findings and arguments of this study is subject to a number of important limitations. First, the 'actionability' assumptions feeding into the GTAP model, despite being based on a series of educated guesstimate and peer-reviewed (Ji et al. 2018a), could be refined further. The fact that I was 'shooting moving targets' (i.e. running simulations while negotiations were on-going) added to the complexity and uncertainty inherent to performing ex ante CGE simulations. And while the macro-closure of the standard GTAP model was improved, other shortcomings of the GTAP model such as the simplistic assumptions of perfect competition and constant returns to scale were left unaddressed. This is not to mention that the massive number of assumptions, estimates and proxies required to construct the complex GTAP model itself

necessarily means that the results achieved in this thesis are highly tentative and subject to update and revision. In this regard, I concur with *The Economist's* warning that 'precise CGE forecasts [as the results of "a weighting game"] ought to be taken with a grain of salt' (The Economist 2015).

Second, the mega-FTA game without my intervention proved unable to predict the US' withdrawal from the TPP. It epitomised a key methodological shortcoming of the traditional state-centric view of international economic relations adopted by this study. Treating aggregate state players as if they were individual rational decision-makers ignores the impact of domestic politics in determining foreign economic policy outcomes. The development of mega-regionalism over time reaffirms that trade negotiation is a two-level game laden with politics and emotion (more on this below). Domestic political struggles and divisions affect the pattern of international economic relations – narrowing the analytical focus to government intentions and interactions at the international level while skipping an examination of the influence wielded by non-state actors like sectoral interests as well as civil societies, transnational entities and leadership personalities could yield only partial insights. A conceptual shift in the thinking about global political economy and international trade relations, from principally state-centrism to the more open-ended perspective of pluralism, provides the blueprint to take the present research to the next level.

Third, some problems arose during the implementation of the perception survey. It was a disappointment that our questionnaire did not reach enough number of potential Chinese respondents. Feedbacks from my colleagues based in mainland China suggested that they had difficulties in connecting to the SurveyMonkey™ server in order to participate in the survey. It turned out that the survey platform is intermittently blocked by China's 'Great Firewall' (i.e. internet censorship system). I did not contemplate the possibility of recurring inaccessibility of SurveyMonkey™ effectively locking Chinese respondents out, otherwise setting up and sending out the

survey form through an alternative survey solution that is usable in China could have been pondered upon. Regarding the overall respondent sample, while the response rate (11%) was acceptable, the over-representation of academics (almost 50%) may affect the quality and representativeness of the survey results. And whether academics and scholars genuinely count as influential trade policy constituents is an open question especially in countries where robust policy-academia links are absent. There might also be concern that the sequencing of some questions listed in the questionnaire appeared to have the effect of 'leading' some relatively under-informed respondents to respond in particular ways. Such a 'question order bias' should be kept to a minimum in future surveys. Furthermore, the majority of the respondent sample were Asian, so some of them might not have the expert knowledge about TTIP and transatlantic trade relations.

Fourth, the dissertation mainly focused on the (geo-)economic and geopolitical motivations of the US, China and the EU in explaining the process of diffusing mega-FTAs. The agency and strategic calculus of Japan and ASEAN was significantly under-studied. This omission was seriously problematic considering that Japan has taken the leadership baton abdicated by Trump to be the *de facto* leader of the CPTPP (Ito 2018, Solís and Urata 2018) and ASEAN looks visionary and enterprising on every acceleration of regional integration efforts (Mahbubani and Sng 2017). On top of that, the study's preoccupation with inter-bloc competitive interactions came at the direct expense of abstaining from a more detailed examination of the intra-bloc dynamics. This caveat has thrown up many questions in need of further investigation. What is the core-periphery relationship within each mega grouping? What motivated middle-powers in the region to take sides between (or hedged their bets on), say, the TPP/CPTPP and RCEP? Why would Japan back RCEP, a trade deal with explicit anti-TPP intentions? Why smaller Southeast Asian countries went for a mega-FTA with the economically hefty major powers when studies have shown that asymmetric

trade relations foster alarming ‘Hirschmanesque’ political dependence (Hirschman 1945, Abdelal and Kirshner 1999)? Have their national interests been taken care of during the negotiations? Are they able to overcome the size limit by being part of a rule-writing mega-bloc to set the terms and conditions of trade in a new age? Why public support for TTIP varied greatly across the EU’s 28 member states? It would be interesting to carry out further research along these lines.

Finally, my dissertation has been primarily concerned with the competitive pressure as *the* source of mega-FTA clustering. While I critiqued other theories such as transfer and convergence in Chapter II and proved with evidence in the remainder of the dissertation that competitive diffusion mechanism indeed accounted for a large part of the phenomenon under study, there is still possibility that two or more causal dynamics could manifest themselves in sequence (e.g. from transfer to competition) at different stage of mega-FTA diffusion. And the probability of emulative pressure and competitive pressure alternating in a reciprocally supportive manner to move events forward cannot be fully ruled out. With length and time limitation in mind, I was not able to more thoroughly test alternative transfer-oriented or convergence-oriented hypotheses, or those derived from a mix of multiple perspectives, in the present study.

Mega-regionalism at Crossroads

The surge of mega-regionalism is decelerating (though the RCEP negotiation is still on track and the CPTPP implemented on 30 December 2018 has attracted genuine interests from aspiring countries including the Brexiting Britain). Exhaustively addressing all the factors responsible for the decline of mega-regionalism is clearly beyond the scope of this dissertation and requires more in-depth research. I nevertheless attempt to rough out what I believe to be the key reasons why we arrive at this state of affairs with mega-regionalism at a crossroads. I will start with the TPP

as it appears that the retreat of mega-regionalism commenced with Trump backing out of the TPP. Recall I had put forth an ‘irrationality’ argument in Chapter IV. I argued then that the motivation of Trump to discard the TPP was to sell out national interests to sectoral interests while orchestrating a working-class blowback against foreign trade for personal political ascent. The more general point here is that Trump’s attitudes towards the agreement also stemmed from his dangerous obsession with recasting ‘American exceptionalism’ (Wertheim 2017) in his own image.

Rolling out an unorthodox Trumpian dogma comprised of ‘Make America Great Again’ campaign slogan and an ‘America First’ policy agenda, Trump makes himself arguably the most transactional (Stokes 2018) and forthright (Dombrowski and Reich 2017) US president in modern history. He openly believes that the image of Pax Americana is grounded not in the country’s good-faith globalist leadership in terms of underwriting a liberal international order to everyone’s benefits, but in its structurally ‘exceptional’ capacity to extract resources and concessions from the rest of the world while reinvesting them in ways that advance national interests and perpetuate American pre-eminence. Any regional or multilateral entity which, by design or in practice, ties American (workers) down, contradicts American (presidential) preferences, transfer (economic) resources outwards, or prevents it from exploiting the international community to the fullest extent possible in making itself ‘great’ must be re-negotiated, if not brushed aside or chipped away. As such, in less than two years, Trump – whom I call the ‘serial killer’ of established multilateral institutions – stage-managed a massive American exodus from international treaties, agencies and organisations, of which the US was often *the* foremost founding party. Trump pulled the US out of the Paris Climate Accord, the Iranian nuclear deal, several United Nations agencies (including the Human Rights Council and Universal Postal Union) and the Global Compact on Migration. The Trump White House additionally threatened to abandon its security commitments to Europe, held the

WTO hostage by blocking judge appointment to the dispute settlement body in protest of its 'judicial overreach', and declared the International Criminal Court 'dead'. Call him a retrenchist, a nationalist, a protectionist, a nativist, a mercantilist, an isolationist, or even a true patriot and 21st century Machiavellian statesman as one wishes, but Trump is above all an exceptionalist and unilateralist believing America can and should do whatever it takes to exert its will. By this view, squandering the TPP was exemplary of Trump's fallacious penchant for unrestrained American unilateralism and self-legitimising going-it-alone power²⁶⁴.

The grumpy president unfailingly had a corrosive effect on the TPP. But there is so much more than just a Trump shock, it is worth noting that his resistance to the TPP and general unkindness towards international trade (liberalisation) had enormous resonance among ordinary Americans who feel let down by the 'failed' economic policies of successive US administrations before Trump (Alden 2016). Decades of relentless pursuit of laissez-faire policies at home (and international promotion of Washington Consensus) have led to stagnating real wages for average American workers and widened income disparities with the top 1% earners getting wealthier almost linearly. Off-shoring and automation enabled by technological advancements disrupt the rigid labour market forcing millions out of (mostly manufacturing) jobs – without much timely assistance from the government. The Trade Adjustment Assistance (TAA) federal programmes (Hornbeck 2013) devised to protect American workers (and businesses) from hurts caused by increased import competition did much of the heavy-lifting, offering short-term job certainty, occupational training, income subsidies, tax deductions and wage insurance in the place of border protection. But they were from time to time hit by partisan politics (Galantucci 2014),

²⁶⁴ Trump's decisions to relocate American embassy to Israel from Tel Aviv to Jerusalem, imposition of tariffs on aluminium and steel and undertake corporate tax cuts despite fierce international opposition were also demonstrations of his vision of American unilateralism with no recourse to the views of others.

underfunding (Vijaya 2010, Baicker and Rehavi 2004, Schneider-Petsinger 2017) and divisive debates centred on moral hazard (Dont 1982) and certification criteria of TAA recipients (Cimino-Isaacs and Hufbauer 2015). Undoubtedly, the TPP withdrawal as a self-inflicted wound constituted a source of problems in its own right. But should Trump, though seems highly unlikely, move to address the larger and persistent challenges facing US trade policy of which the sinking of the TPP was a symptom by combining external liberalisation with strong social safety net, perhaps not all is lost for the US.

TTIP talks were, strictly speaking, 'frozen' after Trump's inauguration as president, so by default his protectionist platform, chaotic world view, and the general crisis of US trade policy all had important bearings on why the negotiations were put on the back burner. Europeans' wariness of the deal, however, was stridently more pronounced²⁶⁵ and predates Trump's stunning victory. It demands an explanation and the first clue can be found in the declared objectives of the EU in TTIP negotiations. European negotiators wanted to leverage TTIP to advance transatlantic economic integration and influence global trade rule-making, but the former has already been achieved by market forces while the latter cannot be meaningfully accomplished without having a comprehensive and avant-garde text at the end. The inconvenient truth, however, is that the more ambitious a trade treaty gets, the more challenging it is to negotiate, and the less chance it will become a reality. TTIP is of no exception²⁶⁶. The Commission's overly ambitious negotiating mandate ²⁶⁷ including elements of

²⁶⁵ Anti-TTIP sentiment nearly torpedoed the EU's FTA with Canada (Van der Loo and Pelkmans 2016). TTIP also triggered a protest movement against an FTA for the first time in German history, forcing Chancellor Angela Merkel to change her position on TTIP (Chan and Crawford 2017).

²⁶⁶ van Ham (2016) argues that '[had] TTIP simply dealt with tariff reduction, negotiations would most certainly have proceeded (more) smoothly'.

²⁶⁷ De Ville and Siles-Brügge (2017) explain why the proposed TTIP provisions on regulatory cooperation and investment protection are particularly controversial. Aggarwal and Evenett (2017) offer an account as to why negotiations on genetically modified organisms and data flows under TTIP were difficult.

investment protection, public procurement, NTMs, sustainable development goals, sectoral priorities and regulatory cooperation, on top of market access demand of slaughtering sacred cows, made TTIP an ill-fated project at the very beginning, and indeed the initiative gradually cracked under the pressure of its own weight over the course of three years of intense negotiations.

The sheer ambition of TTIP did not stop at lowering whatever existing trade barriers; by billing TTIP as a 'living agreement', European technocrats made a bold pledge to co-legislate (as opposed to merely cooperate) on emerging trade matters in the future with their US counterpart. While proponents praised TTIP for being a transformative deal that converted snapshots of discrete trade liberalisation attempts into a running movie of sustained regulatory cooperation²⁶⁸, the 'living' nature of TTIP evoked overwhelming popular fears of losing further control over the EU's trade policy. The pooling of sovereignty on the domain of trade under the EU's Common Commercial Policy pre-TTIP already left many, in particular the hard core Eurosceptics and Eurorejects (Kopecký and Mudde 2002), with a political alienating sense of powerless to influence Brussels which decides upon trade issues that directly affect their daily lives (Pitlik 2016). Although the majority of European public are not blatantly urging their governments to exit the EU (as the Britons did in the 2016 Brexit referendum), the preference loudly voiced by citizens is to re-examine the EU's post-national governance model, through, among other measures, renationalising some EU-level policy, repatriating certain powers from Brussels to national capitals and, at the minimum, suspending further integration on monetary, fiscal and defence affairs. Seen in relation to this broad trend, it was utterly unsurprising that the European populace had little appetite for backing TTIP which would pass the powers they

²⁶⁸ Lord Peter Mandelson, former EU trade commissioner, testified before the House of Lords European Union Committee that 'most trade negotiations and trade agreements are snapshots of a period in time. What we would be trying to do in creating a living agreement [out of TTIP] is to convert the snapshot into a movie' (House of Lords European Union Committee 2014).

delegate to Brussels to TTIP, a less democratically accountable higher authority on trade co-managed with Washington, in ways that threaten more sovereignty erosion. The EU's belated rally of transparency and public relations efforts did not carry the day in disarming the critics when a broad swath of publics were withdrawing their consent (van Ham 2016).

Additionally, that TTIP represents a sovereignty-sharing arrangement with the US was contentious, so much so that one finds anti-TTIPism and anti-Americanism almost indistinguishable. After all, the level of public scrutiny and popular backlash the EU's other ambitious trade pacts with Canada, Korea, Japan, Singapore and Vietnam had been subject to were nowhere near the public hostility and antagonism against TTIP, and Steiner (2018) finds that public 'attitudes towards the US at the country level measured before TTIP appeared on the agenda were shown to predict attitudes towards TTIP'²⁶⁹. While anti-Americanism in Europe has a long history and takes varied forms (Berman 2004, Stephan 2008, Lacorne, Rupnik, and Toinet 1990), it played out in the specific context of anti-TTIP movements as fears of being overpowered by Washington in negotiations (Eliasson and García-Duran 2017) and, hence, value-based social norms succumbing to neo-liberal American corporate interests (Garcia-Duran and Eliasson 2017, Young 2018, 2017). The public revelations of National Security Agency espionage by Edward Snowden only fanned the flames (Lucas 2014, Wright and Kreissl 2014). Anti-Americanism will all but certain exacerbate with President Trump in office (Wike et al. 2017) and unfreezing TTIP talks, in one form or another, looks like a dream more distant than ever.

RCEP is the only active mega-FTA negotiation, but the progress remains incredibly slow. That said, the silver lining is that, compared to the TPP and TTIP, the many problems facing RCEP parties are more technical than structural in nature. For

²⁶⁹ Conversely, the EU members where the public view the US in largely positive lens such as Lithuania tended to come out as major TTIP supporters.

ASEAN countries, a major hurdle plaguing their effective participation is resource constraint – some have none prior experiences of negotiating complex multi-party FTAs like RCEP and others are self-consciously concerned about agreeing to commitments beyond their existing capacity to implement them. Compounding to this is the confusion about Vietnam (Robeniol 2018). Vietnam is conventionally categorised as a least developed country in the region entitled to the special and differential treatment (SDT) when it comes to trade liberalisation as part of ASEAN, but its continued eligibility for the SDT under RCEP is handicapped by its TPP/CPTPP membership. Furthermore, RCEP's initial plan of restricting the beneficiaries of the SDT to a smallest possible cohort consisting of CLMV countries only is disputed by China and India which are also keen on requesting the SDT. With respect to ASEAN+ countries, or what ASEAN newly terms ASEAN Foreign Partners (AFPs), a lack of pre-existing deals spells a trouble. This deficiency is to a degree alleviated by the CPTPP agreement linking up dyads like Japan and New Zealand, but heated and protracted negotiations amongst AFPs still have significantly prolonged the process especially when not all are willing to extend 'common concessions' to each other. As a compromise, ministers in March 2018 agreed that some (limited) deviations from the uniform trade liberalisation modality should be allowed for AFPs to reconcile disagreements (Robeniol 2018). In any case, however, for ASEAN there is a perceived danger that separate negotiations by AFPs for any given set of issues or chapters may put big powers and not ASEAN 'in the driver's seat' of RCEP. Some TPP/CPTPP members' attempts to TPP-nising RCEP negotiations (i.e. to port TPP issues to the RCEP text) are also met with scepticism from non-TPP/CPTPP ASEAN partners and create new delays. Seeing off internal mistrusts is crucial for RCEP to result in commercially meaningful yet politically balanced outcomes.

Even so, looking ahead, India seems to be the deal-breaker. As noted in Chapter I, the principal reason behind New Delhi's often unfavourable posturing towards the deal predominately relates to RCEP's preoccupation with liberalising agricultural and industrial products while neglecting cross-national services markets integration, a core offensive area of interest to India. Given its under-participation in East Asian regional value chains and chronically huge (and widening) trade deficits vis-à-vis other RCEP members²⁷⁰ including notably China, India worries that a goods-heavy but services-light RCEP would pose a daunting challenge to its economy, bringing havoc to its labour-intensive manufacturing sectors²⁷¹ while limiting the scope for it to profit from unhindered intra-RCEP services trade (to make up for potential losses on the merchandise side). RCEP's TRIPS+ elements and e-commerce rules with negative public revenue implications (Sengupta 2017) also add to India's overall discontent with the agreement. To get RCEP negotiations over the line, collaboration and compromise on both sides are needed. The rest of RCEP membership should temper their expectations about what India can offer under RCEP (Basu Das 2018) while putting in place the right incentive for India to confidently open up its home market. More importantly, it is imperative for India to embrace trade openness more resolutely²⁷² in the belief that RCEP is a cooperative project for realising joint gains and not a conspiratorial plot for imposing national pains.

²⁷⁰ Economic Times (2018) reports that India has trade deficits with 10 RCEP members and its trade balance with seven of them (Indonesia, Thailand, China, Japan, South Korea, Australia and New Zealand) show a particular sign of worsening. India's trade deficit with China accounts for nearly half of its total deficit (Mishra 2018).

²⁷¹ Critics such as India's Foreign Secretary S Jaishankar (quoted in Kaushik 2018) suspects that RCEP is at odds with the government's 'Make In India' campaign. On the contrary, the present study and research by others (Das and Dubey 2014) project that India would enjoy a manufacturing boom under RCEP, see Table 3.9.

²⁷² Ciuriak (2016) discusses how India could make best use of mega-regionals to its own advantage. In the article, the author argues that India should respond to mega-regionalism by, for instance, strengthening its internal market, focusing on the role of government, and facilitating technology acquisition.

Great Powers Pivot beyond Mega-FTAs

The mega-regional leaping forward, it appears, is wearing down by a confluence of adverse forces moving against mega-FTAs²⁷³, but the US, China and the EU, enmeshed in all-round geo-economic rivalry, each has set about to embrace new strategies and tactics to quest for relative advantage and exercise international influence. Battle lines are being redrawn, but the intensity of great power competition has not receded and trade policy remains the locus of power contests. This dissertation, therefore, finishes off by giving a rundown of the latest policies of the US, China and the EU as they pivot beyond mega-FTAs.

The US trade policy taking shape on Trump's watch, as per his Trade Policy Agenda of 2017 and 2018, has three key pillars. The first is securitising trade policy to ensure foreign trade supports national security. In April 2017, Trump instructed the launch of investigations of steel and aluminium imports from the rest of the world by invoking Section 232 of the US Trade Expansion Act of 1962, a barely cited piece of legislation permitting trade defence actions on national security considerations. The investigation led to the imposition of tariffs of 25% on steel imports and 10% on aluminium imports in June 2018²⁷⁴. A fresh round of self-initiated trade cases on autos and parts was launched in May 2018 (Robinson et al. 2018). The second pillar is to uphold national sovereignty over trade policy. It involves using all lawful presidential powers to strengthen the competitiveness of US economy (e.g. tax cuts, repatriation of offshore income, Buy American and Hire American executive orders, enhanced collection of anti-dumping and countervailing duties and selective suspension of unilateral trade preferences) and 'strictly' and 'aggressively' enforcing US trade law such as Sections 201 (on safeguard actions) and 301 (on 'unfair' foreign trade practices) of the Trade

²⁷³ Nevertheless, the CPTPP looks set to be applied (provisionally) and RCEP concluded in 2018.

²⁷⁴ A handful of countries including Argentina, Australia, Brazil and South Korea are exempted from the Section 232 tariffs.

Act of 1974²⁷⁵. The last pillar concerns the deployment of all forms of leverage to negotiate 'better' trade deals while repealing existing 'bad' ones (i.e. those with a 'low' degree of reciprocity) to reduce bilateral deficits. Trump abandoned the TPP, signed off an order to conduct 'performance reviews' of all trade and investment treaties the US is party to, renegotiated the KORUS²⁷⁶ with South Korea to boost pharmaceuticals and automobile exports, tightened pressure on Japan to open its market through a potential bilateral FTA, compelled Vietnam and Malaysia to review their import regimes which allegedly disadvantage American financial and agricultural companies, and demanded the EU²⁷⁷ adopt voluntary export restraint (which is illegal under the WTO).

Moreover, tough measures against China ('the country of special concern') and politics of pessimism²⁷⁸ are the core anchorage of Trump's combative trade policy. Consequently, the phoney war and indirect competition between the US-led TPP and the China-backed RCEP is escalated to a head-on collision between Washington and China over trade. In the early days of the Trump Administration, a relatively restrained US took on China mainly on the multilateral front by bringing cases against China at the WTO (Gibbon and Vestergaard 2017). Washington then moved on to the bilateral battlefield to use all permissive national trade laws to penalise China and force

²⁷⁵ In 2017, the US Department of Commerce (DOC) began 82 trade investigations - up 28% compared with the 64 that Obama Administration started in 2015, its most active year. Importantly, in a significant change in protocol, DOC officials are no longer waiting for companies to petition for help, and cases self-initiated by DOC become increasingly common.

²⁷⁶ The revised KORUS agreement is expected to be signed in September 2018.

²⁷⁷ The US has indicated the possibility of imposing up to 27% anti-dumping tariffs on Spanish olives. The move could be considered as an attack on the EU's Common Agricultural Policy.

²⁷⁸ The titles of the best-sellers of Peter Navarro, Trump's hawkish trade advisor, illustrate this point all too well. See, for a few examples, 'The Coming China Wars: Where They Will Be Fought and How They Can Be Won' (Navarro 2006), 'Seeds of Destruction: Why the Path to Economic Ruin Runs Through Washington, and How to Reclaim American Prosperity' (Hubbard and Navarro 2010), 'Crouching Tiger: What China's Militarism Means for the World' (Navarro 2016) and the most (in)famous 'Death by China: Confronting the Dragon – A Global Call to Action' (Navarro and Autry 2011).

'structural changes' directly in a looming tit-for-tat trade war of several rounds (Bown and Kolb 2018). In round one, the two sides tussled on the legality of the US' imposition of punitive tariffs on solar panel and washing machine imports from China. Round two unfolded when China retaliated against the US' steel and aluminium tariffs by slapping import duties on \$2.4 billion of US products²⁷⁹. Round three, so far the most nasty face-off between the US and China, pertains to the US' Section 301 trade investigation into China's 'unfair' and 'predatory' practices on (forced) technology transfer and intellectual property (thefts). On 15 June 2018, the US announced 25% tariffs on \$50 billion worth of Chinese goods and China matched the move dollar-for-dollar by hitting US products worth the same amount with 25% tariffs²⁸⁰. In response to China's retaliatory moves, Trump instructed the USTR to identify an additional \$200 billion²⁸¹ worth of Chinese goods including primarily computers, auto parts and consumer goods for potentially additional tariffs at a rate of 10% (which was soon revised up by Trump to 25%). The tariffs took effect in tranches from 24 September and China placed tariffs ranging from 5%-10% on \$60 billion of US exports such as intermediate inputs and capital equipment.

Among other China-targeting measures, Trump strengthens the US Committee on Foreign Investment (CFIUS) to curb Chinese investment in the field of 'critical technology' and critical infrastructure'²⁸². On 13 August, Trump signed into law the

²⁷⁹ The US' tariffs on aluminium and steel also propagated to hit its traditional allies like Canada, Mexico, Europe, South Korea, Brazil, Argentina, Australia and Turkey and many other developing countries such as Thailand and Vietnam. Some countries like South Korea resolved the issue by negotiating bilaterally with the US whereas others like Turkey chose to retaliate against the tariffs.

²⁸⁰ At the time of writing (June 2018), this round has not ended yet. After China retaliated, Trump ordered his staff to prepare a list of goods worth \$200 billion to potentially be subject to 10% tariffs. He also threatened that tariffs on another \$200 billion worth of Chinese goods could be forthcoming should China refuses to back down.

²⁸¹ In July 2018, Trump said he is ready to impose tariffs on *all* US imports from China, which totalled \$504 billion in 2017.

²⁸² On the surface of it, the strengthening CFIUS is technically a country-neutral move, but the review process overseen by CFIUS is likely to focus primarily on Chinese investment and acquisition. And by restricting Chinese investment and punishing IPR violation, García-

John S. McCain National Defense Authorization Act For Fiscal Year 2019, which contains two key provisions on monitoring some foreign investments in the US (FIRRMA) and outbound transfers of technology (ECRA). Many more such or tougher punitive policies could lie ahead as the Sino-US trade conflicts grind on.

From a historical perspective, an evolution of America's China strategy is discernible. What started off as a conciliatory strategy of co-optive socialisation (marked by the extension of permanent normal trade relation to China and ushering it into the WTO), gravitated over time towards a more competitive and coercive approach (of excluding China from joining the TPP and drawing up trade rules for it to abide by), and eventually to an outright offensive and confrontational strategy of an amorphous economic warfare that risks a historic trade decoupling between the world's two largest economies²⁸³. China's oft-ridiculed assertion of the US sticking to a 'Cold War mindset' when conducting foreign relations is no longer so far-fetched in the face of Trump's adversarial and unilateralist turn in trade policy. And the irony of ironies is that the US and China now find themselves in a situation of competitive erection of trade barriers when they were each leading a mega-regional trade liberalisation mission not long ago. Needless to say, how the on-going trade battle eventually plays out²⁸⁴ could have far-reaching and wide-ranging implications on the operating order of the world economy in the foreseeable future.

Herrero (2018) argues that the US is targeting China's 'future' capability to offend the US. As a result, China has turned to Europe to acquire European high-tech companies to obtain key technologies.

²⁸³ A similar evolution in the US' Asia-Pacific economic strategy is observable. The US pursued the APEC-based trans-Pacific mini-lateralism in the 1990s, FTA-oriented bilateralism in the 2000s and then TPP-centred mega-regionalism from 2010 onwards. The policy under President Trump is entering a fourth phase that can be called 'coercive bilateralism'.

²⁸⁴ On the side-line of the 2018 G20 Summit meeting in the Argentine capital of Buenos Aires, called a truce on the side-line of the summit: the United States will not raise tariffs on \$200 billion in Chinese goods from 10% to 25% as previously scheduled on 1 January 2019, and China accepted to purchase an unspecified but 'very substantial' amount of American agricultural, energy, industrial and other products to pare down the trade imbalances; but in

In the short-run, Trump's protectionist policies have paradoxically spurred a new movement towards strengthening inter-regionalism and cross-regional free trading relationships. In March 2018, the Philippines ratified an FTA with the European Free Trade Association (EFTA); two more deals with unidentified countries are under negotiation. Australia signed an FTA with Peru in February 2018. Indonesia signed a comprehensive economic partnership agreement with Chile in December 2017 and inked the one with EFTA in December 2018. Negotiations for Indonesia-EFTA Comprehensive Economic Partnership Agreement are underway. Singapore is negotiating an FTA with Argentina and the Pacific Alliance, which comprises Chile, Colombia, Mexico, and Peru after upgrading its trade pact with China to extend its coverage to legal and financial services as well as e-commerce and the environment. Among East Asian countries, South Korea signed FTAs in February 2018 with a number of Central American countries, and is presently negotiating with the Eurasian Economic Union (EAEU) and Israel. A talk to update the 15-year old FTA with Chile started in November. Japan and the EU signed an economic partnership agreement in July 2018. China has embarked on a series of negotiations with the EAEU, Moldova, and Mauritius, to name a few; the launch of FTA talks with Norway is scheduled in 2019. It seems that Trump has done more to promote regionalism not least in the Asia-Pacific than these countries would have done on their own.

As for China, under President Xi Jinping, its elevated economic and soft power ambitions in its regional neighbourhood and beyond are being realised through (barring RCEP negotiations) the execution of the Belt and Road Initiative (BRI)²⁸⁵. Xi

the event that the two countries fail to deliver solutions to the structural causes of the trade conflicts including China's alleged 'unfair' and 'predatory' trading practices in 90 days, the tariffs will be raised to 25%. However, because there is no joint statement, and there are some disagreements between the statements of the White House and Chinese state media, details remain extremely unclear.

²⁸⁵ In addition to the BRI, China has pursued 'Made in China 2025' strategy (Wübbeke et al. 2016, United States Chamber of Commerce 2017) to update its industrial base and

announced the overseas investment plan of building a 'Silk Road Economic Belt' and '21st Century Maritime Silk Road' in 2013. The stated goal of the BRI is to strengthen connectivity – physical, digital, institutional and people-to-people – across the Afro-Eurasian supercontinent in the ancient 'Silk Road Spirit' of 'peace and cooperation, openness and inclusiveness, mutual learning and mutual benefit'. To provide one (additional) multilateral financing mechanism to the grandiose BRI vision, China led the establishment of the AIIB with 56 other founding members in 2015 (Weiss 2017, Ikenberry and Lim 2017, Ren 2016). Five years on, China has pumped through the AIIB (and other more modest channels like the Silk Road Fund) into various BRI-related projects a total of more than \$25 billion²⁸⁶ according to the figure compiled by the German Mercator Institute. Sceptics, who call the BRI China's Marshall Plan²⁸⁷, however, highlight Beijing's more self-centric and expansionist, if not neo-colonialist, intentions to make China strong and powerful (Ferdinand 2016), develop land-locked inner provinces (Cai 2017), export over-capacity (Dollar 2015), strengthen energy security (Downs et al. 2017), control key trading routes (Gleave 2018), and create spheres of political influence (Callahan 2016) by offering side-payment or debt trap diplomacy ²⁸⁸ (Small 2018). The underlying ambitions and the specific operationalisation of the BRI as Beijing's flagship geo-economic strategy stoke uneasiness in Washington and Brussels since it (conspicuously) excludes the US and (tacitly) divides the EU.

innovation capacity. Observers like Heath and Thompson (2018) warn that the US ignores China's surge in new technologies at its own peril.

²⁸⁶ This figure was calculated by adding the amounts of implemented BRI projects known to and verified by the Mercator Institute. It may well underestimate the scale of existing BRI investment.

²⁸⁷ Many scholars like Shen and Chan (2018) and Casarini (2016) who compare BRI and Marshall Plan conclude that they are not exactly comparable. Nevertheless, drawing a parallel between the two has become popular among commentators since 2014.

²⁸⁸ Hurley, Morris, and Portelance (2018) evaluate the likelihood of debt problems in potential BRI borrower countries and offer recommendations to improve Chinese policies and those of the World Bank in alleviating the problems.

The US' response to the BRI exclusion, at the tactical level, was simply to boycott the AIIB while reasserting the US leadership in the existing Bretton Woods-based multilateral economic architecture. It for instance backed capital increase in the World Bank and approving long-awaited IMF governance reform. At the strategic level, countering the BRI's Eurasianism comes in the form of promoting a concept of a Free and Open Indo-Pacific (FOIP) which pits Trump's Indo-Pacific Dream against Xi's China Dream. Among others, the FOIP aims to dilute China's entrenching regional dominance by stretching westwards the economic centre of gravity and enlist countries that are either side-lined by or unsympathetic to the BRI (e.g. Australia, Japan and India) to keep China's growing power in check collectively (Ji 2018). And to specifically neutralise the BRI as an 'influence-through-infrastructure enterprise' (Medcalf 2018), the US, alongside Japan, Australia and India, members of the so-called 'Quad 2.0' (Tan and Hussain 2018), have explored the feasibility of setting up a joint regional infrastructure scheme to offer regional countries such as Sri Lanka and Maldives a credible alternative source of infrastructure financing²⁸⁹.

In comparison to the US' comparatively prompt and forceful actions, responses by the EU to China's charm offensive on its Eastern flank were tardy, fragmented and inconsistent. A taste of this was given in April 2015 when half of the EU members, following the lead of the United Kingdom (which broke ranks with the US over the move), joined the AIIB without much coordination at the EU level or even consulting the European Commission (EPSC 2015, Ujvari 2016). The EU joiners saw the AIIB as a huge opportunity to profit from the AIIB's infrastructural projects and sub-contracts while shaping the China-led bank from within, whereas non-joiners are often loath to trade their security relationship with the US for a seat at the AIIB (Renard 2015, Chen 2018). Beyond the embarrassment of lacking a unified and cohesive European stance

²⁸⁹ India and Japan are collaborating separately under the Asia-Africa Growth Corridor proposal launched in 2017 to develop maritime connectivity across Africa, India, and Southeast Asia (Rana and Ji 2018).

over the AIIB, the EU's grievances more deeply concern Beijing's attempt to use the China-Central and Eastern European (CEE) countries 16+1 mechanism as the launch pad for BRI in Europe (Stanzel et al. 2016). That the '16' CEE countries China warmly embraces and heavily invests in range from non-EU European states, EU candidates (who could represent Chinese interests after EU accession) and a handful of incumbent EU members that are at loggerheads with Brussels over immigration and austerity issues spurs fears of China dividing and conquering the EU²⁹⁰ (Benner et al. 2018, Meunier 2014, Pardo 2018) under the banner of the BRI.

While the EU may have showed weakness in its encounter with China over the BRI and had plenty to worry about the trade policy of the Trump Administration, it remains steadfast in supporting free trade and the ability to spearhead an open and rules-based trading system becomes the litmus test for the bloc's 'actorness' on the world stage. The 'New Trade Strategy' unveiled in 2015 (European Commission 2015d) committed the EU to build up commercial presence in Asia and the Pacific. Brussels has since followed the roadmap meticulously, and with even greater determination after Trump took office. The EU provisionally applied its Comprehensive Economic and Trade Agreement (CETA) with Canada in September 2017. The EU's pathfinder bilateral agreements in Southeast Asia with Singapore and Vietnam are currently at the stage of securing approval of member states and being legally scrubbed by lawyers, respectively. Trade negotiations with Indonesia and the Philippines²⁹¹ are under way and the EU is also working towards resuming the suspended negotiations with Malaysia, Thailand, and ultimately with ASEAN as a whole. In June 2018, the EU formally launched trade talks with Australia and with New Zealand and organised stock-taking sessions at the chief negotiator's level with India to determine whether

²⁹⁰ Of course, not all buy into this line of argument. For example, Turcsányi (2014) maintains that 'neither the CEE countries nor China have any motivation to try to weaken the EU'; the EU's apprehension towards the platform reflects more of the Union's internal problems.

²⁹¹ Negotiations for an FTA with the Philippines were formally launched in December 2015. After round two in February 2017, no further negotiations have been planned.

there was enough common ground to reignite prior negotiations hamstrung by a mismatch of ambition levels. The EU is making headway in re-energising trade relations with growth engines in Latin America as well. After reaching a political agreement with Mexico in April 2018, the two sides are resolving the remaining technical issues to finalise the text. FTA negotiations with Mercosur following a bi-regional approach (Meissner 2018b) are advancing fast to give further impetus to the thickening inter-bloc commercial ties.

The EU is able to adapt swiftly to a drastically different multiplex geo-economic climate involving a 'global' China and a 'parochial' America (Yeo 2018) with up-to-speed global trade diplomacy because the EU becomes aware that it has to be less ideological and more pragmatic in order to thrive on this precarious trade landscape. With the guiding foreign policy principle transitioning from value promotion (European Commission 2003) to 'principled pragmatism' (European Commission 2016), the EU is gradually transforming from a Eurocentric normative power (Poletti and Sicurelli 2018) to a realist power (Meissner 2018a) which strives to explicitly reconcile the tensions between interests and values (Youngs 2016). As such, despite the accusations of 'trade at any cost', the EU is willing to relax the contentious human rights conditionality and/or labour standards clauses in its trade negotiations with Singapore (Mckenzie and Meissner 2017) and Vietnam (Christian Solidarity Worldwide and Vietnam Committee on Human Rights 2016). Another vivid example is that the EU seems open to tweak its sustainability regulations to soften the recrimination against Indonesia and Malaysia over palm oil to pave the way for exchanging market access offers under an FTA. There is no denial that the envisaged short-term commercial gains is certainly part of the equation, the EU's pragmatic and strategic trading behaviour is more fundamentally driven by an apprehension that to make its interests protected (and values honoured) it has to reach out widely and tirelessly seek out new markets. There is also belief that to write progressive rules for

multilateral trade governance Europe needs to build global alliances coalescing around it with as many partners committed to trade openness as possible (European Commission 2017). In such a context, getting right China-EU partnership, Brexit negotiations and internal reforms to lift popular support for external engagement are of paramount importance and it remains to be seen if the soon-to-be EU27 can indeed deliver on the ambitious agenda it sets for itself.

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Appendix A. Modifications Made to Standard GTAP Model

- Changes to the model theory

Variable

Capital;

Equation E_capital

$\text{capital} = \sum\{r, \text{reg}, \text{VKB}(r) / \sum\{s, \text{reg}, \text{VKB}(s)\} * \text{qo}(\text{"capital"}, r)\};$

Variable (all,r,reg)

f_rorc(r);

Variable

rorc_r;

Equation E_rorc2 (all,r,reg)

$\text{rorc}(r) = \text{rorc_r} + \text{f_rorc}(r);$

Variable

qgdpwld;

Equation E_qgdpwld

$\sum\{r, \text{reg}, \text{GDP}(r)\} * \text{qgdpwld} = \sum\{r, \text{reg}, \text{GDP}(r) * \text{qgdp}(r)\};$

- Change to the default GTAP short-term closure

$\text{Swap } \text{qo}(\text{"capital"}, \text{reg}) = \text{f_rorc}(\text{reg});$

Source: Productivity Commission (2009)

Appendix B. Regional Aggregation

No.	Region	Original GTAP regions ^a
1	Australia	aus
2	Brunei	brn
3	Cambodia	khm
4	Canada	can
5	Chile	chl
6	China	chn
7	European Union	aut, bel, cyp, cze, dnk, est, fin, fra, deu, grc, hun, irl, ita, lva, lit, lux, mlt, nld, pol, prt, svk, svn, esp, swe, gbr, bgr, hrv, rou
8	Indonesia	idn
9	India	ind
10	Japan	jpn
11	South Korea	kor
12	Laos	lao
13	Malaysia	mys
14	Mexico	mex
15	Myanmar ^b	xse
16	New Zealand	nzl
17	Peru	per
18	Philippines	phl
19	Singapore	sgp
20	Thailand	tha
21	United States	usa
22	Vietnam	vnm
23	Rest of the world	xoc, hkg, mng, twm, xea, bgd, npl, pak, ika, xas, xna, arg, bol, bra, col, ecu, pry, ury, ven, xsm, cri, gtm, hnd, nic, pan, slv, xca, dom, jam, pri, tto, xcb, che, nor, xef, alb, blr, rus, ukr, xee, xer, kaz, kgz, xsu, arm, aze, geo, bhr, irn, isr, jor, kwt, omn, qat, sau, tur, are, xws, egypt, mar, tun, xnf, ben

^a See <https://www.gtap.agecon.purdue.edu/databases/regions.asp?Version=9.211> for the GTAP countries and regions. ^b In the current GTAP Data Base, Myanmar and Timor-Leste are bundled in 'Rest of Southeast Asia (xse)'. This study used 'xse' to represent Myanmar.

Appendix C. Sectoral Aggregation

No.	Code	Aggregated sector	GTAP sectors	Description
1	GrainsCrops	Grains, Crops, Forestry	pdr, wht, gro, v_f, osd, c_b, pfb, ocr, frs	Paddy rice; wheat; cereal grains and others; vegetables, fruit, nuts; oil seeds; sugar cane, sugar beet; plant-based fibres; crops and others; forestry
2	MeakLstk	Livestock, fishing	ctl, oap, rmk, wol, fsh,	Cattle, sheep, goats, horses; animal products and others; raw milk; wool, silk-worm cocoons; fishing
3	Mining	Mining	coa, oil, gas, omn	Coal; oil; gas; minerals and others
4	ProcFood	Processed food	cmt, omt, vol, mil, pcr, sgr, ofd, b_t	Meat; meat products and others; vegetable oils and fats; dairy products; processed rice; sugar; food products and others; beverages and tobacco products
5	TextWapp	Textiles and clothing	tex, wap	Textiles; wearing apparel
6	LightMnfc	Light manufacturing	lea, lum, ppp, omf	Leather products; wood products; paper products, publishing; manufactures and others
7	HeavyMnfc	Heavy manufacturing	p_c, crp, nmm, i_s, nfm, fmp, mvh, otn, ele, ome	Petroleum, coal products; chemical, rubber, plastic products; mineral products and others; ferrous metals; metals and others; motor vehicles and parts; transport equipment; electronic equipment; machinery and equipment and others
8	Const	Construction	cns	Construction
9	Transport	Transport	otp, wtp, atp	Transport and others; sea transport; air transport
10	Comm	Communication	cmn	Communication
11	FinSvc	Financial services	ofi	Financial services and others
12	Trade	Trade	trd	Trade
13	Insurance	Insurance	isr	Insurance
14	Business	Business	obs	Business services and others
15	Others	Other services	ely, gdt, wtr, ros, osg, dwe	Electricity; gas manufacture, distribution; water; recreation and others; public administration, defence, health and education; dwellings

Appendix D. Applied Ad Valorem Tariff Rates between TPP Members

Grains, crops and forestry industries

Meat, livestock and fishing industries

Processed food industries

Textiles and clothing industries

Light manufacturing industries

Heavy manufacturing industries

Appendix E. Applied Ad Valorem Tariff Rates between RCEP Members

Grains, crops and forestry industries

Meat, livestock and fishing industries

Processed food industries

Textiles and clothing industries

Light manufacturing industries

Heavy manufacturing industries

Appendix F. Applied Ad Valorem Tariff Rates between TTIP Members

Appendix G. RCEP Countries' Average MFN Rates by 2-digit Sector

The Philippines

Singapore

Appendix H. Selected Sectors of Highest Hoekeman Index in Existing ASEAN+1 FTAs

	Sectors	GTAP sectors	Agreement
AUS	Wholesale trade	Trade	AANZFTA
	Franchising	Trade	
	Commission agents' services	Finance	
	Sewage and refuse disposal, sanitation and similar activities	Other services	
BRN	Computer and related services	Communication	AFAS, AANZFTA
	Road transport	Transport	ACFTA
	Hospital	Other services	AKFTA
CHN	Real estate	Business	ACFTA
	Road transport	Transport	
IDN	Telecommunication	Communication	AFAS
	Hospital	Other services	AANZFTA
	Hotels and restaurants	Trade	AANZFTA, ACFTA, AKFTA
KHM	Computer and related services	Communication	AFAS, AANZFTA, ACFTA, AKFTA
	Telecommunication	Communication	AFAS
	Commission agents' services	Finance	ACFTA, AKFTA
	Courier services	Transport	AFAS, ACFTA, AKFTA
	Road transport	Transport	AFAS, AKFTA
	Travel agencies and tour operators services, tourist guides services	Transport	AFAS, ACFTA, AKFTA
	Other distribution services	Other services	ACFTA, AKFTA
	Franchising	Trade	AFAS, ACFTA, AKFTA
	Wholesale and retailing trade	Trade	AFAS, ACFTA, AKFTA
	Higher, adult and other education	Other services	AFAS, ACFTA, AKFTA
	Sewage and refuse disposal, sanitation and similar activities	Other services	AFAS, ACFTA, AKFTA
	Hospital	Other services	ACFTA
	Entertainment	Other services	ACFTA, AKFTA
KOR	Computer and related services	Communication	AKFTA
	Franchising	Trade	AKFTA
	Travel agencies and tour operators services, tourist guides services	Transport	AKFTA
LAO	Courier services	Transport	AFAS, AANZFTA
	All insurance and insurance-related services	Insurance	ACFTA
	General construction work for civil engineering	Construction	AKFTA
	Installation and assembly work	Construction	AKFTA
	Secondary education services	Other services	AKFTA
MMR	Computer and related services	Communication	AFAS, AANZFTA
	General construction work for civil engineering	Construction	AKFTA
	Courier services	Transport	AFAS
	Social services	Other services	AFAS

	Audio-visual services	Other services	ACFTA
MYS	Computer and related services	Communication	AFAS, AANZFTA
	Telecommunication	Communication	ACFTA
	Travel agencies and tour operators services	Transport	AFAS
	Other tourism and travel related services	Transport	AKFTA
	Banking and other financial services	Finance	ACFTA
	Hotels and restaurants	Trade	AKFTA
NZL	Computer and related services	Communication	AANZFTA
PHL	Courier services	Transport	AFAS
	Travel agencies and tour operators services	Transport	AANZFTA, ACFTA, AKFTA
SGP	Research and development, audio-visual services	Other services	AFAS
	Adult education	Other services	AFAS, ACFTA, AKFTA
	Entertainment	Other services	AFAS, ACFTA, AKFTA
	Libraries, archives, museums and other cultural services	Other services	AFAS, ACFTA
	General construction for building and civil engineering, installation and assembly work	Construction	AFAS, AKFTA
	Building completion and finishing work, other construction and related engineering services	Construction	AKFTA
	Commission agents' services	Finance	AFAS, AKFTA
	Wholesale and retailing services	Trade	AFAS, AKFTA
	Franchising	Trade	ACFTA, AKFTA
	Tourist guides services	Transport	AFAS, AKFTA
	Travel agencies and tour operators services	Transport	ACFTA
	Computer and related services	Communication	AANZFTA
THA	Computer and related services	Communication	AFAS, AANZFTA
	Sewage services	Other services	AFAS
	Health related and social services	Other services	AFAS
	Hotels and restaurants	Trade	AFAS
	Tourist guides services	Transport	ACFTA
VNM	Courier services	Transport	AFAS, AANZFTA, ACFTA, AKFTA
	Travel agencies and tour operators services	Transport	AFAS, AANZFTA, ACFTA, AKFTA
	Computer and related services	Communication	ACFTA, AKFTA
	Telecommunication	Communication	AFAS, AANZFTA, AKFTA
	Franchising	Trade	AFAS, AANZFTA, ACFTA, AKFTA
	Hotels and restaurants	Trade	AFAS, AANZFTA, ACFTA, AKFTA
	All insurance and insurance-related services	Insurance	AANZFTA, ACFTA, AKFTA

Note: The ASEAN-India Trade in Services Agreement (AITISA) was signed on 13 November 2014 in Nay Pyi Taw, Myanmar, but it does not contain provisions that significantly commit parties to liberalising service sectors. As of May 2017, negotiations for the service and investment chapter of ASEAN-Japan Comprehensive Economic Partnership are not yet concluded.

Appendix I. Indicators of Investment Restrictiveness and High-tech Exports Share

Source: OECD

Source: World Bank

Appendix J. Additional Simulation Results

Scenario 1(a): TPP

Table J.1 Estimated output effects of tariffs reduction under TPP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	1.74	0.10	0.77	-1.73	-0.03	0.05	0.00	-0.01	-3.35	0.22	0.08	-0.03	0.04	-0.02	-0.56	0.29	0.08	-0.31	0.22	0.50	0.98	-0.79	0.01
Meat and livestock	1.90	1.64	2.50	10.68	-0.29	-0.28	0.01	-0.05	-13.77	-0.53	-0.17	-0.36	2.30	-0.04	2.30	1.76	-0.28	-0.16	-0.07	-5.76	2.65	0.16	-0.23
Extraction	0.35	0.76	0.04	-0.32	0.05	0.03	0.09	0.05	-0.16	-0.04	0.01	0.17	0.06	0.08	0.20	-0.37	0.11	0.08	0.11	0.05	-0.04	-0.62	0.02
Processed food	2.20	-17.58	-0.05	1.05	-0.17	-0.14	-0.22	-0.14	0.04	-0.09	-0.49	-0.01	-0.27	-0.07	1.92	8.00	0.14	-0.18	12.25	-1.18	0.71	-1.40	-0.14
Textiles and apparels	0.78	9.94	-0.91	-0.42	0.05	-0.12	-0.56	-0.27	1.55	-1.61	0.86	0.29	-1.25	0.38	23.37	-1.58	-0.12	-0.63	3.47	0.31	-1.10	35.33	-0.32
Light manufacturing	-3.15	2.35	-0.08	-0.70	-0.10	-0.10	-0.27	-0.05	2.06	0.00	-0.29	-1.76	0.18	0.20	1.14	-2.46	-0.20	0.03	2.36	-1.19	-0.16	7.52	-0.05
Heavy manufacturing	0.65	-1.07	0.14	-0.38	0.05	0.04	0.14	0.00	0.02	0.26	-0.01	0.48	0.17	0.03	3.03	-0.91	0.19	0.26	0.53	0.12	-0.10	-1.25	0.01
Construction	0.42	2.03	0.03	0.21	-0.07	-0.05	-0.12	-0.07	0.23	-0.94	-0.10	0.04	0.11	-0.01	1.69	0.88	0.09	-0.17	0.48	-0.59	0.05	6.52	-0.05
Transport	0.25	2.60	0.08	0.05	0.02	0.08	-0.05	-0.01	-0.01	-0.31	0.16	0.17	0.08	0.03	1.39	-0.01	0.08	-0.03	-0.01	0.02	0.02	3.68	0.03
Communication	0.20	1.75	-0.01	0.10	-0.02	0.01	-0.01	0.00	0.14	0.05	-0.06	0.23	0.07	0.02	1.35	0.30	0.05	-0.08	0.04	-0.28	0.02	2.19	-0.01
Trade	0.14	2.21	0.04	0.09	-0.02	-0.01	-0.09	-0.05	0.21	-0.56	-0.08	0.07	0.09	0.02	2.06	0.42	0.05	-0.11	0.19	-0.45	0.02	4.14	-0.02
Financial services	0.24	1.55	0.00	0.11	-0.01	0.04	-0.05	-0.02	0.14	-0.53	-0.05	0.15	0.08	0.05	1.70	0.55	0.05	-0.12	-0.17	-0.35	0.00	-0.37	0.00
Insurance	0.17	2.00	0.02	-0.05	0.01	0.02	-0.02	-0.02	-0.03	-0.30	-0.06	0.57	0.11	0.10	0.89	0.32	0.08	-0.10	-0.02	-0.22	-0.01	-2.32	0.02
Business	0.26	2.12	0.04	0.05	-0.02	0.01	-0.01	0.14	0.14	-0.50	-0.02	0.14	0.08	0.10	0.89	0.42	0.08	0.07	-0.10	0.14	0.02	-0.13	0.01
Other services	0.14	0.83	-0.08	0.11	-0.04	-0.01	-0.07	-0.04	0.13	-0.50	-0.08	0.03	0.05	-0.01	0.81	0.35	0.02	-0.14	0.27	-0.29	0.02	3.35	-0.01
Capital goods	0.47	1.81	0.03	0.23	-0.07	-0.06	-0.13	-0.08	0.31	-1.02	-0.14	0.02	0.11	-0.02	3.15	1.08	0.09	-0.18	0.54	-0.63	0.06	6.77	-0.07

Table J.2 Estimated long-term output effects under TPP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	1.70	1.17	0.34	-1.70	-0.01	0.09	0.02	0.00	-3.56	0.11	0.23	-0.03	0.26	-0.02	-0.20	0.91	0.08	-0.29	-0.07	0.53	0.95	-1.01	0.02
Meat and livestock	1.98	4.43	2.15	10.85	-0.29	-0.27	0.02	-0.05	-14.02	-0.14	-0.59	-0.38	3.50	-0.04	3.43	2.88	-0.21	-0.18	-0.20	-5.83	2.77	0.53	-0.23
Extraction	0.42	3.58	0.06	-0.20	0.07	0.02	0.06	0.07	-0.28	-0.02	-0.06	0.18	0.97	0.05	0.92	0.53	0.21	0.07	0.17	0.04	-0.11	-0.50	0.01
Processed food	2.41	-15.17	0.07	1.40	-0.17	-0.14	-0.21	-0.14	0.17	-0.54	-0.08	-0.01	1.05	-0.07	2.54	9.33	0.20	-0.20	12.72	-1.22	0.80	-1.23	-0.14
Textiles and apparels	0.68	17.46	-1.32	-0.44	0.11	-0.14	-0.60	-0.24	1.66	0.97	-1.71	0.23	0.80	0.38	27.46	0.09	0.13	-0.65	3.62	0.33	-1.31	39.22	-0.33
Light manufacturing	-3.32	7.72	-0.01	-0.60	-0.11	-0.10	-0.27	-0.02	2.35	-0.29	-0.05	-1.72	2.67	0.24	2.99	-1.07	-0.28	0.03	2.30	-1.26	-0.23	8.53	-0.04
Heavy manufacturing	0.56	2.12	-0.07	-0.34	0.02	0.02	0.13	0.01	0.22	-0.05	0.10	0.41	2.22	-0.01	5.22	0.66	0.18	0.19	1.55	0.01	-0.11	-1.00	0.02
Construction	0.71	4.78	0.65	0.62	-0.10	-0.05	-0.15	-0.11	0.45	-0.13	-1.04	0.03	2.60	-0.01	3.34	2.55	0.24	-0.24	1.86	-0.68	0.20	8.00	-0.07
Transport	0.40	6.38	0.07	0.29	0.03	0.17	-0.05	0.02	0.12	0.28	-0.31	0.20	2.08	0.04	2.62	1.25	0.20	-0.03	0.07	0.08	0.05	4.64	0.07
Communication	0.55	6.08	0.50	0.46	-0.06	-0.05	-0.07	-0.08	0.26	-0.13	-0.26	0.05	2.29	0.01	3.07	1.82	0.21	-0.17	1.68	-0.38	0.12	2.89	-0.07
Trade	0.38	6.56	0.38	0.38	-0.04	-0.02	-0.11	-0.07	0.35	-0.12	-0.64	0.05	2.42	0.01	3.92	1.97	0.19	-0.18	1.14	-0.54	0.11	5.30	-0.05
Financial services	0.50	5.90	0.35	0.43	-0.03	0.04	-0.08	-0.02	0.17	-0.08	-0.60	0.14	2.30	0.04	3.34	1.65	0.19	-0.19	0.41	-0.41	0.06	-0.62	-0.02
Insurance	0.46	6.19	0.74	0.41	0.02	0.00	-0.03	0.03	0.03	-0.11	-0.33	0.44	2.09	0.09	2.71	1.23	0.59	-0.14	0.91	-0.25	0.03	-0.96	-0.01
Business	0.56	6.49	0.59	0.31	-0.06	-0.02	-0.02	-0.11	0.09	-0.12	-0.59	0.10	2.27	0.06	2.68	1.68	0.17	-0.05	1.49	-0.01	0.08	0.08	-0.06
Other services	0.36	4.20	0.20	0.38	-0.06	-0.02	-0.10	-0.05	0.29	-0.12	-0.59	0.02	2.21	-0.01	2.36	1.82	0.13	-0.20	1.10	-0.35	0.12	4.30	-0.02
Capital goods	0.78	4.43	0.70	0.65	-0.11	-0.07	-0.16	-0.12	0.56	-0.20	-1.13	0.02	2.63	-0.01	5.23	2.87	0.25	-0.26	2.09	-0.74	0.24	8.30	-0.08

Scenario 1(b): CPTPP

Table J.3 Estimated output effects of tariffs reduction under CPTPP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	2.06	0.01	0.86	-4.13	-0.02	0.06	0.01	0.00	-1.17	0.06	-0.01	0.03	-0.38	0.00	-0.25	1.66	0.10	-0.05	0.44	0.44	-0.04	0.28	0.01
Meat and livestock	4.74	1.62	12.41	23.10	-0.20	-0.14	0.07	0.00	-9.40	-0.15	0.05	-0.30	5.26	-0.03	1.46	2.09	0.01	-0.11	0.07	-4.50	-0.70	-0.28	-0.13
Extraction	0.19	0.65	-0.12	-0.63	0.04	0.02	0.05	0.03	-0.18	0.00	0.02	0.07	0.01	0.03	0.20	-0.53	0.02	0.02	0.10	0.05	0.04	0.06	0.01
Processed food	2.16	-17.60	0.36	1.90	-0.08	-0.04	-0.13	-0.08	-0.10	-0.03	-0.16	-0.03	0.01	-0.04	1.61	8.20	0.09	-0.12	13.15	-0.53	-0.17	-0.39	-0.06
Textiles and apparels	0.45	3.90	-0.93	-0.61	0.02	-0.06	-0.05	-0.06	0.61	-0.13	-0.03	0.48	-0.15	0.14	10.15	-2.68	0.17	-0.09	1.67	0.16	-0.17	5.65	-0.11
Light manufacturing	-3.15	1.73	-0.58	-1.04	-0.09	-0.09	-0.28	-0.05	1.80	0.02	-0.23	-2.05	0.18	0.07	0.90	-2.68	-0.14	-0.05	2.45	-1.12	-0.05	3.53	-0.05
Heavy manufacturing	0.34	-0.89	-0.51	-1.15	0.03	0.03	0.07	-0.01	-0.18	-0.70	0.01	0.20	0.01	-0.07	2.51	-1.28	0.04	0.06	0.62	0.06	0.07	0.62	-0.01
Construction	0.45	1.75	0.20	0.35	-0.04	-0.01	-0.08	-0.03	0.18	-0.07	-0.06	0.00	0.31	0.00	1.39	0.89	0.08	-0.09	0.51	-0.46	-0.03	2.29	-0.02
Transport	0.20	2.11	-0.06	-0.03	0.01	0.04	-0.04	-0.01	-0.03	0.06	0.07	0.10	0.17	0.01	1.17	-0.21	0.03	-0.04	-0.13	0.00	0.02	1.68	0.01
Communication	0.18	1.51	0.01	0.14	-0.01	0.00	-0.02	-0.01	0.09	0.10	-0.04	0.14	0.18	0.00	1.12	0.28	0.02	-0.06	0.03	-0.23	-0.01	0.77	0.00
Trade	0.14	1.89	0.07	0.11	0.00	0.00	-0.06	-0.03	0.14	-0.05	-0.05	0.00	0.22	0.00	1.64	0.42	0.03	-0.08	0.22	-0.36	-0.01	1.14	-0.01
Financial services	0.24	1.34	0.01	0.16	-0.01	0.01	-0.05	-0.02	0.08	-0.05	-0.04	0.06	0.18	0.01	1.35	0.54	0.03	-0.08	-0.20	-0.28	0.00	0.02	-0.01
Insurance	0.12	1.70	-0.14	-0.11	0.01	0.00	-0.02	-0.01	-0.03	0.02	-0.05	0.34	0.10	0.02	0.75	0.30	0.01	-0.07	-0.03	-0.19	0.01	-0.02	0.00
Business	0.23	1.86	-0.01	0.01	-0.01	0.01	-0.02	0.05	0.08	-0.02	-0.01	0.06	0.18	0.03	0.80	0.41	0.04	0.00	-0.09	0.11	0.01	0.26	0.00
Other services	0.14	0.72	0.04	0.17	-0.02	-0.01	-0.05	-0.02	0.10	-0.03	-0.06	0.00	0.17	0.00	0.64	0.36	0.01	-0.08	0.28	-0.24	-0.01	0.91	-0.01
Capital goods	0.51	1.56	0.21	0.38	-0.04	-0.02	-0.08	-0.04	0.25	-0.09	-0.10	-0.01	0.31	-0.01	2.53	1.11	0.08	-0.10	0.58	-0.49	-0.04	2.35	-0.02

Table J.4 Estimated long-term output effects under CPTPP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	2.14	1.13	1.08	-4.32	-0.02	0.07	0.02	0.00	-1.27	0.07	0.00	0.03	0.03	0.00	0.18	2.40	0.07	-0.05	0.32	0.46	-0.03	0.19	0.02
Meat and livestock	4.75	4.34	12.71	23.68	-0.20	-0.13	0.08	0.00	-9.74	-0.16	0.06	-0.31	6.42	-0.03	2.49	3.07	0.08	-0.12	-0.03	-4.60	-0.70	-0.06	-0.13
Extraction	0.31	3.46	-0.12	-0.46	0.04	0.01	0.03	0.03	-0.29	-0.01	0.01	0.09	0.75	0.02	0.97	0.37	0.13	0.02	0.20	0.04	0.03	0.23	0.00
Processed food	2.36	-15.33	0.41	2.13	-0.08	-0.05	-0.13	-0.09	-0.05	-0.02	-0.17	-0.03	0.92	-0.05	2.20	9.52	0.11	-0.13	13.86	-0.56	-0.18	-0.27	-0.06
Textiles and apparels	0.46	10.23	-1.01	-0.63	0.03	-0.07	-0.05	-0.07	0.65	-0.15	-0.03	0.47	1.11	0.10	12.88	-1.08	0.17	-0.10	1.67	0.18	-0.18	6.59	-0.12
Light manufacturing	-3.32	6.72	-0.60	-1.01	-0.09	-0.09	-0.28	-0.05	1.93	0.01	-0.23	-2.15	1.89	0.07	2.62	-1.33	-0.21	-0.05	2.59	-1.16	-0.06	4.03	-0.04
Heavy manufacturing	0.35	2.12	-0.52	-1.20	0.02	0.01	0.07	-0.02	-0.09	-0.91	-0.02	0.10	1.54	-0.10	4.44	0.24	0.11	0.03	1.53	0.00	0.06	0.99	-0.01
Construction	0.70	4.39	0.32	0.57	-0.04	0.01	-0.08	-0.03	0.28	-0.08	-0.06	0.00	1.73	0.01	2.83	2.42	0.16	-0.10	1.51	-0.48	-0.01	3.11	0.00
Transport	0.32	5.59	0.00	0.09	0.01	0.07	-0.04	0.00	0.02	0.07	0.12	0.10	1.49	0.01	2.24	0.90	0.09	-0.03	-0.09	0.02	0.03	2.28	0.03
Communication	0.42	5.69	0.13	0.33	-0.02	-0.01	-0.03	-0.02	0.16	0.05	-0.06	0.11	1.57	0.00	2.61	1.73	0.12	-0.08	0.80	-0.26	-0.01	1.20	-0.01
Trade	0.33	6.10	0.14	0.27	-0.01	0.00	-0.07	-0.03	0.21	-0.07	-0.07	-0.02	1.72	0.00	3.25	1.81	0.12	-0.09	1.07	-0.39	-0.01	1.78	-0.01
Financial services	0.45	5.53	0.08	0.33	-0.01	0.02	-0.05	-0.02	0.12	-0.06	-0.05	0.04	1.61	0.01	2.85	1.72	0.11	-0.10	0.10	-0.30	0.01	0.07	0.00
Insurance	0.32	5.75	-0.09	0.00	0.01	0.00	-0.03	0.00	0.02	0.01	-0.05	0.35	1.57	0.02	2.24	1.24	0.10	-0.08	0.72	-0.20	0.02	0.17	0.00
Business	0.48	6.01	0.11	0.15	-0.02	0.01	-0.02	0.05	0.10	-0.05	-0.02	0.04	1.60	0.03	2.20	1.55	0.10	-0.01	0.85	0.10	0.00	0.39	0.00
Other services	0.34	4.03	0.11	0.34	-0.03	0.00	-0.06	-0.02	0.18	-0.04	-0.07	0.00	1.59	0.00	2.07	1.77	0.09	-0.10	0.92	-0.26	-0.01	1.48	-0.01
Capital goods	0.77	4.07	0.33	0.60	-0.04	0.00	-0.08	-0.03	0.36	-0.11	-0.11	-0.01	1.73	0.01	4.26	2.72	0.17	-0.10	1.71	-0.52	-0.02	3.19	-0.01

Scenario 2: RCEP

Table J.5 Estimated output effects of tariffs reduction under RCEP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	-1.13	1.15	-2.08	-0.16	0.96	0.72	0.17	-0.02	-3.80	0.74	-9.39	1.40	-0.36	0.58	0.36	1.20	-0.22	-0.15	0.73	3.82	-1.02	1.44	-0.13
Meat and livestock	26.35	2.28	-1.01	-1.45	-0.55	0.18	0.39	-0.22	-3.85	2.22	5.09	-3.83	-0.39	-0.45	2.02	3.92	-0.16	0.12	0.46	-1.79	-0.71	-3.28	-0.16
Extraction	-0.09	1.07	0.17	0.54	0.09	0.02	0.56	0.17	-0.36	1.07	1.08	1.28	0.16	0.67	0.35	0.11	0.33	0.31	0.49	1.22	0.16	0.43	0.14
Processed food	4.83	-18.25	-0.36	-1.20	0.12	5.46	-6.10	-0.20	-0.20	-6.50	13.69	-0.59	-0.10	-0.82	7.48	4.75	-0.51	0.88	13.57	6.25	-0.28	-2.30	-0.40
Textiles and apparels	-6.85	3.67	-0.53	0.14	1.37	-2.43	0.29	-0.56	-1.40	18.01	5.58	3.52	-0.64	3.49	1.05	-9.85	-0.24	-0.21	3.00	1.19	-0.45	15.04	-0.83
Light manufacturing	-5.16	-0.21	-0.07	-0.24	0.10	-0.69	0.72	-0.29	2.06	10.93	2.20	-12.77	-0.10	-5.16	1.25	-3.25	0.11	1.38	3.77	4.37	-0.06	4.20	-0.16
Heavy manufacturing	-0.55	-2.41	0.05	-0.37	0.11	-0.98	0.68	-0.03	0.59	7.53	2.84	10.88	0.02	-0.47	3.22	-0.94	0.08	0.85	2.70	5.51	0.07	4.36	-0.46
Construction	0.91	2.44	-0.12	-0.34	0.55	0.78	0.55	-0.10	0.65	15.35	3.12	4.56	-0.16	0.40	2.01	0.80	-0.11	0.78	1.65	6.25	-0.14	5.67	-0.20
Transport	0.26	2.83	0.24	0.34	0.33	0.31	0.48	0.41	0.10	15.59	1.02	3.38	-0.04	0.13	1.74	0.18	0.07	0.62	0.36	3.21	0.14	4.32	0.16
Communication	0.25	2.18	0.01	-0.13	0.22	-0.01	0.60	-0.02	0.35	10.65	1.49	3.17	-0.06	0.28	1.57	0.32	0.00	0.39	0.08	3.16	-0.03	1.82	-0.05
Trade	0.29	2.48	-0.03	-0.17	0.19	0.60	0.13	0.00	0.40	7.91	2.48	3.14	-0.08	0.17	2.48	0.36	-0.01	0.55	0.78	3.79	-0.05	2.58	-0.09
Financial services	0.45	1.71	-0.01	-0.14	0.20	0.27	0.36	0.01	0.22	10.01	1.15	3.78	-0.06	0.18	1.86	0.55	0.00	0.47	-0.64	3.64	0.01	0.30	-0.06
Insurance	-0.03	2.33	0.02	0.03	0.15	0.15	0.57	0.00	0.08	10.30	1.31	5.18	0.02	-0.16	1.04	0.35	0.06	0.39	-0.15	2.65	0.03	0.75	0.00
Business	0.34	2.52	0.06	-0.12	0.29	0.13	1.09	0.01	0.26	7.45	0.98	3.55	-0.06	-0.06	0.94	0.44	0.01	0.43	-0.36	2.41	0.03	1.01	-0.01
Other services	0.28	1.04	-0.01	-0.12	0.14	0.42	0.19	-0.04	0.45	5.98	1.29	3.91	-0.06	0.50	0.99	0.31	0.01	0.31	0.85	2.05	-0.03	1.99	-0.06
Capital goods	1.04	2.21	-0.14	-0.37	0.57	0.81	0.60	-0.17	0.88	15.42	3.72	4.30	-0.17	0.41	3.69	0.97	-0.12	0.80	1.89	6.30	-0.20	5.80	-0.24

Table J.6 Estimated long-term output effects under RCEP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	-0.83	1.16	-2.11	-0.16	1.59	-0.03	1.35	0.50	-3.89	1.10	-9.58	1.83	-0.37	1.33	0.32	1.63	-0.22	0.07	0.54	3.79	-1.03	1.35	-0.13
Meat and livestock	26.97	2.61	-1.04	-1.47	0.12	-0.22	0.87	0.75	-3.95	2.99	5.25	-3.49	-0.40	0.44	2.20	4.67	-0.16	0.72	0.45	-1.53	-0.72	-3.09	-0.16
Extraction	0.52	1.76	0.16	0.50	0.89	0.16	1.10	1.09	-0.37	1.65	1.11	2.06	0.15	1.75	0.47	1.06	0.31	0.92	0.61	1.35	0.16	0.60	0.14
Processed food	5.07	-18.10	-0.38	-1.21	0.71	-0.21	6.11	-5.87	-0.16	-6.28	14.08	-0.10	-0.10	0.01	7.73	5.47	-0.52	1.43	14.02	6.66	-0.29	-2.17	-0.41
Textiles and apparels	-7.18	4.28	-0.63	0.10	1.91	-0.66	-1.83	0.47	-1.55	19.46	5.75	3.41	-0.72	4.54	1.30	-9.62	-0.29	0.27	3.07	1.27	-0.53	16.08	-0.94
Light manufacturing	-5.23	0.03	-0.11	-0.24	0.92	-0.33	0.13	1.04	2.06	12.00	2.14	-12.65	-0.10	-4.01	1.72	-2.64	0.11	2.24	3.98	5.29	-0.07	4.60	-0.18
Heavy manufacturing	-0.64	-2.84	0.00	-0.42	0.90	-0.10	-0.37	1.01	0.69	8.51	3.22	12.43	-0.01	-0.41	3.96	-0.46	0.08	2.01	3.62	6.49	0.02	4.87	-0.55
Construction	1.23	3.01	-0.11	-0.34	1.43	-0.07	1.71	0.99	0.79	16.95	3.55	5.49	-0.15	1.47	2.59	1.53	-0.10	1.91	2.42	7.30	-0.13	6.69	-0.18
Transport	0.37	3.18	0.29	0.42	0.98	0.50	1.00	0.80	0.19	16.93	1.20	3.96	-0.02	0.96	2.08	0.52	0.09	1.36	0.57	3.69	0.17	5.16	0.22
Communication	0.43	2.90	0.02	-0.13	0.89	0.00	0.56	0.90	0.45	11.52	1.76	3.65	-0.06	1.20	2.01	0.79	0.01	1.15	0.44	3.77	-0.02	2.29	-0.04
Trade	0.48	3.15	-0.03	-0.17	0.89	0.02	1.44	0.54	0.50	9.07	2.77	4.16	-0.08	1.30	3.09	0.89	-0.01	1.60	1.28	4.57	-0.05	3.35	-0.08
Financial services	0.65	1.97	0.00	-0.15	0.92	0.03	1.09	0.71	0.30	11.14	1.38	4.65	-0.06	1.09	2.34	1.05	0.00	1.45	-0.54	4.27	0.01	0.48	-0.05
Insurance	0.06	2.95	0.06	0.06	0.71	0.02	0.75	0.89	0.15	11.36	1.59	5.09	0.14	0.39	1.51	0.78	0.10	1.20	0.29	3.18	0.04	0.89	0.03
Business	0.51	3.16	0.09	-0.12	0.98	0.04	0.84	1.02	0.33	8.59	1.18	4.31	-0.06	0.55	1.21	0.98	0.02	0.92	-0.06	2.70	0.04	1.24	0.03
Other services	0.48	1.50	0.00	-0.13	0.73	-0.04	1.28	0.52	0.56	7.14	1.60	4.86	-0.06	1.48	1.48	0.75	0.01	1.17	1.31	2.58	-0.03	2.67	-0.06
Capital goods	1.37	2.86	-0.13	-0.37	1.46	-0.15	1.75	1.06	1.04	17.04	4.23	5.24	-0.16	1.48	4.56	1.76	-0.11	1.96	2.76	7.38	-0.19	6.85	-0.24

Scenario 3: TTIP

Table J.7 Estimated output effects of tariffs reduction under TTIP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	0.02	0.00	0.09	0.05	0.02	-0.12	0.01	0.00	0.05	0.02	0.04	0.00	0.11	0.00	0.00	0.04	0.01	0.03	0.02	0.02	0.05	0.02	0.00
Meat and livestock	0.02	-0.02	0.11	-0.05	-0.01	-0.43	-0.01	0.00	0.03	-0.06	0.00	-0.02	0.00	-0.01	-0.02	-0.11	-0.03	-0.02	-0.07	-0.12	0.75	-0.02	-0.03
Extraction	0.00	0.00	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.00	0.01	0.01	0.00	0.00	0.01	0.01	0.00	-0.01	0.00	-0.07	0.01	0.01
Processed food	-0.02	-0.02	-0.12	-0.09	-0.01	-0.04	-0.03	-0.02	-0.01	0.00	-0.07	0.00	-0.12	0.00	-0.04	-0.03	-0.04	-0.06	-0.06	-0.11	0.34	-0.07	-0.04
Textiles and apparels	-0.05	-0.14	-0.18	-0.03	-0.08	0.67	-0.23	-0.12	-0.04	-0.41	-0.12	-0.22	-0.41	-0.06	-0.24	-0.06	-0.11	-0.23	-0.27	-0.15	-0.10	-0.46	-0.13
Light manufacturing	-0.01	-0.10	-0.01	0.00	0.00	0.03	0.00	-0.01	0.01	0.02	-0.02	-0.02	-0.04	0.01	-0.03	0.02	0.00	-0.02	-0.04	-0.03	0.12	-0.02	-0.02
Heavy manufacturing	-0.01	-0.04	-0.13	-0.03	-0.01	0.09	0.00	-0.03	-0.01	0.18	-0.03	0.00	-0.15	-0.01	-0.07	0.00	0.03	-0.04	-0.12	-0.04	0.09	-0.01	-0.05
Construction	-0.02	-0.02	-0.08	-0.06	-0.03	0.06	-0.03	-0.03	-0.03	-0.19	-0.04	-0.02	-0.18	-0.02	-0.03	-0.03	-0.04	-0.06	-0.05	-0.07	0.10	-0.09	-0.04
Transport	0.00	0.01	0.00	0.00	0.00	0.05	0.00	-0.01	0.01	0.02	0.02	0.03	-0.09	0.01	0.02	0.02	0.01	0.00	0.03	0.03	-0.02	-0.01	0.01
Communication	0.00	-0.01	-0.01	-0.02	-0.01	0.04	0.01	0.01	-0.01	0.14	-0.01	0.05	-0.10	0.00	0.00	0.00	0.00	-0.01	0.01	-0.01	0.02	0.00	0.00
Trade	0.00	-0.01	-0.03	-0.03	-0.01	0.03	-0.02	-0.02	-0.01	-0.10	-0.03	0.00	-0.12	0.00	-0.04	-0.01	-0.01	-0.03	-0.04	-0.04	0.05	-0.06	-0.02
Financial services	0.00	0.05	0.01	-0.02	-0.01	0.06	0.00	0.00	0.01	-0.08	0.01	0.02	-0.08	0.01	-0.01	0.00	0.00	-0.02	0.06	-0.02	0.00	0.12	0.01
Insurance	0.01	0.01	0.07	0.02	0.00	0.05	0.01	0.00	0.01	0.03	-0.01	0.22	-0.02	0.05	0.02	0.01	0.05	0.00	0.02	0.01	-0.04	0.22	0.03
Business	0.00	0.00	0.00	-0.02	-0.01	0.05	0.01	0.11	0.00	-0.08	0.01	0.02	-0.10	0.04	0.03	-0.01	0.00	0.04	0.02	0.05	-0.01	0.05	0.02
Other services	0.00	0.00	-0.02	-0.02	-0.01	0.02	-0.01	-0.01	-0.01	-0.06	-0.02	0.02	-0.10	0.00	-0.02	0.00	0.00	-0.02	-0.02	-0.02	0.03	-0.04	0.00
Capital goods	-0.03	-0.03	-0.09	-0.06	-0.04	0.06	-0.03	-0.03	-0.04	-0.21	-0.05	-0.02	-0.18	-0.02	-0.07	-0.04	-0.04	-0.07	-0.06	-0.08	0.14	-0.09	-0.04

Table J.8 Estimated long-term output effects under TTIP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	-0.06	-0.05	-0.02	-0.05	-0.05	-0.41	-0.01	-0.01	-0.04	0.07	-0.02	-0.01	-0.05	-0.01	-0.02	0.04	-0.02	-0.01	0.01	0.00	0.72	0.03	0.00
Meat and livestock	-0.06	-0.06	0.06	-0.12	-0.04	-0.26	-0.02	-0.02	-0.01	-0.18	0.00	-0.02	-0.09	-0.01	-0.05	-0.11	-0.05	-0.03	-0.06	-0.11	1.12	-0.06	-0.04
Extraction	0.09	0.03	0.09	0.15	0.06	0.80	0.06	0.11	0.04	0.01	0.06	0.11	0.05	0.07	0.05	0.10	0.09	0.06	0.07	0.05	-0.24	0.07	0.05
Processed food	-0.03	-0.05	0.01	-0.14	-0.01	0.49	-0.04	-0.01	0.00	-0.05	0.02	-0.01	-0.09	-0.01	-0.03	-0.01	-0.07	-0.02	0.03	-0.10	-0.08	-0.08	-0.08
Textiles and apparels	-0.22	-0.46	-0.26	-0.18	-0.50	2.91	-0.58	-0.35	-0.24	-0.81	-0.41	-1.05	-0.64	-0.43	-0.84	-0.39	-0.32	-0.47	-0.50	-0.52	-0.10	-0.96	-0.58
Light manufacturing	-0.06	-0.31	-0.09	-0.23	-0.08	0.54	-0.08	-0.05	-0.11	-0.03	-0.15	-0.28	-0.38	-0.05	-0.17	-0.02	-0.04	-0.10	-0.05	-0.21	0.20	-0.22	-0.13
Heavy manufacturing	0.15	-0.01	0.17	0.09	0.10	0.05	0.11	0.13	0.12	0.63	0.15	0.34	-0.08	0.09	0.14	0.22	0.17	0.17	0.20	0.13	-0.12	0.23	0.19
Construction	-0.03	-0.07	-0.17	-0.08	-0.05	0.39	-0.05	-0.13	-0.05	-0.54	-0.10	-0.06	-0.37	-0.03	-0.10	-0.10	-0.04	-0.10	-0.11	-0.18	0.33	-0.21	-0.09
Transport	-0.04	-0.16	-0.08	-0.08	-0.01	0.37	-0.04	-0.05	-0.01	-0.27	0.02	-0.06	-0.27	-0.01	-0.15	-0.07	-0.06	-0.11	0.01	-0.20	0.14	-0.17	-0.07
Communication	-0.03	-0.03	-0.11	-0.07	-0.03	0.38	-0.07	-0.09	-0.02	-0.21	-0.07	-0.15	-0.26	0.01	-0.13	-0.07	-0.03	-0.10	-0.23	-0.13	0.30	-0.17	-0.08
Trade	-0.02	-0.04	-0.07	-0.06	-0.03	0.49	-0.03	-0.07	-0.02	-0.32	-0.04	0.01	-0.26	0.00	-0.03	-0.06	0.00	-0.05	-0.05	-0.13	0.23	-0.14	-0.05
Financial services	-0.04	-0.39	-0.16	-0.07	-0.01	0.45	-0.04	-0.10	-0.06	-0.39	-0.17	-0.03	-0.32	-0.04	-0.11	-0.07	-0.03	-0.10	-0.55	-0.13	0.10	-0.53	-0.14
Insurance	-0.07	-0.16	-0.51	-0.26	-0.04	0.96	-0.05	-0.09	-0.04	-0.42	-0.08	-1.47	-0.35	-0.26	-0.34	-0.12	-0.34	-0.11	-0.29	-0.19	-0.41	-1.29	-0.26
Business	-0.03	-0.07	-0.11	-0.05	-0.05	0.38	-0.04	-0.26	-0.02	-0.32	-0.11	-0.04	-0.24	-0.08	-0.17	-0.05	-0.03	-0.18	-0.19	-0.23	0.17	-0.14	-0.12
Other services	-0.01	0.01	-0.06	-0.03	-0.02	0.42	-0.02	-0.05	-0.01	-0.35	-0.04	-0.07	-0.23	0.00	-0.08	-0.05	0.00	-0.06	-0.06	-0.10	0.23	-0.11	-0.03
Capital goods	-0.04	-0.04	-0.19	-0.09	-0.05	0.39	-0.05	-0.14	-0.05	-0.57	-0.09	-0.05	-0.37	-0.03	-0.10	-0.11	-0.04	-0.10	-0.11	-0.17	0.39	-0.21	-0.09

Scenario 4(a): Parallel Implementaion of the TPP and RCEP

Table J.9 Estimated net output effects of tariffs reduction under TPP and RCEP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	-0.09	1.02	-1.11	-2.07	0.91	0.01	0.71	0.17	-6.02	0.92	-9.44	1.39	-0.30	-0.40	-0.01	0.72	-0.12	-0.40	0.64	3.58	-0.03	0.12	-0.11
Meat and livestock	17.28	2.29	2.25	10.37	-0.89	-0.47	0.06	0.33	-14.00	1.66	4.58	-4.24	2.30	-0.03	3.25	3.28	-0.42	-0.03	0.19	-5.91	2.32	-2.56	-0.34
Extraction	0.23	1.18	0.19	0.21	0.12	0.19	0.07	0.60	-0.34	1.08	1.07	1.45	0.21	0.38	0.34	0.04	0.44	0.38	0.52	1.30	0.12	-0.43	0.16
Processed food	5.02	-18.09	-0.37	0.12	-0.01	-0.31	5.35	-6.17	-0.06	-6.57	13.19	-0.59	-0.35	0.78	8.09	9.51	-0.32	0.78	15.65	5.83	0.46	-3.41	-0.49
Textiles and apparels	-6.04	9.84	-1.69	-0.31	1.54	-0.67	-3.09	-0.03	-0.44	15.61	7.14	3.37	-2.10	-0.94	22.02	-9.92	-0.45	-0.94	5.53	1.42	-1.76	54.69	-1.17
Light manufacturing	-4.96	0.33	-0.17	-0.94	0.10	-0.31	-0.69	0.72	2.56	11.12	2.11	-12.14	0.07	1.49	1.77	-3.58	-0.09	1.49	3.98	4.39	-0.19	10.34	-0.18
Heavy manufacturing	0.15	-2.64	0.16	-0.85	0.15	-0.01	-0.91	0.68	0.83	9.32	2.83	11.47	0.17	1.07	3.98	-1.17	0.26	1.07	2.71	5.78	-0.04	1.70	-0.45
Construction	0.86	2.73	-0.08	-0.09	0.53	-0.13	0.72	0.50	0.74	13.96	3.09	4.71	-0.04	0.68	2.51	1.15	-0.02	0.68	1.71	6.05	-0.08	11.55	-0.24
Transport	0.33	3.32	0.30	0.37	0.35	0.47	0.31	0.47	0.11	15.08	1.12	3.56	0.05	0.62	2.06	0.29	0.14	0.62	0.47	3.28	0.15	7.10	0.18
Communication	0.30	2.45	0.00	-0.02	0.22	-0.01	0.01	0.60	0.43	10.62	1.49	3.37	0.01	0.36	1.94	0.43	0.05	0.36	0.10	3.10	-0.01	3.73	-0.05
Trade	0.30	2.82	0.01	-0.06	0.20	0.00	0.57	0.09	0.51	7.16	2.47	3.32	0.02	0.50	3.14	0.55	0.03	0.50	0.79	3.64	-0.02	6.47	-0.11
Financial services	0.44	1.93	-0.01	-0.02	0.21	0.04	0.26	0.35	0.31	9.28	1.15	4.00	0.03	0.41	2.42	0.76	0.05	0.41	-0.65	3.54	0.00	-0.15	-0.06
Insurance	0.06	2.64	0.04	-0.02	0.16	0.02	0.15	0.56	0.08	9.84	1.31	5.61	0.13	0.35	1.29	0.47	0.14	0.35	-0.14	2.57	0.02	-2.22	0.02
Business	0.39	2.80	0.08	-0.07	0.30	0.02	0.14	1.19	0.35	6.77	0.98	3.74	0.03	0.50	1.10	0.60	0.09	0.50	-0.38	2.57	0.04	0.57	0.00
Other services	0.28	1.15	-0.08	0.00	0.12	-0.05	0.40	0.17	0.52	5.32	1.28	4.01	-0.01	0.23	1.28	0.46	0.02	0.23	0.89	1.91	-0.02	5.13	-0.06
Capital goods	0.97	2.47	-0.09	-0.10	0.54	-0.22	0.75	0.54	0.99	13.93	3.68	4.44	-0.05	0.70	4.71	1.39	-0.03	0.70	1.94	6.08	-0.13	11.96	-0.30

Table J.10 Estimated net long-term output effects under TPP and RCEP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	-0.14	1.91	-1.56	-2.05	1.57	0.04	1.36	0.51	-6.26	1.30	-9.62	1.82	-0.09	1.31	0.33	1.34	-0.13	-0.14	0.19	3.55	-0.06	-0.17	-0.09
Meat and livestock	17.45	5.17	1.93	10.56	-0.23	-0.46	0.77	0.70	-14.26	2.37	4.81	-3.92	3.51	0.41	4.42	4.48	-0.35	0.55	0.11	-5.71	2.45	-2.08	-0.34
Extraction	0.46	4.07	0.22	0.35	0.94	0.19	1.14	1.16	-0.43	1.66	1.10	2.26	1.12	1.79	1.11	1.09	0.56	1.00	0.63	1.41	0.05	-0.26	0.16
Processed food	5.18	-15.60	-0.27	0.43	0.58	-0.32	6.00	-5.95	0.08	-6.34	13.55	-0.10	0.97	-0.04	8.92	10.90	-0.27	1.30	16.14	6.22	0.55	-3.18	-0.50
Textiles and apparels	-6.78	16.71	-2.24	-0.39	2.17	-0.79	-2.55	0.18	-0.56	16.85	7.49	3.16	-0.20	4.91	25.74	-8.95	-0.28	-0.51	5.40	1.52	-2.09	60.05	-1.30
Light manufacturing	-5.26	5.27	-0.14	-0.87	0.90	-0.34	0.13	1.05	2.77	12.14	2.05	-11.93	2.55	-3.90	3.75	-2.27	-0.17	2.35	3.89	5.27	-0.27	11.57	-0.19
Heavy manufacturing	-0.21	0.23	-0.11	-0.91	0.91	-0.08	-0.32	1.01	1.08	10.36	3.18	12.98	2.20	-0.38	6.51	0.19	0.23	2.17	4.12	6.67	-0.09	2.17	-0.54
Construction	1.25	5.66	0.54	0.31	1.37	-0.12	1.63	0.89	1.06	15.39	3.49	5.63	2.44	1.47	4.44	2.89	0.14	1.74	3.49	7.01	0.07	13.83	-0.25
Transport	0.49	7.21	0.33	0.67	1.01	0.62	0.99	0.81	0.31	16.39	1.40	4.16	2.05	0.99	3.48	1.62	0.28	1.35	0.75	3.80	0.20	8.67	0.26
Communication	0.67	7.01	0.52	0.34	0.85	-0.05	0.51	0.82	0.60	11.13	1.68	3.67	2.23	1.22	3.85	1.99	0.22	1.03	1.91	3.62	0.10	4.72	-0.10
Trade	0.59	7.38	0.36	0.23	0.87	0.00	1.39	0.47	0.72	8.19	2.72	4.33	2.34	1.31	5.29	2.14	0.17	1.48	2.04	4.34	0.06	8.18	-0.12
Financial services	0.74	6.37	0.34	0.30	0.90	0.05	1.06	0.68	0.38	10.31	1.34	4.85	2.23	1.12	4.27	1.90	0.19	1.32	-0.02	4.11	0.07	-0.30	-0.06
Insurance	0.39	7.01	0.80	0.46	0.72	0.02	0.74	0.91	0.17	10.84	1.54	5.34	2.21	0.44	3.31	1.43	0.68	1.11	1.03	3.08	0.06	-0.80	0.02
Business	0.72	7.39	0.66	0.19	0.93	0.01	0.84	0.86	0.32	7.78	1.08	4.46	2.21	0.56	3.01	1.91	0.19	0.85	1.31	2.71	0.11	0.90	-0.05
Other services	0.56	4.66	0.20	0.28	0.69	-0.05	1.24	0.48	0.74	6.36	1.55	4.95	2.15	1.49	3.06	1.96	0.14	1.03	1.94	2.39	0.09	6.54	-0.08
Capital goods	1.39	5.28	0.58	0.32	1.39	-0.22	1.67	0.95	1.35	15.37	4.13	5.38	2.46	1.48	7.22	3.26	0.13	1.78	3.94	7.06	0.06	14.30	-0.31

Scenario 4(b): Parallel Implementation of the CPTPP and RCEP

Figure J.1 Estimated net impacts of CPTPP and RCEP

Table J.11 Estimated net output effects of tariffs reduction under CPTPP and RCEP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	-0.02	1.15	-1.38	-4.55	0.94	0.02	0.72	0.17	-4.26	0.76	-9.39	1.42	-0.72	0.58	0.29	1.47	-0.11	-0.18	0.76	3.97	-0.97	1.25	-0.11
Meat and livestock	19.58	2.16	12.58	23.20	-0.76	-0.32	0.12	0.37	-9.45	2.09	4.81	-4.04	5.37	-0.45	2.41	3.66	-0.13	0.04	0.33	-4.69	-1.14	-3.16	-0.24
Extraction	0.10	1.08	0.04	-0.12	0.10	0.18	0.04	0.57	-0.35	1.07	1.09	1.34	0.14	0.69	0.34	-0.10	0.34	0.33	0.50	1.25	0.19	0.31	0.15
Processed food	4.98	-18.21	0.08	0.95	0.09	-0.22	5.45	-6.11	-0.16	-6.51	13.59	-0.59	-0.06	-0.83	7.75	9.72	-0.37	0.87	16.43	6.17	-0.40	-2.34	-0.42
Textiles and apparels	-6.33	4.05	-1.62	-0.50	1.40	-0.60	-2.48	0.24	-1.19	17.69	5.73	3.61	-0.79	3.49	8.93	-10.92	-0.12	-0.27	4.08	1.28	-0.64	19.73	-0.89
Light manufacturing	-4.93	-0.27	-0.66	-1.29	0.11	-0.30	-0.70	0.72	2.33	10.97	2.17	-12.70	0.07	-5.15	1.53	-3.78	-0.03	1.40	4.05	4.37	-0.09	6.44	-0.18
Heavy manufacturing	-0.09	-2.45	-0.49	-1.64	0.13	-0.02	-0.98	0.67	0.65	7.76	2.85	11.07	0.00	-0.47	3.46	-1.51	0.11	0.89	2.79	5.61	0.11	4.00	-0.47
Construction	0.89	2.46	0.09	0.05	0.56	-0.10	0.77	0.54	0.69	15.16	3.11	4.63	0.16	0.41	2.20	1.15	-0.03	0.77	1.73	6.17	-0.16	6.82	-0.20
Transport	0.29	2.83	0.16	0.28	0.34	0.42	0.31	0.47	0.09	15.53	1.03	3.45	0.14	0.14	1.85	0.11	0.09	0.62	0.34	3.23	0.15	4.91	0.17
Communication	0.28	2.20	0.02	0.02	0.23	-0.01	0.00	0.60	0.38	10.65	1.49	3.25	0.13	0.29	1.71	0.40	0.03	0.38	0.09	3.14	-0.03	2.19	-0.05
Trade	0.30	2.50	0.04	-0.05	0.20	0.00	0.60	0.12	0.45	7.81	2.48	3.20	0.15	0.18	2.73	0.54	0.02	0.54	0.81	3.73	-0.06	3.29	-0.09
Financial services	0.44	1.71	0.01	0.03	0.21	0.01	0.27	0.35	0.25	9.92	1.14	3.86	0.12	0.19	2.07	0.75	0.03	0.45	-0.68	3.60	0.01	0.16	-0.06
Insurance	0.02	2.35	-0.13	-0.09	0.16	0.00	0.15	0.57	0.07	10.25	1.31	5.33	0.12	-0.15	1.14	0.44	0.07	0.38	-0.15	2.62	0.04	0.22	0.00
Business	0.37	2.54	0.04	-0.11	0.30	0.01	0.14	1.11	0.29	7.36	0.98	3.62	0.12	-0.05	1.00	0.58	0.05	0.44	-0.38	2.47	0.03	0.93	0.00
Other services	0.28	1.05	0.03	0.07	0.14	-0.04	0.41	0.18	0.48	5.89	1.28	3.95	0.11	0.50	1.11	0.46	0.02	0.29	0.90	2.00	-0.04	2.56	-0.06
Capital goods	1.00	2.23	0.08	0.05	0.57	-0.17	0.80	0.58	0.93	15.21	3.71	4.36	0.15	0.41	4.09	1.41	-0.04	0.79	1.98	6.22	-0.23	7.00	-0.25

Table J.12 Estimated net output effects of tariffs and NTMs reduction under CPTPP and RCEP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	0.01	0.87	-1.25	-4.73	0.95	0.04	0.71	0.19	-4.40	0.77	-9.52	1.48	-0.75	0.60	0.17	1.59	-0.14	-0.26	0.50	3.95	-0.94	1.10	-0.09
Meat and livestock	19.65	2.10	12.91	23.88	-0.74	-0.31	0.19	0.42	-9.78	2.47	4.93	-4.12	5.56	-0.39	2.75	3.83	-0.08	0.25	0.21	-4.56	-1.15	-2.87	-0.24
Extraction	0.24	1.34	0.00	-0.01	0.07	0.16	0.15	0.61	-0.47	1.21	1.07	1.58	0.12	0.81	0.45	0.11	0.40	0.43	0.56	1.32	0.17	0.49	0.14
Processed food	5.05	-18.43	0.10	1.15	0.12	-0.22	5.55	-6.14	-0.11	-6.66	13.86	-0.53	0.00	-0.82	7.92	10.19	-0.38	0.99	17.00	6.51	-0.41	-2.19	-0.42
Textiles and apparels	-6.96	5.47	-1.79	-0.51	1.40	-0.60	-2.44	0.15	-1.29	18.46	5.98	2.58	-0.77	3.45	10.06	-10.97	-0.15	-0.29	3.89	1.39	-0.63	21.38	-0.89
Light manufacturing	-5.31	-0.24	-0.72	-1.28	0.16	-0.30	-0.60	0.73	2.38	11.61	2.12	-12.89	0.27	-5.32	2.26	-3.63	-0.10	1.69	4.03	5.16	-0.08	7.09	-0.15
Heavy manufacturing	-0.43	-3.23	-0.56	-1.80	0.16	-0.06	-1.13	0.68	0.76	8.08	3.13	11.93	0.07	-1.31	4.46	-1.33	0.16	1.38	3.83	6.40	0.09	4.54	-0.52
Construction	1.13	3.00	0.19	0.22	0.67	-0.09	0.97	0.67	0.88	16.26	3.46	5.12	0.33	0.59	3.01	1.73	0.06	1.35	2.87	7.06	-0.17	8.21	-0.22
Transport	0.31	3.20	0.19	0.39	0.39	0.47	0.41	0.56	0.16	16.49	1.14	3.72	0.25	0.23	2.24	0.47	0.14	0.98	0.39	3.60	0.17	5.93	0.19
Communication	0.44	2.87	0.10	0.17	0.29	-0.02	0.08	0.66	0.47	11.21	1.68	3.42	0.26	0.37	2.35	0.82	0.10	0.73	0.85	3.63	-0.04	2.81	-0.07
Trade	0.43	3.09	0.08	0.07	0.26	0.00	0.73	0.21	0.55	8.47	2.68	3.67	0.28	0.32	3.59	0.97	0.08	1.01	1.72	4.36	-0.06	4.32	-0.11
Financial services	0.58	2.05	0.04	0.16	0.26	0.02	0.39	0.43	0.31	10.55	1.31	4.23	0.23	0.25	2.72	0.93	0.09	0.90	-0.47	4.11	0.01	0.24	-0.07
Insurance	0.15	2.79	-0.12	0.01	0.21	0.01	0.25	0.64	0.13	10.89	1.52	4.99	0.26	-0.24	1.77	0.33	0.15	0.75	0.57	3.05	0.04	0.38	0.00
Business	0.54	3.17	0.13	-0.02	0.35	0.02	0.25	1.14	0.32	8.02	1.11	3.93	0.23	-0.12	1.54	0.74	0.10	0.65	0.51	2.65	0.03	1.12	-0.01
Other services	0.43	1.45	0.07	0.19	0.20	-0.05	0.58	0.27	0.60	6.60	1.52	4.49	0.23	0.71	1.79	0.87	0.08	0.69	1.57	2.44	-0.04	3.46	-0.08
Capital goods	1.28	2.83	0.18	0.23	0.68	-0.17	1.00	0.73	1.15	16.33	4.12	4.88	0.33	0.60	5.37	2.08	0.06	1.38	3.28	7.14	-0.24	8.43	-0.27

Table J.13 Estimated net long-term output effects under CPTPP and RCEP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	0.02	2.10	-1.21	-4.75	1.58	0.02	1.35	0.50	-4.40	1.13	-9.58	1.85	-0.32	1.33	0.69	2.16	-0.14	0.05	0.45	3.95	-0.95	1.10	-0.11
Meat and livestock	19.69	4.95	12.92	23.85	-0.10	-0.32	0.82	0.74	-9.79	2.85	5.00	-3.71	6.55	0.43	3.47	4.73	-0.07	0.63	0.28	-4.52	-1.15	-2.86	-0.24
Extraction	0.37	3.96	0.05	0.08	0.92	0.18	1.11	1.12	-0.44	1.66	1.12	2.15	0.91	1.76	1.15	0.95	0.47	0.95	0.66	1.38	0.19	0.54	0.15
Processed food	5.12	-15.85	0.12	1.15	0.68	-0.23	6.10	-5.89	-0.10	-6.29	13.96	-0.09	0.84	0.00	8.56	11.09	-0.36	1.40	17.15	6.56	-0.41	-2.16	-0.43
Textiles and apparels	-6.98	9.79	-1.83	-0.58	1.96	-0.71	-1.90	0.41	-1.35	19.10	5.92	3.46	0.36	4.50	11.35	-10.02	-0.19	0.19	3.89	1.36	-0.72	21.40	-1.01
Light manufacturing	-5.23	4.29	-0.74	-1.29	0.92	-0.34	0.12	1.03	2.38	12.02	2.11	-12.63	1.75	-4.02	3.39	-2.50	-0.09	2.26	4.15	5.28	-0.10	7.15	-0.19
Heavy manufacturing	-0.35	0.24	-0.56	-1.78	0.91	-0.09	-0.37	0.98	0.80	8.66	3.21	12.54	1.49	-0.44	5.73	-0.19	0.15	2.03	4.09	6.56	0.07	4.66	-0.56
Construction	1.23	5.27	0.21	0.27	1.42	-0.07	1.71	0.97	0.89	16.73	3.54	5.56	1.57	1.48	3.93	2.75	0.06	1.89	3.14	7.21	-0.14	8.32	-0.18
Transport	0.43	6.43	0.26	0.46	0.99	0.53	1.00	0.80	0.20	16.84	1.24	4.02	1.46	0.97	3.10	1.30	0.18	1.36	0.58	3.72	0.19	6.07	0.23
Communication	0.56	6.62	0.15	0.22	0.89	-0.01	0.55	0.88	0.50	11.45	1.74	3.70	1.51	1.21	3.40	1.89	0.13	1.13	1.06	3.73	-0.03	2.90	-0.05
Trade	0.53	6.92	0.12	0.11	0.89	0.02	1.44	0.52	0.57	8.94	2.75	4.22	1.64	1.30	4.62	1.98	0.10	1.58	1.97	4.49	-0.06	4.43	-0.08
Financial services	0.69	6.00	0.08	0.21	0.92	0.04	1.09	0.69	0.34	11.02	1.36	4.71	1.55	1.10	3.79	1.97	0.11	1.42	-0.32	4.21	0.02	0.32	-0.05
Insurance	0.26	6.57	-0.04	0.05	0.72	0.02	0.74	0.89	0.16	11.28	1.58	5.21	1.70	0.39	2.85	1.44	0.19	1.18	0.85	3.14	0.05	0.53	0.03
Business	0.65	6.92	0.19	0.03	0.97	0.04	0.84	1.03	0.35	8.47	1.17	4.37	1.54	0.54	2.53	1.78	0.12	0.91	0.69	2.74	0.04	1.22	0.02
Other services	0.54	4.49	0.11	0.24	0.72	-0.04	1.27	0.51	0.62	7.02	1.58	4.90	1.53	1.49	2.76	1.91	0.10	1.14	1.77	2.52	-0.03	3.56	-0.06
Capital goods	1.37	4.94	0.20	0.27	1.45	-0.14	1.75	1.04	1.16	16.80	4.20	5.31	1.57	1.50	6.24	3.11	0.05	1.94	3.55	7.28	-0.19	8.53	-0.23

Scenario 5(a): Parallel Implementaion of the TPP and TTIP

Table J.14 Estimated net output effects of tariffs reduction under TPP and TTIP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	1.76	0.10	0.85	-1.70	-0.02	-0.06	0.01	-0.01	-3.29	0.24	0.12	-0.03	0.15	-0.02	-0.56	0.33	0.09	-0.28	0.23	0.53	1.02	-0.76	0.01
Meat and livestock	1.95	1.61	2.70	10.76	-0.30	-0.70	0.00	-0.05	-13.71	-0.59	-0.17	-0.38	2.32	-0.05	2.26	1.67	-0.31	-0.18	-0.13	-5.92	3.34	0.13	-0.25
Extraction	0.35	0.76	0.05	-0.31	0.06	0.04	0.10	0.06	-0.15	-0.03	0.00	0.17	0.08	0.08	0.20	-0.36	0.12	0.08	0.11	0.06	-0.10	-0.59	0.03
Processed food	2.17	-17.59	-0.17	0.97	-0.18	-0.17	-0.25	-0.16	0.03	-0.10	-0.55	-0.01	-0.38	-0.07	1.88	7.99	0.10	-0.23	12.19	-1.28	1.04	-1.45	-0.17
Textiles and apparels	0.73	9.70	-1.06	-0.45	-0.03	0.51	-0.77	-0.38	1.49	-1.98	0.73	0.09	-1.62	0.33	22.95	-1.65	-0.21	-0.83	3.19	0.17	-1.17	34.48	-0.44
Light manufacturing	-3.16	2.24	-0.09	-0.70	-0.09	-0.07	-0.27	-0.06	2.06	0.01	-0.30	-1.76	0.14	0.22	1.11	-2.45	-0.19	0.01	2.32	-1.22	-0.04	7.53	-0.07
Heavy manufacturing	0.63	-1.11	0.00	-0.41	0.05	0.13	0.14	-0.03	0.01	0.41	-0.04	0.49	0.02	0.02	2.96	-0.91	0.21	0.22	0.41	0.08	-0.01	-1.24	-0.04
Construction	0.40	2.00	-0.04	0.16	-0.10	0.02	-0.15	-0.09	0.20	-1.10	-0.14	0.02	-0.06	-0.03	1.65	0.84	0.05	-0.23	0.43	-0.66	0.16	6.38	-0.09
Transport	0.25	2.61	0.08	0.05	0.02	0.14	-0.05	-0.01	0.00	-0.29	0.18	0.20	0.00	0.04	1.40	0.02	0.08	-0.03	0.02	0.04	0.00	3.64	0.04
Communication	0.21	1.74	-0.02	0.08	-0.03	0.05	0.01	0.01	0.13	0.19	-0.07	0.28	-0.03	0.02	1.35	0.30	0.04	-0.08	0.05	-0.29	0.04	2.18	0.00
Trade	0.14	2.19	0.01	0.06	-0.02	0.02	-0.10	-0.07	0.20	-0.65	-0.11	0.06	-0.03	0.01	2.01	0.41	0.03	-0.14	0.15	-0.48	0.07	4.05	-0.04
Financial services	0.24	1.61	0.01	0.09	-0.02	0.10	-0.06	-0.02	0.14	-0.60	-0.04	0.17	0.01	0.05	1.69	0.55	0.05	-0.13	-0.12	-0.37	0.00	-0.26	0.01
Insurance	0.18	2.01	0.09	-0.02	0.01	0.08	-0.01	-0.01	-0.02	-0.26	-0.07	0.79	0.10	0.15	0.91	0.33	0.12	-0.10	0.01	-0.20	-0.04	-2.09	0.05
Business	0.25	2.12	0.04	0.03	-0.02	0.06	0.00	0.24	0.14	-0.56	-0.01	0.15	-0.02	0.14	0.92	0.41	0.08	0.10	-0.08	0.19	0.01	-0.08	0.02
Other services	0.14	0.83	-0.09	0.08	-0.05	0.01	-0.07	-0.05	0.12	-0.55	-0.09	0.05	-0.05	0.00	0.79	0.35	0.01	-0.16	0.25	-0.31	0.05	3.29	-0.01
Capital goods	0.44	1.78	-0.05	0.16	-0.11	0.00	-0.16	-0.11	0.27	-1.20	-0.20	0.00	-0.06	-0.03	3.07	1.04	0.05	-0.24	0.48	-0.71	0.20	6.64	-0.11

Table J.15 Estimated net long-term output effects under TPP and TTIP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	1.64	1.12	0.30	-1.76	-0.06	-0.31	0.01	-0.01	-3.60	0.31	0.09	-0.03	0.20	-0.03	-0.21	0.93	0.05	-0.30	-0.06	0.53	1.66	-0.97	0.02
Meat and livestock	1.94	4.37	2.28	10.75	-0.33	-0.51	0.00	-0.07	-14.02	-0.76	-0.13	-0.40	3.42	-0.05	3.36	2.80	-0.26	-0.21	-0.25	-5.96	3.83	0.47	-0.27
Extraction	0.50	3.60	0.14	-0.04	0.13	0.81	0.12	0.17	-0.23	-0.05	0.05	0.29	1.01	0.13	0.97	0.62	0.30	0.12	0.24	0.09	-0.37	-0.43	0.05
Processed food	2.39	-15.22	0.11	1.26	-0.19	0.34	-0.25	-0.15	0.17	-0.13	-0.52	-0.02	0.96	-0.07	2.52	9.40	0.12	-0.22	12.80	-1.32	0.68	-1.28	-0.22
Textiles and apparels	0.47	16.79	-1.55	-0.62	-0.38	2.71	-1.14	-0.58	1.40	-2.45	0.55	-0.80	0.20	-0.04	26.23	-0.33	-0.18	-1.08	3.12	-0.18	-1.40	37.76	-0.89
Light manufacturing	-3.37	7.36	-0.08	-0.82	-0.20	0.44	-0.34	-0.07	2.23	-0.09	-0.43	-1.97	2.29	0.20	2.81	-1.10	-0.32	-0.07	2.25	-1.47	-0.04	8.34	-0.17
Heavy manufacturing	0.71	2.11	0.11	-0.24	0.12	0.08	0.24	0.13	0.33	0.69	0.11	0.75	2.14	0.10	5.36	0.86	0.36	0.36	1.75	0.14	-0.25	-0.75	0.20
Construction	0.67	4.67	0.46	0.53	-0.15	0.34	-0.20	-0.23	0.39	-1.54	-0.24	-0.03	2.20	-0.04	3.23	2.45	0.19	-0.34	1.75	-0.87	0.55	7.71	-0.17
Transport	0.36	6.18	-0.01	0.22	0.01	0.53	-0.08	-0.04	0.11	-0.58	0.30	0.14	1.79	0.03	2.46	1.17	0.13	-0.14	0.08	-0.12	0.17	4.43	0.00
Communication	0.51	6.02	0.38	0.39	-0.08	0.34	-0.13	-0.15	0.23	-0.45	-0.20	-0.09	2.02	0.01	2.92	1.75	0.18	-0.26	1.43	-0.50	0.41	2.70	-0.14
Trade	0.37	6.50	0.31	0.33	-0.06	0.47	-0.14	-0.14	0.34	-0.93	-0.16	0.05	2.15	0.01	3.87	1.90	0.18	-0.23	1.08	-0.67	0.33	5.11	-0.10
Financial services	0.46	5.43	0.18	0.36	-0.04	0.49	-0.11	-0.12	0.12	-0.97	-0.25	0.10	1.96	-0.01	3.22	1.59	0.15	-0.29	-0.14	-0.54	0.15	-1.10	-0.15
Insurance	0.39	5.97	0.20	0.14	-0.02	0.96	-0.08	-0.06	-0.01	-0.74	-0.18	-1.02	1.71	-0.16	2.34	1.11	0.21	-0.25	0.61	-0.44	-0.39	-2.22	-0.26
Business	0.53	6.39	0.47	0.25	-0.11	0.36	-0.05	-0.35	0.07	-0.89	-0.23	0.06	2.02	-0.01	2.50	1.62	0.14	-0.23	1.29	-0.23	0.24	-0.06	-0.17
Other services	0.35	4.21	0.14	0.35	-0.08	0.40	-0.11	-0.10	0.29	-0.92	-0.16	-0.06	1.98	-0.01	2.28	1.77	0.12	-0.25	1.03	-0.45	0.34	4.16	-0.06
Capital goods	0.73	4.36	0.50	0.55	-0.16	0.30	-0.21	-0.26	0.50	-1.67	-0.30	-0.04	2.23	-0.04	5.10	2.74	0.19	-0.36	1.98	-0.92	0.65	8.02	-0.19

Scenario 5(b): Parallel Implementation of the CPTPP and TTIP

Figure J.2 Estimated net impacts of CPTPP and TTIP

Table J.16 Estimated net output effects of tariffs reduction under CPTPP and TTIP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	2.09	0.02	0.95	-4.11	-0.01	-0.06	0.02	-0.01	-1.13	0.08	0.04	0.03	-0.26	0.00	-0.25	1.71	0.10	-0.03	0.45	0.47	0.01	0.30	0.01
Meat and livestock	4.75	1.60	12.53	23.17	-0.21	-0.57	0.07	-0.01	-9.39	-0.22	0.05	-0.32	5.26	-0.03	1.43	1.99	-0.02	-0.13	0.01	-4.67	0.07	-0.30	-0.15
Extraction	0.19	0.65	-0.11	-0.62	0.05	0.03	0.06	0.04	-0.18	0.00	0.02	0.08	0.02	0.04	0.20	-0.52	0.03	0.03	0.09	0.05	-0.03	0.07	0.02
Processed food	2.14	-17.61	0.24	1.82	-0.09	-0.08	-0.16	-0.10	-0.11	-0.04	-0.23	-0.03	-0.10	-0.05	1.57	8.19	0.05	-0.18	13.08	-0.64	0.17	-0.46	-0.09
Textiles and apparels	0.41	3.75	-1.11	-0.64	-0.06	0.61	-0.28	-0.17	0.57	-0.55	-0.15	0.27	-0.57	0.08	9.92	-2.75	0.06	-0.32	1.40	0.01	-0.27	5.19	-0.24
Light manufacturing	-3.16	1.63	-0.59	-1.05	-0.08	-0.06	-0.28	-0.06	1.81	0.04	-0.24	-2.06	0.15	0.08	0.87	-2.67	-0.13	-0.07	2.41	-1.15	0.07	3.53	-0.07
Heavy manufacturing	0.33	-0.93	-0.64	-1.19	0.02	0.12	0.08	-0.04	-0.20	-0.52	-0.02	0.20	-0.14	-0.08	2.44	-1.28	0.07	0.03	0.50	0.01	0.16	0.60	-0.06
Construction	0.43	1.73	0.12	0.30	-0.07	0.05	-0.11	-0.06	0.15	-0.26	-0.11	-0.02	0.13	-0.02	1.36	0.86	0.04	-0.16	0.45	-0.53	0.07	2.20	-0.05
Transport	0.20	2.12	-0.06	-0.03	0.00	0.09	-0.04	-0.01	-0.03	0.08	0.09	0.13	0.09	0.01	1.19	-0.19	0.03	-0.04	-0.11	0.03	0.00	1.67	0.02
Communication	0.19	1.50	0.00	0.12	-0.02	0.04	0.00	0.00	0.08	0.24	-0.05	0.19	0.08	0.00	1.13	0.28	0.02	-0.06	0.04	-0.25	0.01	0.78	0.00
Trade	0.14	1.88	0.04	0.08	-0.01	0.03	-0.08	-0.05	0.13	-0.15	-0.08	-0.01	0.10	0.00	1.60	0.41	0.02	-0.11	0.18	-0.40	0.04	1.09	-0.02
Financial services	0.25	1.39	0.02	0.15	-0.02	0.07	-0.05	-0.02	0.08	-0.12	-0.03	0.08	0.10	0.02	1.34	0.54	0.03	-0.10	-0.15	-0.31	0.00	0.13	0.01
Insurance	0.13	1.71	-0.07	-0.09	0.01	0.05	-0.01	-0.01	-0.02	0.05	-0.06	0.56	0.09	0.08	0.77	0.31	0.06	-0.07	-0.01	-0.18	-0.02	0.19	0.03
Business	0.23	1.86	-0.01	-0.01	-0.02	0.06	0.00	0.16	0.08	-0.10	0.00	0.08	0.07	0.07	0.82	0.40	0.04	0.04	-0.07	0.16	0.00	0.30	0.02
Other services	0.14	0.72	0.02	0.15	-0.04	0.01	-0.06	-0.03	0.09	-0.08	-0.08	0.03	0.06	0.00	0.63	0.36	0.01	-0.10	0.26	-0.25	0.02	0.87	-0.01
Capital goods	0.48	1.54	0.12	0.31	-0.08	0.04	-0.12	-0.07	0.21	-0.30	-0.16	-0.03	0.13	-0.02	2.46	1.07	0.04	-0.16	0.52	-0.57	0.09	2.26	-0.06

Table J.17 Estimated net output effects of tariffs and NTMs reduction under CPTPP and TTIP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	2.14	-0.09	1.23	-4.27	0.01	-0.10	0.03	0.00	-1.22	0.09	0.07	0.03	-0.22	0.00	-0.35	1.88	0.08	0.01	0.35	0.50	-0.12	0.20	0.05
Meat and livestock	4.76	1.43	12.98	23.82	-0.21	-0.53	0.07	-0.02	-9.73	-0.23	0.08	-0.34	5.43	-0.04	1.75	2.15	0.04	-0.16	-0.18	-4.76	0.09	-0.10	-0.14
Extraction	0.23	0.84	-0.11	-0.48	0.06	0.01	0.04	0.07	-0.29	-0.01	0.01	0.11	0.01	0.04	0.29	-0.43	0.12	0.03	0.12	0.05	-0.11	0.21	0.02
Processed food	2.26	-17.96	0.29	2.04	-0.10	0.00	-0.15	-0.10	-0.08	-0.04	-0.27	-0.04	-0.09	-0.05	1.62	8.65	0.06	-0.18	13.72	-0.65	0.18	-0.34	-0.08
Textiles and apparels	0.30	5.61	-1.09	-0.70	-0.01	0.68	-0.22	-0.05	0.60	-0.42	-0.11	0.42	-0.47	0.10	11.27	-2.35	0.05	-0.26	1.41	0.07	-0.56	6.20	-0.16
Light manufacturing	-3.41	1.94	-0.51	-1.04	-0.07	0.05	-0.27	0.00	1.94	0.05	-0.18	-2.11	0.32	0.16	1.50	-2.45	-0.21	-0.07	2.52	-1.22	-0.07	4.02	-0.01
Heavy manufacturing	0.25	-1.56	-0.65	-1.27	0.00	0.21	0.09	-0.02	-0.12	-0.77	-0.03	0.18	-0.17	-0.11	3.17	-0.93	0.15	0.01	1.21	-0.08	0.01	0.92	-0.02
Construction	0.56	2.08	0.11	0.44	-0.11	0.14	-0.15	-0.13	0.21	-0.33	-0.18	-0.06	0.13	-0.04	1.87	1.33	0.11	-0.26	1.16	-0.68	0.24	2.94	-0.11
Transport	0.20	2.32	-0.09	0.00	-0.01	0.16	-0.07	-0.03	0.00	-0.10	0.12	0.03	0.04	0.00	1.34	0.01	0.04	-0.14	-0.18	-0.12	0.08	2.16	-0.02
Communication	0.29	1.94	0.00	0.24	-0.05	0.08	-0.08	-0.08	0.12	-0.11	-0.12	-0.02	0.09	-0.01	1.51	0.63	0.08	-0.17	0.47	-0.36	0.15	1.06	-0.07
Trade	0.22	2.29	0.04	0.19	-0.03	0.13	-0.10	-0.07	0.17	-0.18	-0.11	-0.03	0.12	-0.01	2.19	0.77	0.09	-0.18	0.84	-0.51	0.10	1.66	-0.06
Financial services	0.31	1.27	-0.09	0.24	-0.04	0.04	-0.09	-0.08	0.06	-0.24	-0.21	-0.01	0.01	-0.03	1.73	0.65	0.06	-0.20	-0.47	-0.41	0.10	-0.34	-0.11
Insurance	0.17	1.88	-0.60	-0.23	-0.01	0.45	-0.05	-0.03	-0.04	-0.19	-0.14	-0.94	-0.02	-0.16	0.94	0.07	-0.18	-0.17	0.33	-0.32	-0.18	-0.98	-0.21
Business	0.36	2.26	-0.01	0.07	-0.06	0.08	-0.02	-0.14	0.06	-0.19	-0.09	0.02	0.06	0.02	1.17	0.49	0.06	-0.12	0.59	-0.03	0.09	0.30	-0.06
Other services	0.23	1.00	0.02	0.27	-0.05	0.06	-0.09	-0.06	0.15	-0.18	-0.12	-0.03	0.08	-0.01	1.08	0.72	0.07	-0.17	0.70	-0.34	0.15	1.37	-0.04
Capital goods	0.63	1.92	0.11	0.46	-0.12	0.16	-0.16	-0.14	0.29	-0.38	-0.24	-0.08	0.13	-0.05	3.31	1.62	0.11	-0.28	1.33	-0.73	0.29	3.02	-0.13

Table J.18 Estimated net long-term output effects under CPTPP and TTIP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	2.09	1.08	1.06	-4.36	-0.07	-0.34	0.01	-0.01	-1.31	0.14	-0.02	0.02	-0.01	-0.01	0.16	2.44	0.04	-0.06	0.32	0.46	0.69	0.21	0.02
Meat and livestock	4.68	4.28	12.81	23.55	-0.24	-0.40	0.06	-0.02	-9.76	-0.35	0.06	-0.34	6.34	-0.04	2.43	2.98	0.02	-0.15	-0.09	-4.75	0.43	-0.11	-0.17
Extraction	0.39	3.49	-0.03	-0.31	0.11	0.81	0.09	0.14	-0.25	0.00	0.07	0.20	0.80	0.09	1.02	0.46	0.21	0.07	0.26	0.09	-0.21	0.30	0.05
Processed food	2.33	-15.37	0.42	1.99	-0.10	0.44	-0.17	-0.10	-0.06	-0.07	-0.16	-0.04	0.82	-0.05	2.17	9.58	0.03	-0.16	13.91	-0.66	-0.26	-0.35	-0.14
Textiles and apparels	0.24	9.70	-1.27	-0.81	-0.47	2.84	-0.63	-0.41	0.40	-0.95	-0.44	-0.59	0.45	-0.33	11.94	-1.48	-0.16	-0.57	1.17	-0.34	-0.27	5.60	-0.69
Light manufacturing	-3.38	6.38	-0.69	-1.23	-0.17	0.45	-0.35	-0.10	1.82	-0.02	-0.38	-2.42	1.50	0.02	2.45	-1.36	-0.25	-0.15	2.53	-1.36	0.14	3.82	-0.17
Heavy manufacturing	0.50	2.10	-0.35	-1.11	0.12	0.07	0.18	0.10	0.03	-0.29	0.13	0.44	1.46	-0.01	4.59	0.44	0.28	0.20	1.72	0.13	-0.06	1.23	0.18
Construction	0.66	4.31	0.14	0.49	-0.09	0.40	-0.12	-0.16	0.23	-0.62	-0.16	-0.05	1.35	-0.02	2.73	2.33	0.12	-0.19	1.41	-0.67	0.32	2.90	-0.10
Transport	0.29	5.42	-0.08	0.01	0.00	0.44	-0.08	-0.05	0.01	-0.21	0.14	0.04	1.21	0.00	2.09	0.83	0.03	-0.14	-0.09	-0.17	0.17	2.11	-0.04
Communication	0.39	5.65	0.02	0.27	-0.05	0.38	-0.10	-0.10	0.14	-0.16	-0.13	-0.04	1.31	0.00	2.48	1.66	0.09	-0.17	0.58	-0.39	0.29	1.03	-0.09
Trade	0.31	6.05	0.07	0.21	-0.04	0.49	-0.10	-0.10	0.19	-0.38	-0.11	-0.01	1.46	0.00	3.22	1.75	0.12	-0.14	1.02	-0.52	0.22	1.65	-0.07
Financial services	0.41	5.09	-0.08	0.27	-0.03	0.46	-0.09	-0.12	0.07	-0.45	-0.22	0.01	1.29	-0.04	2.73	1.66	0.08	-0.20	-0.43	-0.43	0.11	-0.44	-0.14
Insurance	0.26	5.56	-0.59	-0.25	-0.03	0.96	-0.08	-0.08	-0.02	-0.41	-0.13	-1.13	1.22	-0.24	1.89	1.12	-0.24	-0.19	0.44	-0.40	-0.39	-1.11	-0.26
Business	0.45	5.94	0.00	0.09	-0.07	0.39	-0.05	-0.21	0.08	-0.36	-0.13	0.00	1.35	-0.05	2.03	1.50	0.07	-0.19	0.66	-0.13	0.18	0.26	-0.12
Other services	0.33	4.05	0.05	0.31	-0.05	0.42	-0.08	-0.07	0.17	-0.39	-0.11	-0.07	1.36	-0.01	1.99	1.72	0.08	-0.15	0.86	-0.35	0.22	1.37	-0.04
Capital goods	0.73	4.03	0.14	0.52	-0.09	0.39	-0.13	-0.17	0.31	-0.67	-0.20	-0.06	1.36	-0.02	4.16	2.62	0.13	-0.20	1.60	-0.70	0.37	2.98	-0.10

Scenario 6: Parallel Implementaion of RCEP and TTIP

Table J.19 Estimated net output effects of tariffs reduction under RCEP and TTIP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	-1.12	1.16	-2.00	-0.11	0.97	-0.14	0.73	0.17	-3.77	0.77	-9.38	1.40	-0.24	0.58	0.36	1.23	-0.21	-0.13	0.75	3.85	-0.96	1.46	-0.13
Meat and livestock	26.39	2.26	-0.91	-1.52	-0.56	-0.67	0.17	0.38	-3.83	2.15	5.11	-3.85	-0.39	-0.45	1.99	3.82	-0.19	0.10	0.39	-1.90	0.08	-3.30	-0.18
Extraction	-0.09	1.07	0.18	0.55	0.10	0.18	0.03	0.56	-0.35	1.08	1.08	1.28	0.17	0.68	0.35	0.11	0.34	0.31	0.48	1.22	0.10	0.44	0.15
Processed food	4.80	-18.27	-0.48	-1.29	0.10	-0.24	5.43	-6.11	-0.21	-6.50	13.66	-0.60	-0.21	-0.82	7.44	4.72	-0.55	0.83	13.50	6.13	0.06	-2.37	-0.44
Textiles and apparels	-6.90	3.53	-0.69	0.12	1.29	0.10	-2.64	0.16	-1.45	17.52	5.46	3.29	-1.04	3.43	0.82	-9.91	-0.34	-0.43	2.74	1.04	-0.54	14.49	-0.96
Light manufacturing	-5.17	-0.31	-0.08	-0.24	0.10	-0.27	-0.69	0.71	2.07	10.96	2.19	-12.79	-0.14	-5.15	1.22	-3.24	0.11	1.36	3.73	4.33	0.06	4.18	-0.18
Heavy manufacturing	-0.56	-2.45	-0.08	-0.40	0.10	0.06	-0.98	0.64	0.58	7.76	2.81	10.88	-0.13	-0.48	3.15	-0.94	0.11	0.81	2.57	5.47	0.16	4.36	-0.52
Construction	0.89	2.42	-0.20	-0.40	0.52	-0.04	0.74	0.52	0.62	15.12	3.08	4.54	-0.34	0.38	1.98	0.77	-0.14	0.72	1.60	6.17	-0.04	5.57	-0.23
Transport	0.26	2.84	0.24	0.34	0.33	0.47	0.31	0.47	0.10	15.63	1.04	3.41	-0.12	0.14	1.76	0.20	0.08	0.62	0.38	3.24	0.12	4.30	0.17
Communication	0.26	2.18	0.00	-0.15	0.21	0.03	0.01	0.61	0.35	10.81	1.49	3.22	-0.17	0.29	1.57	0.32	0.00	0.38	0.10	3.15	0.00	1.82	-0.05
Trade	0.29	2.47	-0.06	-0.20	0.18	0.04	0.58	0.11	0.39	7.79	2.46	3.13	-0.20	0.17	2.44	0.35	-0.02	0.52	0.74	3.75	0.00	2.52	-0.10
Financial services	0.46	1.77	0.00	-0.16	0.20	0.08	0.27	0.36	0.23	9.92	1.16	3.80	-0.14	0.19	1.85	0.55	0.00	0.45	-0.59	3.62	0.00	0.42	-0.05
Insurance	-0.02	2.34	0.10	0.06	0.15	0.05	0.16	0.57	0.08	10.34	1.30	5.42	0.00	-0.11	1.06	0.35	0.11	0.39	-0.13	2.66	-0.01	0.98	0.03
Business	0.34	2.52	0.06	-0.14	0.28	0.07	0.14	1.20	0.26	7.36	0.99	3.58	-0.16	-0.02	0.97	0.43	0.01	0.47	-0.34	2.46	0.01	1.06	0.01
Other services	0.28	1.04	-0.03	-0.14	0.13	-0.02	0.41	0.18	0.45	5.92	1.28	3.94	-0.17	0.50	0.98	0.31	0.01	0.29	0.83	2.04	0.00	1.95	-0.07
Capital goods	1.01	2.19	-0.23	-0.43	0.53	-0.10	0.77	0.57	0.84	15.16	3.67	4.28	-0.35	0.39	3.61	0.92	-0.16	0.73	1.82	6.22	-0.06	5.70	-0.29

Table J.20 Estimated net long-term output effects under RCEP and TTIP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	-0.89	1.11	-2.12	-0.20	1.54	-0.44	1.35	0.49	-3.92	1.17	-9.60	1.82	-0.41	1.31	0.29	1.66	-0.24	0.06	0.55	3.79	-0.31	1.38	-0.13
Meat and livestock	26.90	2.56	-0.99	-1.59	0.09	-0.50	0.86	0.73	-3.97	2.79	5.24	-3.51	-0.49	0.43	2.15	4.57	-0.22	0.69	0.39	-1.64	0.43	-3.15	-0.21
Extraction	0.61	1.79	0.25	0.65	0.95	0.96	1.16	1.19	-0.33	1.69	1.16	2.17	0.20	1.82	0.52	1.15	0.40	0.98	0.67	1.39	-0.09	0.67	0.19
Processed food	5.04	-18.14	-0.36	-1.36	0.70	0.28	6.06	-5.88	-0.16	-6.30	14.09	-0.11	-0.19	0.00	7.69	5.46	-0.59	1.40	14.05	6.56	-0.36	-2.25	-0.49
Textiles and apparels	-7.37	3.80	-0.87	-0.07	1.43	2.20	-2.37	0.11	-1.80	18.48	5.28	2.29	-1.34	4.05	0.44	-9.95	-0.61	-0.19	2.59	0.74	-0.62	14.91	-1.50
Light manufacturing	-5.28	-0.28	-0.20	-0.46	0.83	0.22	0.06	1.00	1.95	12.01	2.00	-12.90	-0.49	-4.05	1.55	-2.66	0.07	2.14	3.93	5.07	0.13	4.37	-0.31
Heavy manufacturing	-0.51	-2.86	0.17	-0.33	1.00	-0.04	-0.27	1.13	0.80	9.36	3.38	12.82	-0.09	-0.31	4.11	-0.24	0.25	2.18	3.80	6.63	-0.10	5.13	-0.37
Construction	1.20	2.94	-0.29	-0.42	1.38	0.32	1.67	0.87	0.74	16.29	3.45	5.43	-0.53	1.44	2.49	1.43	-0.14	1.81	2.31	7.11	0.21	6.46	-0.28
Transport	0.33	3.01	0.21	0.34	0.97	0.87	0.97	0.76	0.18	16.61	1.21	3.90	-0.30	0.95	1.93	0.45	0.03	1.25	0.58	3.49	0.31	4.97	0.15
Communication	0.40	2.86	-0.09	-0.20	0.87	0.38	0.50	0.81	0.43	11.28	1.69	3.50	-0.32	1.21	1.87	0.72	-0.03	1.06	0.22	3.64	0.28	2.12	-0.12
Trade	0.47	3.11	-0.10	-0.22	0.87	0.51	1.42	0.47	0.48	8.71	2.73	4.17	-0.35	1.29	3.06	0.83	-0.02	1.55	1.22	4.44	0.18	3.20	-0.13
Financial services	0.62	1.57	-0.17	-0.21	0.90	0.48	1.06	0.61	0.25	10.70	1.22	4.62	-0.38	1.05	2.23	0.99	-0.03	1.34	-1.06	4.14	0.11	-0.03	-0.19
Insurance	-0.01	2.77	-0.45	-0.20	0.68	0.98	0.70	0.80	0.11	10.89	1.52	3.53	-0.21	0.15	1.17	0.67	-0.25	1.09	0.01	2.99	-0.37	-0.38	-0.23
Business	0.48	3.09	-0.02	-0.18	0.93	0.43	0.80	0.76	0.31	8.24	1.08	4.27	-0.30	0.48	1.05	0.92	-0.01	0.74	-0.25	2.48	0.21	1.10	-0.09
Other services	0.48	1.51	-0.07	-0.16	0.71	0.38	1.26	0.48	0.55	6.77	1.56	4.79	-0.30	1.48	1.40	0.70	0.00	1.11	1.25	2.49	0.20	2.56	-0.09
Capital goods	1.33	2.82	-0.32	-0.46	1.41	0.24	1.71	0.92	0.99	16.34	4.14	5.19	-0.54	1.46	4.46	1.64	-0.15	1.86	2.65	7.20	0.20	6.62	-0.33

Scenario 7(a): Parallel Implementaion of the TPP, RCEP and TTIP

Table J.21 Estimated net output effects of tariffs reduction under TPP, RCEP and TTIP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	-0.08	1.02	-1.04	-2.04	0.92	-0.11	0.72	0.17	-5.98	0.94	-9.43	1.39	-0.19	0.56	-0.01	0.75	-0.12	-0.38	0.66	3.61	0.02	0.15	-0.11
Meat and livestock	17.32	2.26	2.45	10.45	-0.90	-0.90	0.05	0.33	-13.93	1.60	4.59	-4.26	2.33	-0.48	3.22	3.19	-0.45	-0.05	0.13	-6.05	3.04	-2.58	-0.36
Extraction	0.23	1.18	0.21	0.21	0.13	0.20	0.09	0.61	-0.33	1.10	1.07	1.46	0.22	0.73	0.34	0.04	0.45	0.38	0.51	1.29	0.05	-0.41	0.17
Processed food	5.00	-18.11	-0.49	0.03	-0.02	-0.35	5.33	-6.19	-0.07	-6.57	13.16	-0.60	-0.46	-0.87	8.05	9.50	-0.36	0.73	15.59	5.72	0.80	-3.47	-0.53
Textiles and apparels	-6.09	9.61	-1.84	-0.34	1.47	-0.06	-3.27	-0.14	-0.49	15.18	7.00	3.15	-2.45	3.79	21.62	-9.99	-0.54	-1.13	5.26	1.28	-1.82	53.74	-1.29
Light manufacturing	-4.96	0.22	-0.19	-0.95	0.10	-0.29	-0.69	0.71	2.56	11.13	2.09	-12.16	0.03	-5.05	1.74	-3.57	-0.09	1.47	3.94	4.36	-0.07	10.37	-0.20
Heavy manufacturing	0.14	-2.68	0.02	-0.89	0.14	0.08	-0.90	0.65	0.81	9.52	2.80	11.47	0.02	-0.42	3.90	-1.17	0.28	1.04	2.59	5.74	0.05	1.71	-0.51
Construction	0.84	2.70	-0.15	-0.15	0.50	-0.08	0.69	0.47	0.71	13.77	3.05	4.69	-0.21	0.38	2.48	1.11	-0.05	0.62	1.65	5.97	0.02	11.41	-0.27
Transport	0.33	3.33	0.30	0.36	0.35	0.52	0.31	0.46	0.12	15.12	1.14	3.59	-0.03	0.16	2.08	0.31	0.15	0.62	0.49	3.31	0.13	7.07	0.19
Communication	0.30	2.44	-0.01	-0.04	0.21	0.03	0.02	0.61	0.42	10.78	1.48	3.43	-0.09	0.31	1.94	0.43	0.05	0.35	0.11	3.09	0.01	3.71	-0.05
Trade	0.29	2.81	-0.02	-0.09	0.19	0.03	0.55	0.07	0.51	7.06	2.45	3.32	-0.10	0.19	3.10	0.54	0.02	0.47	0.75	3.60	0.03	6.39	-0.12
Financial services	0.44	1.98	0.00	-0.04	0.21	0.10	0.26	0.35	0.31	9.21	1.16	4.02	-0.05	0.22	2.40	0.76	0.05	0.39	-0.60	3.52	0.00	-0.05	-0.05
Insurance	0.08	2.65	0.11	0.00	0.16	0.07	0.16	0.56	0.08	9.88	1.30	5.84	0.11	-0.04	1.31	0.47	0.19	0.35	-0.11	2.59	-0.02	-2.00	0.05
Business	0.38	2.80	0.08	-0.09	0.29	0.07	0.15	1.30	0.35	6.70	0.99	3.76	-0.08	0.05	1.12	0.59	0.09	0.54	-0.36	2.62	0.03	0.61	0.01
Other services	0.28	1.15	-0.10	-0.02	0.11	-0.03	0.39	0.16	0.51	5.28	1.26	4.04	-0.11	0.51	1.27	0.45	0.02	0.21	0.87	1.90	0.02	5.06	-0.07
Capital goods	0.94	2.45	-0.18	-0.17	0.51	-0.16	0.72	0.51	0.95	13.71	3.64	4.42	-0.22	0.38	4.63	1.35	-0.06	0.63	1.88	6.00	0.01	11.81	-0.34

Table J.22 Estimated net long-term output effects under TPP, RCEP and TTIP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	-0.19	1.86	-1.59	-2.10	1.52	-0.37	1.35	0.50	-6.29	1.37	-9.65	1.81	-0.14	1.30	0.32	1.36	-0.16	-0.16	0.19	3.55	0.64	-0.14	-0.09
Meat and livestock	17.38	5.10	2.06	10.47	-0.26	-0.72	0.75	0.68	-14.26	2.18	4.80	-3.94	3.44	0.40	4.35	4.40	-0.40	0.52	0.05	-5.83	3.53	-2.15	-0.38
Extraction	0.54	4.09	0.30	0.50	1.01	0.98	1.21	1.26	-0.38	1.70	1.16	2.36	1.17	1.86	1.15	1.17	0.64	1.05	0.70	1.46	-0.21	-0.19	0.20
Processed food	5.16	-15.64	-0.22	0.30	0.57	0.16	5.95	-5.95	0.08	-6.37	13.57	-0.11	0.88	-0.04	8.89	10.96	-0.34	1.28	16.21	6.14	0.44	-3.23	-0.58
Textiles and apparels	-6.96	16.08	-2.45	-0.56	1.70	2.01	-3.05	-0.16	-0.82	15.96	7.02	2.07	-0.77	4.43	24.55	-9.31	-0.58	-0.93	4.93	1.00	-2.16	58.39	-1.84
Light manufacturing	-5.31	4.92	-0.22	-1.09	0.82	0.20	0.06	1.01	2.66	12.12	1.91	-12.17	2.16	-3.93	3.57	-2.30	-0.21	2.24	3.84	5.05	-0.08	11.39	-0.32
Heavy manufacturing	-0.06	0.22	0.07	-0.82	1.01	-0.02	-0.21	1.14	1.19	11.17	3.33	13.37	2.11	-0.27	6.65	0.39	0.41	2.34	4.31	6.82	-0.24	2.43	-0.36
Construction	1.21	5.55	0.36	0.22	1.31	0.26	1.58	0.77	1.00	14.77	3.38	5.57	2.04	1.43	4.33	2.79	0.09	1.63	3.37	6.82	0.42	13.52	-0.35
Transport	0.46	7.01	0.25	0.59	0.99	0.99	0.95	0.76	0.30	16.07	1.41	4.10	1.76	0.98	3.33	1.55	0.22	1.24	0.76	3.60	0.32	8.45	0.20
Communication	0.64	6.95	0.40	0.27	0.83	0.34	0.45	0.74	0.57	10.89	1.62	3.53	1.96	1.23	3.71	1.92	0.19	0.94	1.66	3.49	0.40	4.54	-0.18
Trade	0.57	7.32	0.28	0.17	0.84	0.49	1.36	0.41	0.70	7.85	2.68	4.35	2.07	1.31	5.25	2.08	0.17	1.43	1.98	4.21	0.29	7.99	-0.17
Financial services	0.70	5.91	0.17	0.23	0.89	0.51	1.03	0.59	0.32	9.89	1.19	4.82	1.90	1.08	4.15	1.84	0.15	1.22	-0.54	3.98	0.16	-0.75	-0.20
Insurance	0.32	6.79	0.25	0.19	0.69	0.98	0.69	0.82	0.13	10.37	1.47	3.80	1.84	0.20	2.96	1.31	0.31	1.00	0.74	2.89	-0.35	-2.03	-0.23
Business	0.68	7.30	0.55	0.13	0.88	0.39	0.80	0.62	0.31	7.45	0.98	4.42	1.96	0.49	2.83	1.85	0.16	0.68	1.11	2.48	0.28	0.77	-0.16
Other services	0.56	4.67	0.14	0.25	0.67	0.37	1.22	0.44	0.73	6.01	1.51	4.88	1.91	1.49	2.98	1.92	0.13	0.98	1.88	2.29	0.32	6.39	-0.11
Capital goods	1.34	5.22	0.38	0.21	1.34	0.16	1.62	0.81	1.29	14.72	4.04	5.32	2.06	1.45	7.09	3.13	0.08	1.67	3.82	6.88	0.47	13.99	-0.41

Scenario 7(b): Parallel Implementation of the CPTPP, RCEP and TTIP

Figure J.3 Estimated net impacts of CPTPP, RCEP and TTIP

Table J.23 Estimated net output effects of tariffs reduction under CPTPP, RCEP and TTIP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	-0.01	1.16	-1.30	-4.52	0.95	-0.11	0.72	0.17	-4.22	0.79	-9.38	1.42	-0.60	0.58	0.29	1.49	-0.10	-0.16	0.78	4.00	-0.90	1.28	-0.11
Meat and livestock	19.60	2.14	12.69	23.27	-0.78	-0.78	0.11	0.37	-9.44	2.02	4.82	-4.06	5.36	-0.46	2.39	3.56	-0.17	0.02	0.27	-4.83	-0.35	-3.18	-0.26
Extraction	0.10	1.08	0.05	-0.11	0.12	0.19	0.05	0.58	-0.35	1.09	1.09	1.35	0.16	0.70	0.35	-0.10	0.35	0.33	0.50	1.25	0.12	0.32	0.16
Processed food	4.96	-18.23	-0.04	0.86	0.08	-0.26	5.42	-6.13	-0.17	-6.51	13.56	-0.60	-0.18	-0.83	7.71	9.71	-0.42	0.81	16.36	6.05	-0.06	-2.42	-0.45
Textiles and apparels	-6.37	3.91	-1.79	-0.53	1.33	0.06	-2.69	0.12	-1.23	17.20	5.61	3.38	-1.20	3.43	8.70	-10.98	-0.22	-0.49	3.82	1.13	-0.72	19.19	-1.02
Light manufacturing	-4.94	-0.38	-0.68	-1.30	0.11	-0.28	-0.71	0.71	2.34	11.00	2.16	-12.72	0.03	-5.14	1.50	-3.77	-0.03	1.38	4.01	4.34	0.03	6.43	-0.20
Heavy manufacturing	-0.10	-2.50	-0.62	-1.67	0.12	0.07	-0.97	0.64	0.64	8.00	2.82	11.07	-0.15	-0.48	3.39	-1.51	0.14	0.86	2.66	5.56	0.20	3.99	-0.52
Construction	0.87	2.44	0.01	0.00	0.52	-0.04	0.74	0.51	0.67	14.93	3.07	4.61	-0.02	0.39	2.17	1.12	-0.06	0.71	1.67	6.10	-0.06	6.72	-0.24
Transport	0.29	2.84	0.16	0.28	0.34	0.48	0.31	0.47	0.10	15.57	1.06	3.48	0.05	0.14	1.87	0.13	0.10	0.62	0.37	3.26	0.13	4.89	0.17
Communication	0.28	2.20	0.01	0.01	0.21	0.03	0.01	0.61	0.38	10.82	1.48	3.30	0.02	0.29	1.71	0.40	0.03	0.38	0.10	3.13	-0.01	2.19	-0.05
Trade	0.29	2.49	0.01	-0.08	0.19	0.03	0.58	0.10	0.44	7.69	2.46	3.20	0.03	0.18	2.69	0.53	0.01	0.51	0.77	3.69	-0.01	3.23	-0.11
Financial services	0.44	1.77	0.01	0.02	0.20	0.08	0.27	0.35	0.26	9.83	1.15	3.88	0.04	0.20	2.06	0.75	0.03	0.44	-0.62	3.57	0.00	0.28	-0.05
Insurance	0.04	2.36	-0.05	-0.07	0.16	0.05	0.16	0.57	0.08	10.28	1.30	5.57	0.10	-0.09	1.16	0.45	0.12	0.38	-0.13	2.63	0.00	0.44	0.03
Business	0.37	2.54	0.04	-0.13	0.29	0.07	0.15	1.22	0.29	7.27	0.99	3.65	0.01	-0.01	1.03	0.57	0.05	0.48	-0.36	2.52	0.02	0.98	0.01
Other services	0.28	1.05	0.01	0.05	0.12	-0.02	0.41	0.17	0.47	5.83	1.27	3.98	0.01	0.50	1.10	0.46	0.02	0.27	0.88	1.99	-0.01	2.52	-0.07
Capital goods	0.98	2.21	-0.01	-0.02	0.53	-0.11	0.77	0.55	0.89	14.96	3.66	4.34	-0.03	0.39	4.01	1.37	-0.07	0.72	1.91	6.14	-0.09	6.90	-0.29

Table J.24 Estimated net output effects of tariffs and NTMs reduction under CPTPP, RCEP and TTIP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	0.06	0.91	-1.04	-4.66	0.98	-0.13	0.73	0.21	-4.34	0.79	-9.50	1.48	-0.56	0.60	0.18	1.66	-0.12	-0.21	0.56	4.00	-1.01	1.13	-0.06
Meat and livestock	19.77	2.06	13.22	24.02	-0.75	-0.73	0.18	0.41	-9.77	2.40	4.97	-4.15	5.56	-0.40	2.73	3.82	-0.11	0.21	0.17	-4.70	-0.33	-2.90	-0.26
Extraction	0.26	1.34	0.03	0.00	0.09	0.16	0.17	0.65	-0.46	1.21	1.08	1.60	0.13	0.82	0.46	0.12	0.41	0.45	0.57	1.33	0.03	0.50	0.15
Processed food	5.05	-18.47	0.02	1.08	0.11	-0.18	5.52	-6.16	-0.12	-6.67	13.83	-0.54	-0.17	-0.83	7.89	10.22	-0.42	0.94	17.04	6.40	-0.05	-2.26	-0.45
Textiles and apparels	-6.97	5.36	-1.80	-0.55	1.37	0.14	-2.59	0.16	-1.31	18.16	5.91	2.53	-1.10	3.44	9.97	-11.00	-0.23	-0.43	3.84	1.29	-1.01	21.02	-0.93
Light manufacturing	-5.29	-0.30	-0.60	-1.26	0.18	-0.17	-0.59	0.78	2.43	11.67	2.17	-12.88	0.22	-5.26	2.27	-3.58	-0.09	1.67	4.15	5.14	-0.09	7.15	-0.13
Heavy manufacturing	-0.39	-3.29	-0.66	-1.83	0.14	0.13	-1.12	0.68	0.76	8.27	3.12	11.99	-0.20	-1.31	4.40	-1.31	0.23	1.36	3.76	6.35	0.03	4.53	-0.55
Construction	1.08	2.92	0.00	0.11	0.60	0.06	0.91	0.58	0.81	16.01	3.36	5.06	-0.03	0.55	2.91	1.65	-0.01	1.21	2.72	6.91	0.11	8.07	-0.31
Transport	0.30	3.10	0.15	0.34	0.38	0.58	0.39	0.53	0.16	16.31	1.16	3.65	0.01	0.22	2.14	0.36	0.10	0.89	0.41	3.48	0.22	5.85	0.15
Communication	0.42	2.81	0.01	0.11	0.26	0.07	0.04	0.59	0.45	11.03	1.63	3.29	0.02	0.37	2.25	0.78	0.08	0.65	0.68	3.55	0.13	2.72	-0.13
Trade	0.41	3.05	0.01	0.01	0.24	0.14	0.70	0.16	0.53	8.36	2.65	3.66	0.04	0.31	3.51	0.93	0.07	0.94	1.66	4.28	0.06	4.25	-0.15
Financial services	0.55	1.71	-0.10	0.10	0.24	0.05	0.36	0.37	0.27	10.37	1.17	4.18	-0.05	0.21	2.62	0.89	0.06	0.81	-0.90	4.03	0.11	-0.10	-0.18
Insurance	0.10	2.65	-0.58	-0.21	0.19	0.45	0.23	0.61	0.10	10.68	1.45	3.63	0.01	-0.41	1.50	0.26	-0.11	0.67	0.34	2.96	-0.15	-0.70	-0.21
Business	0.52	3.10	0.05	-0.07	0.31	0.09	0.26	0.94	0.31	7.88	1.05	3.90	0.00	-0.11	1.47	0.71	0.07	0.56	0.40	2.53	0.12	1.08	-0.07
Other services	0.42	1.43	0.01	0.15	0.18	0.02	0.56	0.24	0.59	6.47	1.49	4.46	0.01	0.71	1.73	0.85	0.07	0.63	1.50	2.38	0.12	3.40	-0.10
Capital goods	1.21	2.75	-0.02	0.10	0.62	0.00	0.94	0.63	1.06	16.05	4.01	4.81	-0.04	0.56	5.20	1.98	-0.02	1.24	3.09	6.98	0.10	8.28	-0.38

Table J.25 Estimated net long-term output effects under CPTPP, RCEP and TTIP, by sector (%)

	AUS	BRN	CAN	CHL	CHN	EUN	IDN	IND	JPN	KHM	KOR	LAO	MEX	MMY	MYS	NZL	PER	PHL	SGP	THA	USA	VNM	ROW
Grains and crops	-0.03	2.05	-1.23	-4.79	1.53	-0.39	1.35	0.50	-4.44	1.20	-9.61	1.84	-0.36	1.31	0.67	2.19	-0.16	0.05	0.45	3.95	-0.23	1.12	-0.11
Meat and livestock	19.60	4.89	13.02	23.71	-0.13	-0.60	0.81	0.72	-9.82	2.65	4.99	-3.73	6.47	0.42	3.42	4.64	-0.12	0.60	0.22	-4.65	0.01	-2.92	-0.28
Extraction	0.46	3.98	0.13	0.23	0.99	0.98	1.17	1.22	-0.40	1.70	1.17	2.26	0.95	1.83	1.20	1.04	0.55	1.00	0.72	1.43	-0.06	0.61	0.20
Processed food	5.10	-15.89	0.13	1.00	0.66	0.25	6.05	-5.90	-0.10	-6.32	13.97	-0.11	0.74	-0.01	8.53	11.15	-0.44	1.37	17.20	6.46	-0.48	-2.24	-0.50
Textiles and apparels	-7.17	9.28	-2.07	-0.75	1.48	2.15	-2.44	0.06	-1.60	18.13	5.45	2.34	-0.27	4.01	10.42	-10.36	-0.50	-0.27	3.41	0.83	-0.80	20.23	-1.57
Light manufacturing	-5.29	3.96	-0.83	-1.51	0.84	0.20	0.05	0.98	2.27	12.02	1.96	-12.87	1.36	-4.06	3.22	-2.53	-0.13	2.15	4.10	5.06	0.10	6.94	-0.33
Heavy manufacturing	-0.21	0.21	-0.40	-1.69	1.01	-0.04	-0.27	1.11	0.91	9.50	3.37	12.93	1.41	-0.33	5.88	0.01	0.32	2.19	4.27	6.70	-0.06	4.92	-0.38
Construction	1.20	5.19	0.04	0.19	1.37	0.33	1.66	0.85	0.84	16.07	3.44	5.50	1.19	1.45	3.83	2.66	0.02	1.79	3.03	7.02	0.20	8.09	-0.27
Transport	0.39	6.26	0.18	0.38	0.98	0.90	0.96	0.75	0.20	16.52	1.26	3.96	1.18	0.96	2.96	1.23	0.12	1.24	0.59	3.52	0.32	5.88	0.16
Communication	0.52	6.58	0.04	0.15	0.86	0.37	0.49	0.79	0.48	11.21	1.67	3.54	1.25	1.21	3.27	1.83	0.09	1.03	0.83	3.60	0.28	2.73	-0.13
Trade	0.51	6.88	0.04	0.06	0.86	0.51	1.41	0.45	0.56	8.57	2.71	4.23	1.37	1.30	4.59	1.92	0.10	1.53	1.91	4.35	0.18	4.29	-0.14
Financial services	0.66	5.56	-0.08	0.14	0.90	0.48	1.05	0.59	0.28	10.57	1.21	4.68	1.23	1.05	3.67	1.91	0.08	1.31	-0.84	4.08	0.12	-0.17	-0.19
Insurance	0.20	6.38	-0.54	-0.21	0.68	0.98	0.69	0.80	0.12	10.80	1.51	3.65	1.35	0.14	2.51	1.33	-0.15	1.07	0.58	2.95	-0.36	-0.73	-0.23
Business	0.62	6.84	0.08	-0.03	0.92	0.42	0.80	0.77	0.33	8.12	1.06	4.33	1.29	0.47	2.37	1.73	0.09	0.73	0.51	2.51	0.21	1.08	-0.10
Other services	0.54	4.51	0.05	0.21	0.70	0.38	1.26	0.46	0.62	6.65	1.54	4.82	1.29	1.49	2.68	1.86	0.09	1.08	1.71	2.42	0.20	3.45	-0.09
Capital goods	1.33	4.89	0.01	0.18	1.40	0.24	1.70	0.90	1.11	16.11	4.12	5.26	1.18	1.47	6.14	3.00	0.02	1.84	3.44	7.10	0.19	8.30	-0.33

Appendix K. Questionnaire

S. RAJARATNAM SCHOOL OF INTERNATIONAL STUDIES
Perception Survey of Asian Opinion Leaders on Mega-FTAs and Global Economic Architecture	
Please provide the following details.	
1. Affiliation	
☐ Government	
☐ Business	
☐ Academia	
☐ Media	
☐ Others (please specify)	
Other (please specify)	
<input type="text"/>	

3

2. Country where you reside

- ☐ Afghanistan
- ☐ Australia
- ☐ Bangladesh
- ☐ Brunei Darussalam
- ☐ Cambodia
- ☐ China
- ☐ India
- ☐ Indonesia
- ☐ Japan
- ☐ Korea, Republic of
- ☐ Lao PDR
- ☐ Malaysia
- ☐ Myanmar
- ☐ Nepal
- ☐ New Zealand
- ☐ Pakistan
- ☐ Philippines
- ☐ Singapore
- ☐ Sri Lanka
- ☐ Thailand
- ☐ Vietnam
- ☐ Other

Other (please specify)

3. Email address:

(Respondents stand a chance to win an iPad mini. Please provide an email address so that we can contact you accordingly.)

Perception Survey of Asian Opinion Leaders on Mega-FTAs and Global Economic Architecture

Timing, Costs and Benefits of Mega-FTAs

4. In your opinion, is pursuing mega-FTAs (e.g., TPP and RCEP) generally a good trade policy decision?

- ☐ Yes
- ☐ No
- ☐ Don't know

Perception Survey of Asian Opinion Leaders on Mega-FTAs and Global Economic Architecture

Timing, Costs and Benefits of Mega-FTAs

5. Do you think that it is desirable for economies to join more than one mega-FTA?

- ☐ Yes
- ☐ No
- ☐ Don't know

Perception Survey of Asian Opinion Leaders on Mega-FTAs and Global Economic Architecture

Timing, Costs and Benefits of Mega-FTAs

6. The TPP negotiations have concluded recently, while RCEP and TTIP negotiations are still on-going.

When do you think that the three mega-FTAs will be ratified and implemented?

	Before 2017	2017-2020	After 2020	Never	Don't know
TPP	☐	☐	☐	☐	☐
RCEP	☐	☐	☐	☐	☐
TTIP	☐	☐	☐	☐	☐

Perception Survey of Asian Opinion Leaders on Mega-FTAs and Global Economic Architecture

Timing, Costs and Benefits of Mega-FTAs

7. In your opinion, what are the costs of participating in mega-FTAs?

Using a scale of 1-5, please select 5 for the highest costs and 1 for the lowest costs.

	5 - highest costs	4	3 - moderate costs	2	1 - lowest costs	Don't know
Trade diversion from more efficient trading partners to less efficient FTA partners	☐	☐	☐	☐	☐	☐
Significant domestic adjustment costs	☐	☐	☐	☐	☐	☐
Inducing more retaliatory (or defensive) regional blocs	☐	☐	☐	☐	☐	☐
Loss of enthusiasm for multilateral/WTO negotiations	☐	☐	☐	☐	☐	☐
Greater economic inequality as mega-FTAs mainly favour multinational firms	☐	☐	☐	☐	☐	☐
Loss of sovereignty because of investor-state dispute settlement (ISDS) clause	☐	☐	☐	☐	☐	☐

Perception Survey of Asian Opinion Leaders on Mega-FTAs and Global Economic Architecture

Timing, Costs and Benefits of Mega-FTAs

8. In your opinion, what are the benefits from participating in mega-FTAs?

Using a scale of 1-5, please select 5 for the highest benefits and 1 for the lowest benefits.

	5 - highest benefits	4	3 - moderate benefits	2	1 - lowest benefits	Don't know
Trade creation (spurring new trade between members)	☐	☐	☐	☐	☐	☐
Closer political relationship between members	☐	☐	☐	☐	☐	☐
Stronger regional voice in international negotiations	☐	☐	☐	☐	☐	☐
Reduced likelihood of trade disputes between members	☐	☐	☐	☐	☐	☐
Deeper regional integration	☐	☐	☐	☐	☐	☐
Being the rule-writers instead of rule-takers for global trade	☐	☐	☐	☐	☐	☐

Perception Survey of Asian Opinion Leaders on Mega-FTAs and Global Economic Architecture

Rationales Behind Mega-FTAs

Now turning to the motivations behind major economies' pursuit of mega-FTAs.

9. The TPP, RCEP and TTIP were launched successively within a relatively short period of time.

Do you think that there is a “domino” effect triggering them (i.e., one mega-FTA leading to another)?

- ☐ Yes
- ☐ No
- ☐ Don't know

Perception Survey of Asian Opinion Leaders on Mega-FTAs and Global Economic Architecture

Rationales Behind Mega-FTAs

10. In your opinion, the three mega-FTAs are

- ☐ Competitive
- ☐ Complementary
- ☐ Overlapping
- ☐ Irrelevant

Perception Survey of Asian Opinion Leaders on Mega-FTAs and Global Economic Architecture

Rationales Behind Mega-FTAs

11. Some commentators note that the US's strategy since the 1990s has been to entice China into institutions that operate according to Western rules like the WTO. This explains US's position of excluding China from TPP negotiations at the present but welcoming it only after pro-Western TPP rules have been written and established.

Do you agree with this statement?

- ☐ Yes
☐ No
☐ Don't know

Perception Survey of Asian Opinion Leaders on Mega-FTAs and Global Economic Architecture

Rationales Behind Mega-FTAs

12. Since ASEAN has signed bilateral ASEAN+1 FTAs with all the other RCEP members (i.e., Australia, China, India, Japan, Korea and New Zealand), why was ASEAN interested in RCEP?

Rate ASEAN's motivations to pursue RCEP.

	5 - very relevant	4	3 - moderately relevant	2	1 - not relevant at all	Don't know
To preserve ASEAN Centrality as four members including Singapore and Malaysia have bypassed ASEAN in the negotiation of the TPP	☐	☐	☐	☐	☐	☐
To counter the US-led TPP	☐	☐	☐	☐	☐	☐
To alleviate the "noodle bowl" problem (i.e., criss-crossing trade rules embedded in overlapping FTAs)	☐	☐	☐	☐	☐	☐
To facilitate ASEAN Economic Community	☐	☐	☐	☐	☐	☐

Perception Survey of Asian Opinion Leaders on Mega-FTAs and Global Economic Architecture

Rationales Behind Mega-FTAs

13. Previously China was suspicious of the Japanese proposal for an ASEAN+6 FTA, and was instead promoting an East Asian ASEAN+3 (ASEAN plus China, Japan and Korea) FTA. In your opinion, why did China change its stance and endorse RCEP, an ASEAN+6 FTA similar to that proposed by Japan?

Rate China's motivations to pursue RCEP.

	5 - very relevant	4	3 - moderately relevant	2	1 - not relevant at all	Don't know
To counter the TPP since China is excluded	☐	☐	☐	☐	☐	☐
To formulate and disseminate China-friendly trade rules	☐	☐	☐	☐	☐	☐
RCEP is a stepping stone to the China-Japan-Korea trilateral FTA	☐	☐	☐	☐	☐	☐
Alternative to the multilateral WTO of liberalising regional trade	☐	☐	☐	☐	☐	☐
China wants to engage India via RCEP framework	☐	☐	☐	☐	☐	☐

Perception Survey of Asian Opinion Leaders on Mega-FTAs and Global Economic Architecture

Rationales Behind Mega-FTAs

14. Despite a self-imposed moratorium on FTAs, in your opinion why did the European Union (EU) launch TTIP with the US in 2013?

Rate EU's motivations to pursue TTIP.

	5 - very relevant	4	3 - moderately relevant	2	1 - not relevant at all	Don't know
To counter the TPP and RCEP	☐	☐	☐	☐	☐	☐
To buttress the Western liberal economic order and values	☐	☐	☐	☐	☐	☐
To join the mega-FTA bandwagon and not be left out	☐	☐	☐	☐	☐	☐
As a solution the current euro-zone economic crisis	☐	☐	☐	☐	☐	☐

Perception Survey of Asian Opinion Leaders on Mega-FTAs and Global Economic Architecture

Relationship between Regionalism and Multilateralism

Now turning to the relationship between regionalism and multilateralism.

15. In your opinion, are mega-FTAs “building blocks” or “stumbling blocks” to multilateral trade liberalisation?

- ☐ Building blocks
- ☐ Stumbling blocks
- ☐ Don't know

Perception Survey of Asian Opinion Leaders on Mega-FTAs and Global Economic Architecture

Relationship between Regionalism and Multilateralism

16. In your opinion, do the successive launches of TPP, RCEP and TTIP signal that world powers (e.g., US, China and EU) have redirected their loyalty from the non-discriminatory multilateralism/WTO to exclusive regionalism?

- ☐ Yes
- ☐ No
- ☐ Don't know

Perception Survey of Asian Opinion Leaders on Mega-FTAs and Global Economic Architecture

Relationship between Regionalism and Multilateralism

17. If mega-FTAs could ultimately be multilateralised to form a free trade area in the Pacific Rim, which of the following agreement(s) do you think should serve as the template(s)? You may tick multiple boxes.

- ☐ TPP
- ☐ RCEP
- ☐ The potential China-Japan-Korea trilateral FTA
- ☐ None of the above

Perception Survey of Asian Opinion Leaders on Mega-FTAs and Global Economic Architecture

Relationship between Regional and Global Institutions

Lastly turning to the relationship between regional and global economic institutions.

18. As tariffs are already low, trade competitiveness nowadays depends more on logistics. Therefore, infrastructure development and financing schemes such as China's "One Belt, One Road" initiative and Asian Infrastructure Investment Bank are more relevant than the TPP in the context of the 21st century world.

Do you agree with this statement?

- ☐ Agree
- ☐ Disagree
- ☐ Don't know

Perception Survey of Asian Opinion Leaders on Mega-FTAs and Global Economic Architecture

Relationship between Regional and Global Institutions

19. Many have warned of the possibility of intensifying conflicts between US-led institutions and China-centric institutions.

Do you think we need a New Bretton Woods System to resolve the potential conflicts between the two?

- ☐ Yes
- ☐ No
- ☐ Don't know

Perception Survey of Asian Opinion Leaders on Mega-FTAs and Global Economic Architecture

Relationship between Regional and Global Institutions

20. Centralised global economic architecture established at the Bretton Woods conference of 1944 (i.e., IMF, the World Bank and GATT/WTO) is now becoming more decentralised and multi-layered.

Rate the drivers of the decentralisation process.

	5 - very relevant	4	3 - moderately relevant	2	1 - not relevant at all	Don't know
World is moving away from an unipolar world to a multi-polar world	☐	☐	☐	☐	☐	☐
Lack of reform at global economic institutions to give emerging economies greater voice	☐	☐	☐	☐	☐	☐
Globalisation and integration of countries	☐	☐	☐	☐	☐	☐

Perception Survey of Asian Opinion Leaders on Mega-FTAs and Global Economic Architecture

Relationship between Regional and Global Institutions

21. Do you think IMF should work together with regional monetary institutions such as the ASEAN+3 Macroeconomic Research Office (AMRO) and Chiang Mai Initiative (CMIM) in trying to prevent and resolve future financial crises in Asia?

- ☐ Yes
- ☐ No
- ☐ Don't know

Perception Survey of Asian Opinion Leaders on Mega-FTAs and Global Economic Architecture

Relationship between Regional and Global Institutions

22. In your opinion, should regional institutions complement or compete with global ones in delivering global public goods? For example, what should be the relationship between AIIB and World Bank (and Asian Development Bank)?

- ☐ Complementary
- ☐ Competitive
- ☐ Don't know

Perception Survey of Asian Opinion Leaders on Mega-FTAs and Global Economic Architecture

Thank you for your participation!

23. Would you like to receive a copy of the survey results by email?

- ☐ Yes
☐ No

24. Towards the end of this survey, would you have anything to add or share with us with respect to mega-FTAs and/or global economic governance?

Thank you once again for your participation. Should you have questions for us, feel free to contact us at xji005@e.ntu.edu.sg

Appendix L. Selected Comments from Respondents

Mega-FTAs' Benefits

- Multilateral trade agreement that [includes] all or most countries in the world is good, but is difficult to conclude. Regional trade agreements including mega-FTAs could be considered as a second-best alternative to promote freer trade among countries. The larger the FTA group with many member countries, the better chance to move towards global free trade.
- This phenomenon will even intensify the cooperation among member countries. This will also ensure quality goods and services being traded and at the same time guarantee sure market. The benefits of mega-FTAs will only be felt if the international financial system will cooperate as well without [discriminating against] low-income country members.
- Despite critics are saying the mega-FTAs are [between] the giant economies, the notion is unavoidable as most emerging economies or smaller economies would not be able to sustain without the exports to these giant economies. My conclusion is the smaller economies [need] the support of large economies [on] the condition that it does not erodes the cultural values of communities of [the] smaller economies.
- [Higher] global growth rate will result [in the] intense collective competition among the trade groups. International rules of the games will improve over time.
- Size does matter. A consolidated and unified approach would add clout and weight in a global economic architecture framework.
- Mega-FTAs may be good but big economies will benefit more from these while small or underdeveloped ones may not reap the same and in many cases, may suffer be that economic, social or political.

- The TPP will impact India's trade in goods less than expected, however new or upgraded trade standards and rules from mega-FTAs will force India and other non-members to consider domestic reforms in areas such as investment, labour, competition, environment as well as their trade policy.
- The Mega-FTAs, if properly negotiated and positioned, can help ameliorate global conflicts based on conflicting strategic perceptions and create greater peace. Peace is central to growth of trade and economy – only few industries like ordnance gain from conflict. Therefore[,] a world layered with Mega-FTA may help create win-win for all stakeholders if negotiated with all their concerns in view.
- Mega-FTAs will be a financial/economic pillar in coming decades.
- Free trade agreements [are] necessary for better and greater economic integration.
- FTA can be instrumental for regional integration [if] FTA can contribute to promote investment and diversify trade of partner countries.

Mega-FTAs' Costs

- The mega-FTAs are adding to the complexity of foreign trade and introducing trade alliances in competition to free trade as well as interrupting fiscal & economic sovereignty[,] thus should be slowly phased out.
- FTAs[,] particularly mega-FTAs[,] will ultimately lead to [the] death of WTO which was established after [prolonged efforts].
- Recently I did some research into FTA performance in one country (i.e. the economic impact of three FTAs), and found that FTAs were not an economic panacea. Governments and industries need greater understanding of how to benefit from these – in terms of infrastructure, policy and support.

- Mega-FTAs may not motivate countries to unilaterally undertake necessary domestic reforms. Instead, [they] may even provide excuse to countries to avoid and/or delay domestic reforms because market access can be given even without reforms.
- Very high skills are required for countries to navigate the noodle-bowl. Equally important is their ability to mobilise their business community to align itself to the [governments'] commitments to the [trade pacts]. Not many can achieve both. As with any other initiative in international trade relations, this trend will create a new set of haves and have-nots.

Implications for Excluded Parties

- Issues (concerns) should be discussed and addressed as regards the impact and implications of mega-FTAs for countries that are left out (preference erosion, market loss, undermining of competitiveness, being left out of production networks and value chains etc.). For example, [consider the] inclusion of Vietnam in [the] TPP and its possible implications for apparels-exporting LDCs [i.e. least developed countries] such as Bangladesh and Cambodia (in markets of USA, Japan, Canada, Australia where these countries will likely suffer preference erosion and loss of competitiveness).
- Mega-FTAs need to be more democratic institutions and must support and represent the interest of smaller economies.
- Equitability and [inclusiveness] are [important]. No less-developed countries should be disadvantaged at one end, and at the other, no economic hegemon should be allowed to run unfettered.
- Hopefully these mega-FTAs and global economic governance will benefit all global communities, not certain communities or groups only.

- The TPP, TTIP and RCEP could be the biggest three trade deals in history and would account for about 80 percent of the global economy. Therefore, the TTIP, TPP and RCEP are immensely important for excluding countries (like Bangladesh's real GDP would fall by 0.5 percent) which has been missed in this survey.

Timing of Mega-FTA Ratification and Implementation

- [...] Also as for [the] TPP and TTIP I wanted to add that I think it all depends on the outcome of the US presidential election. [If] Hilary Clinton wins I think the agreement will pass relatively quickly. Otherwise I am not sure what is going to happen to the world if the leading republican candidate wins. All trade negotiations might suddenly break down in this event. So I really see the US elections as pivotal to all this. As for the RCEP I did not know much about this constellation.
- While global economic forces are pushing for global free trade, the current global political climate is [increasing] nationalism and protectionism, making the process of any FTA delayed and even cancelled.
- The earlier the resolution, the better. Whilst I have indicated end 2017 as a plausible date, the reality is that due to power jostling and advantage brokering, it may be more 2020. This protraction may cause a dilution in focus and efforts resulting in going back to smaller trade blocks. The populace at large will [lose] out eventually as they will not get goods and services at the best possible competitive prices and in faster delivery times. Remember that the [world population] will increase by amount 3/4 billion and the last thing one needs to have instability is to have a disenfranchised voting populace that may cast emotional votes rather than practical and pragmatic thinking.

Geo-economic and Geopolitical Motivations of Pursing Mega-FTAs

- More than economics and development, what underlies these trade agreements is the strategic geo-political considerations. There is no altruism in any economic/trade arrangement. Ultimately, it is national interest and strategic geo-political considerations.
- Power politics still dominates the agenda.
- All nations (like all individuals) pursue economic growth and happiness. [The] partners and the tools in this pursuit will vary for each nation[,] but the content of the pursuit will remain the same, which is, enlightened self-interest.
- It cannot be a Western dominated world any more. [The] EU seems to be interested only in raking in profits without contributing to the betterment of the developing Asian economies. This neo-colonialism cannot be permitted.
- 1) I think great care should be taken not to establish [mega-FTAs] for political reasons, e.g. to line countries up against China[.] 2) The domestic costs e.g. unemployment should be weighed in the costs/benefits [calculations] of mega FTAs.
- Mega FTAs are an indication of the frustration arising out of Doha round WTO talks. In equal measure, these are also attempts to set new politico-economic architectures as also to find more space in an uncertain (and depressed) economic environment.
- The strategic dimensions – especially the US Pivot to Asia and the crisis in Europe – will be catalysts. Despite suggested complementarity, the rise of regional economic institutions would imply reducing the dominance of western-centric global institutions.
- [S]ometimes it is hard to rate potential motivations to join or push mega-FTAs because it depends on what problems they want to solve.

- It would be wise to break down the different parts of the agreements as they are obviously about far more than trade. The relationship between these agreements and security. Who writes the rules? Do they signal economic power is shifting toward Asia? What type of economic power?
- FTAs are emerging as political rather than economic tools in this day and age and this has to be monitored to prevent backlashes in economic relationships.

The Relationship between Mega-FTAs

- Mega-FTAs would help strengthen global economic governance in theory, yet in practice, mega-FTAs may be competitive against each other because geopolitical considerations. This survey should have asked more questions about geopolitics, as those considerations might be overriding economic consideration, especially in the short term.
- [The] three are interlinked. [It's] an economic/geo-economic competition.
- The TPP will reduce the momentum of RCEP.
- FTAs are [a] reality and going to spread.
- Vigilance is the watch word to prevent monopolization of the major economic powers. FTA and other such organizations should try to balance the powers. [']The East is East, the West is West['] and when the twine meet you get the very best of both worlds.
- These mega-FTAs play around with the global production fragmentation and the rules of origin. Yarn forward rule can illustrate this point well. So, while [the] TPP is a free trade agreement for members, it is a way to exclude countries outside the agreements. For China, to keep itself relevant, it has to pursue other FTAs in order to counter the effect of the TPP. RCEP would be this case.

- I am afraid the intentions of Mega FTAs seem to contain rather than [advance] regional [cooperation]. This may lead to new disintegration of the world.
- While [the] TPP and RCEP are in tight competition, the US-EU pact is not a competitor to RCEP because the actors are different. We are also waiting for ASEAN-EU or even RCEP-EU trade pact. This could be more interesting.
- [Countries] have to prepare to be competitive.

The Relationship between (Mega-)regionalism and Multilateralism

- I think that the mega-FTAs will play an important role in global economic governance in the near future, whether we like it or not.
- Regional FTAs flourish because of the difficulty, perceived or real, of reaching a consensus in [the] WTO considering the increase in the number of members, especially from emerging and developing economies with a broad range of competing and, at the same time, complementary interests that has to be factored. FTAs bank on greater familiarity and shared values between and among others, perceived or otherwise. FTAs, [in] the short run, may balkanize international trade, but [I] think it will reach saturation point where its utility will not increase any further even with the onset of new ones. States will realize that, in the end, there is no substitute to a global trade regime. Hopefully, the negotiations lessons and practices developed in the course of regional FTAs may be of help in advancing a more globally inclusive and fair trade regime for all the nations of the world.
- Emerging economies should show more leadership role in taking forward mega FTAs in a balanced manner and also to balance them with multilateral trade liberalisation.

- [The] WTO is enough for multilateral trade. Most of the [countries] at least already signed 1 FTA at regional [or] bilateral [level], we don't need another mega-FTA.
- I believe that the future of globalization [is] regional blocs working in harmony with the WTO and the UN system.
- Some survey questions cannot be answered straightforwardly since there are so many factors that are intricately interrelated. Regional FTAs are steps to a globalized FTA or to the world economy as [economies will be subjected to] the same set of rules and regulations.
- [The] WTO must be the guiding force and [...] no nation should be leading it alone.
- Science and technology have changed the people' s perception on the needs to organize the world economy with more emphasis on empirical-regional perspectives without leaving the global interests. Global economic governance is the best way to see how the world's economic system works not only from within the participating countries but also the countries outside the mega-FTAs. [Mega-FTAs embody] the globalism-regionalism experiments.
- I personally think this mad race of FTAs with countries rushing to join them for the fear of being left out should end sooner than later. Ideally, the WTO members need to invest more time and effort on [designing] and [agreeing] on a universal formula for tariff rates so as to minimize scope for FTAs based on price competitiveness on account of reduced duties.
- I believe the benefits of multilateralism are large and multilateral institutions need strengthening. I am very skeptical about the benefits of FTAs and [']excessive['] regional emphasis.

- [Global] economic governance will eventually dominate trading agreements. It does not matter where it will start, so it is not a question on whether or not the TPP is a good model, there will be better models for sure. What is important is, global economic governance and mega-FTAs are leading the way.
- Global economic governance is a prerequisite to the success of mega-FTAs.
- We are not introduced to the WTO/TPP conflict until half way through the survey, but it is the key feature. If respondents were thinking small they might have a lot of good things to say about [the] TPP and especially RCEP in microcosm, before being reminded that in the macrocosm they undermine [multilateralism].
- There are both advantages and disadvantages of FTAs. Moreover, there are challenges – Pakistan is a member of SAARC [i.e. South Asian Association for Regional Cooperation] which has not been able to reach its potential because of regional conflicts. There is a need to improve global economic governance to incorporate various FTAs into a GEA. FTAs should be complementary to each other and be a vehicle for larger global integration.
- There is always the danger that these deals are like card houses that can easily stumble if the agreements under them are in trouble. That is why I think there is no real alternative to the WTO, but in a growing world the card house will probably not stumble and then the mega-deals can easily turn out to support the global system overall. There is a major element of chance in all this hence I would say very unpredictable. No doubt the global financial system needs to receive first priority and it might even be dangerous to progress with further liberalisation without solving some of those problems first.

- Ultimately the mega-regionals need to be integrated into the WTO multilateral agenda to ensure a future cooperative[,] more egalitarian approach that spreads the benefits of trade to all countries and counters unrest and poverty by promoting business and investment.

The Global Economic Architecture

- In the context of the EMEs [emerging economies] converging with the developed countries in all respects and [China] trying to attain a super power status by setting up rival institutions because of their FE [foreign exchange] reserves[,] the Bretton [Woods] institutions' governance systems must give [greater] voice to the EMEs and the voting pattern there must reflect their strengths and populations. Global institutions must be strengthened rather than weakened by regional bodies in order to preserve peace in a highly [competitive] world. [We] must not forget nuclear armed rogue states, states that unashamedly back terrorism and the rising tumult in the middle east. [Only multilateralism] can tackle them for lasting good of the world.
- Establish a system that will benefit weaker economies and promote genuine economic growth, not token ones, and for stronger economies to have better governance to prevent collapses or failure that will trigger a domino effect [...]
- This survey should be an important actual process for establishing [a] new global economic architecture in the face of the emerging East Asian economies. I hope you have meaningful results from this survey.
- Perhaps it will be useful to go [through] this process. The fact that they are being developed indicates that politics and economics desire changes from the prevailing global architecture of the Bretton Woods system – we had the global crises after all. I am not saying that regional trade agreements [is] a good solution, but we should go through them and learn and get back to

reconstructing a global system that meets performance criteria that we agree on – HDI [Human Development Index], environmental sustainability, etc.

- There is an urgent need to revisit the Breton Woods arrangement in the contemporary and futuristic contexts [, making reference not] to the War-time era of the Forties, but to the post-War, post-Cold War global, politico-economic realities. FTAs, mega or minor, multilateral or bilateral, regional or more, will be relevant only in context, and not as long as they are seen as a [“ganging up”] mechanism, where the [Bretton] Woods institutions have failed, or not served the promoter-nations (read: West). All other studies and their results would be cosmetic and end up as irrelevant, at times even before the ink had dried on the paper.
- While the western-backed system of global economic governance should not be dismantled, it must change to accommodate China's increasing economic and political role internationally.
- Nothing wrong with the evolution of global governance we see in terms of trade or economic policy. We need to allow the space for these things to evolve. But there is a definite need for a balance of voices and not one which reflects one voice[,] be it Western vs Eastern, or MNCs vs SMEs etc. How can the global architecture (trade and economics) be more inclusive is the question[.]
- The new era will either require a re-writing of the post-WWII rules, or will see the creation of competing systems and development logics. The latter need not be a bad thing if it does not lead to open aggression, but rather to a competition between good ideas.
- China and the US need to work closely together to build new inclusive global financial [institutions] and global trade [arrangements].

- The key problem is that the current rules are inequitable and do not adequately protect the interests of the poor countries. A more equitable global economic governance is the right answer.
- China sees Bretton Woods as a regional power structure, not a legitimate global architecture

Other Remarks

- The situation in Asia, especially after the One Belt One Road [OBOR] initiative is very fluid. The new economic geographies, which may emerge after a successful implementation of OBOR would create new regional trade realities. If RCEP takes longer to materialize or remains a lame agreement, [Eurasian] Economic Union [EEU] would make equally relevant. Hope Russia is as serious about EEU as US was for [the] TPP.
- You forgot the EU-Japan FTA now under negotiation. This is also important.
- Most of these discussions and implementations of FTA and governance have underestimated the importance of the new hinterland of Internet and the underserved population.
- This survey should [have paid] more attention to the impact of mega-FTA agreement on Asian economic integration and the relationship between countries.
- The mega FTAs appear to be oriented more towards working for the future than actually addressing existing problems that can be solved by discussion.
- Issue of harmonization of standards both in goods and services is a key factor in these mega-FTAs. Second, clear emergence of issues that are now out of multilateral purview like investment, competition policy, labour. Third, [there is a] lack of any disciplines on agricultural subsidies, whether [exports] or domestic [sales].

- More questions on the relevance between trade and development/finance regionalism seem to be desirable.
- Cost of logistics would be the most important variable in determining of economic integration. [...] International Institution such as World Bank, Asian Development Bank and other mostly will play the game in improving logistics.
- The NTBs require to be addressed in detail whenever [agreements] are signed or reviewed.
- Need authoritative [interpretations] of the TPP commitments and impartial assessment of their implications for TPP members as well as non-members.
- Advent of Internet based economy and global E-Commerce, will determine the relevance of [the] emerging blocks.
- Creative efforts are required to reproduce national and regional economies in the age of globalization.
- The [principal] issue for business is the rules and compliance in any given FTA. [A] lack of harmonisation is causing many problems for global supply chains.
- There seems to be a skepticism about [the] WTO and its efficacy in increasing [global trade] which is now getting divided between developed and developing [nations] with LDCs getting left out. There is also an imperialistic tendency exhibited by [the] USA in cornering and retaining its global dominance in trade & commerce. The whole process of forming Mega-FTAs is hurried up with lot of issues not discussed threadbare even among nations coming together in these Mega-FTAs. There would again be competition among these FTA nations which will be counter-productive to increase in global trade. Multiple memberships in various FTAs would pose a problem to nations to align their

internal foreign policies to benefit the citizens. This Mega-FTAs look great in principle and drafting but to be seen in practise how good they are.

- Japan is in an important, if interesting position for potentially interconnecting regional FTAs as it has the memberships of [the] TPP, RCEP and Japan-EU FTA.
- There will always [be] nations that suffers due to its participation or lack of, by virtue of the [uniform] rules blanketed in each FTAs.
- The costs and benefits of joining mega-FTAs are different for different countries based on their [bargaining] power. So it is hard to conclude one rule for all.
- Every member nation in all these institutions should be treated with due importance and big brother aptitude should be done away with. Spirit of cooperation should form the basis of the negotiations.
- The origins of the mega FTAs stem from the basis of needs. Each has its own operating context and desired outcomes. The challenge now is to find the common thread, beyond rhetoric and theories, in having a practicable core set of initiatives executed and maintained in a sustainable way.
- The survey should also include specific questions on how the trade, economy, currency and political stability of smaller nations such as Singapore could be affected by mega-FTAs.
- I am sure the authors would have their perspectives on the survey. However, the movement of (financial) capital has played an important role trade. Financialization, hence, is an important way to explain growth of regional trade [blocs] at the cost of global free trade.
- May international economic prosperity work to alleviate the possibility of conflicts among countries in the international community.

- Asia's time is coming. With young [and] productive workers while a large chunk of the world is ageing fast, Asia will be the next economic center. Asia needs to set up the stage for that to happen.
- [The] TPP is not a free trade agreement. Your survey does not focus on the essentials of [the] TPP or its [transatlantic] counterpart, and that has to do with IP [intellectual property], dispute resolution, et al. Further, what is obvious, but you have missed, is the strategic relationship between [trans-pacific] and the [transatlantic] trade deals. Once in place, then China and Russia have no alternative but to come begging to join, and that will then be on the terms set by the US, at least that is the US strategic rational in the US. You must know this surely. Obviously the reality on the ground is evolving quickly with the NDB, the AIIB, and the Silk [Road] Fund. [...But] it would be a massive strategic error for East Asia to lock itself into the cold-war-like strategic thinking which is behind the US push for [the] TPP. Furthermore, small countries have a vast interest in a global, rules-based global trade and financial system. Otherwise, they have little protection against the elephants once they start stampeding. There is a lot more, but we are working hard to stop [the] TPP in the US and elsewhere. Obama will not touch this until after the elections. Trump, Clinton, Sanders, O'Malley have all come out in opposition to TPP. So Obama will try to impose it between Nov 4th and January 20th next [year] Let's see how this goes. Korea, Thailand, Malaysia were right to stay out of TPP[...]