Mega-Regional Trade Deals in the Asia-Pacific: Choosing Between the TPP and RCEP?

JEFFREY D. WILSON
Asia Research Centre, Murdoch University, Australia

ABSTRACT The emergence of “mega-regional” trade agreements has recently become the most significant trade policy issue in the Asia-Pacific. Since 2010, governments in the region have launched negotiations for two new trade agreements: the United States-led Trans-Pacific Partnership (TPP) and the ASEAN-led Regional Comprehensive Economic Partnership (RCEP). Differentiated by their membership, scope and level of ambition, the TPP and RCEP embody competing visions for how the Asia-Pacific trade system should evolve, and regional governments must now make choices over which initiative better serves their economic and political interests. This article explores the trade policy choice posed by these mega-regional trade negotiations, reviewing the evolution of the Asia-Pacific trade system, the recent emergence of the TPP and RCEP, and the competitive dynamics inherent in the development of the two proposals. It argues that four key considerations (trade policy ambition, the role of ASEAN, US-China geopolitical rivalry and defensive concerns) will be of key importance in informing regional governments’ decisions as the TPP and RCEP move towards completion in 2015.

KEYWORDS: Free trade agreements, Asia-Pacific region, Trans-Pacific Partnership (TPP), Regional Comprehensive Economic Partnership (RCEP), multilateralism, bilateralism

The regional trade system in the Asia-Pacific is at a crossroads. After negotiating a series of bilateral free trade agreements (FTAs) during the 2000s, many governments in the region have now begun to look towards new “mega-regional” trade deals. In March 2010, negotiations for the Trans-Pacific Partnership (TPP) officially began – a US-led agreement comprising 12 members from across the Asia-Pacific region. This was soon followed by the Regional Comprehensive Economic Partnership (RCEP) announced in May 2013 – an agreement centred on ASEAN and the six countries with which it already has plurilateral FTAs.

The emergence of these mega-regional trade deals are a direct response to perceived problems facing the Asia-Pacific trading system, and seek to “multilateralise” the region’s existing bilateral FTAs into a larger deal. However, they are also competing proposals, differentiated by their membership, their level of ambition, and the extent to which they...
embody an “Asia-Pacific” or “ASEAN-plus” type model for trade cooperation. At the time of writing (August 2014), both the TPP and RCEP are currently under negotiation, and the negotiating parties have each declared an intention to complete their respective deals during 2015. This poses a major question for governments in the Asia-Pacific – which proposal should be prioritised as negotiations move towards completion in 2015? Some countries that are party to only one of the negotiations are presently considering whether to join the other, while those involved in both must decide how negotiating resources are prioritised. As a result, regional governments must carefully weigh the costs and benefits offered by the TPP and RCEP, and decide which offers greater advantages for regional trade cooperation in the twenty-first century.

This article examines the context and considerations bearing on this trade policy choice facing Asia-Pacific governments. It reviews the recent rise of bilateral FTAs in the Asia-Pacific, outlines the rationale and characteristics of the TPP and RCEP negotiations, and identifies a range of dimensions in which the two proposals embody competing visions for how the regional trade system should evolve. On the basis of this analysis, it argues that four core considerations – relating to trade policy ambition, the role of ASEAN, US-China geopolitical rivalry, and defensive concerns – will be of central importance in determining how regional governments choose between the TPP and RCEP as they move into the final stages of negotiation.

The Rise of Free Trade Agreements in the Asia-Pacific

In recent years, the trade system in the Asia-Pacific region has been rapidly transformed. Prior to the 2000s, trade liberalisation had largely occurred under the auspices of the World Trade Organisation (WTO), a multilateral body that enforces a set of binding trade rules upon all its members. However, during the last decade a number of governments in the region have turned towards FTAs – bilateral agreements that go beyond WTO rules to preferentially reduce barriers to trade between signatory countries. In 2000, the Asia-Pacific – defined here as members of the East Asia Summit (the ASEAN-10, Japan, China, Korea, Australia, New Zealand, India, the US and Russia) – was home to three in-force trade agreements, but following a spate of proposals the number of regional agreements notified to the WTO quickly rose to 40 by 2014 (WTO 2014). Moreover, if non-WTO notified and under-negotiation agreements are included, the count of “FTA initiatives” between governments in the Asia-Pacific rises to 71 (ADB 2014). As a result, the region has become one of the most active sites for FTA negotiation globally (Dent 2010).

Several factors combined to propel this regional shift from trade multilateralism towards bilateral FTAs during the 2000s. First, many governments have become frustrated at a lack of progress in the Doha Round of WTO negotiations, and have turned to bilateral FTAs as an alternate strategy for trade liberalisation (Desker 2004). Second, several developed-country governments in the Asia-Pacific are interested in the so-called “WTO Plus” trade issues (such as investment, services and intellectual property), and have used FTAs as a means to advance trade liberalisation in these areas (Thangavelu and Toh 2005). Third, others have been forced to defensively begin signing FTAs in order to neutralise disadvantages associated with being “outsiders” to the web of agreements gradually spreading across the region (Dent 2010). Finally, some regional governments have used FTAs for geopolitical rather than purely economic purposes: to “reward” security partners (Higgott 2004), to signal diplomatic intentions (Capling 2008b), and to
pursue non-trade forms of economic cooperation (such as resource security agreements) (Wilson 2012). The consequence of FTA proliferation is that the trade system in the Asia-Pacific is no longer flat and multilateral, but dominated by a complex web of overlapping bilateral agreements with markedly different designs and purposes.

The ASEAN states – both individually and collectively – have been at the centre of the shift towards FTAs in the Asia-Pacific. Southeast Asian governments have signed some 19 bilateral FTAs since the year 2000 (WTO 2014), the majority of which are with economic partners in the broader Asia-Pacific region (such as Japan, Korea and Australia). Since 1993, the 10 member states have also been participating in the ASEAN Free Trade Area (AFTA) agreement, which established a “common effective preferential tariff” between 0% and 5% for the majority of intra-ASEAN trade. Moreover, ASEAN itself has also become a player in regional FTAs through the negotiation of plurilateral “ASEAN-plus” style FTAs between the bloc and trade partners outside Southeast Asia. Such agreements were signed with China, Korea, Japan, India, Australia/New Zealand in the latter half of the 2000s, and negotiations with the European Union and the ASEAN+6 group are currently underway (Table 1).

However, the spread of FTAs has posed two interrelated problems for progress towards trade integration in the Asia-Pacific. The first is to do with the “quality” of many of the agreements. The bulk of FTAs in the region are between countries with relatively low bilateral trade volumes, meaning many of the most important trade relationships (particularly those with China and the US) are not presently covered (Dent 2010). They also typically have very narrow coverage, with important (but politically controversial) sectors excluded from the agreements, such as agriculture and financial services (Ravenhill 2008). Agreements involving China and ASEAN members also rarely address any of the WTO Plus issues – such as investment, intellectual property and technical barriers to trade – in a substantive way that improves upon or extends existing WTO rules (Capling and Ravenhill 2011). As a result, many analysts have argued that FTAs in the Asia-Pacific have failed to live up to their promise of advancing either trade liberalisation, or broader forms of regional economic cooperation, in a meaningful way (Capling 2008a; Dent 2010; Ravenhill 2008; Wilson 2012).

A second challenge posed by regional FTAs is the so-called “noodle bowl” problem. Unlike multilateral trade through the WTO (which enforces a single and consistent set of trade rules for all member states), bilateral FTAs vary widely in their content. Each agreement includes (and excludes) different sectors, involves different commitments for tariff reduction,

| Table 1. FTA activity of Association of Southeast Asian Nations (August 2014) |
|-------------------------------------|-----------------|-----------------|
| **FTAs**                           | **Negotiations from** | **In effect from** |
| ASEAN Free Trade Area               | 1993            | 1993            |
| China                              | 1999            | 2005            |
| Korea                              | 2004            | 2007            |
| Japan                              | 2005            | 2008            |
| India                              | 2004            | 2010            |
| Australia-New Zealand              | 2005            | 2010            |
| European Union                     | 2007            | Under negotiation |
| ASEAN+6 (RCEP)                     | 2013            | Under negotiation |

*Source: ADB (2014).*
and creates different rules for technical standards, rules-of-origin, investment protection, etc. These inconsistencies deeply complicate the regional trading system, as each country has an entirely different set of regulations and commitments for each of its FTA partners (Capling and Ravenhill 2011). The result has been the emergence of a complex patchwork of incommensurate and overlapping FTAs in Asia, which is metaphorically compared to a tangled bowl of noodles (Baldwin 2007). The concern is that this tangle undermines the cohesiveness of both the global and regional trade systems, imposes unnecessary transaction costs on businesses operating across regional economies, and might even lead to the emergence of competing trade blocs (Warwick Commission 2007; WTO 2011).

From Bilateral to Regional? The “Mega-Regional” TPP and RCEP Negotiations

After a decade of negotiating bilateral FTAs, the problems afflicting the Asia-Pacific trade system have belatedly been recognised by many governments. In response, several began to change their trade policy strategies in the early 2010s, to emphasise regional rather than bilateral initiatives. This shift has led to the commencement of negotiations for two “mega-regional” trade deals: the TPP and the RCEP. But while the goal of both proposed agreements has been to solve the problems facing the Asia-Pacific trading system through a strategy Baldwin (2006) has labelled “multilateralising regionalism,” they respectively seek to do so in radically different ways.

The TPP has its origins in an earlier FTA known as the “P4 agreement,” signed by Brunei, Chile, New Zealand and Singapore in 2006. The P4 agreement immediately stood out amongst its peer FTAs in the Asia-Pacific, because it was a “high quality” agreement that did not face many of the quality problems afflicting other regional deals. In 2008, the US indicated it was interested in joining and extending the P4 in order to promote investment and financial services liberalisation, and after a shaky start (due to the global financial crisis) negotiations officially began in March 2010 (Capling and Ravenhill 2011). The TPP initially consisted of the P4 parties, Australia, Peru, Vietnam and the US, but the addition of new members was actively encouraged. Canada, Malaysia, Mexico and Japan all gradually joined the negotiations, and Korea is currently considering accession as well (DFAT 2014). A framework agreement for the negotiations was agreed in late 2011 (TPP Countries 2011a), and the members have now completed 19 rounds of negotiation.

The TPP negotiating parties describe it as a “21st century trade agreement” (TPP Countries 2011b). Unlike older FTAs of relatively low quality and impact, the aspirations for the TPP are to genuinely liberalise trade, and do so in a way that advances existing WTO rules. The scope of issues currently under negotiation is extensive, covering 20 areas as diverse as government procurement, environmental standards, financial services, intellectual property and investment protections (TPP Countries 2011a). Members have also committed to delivering a “comprehensive agreement” that covers all goods and service sectors, avoiding the exclusion problem common to many other regional FTAs. Finally, the TPP is seen as a “living agreement,” and all countries in the Asia-Pacific region (broadly defined) are encouraged to join negotiations (Fergusson et al. 2013).

The high level of ambition embodied in the TPP is one of its major advantages, as it makes it the best potential strategy to address the quality problem facing FTAs in the Asia-Pacific (Capling and Ravenhill 2011). The involvement of the US is also a major drawcard, not only by including the world’s largest economy, but also by adding the political heft necessary to drive the negotiations forward. However, these advantages are
also the TPP’s key liabilities. The extremely ambitious WTO Plus style agenda will prove contentious – particularly in terms of agriculture and intellectual property, which have already proven to be some of the key sticking points behind the deadlock in the WTO’s Doha round. As a US-led initiative, it also invariably raises questions about geopolitics and leadership in Asia – particularly as China, India and Indonesia are not yet parties to the agreement. China’s absence from the TPP is a major source of contention, with some analysts arguing the absence of Asia’s largest economy makes the TPP an inappropriate vehicle for advancing regional trade liberalisation (Drysdale 2011; Rathus 2011). These issues will have to be carefully managed if the TPP negotiations are to be completed by the provisional completion date of late 2014.

Operating alongside the TPP have been negotiations for a similar mega-regional FTA: the RCEP. This agreement grew out of two previous FTA proposals made in 2006: the China-led “East Asia Free Trade Area” (centred on the ASEAN+3) and Japan-led “Comprehensive Economic Partnership in East Asia” (based on the ASEAN+6). After a period of study and review, it was decided to combine these two proposals into a single ASEAN-led initiative in 2011, with official negotiations beginning in May 2013. At its core, RCEP’s primary goal is to multilateralise the regional trade system by combining the five ASEAN-plus FTAs into a single agreement (see Table 1). Where the TPP seeks to solve the quality problems in existing regional agreements, RCEP instead focuses on addressing the noodle bowl problem of overlapping and inconsistent FTAs.

Due to its focus on “multilateralising the noodle bowl,” RCEP’s ambitions are much lower than those of the TPP. According to a principles statement issued in 2013, the key focus is on trade in goods – to first integrate the five ASEAN-plus FTAs into a single agreement, and then to negotiate further tariff reductions (RCEP Countries 2013). Far less attention is paid to other issues, and the agreement aims to be “WTO consistent” rather than “WTO Plus.” Only six non-tariff issues are being pursued (compared to the TPP’s 20), and the negotiating parties have been far less specific about what they intend to agree in these areas. Finally, RCEP has a more restricted geographic scope than the TPP. The negotiation parties have agreed that RCEP will affirm the principle of “ASEAN centrality” in Asian regionalism, and while the accession of new members is explicitly allowed, at present the only participants in negotiations are those that already have FTAs with the ASEAN bloc: China, Japan, Korea, India, Australia and New Zealand.

The major advantage for the RCEP agreement is that its lower level of ambition makes it the quickest and lowest-cost way to solve the noodle bowl problem. The first step in negotiation will simply be integrating the five existing FTAs that ASEAN and its partners have already agreed, and following that the focus will be on goods tariffs rather than more contentious issues such as agriculture, investment and intellectual property. It also has the benefit of including all “Asian” economies (especially China), and conforms to the ASEAN-plus model used in other regional bodies such as the ASEAN+3 and the East Asia Summit. However, lower ambitions mean that RCEP runs the risk of locking the region into a pattern of low quality FTAs, which may prove hard to break in the future. As fewer benefits are on offer, it is also potentially less attractive than the TPP – arguably a factor in Japan’s decision to “defect” from the RCEP process by acceding to the TPP negotiations in April 2013, and Korea’s expression of interest in December of the same year. Given that most Asian countries have deep trade relations with the US, its absence from RCEP is a major difficulty that also raises questions over how impactful the agreement may be. The key features of the mega-regional trade agreements are summarised in Table 2.
Choosing Between Competing Visions for the Asia-Pacific Trade System?

These two mega-regional trade agreements under negotiation today embody competing visions of how the Asia-Pacific trading system should evolve. The US-led TPP aims to address FTA quality issues by establishing an ambitious trade agreement that is open to all (willing) countries in the broader Asia-Pacific. RCEP instead seeks to address the noodle bowl problem by multilateralising existing FTAs at a more modest level of ambition, and has a membership model based on the ASEAN-plus formula. For this reason, the TPP and RCEP are rival proposals, which are competing to obtain the commitment of regional governments.

Equally importantly, they are also somewhat incommensurate, and much will depend on which negotiation is finalised first. If the TPP is completed first it will set a new and high standard for trade liberalisation in the region (Capling and Ravenhill 2011), reducing the utility of RCEP and leaving it with only one major selling point – the inclusion of China. Conversely, if RCEP succeeds in unifying the ASEAN-Plus FTA, many governments may be content with this outcome and have a reduced appetite for the ambitious (but costly) reform agenda insisted on by the US for the TPP. With both negotiations currently targeting similar completion dates (either late 2014 or 2015), these dynamics are indicative of a competitive “race to finish” that will gather pace and intensity over the next 12 months. While it is certainly possible that both agreements could co-exist, this

| **Table 2. Key features of the TPP and RCEP agreements (August 2014)** |
|--------------------------------------------------|--------------------------------------------------|
| **Trans-Pacific Partnership (TPP)** | **Regional Comprehensive Economic Partnership (RCEP)** |
| First mooted | December 2009 | November 2011 |
| Official negotiations | March 2010 | May 2013 |
| Intended completion | Late 2014 | Late 2015 |
| Negotiating rounds completed | Nineteen | Five |
| Total GDP (2012) | USD 28.1 trillion | USD 21.2 trillion |
| Primary goal | Address quality issues through a new “twenty-first-century” FTA | Address noodle bowl problem by multilateralising ASEAN FTAs |
| Membership model | All Asia-Pacific countries, accession encouraged | ASEAN-plus-X model, accession yet to occur |
| Relation to regional architecture | Not tied to any existing organisation | Affirms principle of ASEAN Centrality |
| Scope and coverage | “WTO Plus” aspirations – 20 non-tariff issues targeted | “WTO consistent” only – mostly focussed on tariffs |
| Major sponsor | US-led | ASEAN-led |
| Current members | 12: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, NZ, Peru, Singapore, US, Vietnam | 16: ASEAN-10, Japan, Korea, China, India, Australia, NZ |
| Significant “absent” members | China, Indonesia, Korea* | US |
| Common members | Australia, Brunei, Japan, Malaysia, Singapore, NZ, Vietnam |

*Note: * In December 2013, the Republic of Korea formally expressed interest in joining the TPP negotiations.
competitive dynamic means there will be significant first-mover advantages for whichever proposal wins the race, and potentially insurmountable challenges for the loser.

This poses a vexing policy choice for regional governments, particularly given uncertainty regarding the prospects for either of the proposals. While all regional governments (except the US) are parties to RCEP, Korea, China, India and the remaining Southeast Asian states still have the option of a late accession to the TPP talks. Additionally, decisions must also be made by the seven governments involved in both about how political capital and diplomatic resources – both of which are finite – are divided. This constitutes the trade policy choice facing countries in the Asia-Pacific today: Which mega-regional trade proposal should be joined, which accorded higher priority, and how should negotiating efforts be divided between the initiatives?

Prioritising between the TPP and RCEP will require governments to make complex decisions over what kind of regional trade system better suits their political and economic interests both now and into the future. As the factors involved in this calculus vary widely between Asia-Pacific countries, it is beyond the scope of this article to provide a per-country assessment of each government’s likely choices (for more detail, see Capling and Ravenhill 2011, 566–571). However, an analysis of their comparative features suggests that four key considerations will be critical in influencing the decisions made over the next 12 months.

A first question relates to levels of trade policy ambition – are Asian governments ready to move towards WTO Plus forms of trade liberalisation, and the benefits and costs they offer? If not, then RCEP is clearly preferable, as it does not require policy concessions in a number of sensitive areas such as investment, intellectual property and agriculture. WTO Plus-style liberalisation poses high costs for developing countries, and as a result the majority of previous FTAs involving China and ASEAN states have not addressed these issues in a rigorous manner (Dent 2010). However, these forms of deeper liberalisation may offer significant benefits if their costs can be digested – not only for individual governments, but also by contributing to broader regional efforts such as the ASEAN Economic Community or APEC’s Bogor Goals. Here, development gaps within the region will likely prove critical, with wealthier states (such as Australia, Japan, Korea and Singapore) having more capacity for – and more to potentially gain from – WTO Plus-style liberalisation than developing countries in ASEAN. Indeed, such a pattern has already emerged in membership arrangements, with the TPP biased towards developed countries and RCEP towards China and Southeast Asia. Competition between the two mega-regional trade deals to some extent reflects a split between the interests of developed and developing economies in Asia.

A second is the issue of ASEAN centrality – to what extent will Southeast Asian governments insist on ASEAN being the lynchpin of economic regionalism in the Asia-Pacific? RCEP participants have already agreed that ASEAN will be the “hub” around which existing FTAs will be multilateralised, and its completion would cement the bloc’s status at the centre of the regional economic architecture in much the same way the ASEAN Regional Forum has done for security matters (see Petri and Plummer 2014). While the Asia-Pacific membership model of the TPP is potentially more attractive in purely economic terms (by including the US and addressing a wider range of issues), it arguably undermines the central position ASEAN occupies in the regional trade system. This comes at a time when the principle of ASEAN centrality is coming under challenge – due to internal divisions between members, a weak track-record in dealing with security
concerns, and the desire of extra-regional states to build broader regional institutions such as the East Asia Summit (Amador 2010). At stake, therefore, is the question of how important ASEAN centrality is to its member governments, and whether they are willing to let the status of the bloc influence their trade policy decisions. Significantly, the participation of Vietnam, Singapore and Malaysia in TPP negotiations is indicative of an intra-ASEAN division on this matter.

A third and closely related question concerns geopolitics, and the extent to which TPP/RCEP competition is a proxy for competition between the US and China for regional influence. The US has little interest in RCEP due to its preference for WTO Plus-style agreements, while the demanding requirements of the TPP (especially in terms of intellectual property) mean that Chinese accession will be impossible in the short- to medium-term (Das 2013). The US government has also indicated that the TPP constitutes the economic wing of its recently announced “Pivot to Asia” strategy (Donilon 2013), making explicit the connection between these trade negotiations and broader questions of geopolitical leadership in Asia. Indeed, it has been suggested the TPP is a US attempt to “contain” China economically by dictating the terms for regional trade liberalisation (Bhagwati 2011); while China’s enthusiasm for RCEP might similarly be viewed as partially a “balancing” strategy against the US influence the TPP would create. These dynamics indicate that much more is at stake than just competing trade policy preferences. Choosing between the TPP and RCEP will also force governments to signal their geopolitical allegiances between the two great powers in the region, and any choice will risk gaining favour with one at the expense of relations with the other.

Fourth and finally, several governments must also assess an important “defensive concern” – the prospect that the more ambitious TPP will be completed as promised. If the TPP negotiations succeed it will introduce a new set of standards for WTO Plus-style liberalisation, dramatically transforming both the regional and global trade architectures (Capling and Ravenhill 2011). RCEP’s potential value would be greatly diminished as a result, and governments not yet in the TPP – particularly Indonesia and Korea – may decide they simply cannot afford to be an outsider to so important a trade agreement (notwithstanding other reservations about its content). There are also advantages to acceding during the negotiation stage when a government can influence the shape of the final agreement, compared to after completion when it will only be able to “take it or leave it.” Japan’s accession to TPP negotiations in April 2013 was likely driven by such concerns, with Prime Minister Abe indicating that Japan now intended to take a “leading role” in the development of the negotiating agenda (Financial Times 2013). For this reason, governments not yet party to the TPP may consider accession a prudent strategy, even if their ultimate preference would be for RCEP. If this were to happen, the shift in momentum towards the TPP would raise deep questions over RCEP’s viability, and likely anoint the TPP as the future model for the Asia-Pacific trade system.

References


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