

A Free Trade Area of the Asia-Pacific: Potential Pathways to Implementation

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Highlights

The recently concluded Asia-Pacific Economic Cooperation (APEC) leaders' meeting in Beijing has generated momentum behind the proposed Free Trade Area of the Asia-Pacific (FTAAP). This note reviews the prospects for the FTAAP which are strongly linked to progress in two other large regional trade agreements currently under discussion. Key findings:

- As a step towards advancing regional economic integration, APEC leaders meeting in Beijing in November 2014 committed themselves to the eventual realization of a Free Trade Area of the Asia-Pacific. To take this forward, a task force will be created to study pathways towards a FTAAP. This will analyze barriers to realizing the FTAAP and make recommendations to Ministers and Leaders by the end of 2016.
- The outcomes of the two other 'mega-regional' trade agreements under negotiation—the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP)—will be significant for the development of the FTAAP; one or both agreements will likely form the platform for the future development of FTAAP.
- The TPP and RCEP differ in crucial respects beyond their distinct but overlapping memberships. There is greater initial scope for liberalization amongst the RCEP economies as existing tariffs and restrictions on services trade and investment are higher than amongst the TPP members. However, TPP is likely to lead to deeper integration and include agreement on issues beyond and outside current WTO obligations in several areas including: labour and environmental standards; intellectual property rights; government procurement; and investment and competition policy.
- The FTAAP could be built either on the basis of the TPP, RCEP or a hybrid of both. The TPP is the more likely option given its probably higher standards. If China were to join the TPP, then TPP would emerge as the natural platform to bring in other potential FTAAP members.
- Whichever 'pathway' is chosen, the benefits from an ambitious FTAAP could be substantial: one estimate places them at \$2.4 trillion. Whether these are realized will depend on the level of liberalization, the final number of members, and also whether FTAAP can trigger consolidation of existing regional arrangements currently forming a "noodle bowl" and impacting adversely on the business environment for traders.

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Introduction: The Free Trade Area of the Asia-Pacific

The meeting of Asia-Pacific Economic Cooperation (APEC) leaders in Beijing in November 2014 has spurred renewed interest in the idea of a Free Trade Area of the Asia-Pacific (FTAAP). The Leaders' Declaration at the end of the summit reaffirmed the commitment of leaders to "the eventual FTAAP as a major instrument to further APEC's regional integration agenda." Towards this end, leaders launched *The Beijing Roadmap for APEC's Contribution to the Realization of the FTAAP* which sets out a number of actions to be taken (APEC, 2014). These include:

- Launching a collective strategic study on the realization of the FTAAP, including a consideration of barriers to trade and investment and pathways towards the FTAAP. Conclusions from the study and recommendations will be presented to Ministers and Leaders by the end of 2016.
- Developing an improved APEC information sharing mechanism on Regional Trade Agreements to boost the transparency of current agreements and help build understanding on how FTAAP could build on existing agreements (including those currently being negotiated).
- Continuing capacity building to improve the ability of all economies' to participate in regional undertakings and realize the FTAAP.

This vision of bringing together Asia-Pacific economies—including many of the world's most dynamic trading nations—within a single trade agreement is not new. Indeed, the genesis of the idea traces back to at least the 1994 APEC Summit in Bogor, Indonesia, when leaders agreed to achieve free trade and investment in the region by 2010 for developed economies and 2020 for developing economies. In 2006, APEC economies agreed to consider the long-term prospects for a FTAAP and in 2010 they issued a document "Pathways to FTAAP" which instructed APEC to take concrete steps towards the realization of the FTAAP based on the studies undertaken (APEC, 2010). Nevertheless, the agreement in Beijing—a priority for China, the summit's host—has reinvigorated the prospects for a future deal.

Progress towards FTAAP is intimately related with developments in the wider regional landscape of trade agreements. Since the original 1994 suggestion to create a FTAAP, there has been a proliferation of other bilateral and regional trade agreements involving APEC members. At present most APEC economies already participate in a variety of integration arrangements; the 21 APEC economies have in force 51 agreements amongst themselves and 93 more with economies outside APEC group. Indeed, the plethora of regional agreements is increasing the complexity of the rules governing regional trade with numerous distinct but overlapping arrangements (the so-called "noodle bowl") (EIU, 2014). If a new consolidated arrangement such as FTAAP can make countries abrogate other existing agreements, this would deliver major benefits to exporters through simplification and reduced trade diversion.

Currently attention is focused on the negotiation of the two 'mega-regional' arrangements in the Asia-Pacific region:¹ the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP) (see figure 1 for memberships). As both include a number of APEC members, the progress of these two deals will heavily influence the APEC debate and determine possible pathways towards the realization of the FTAAP. The *Beijing Roadmap* makes clear that the FTAAP will develop and build on these existing initiatives.

¹ Outside Asia, other "mega-regional initiatives" are also ongoing: in cross-Atlantic negotiations on the Trans-Atlantic Trade and Investment Partnership (TTIP); in Latin America through the Pacific Alliance; and in Africa as an initiative to merge four existing large regional blocs.

The Asian mega-regional deals: TPP and RCEP

The TPP and RCEP initiatives both involve a large number of economies that collectively account for a sizeable share of world GDP and trade (table 1). Both TPP and RCEP involve more than half of the APEC membership, and several economies participate in both the TPP and RCEP negotiations (figure 1).

Table 1: Economic size of TPP, RCEP and FTAAP

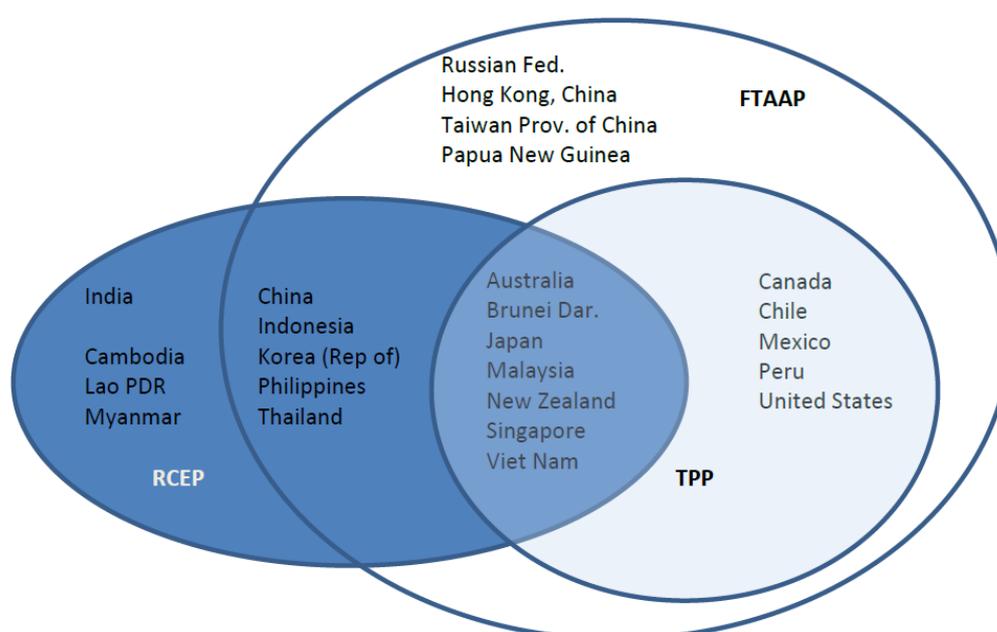
	TPP	RCEP	FTAAP
Number of economies involved	12	16	21
Aggregate share of world GDP (%)	38	29	58
Aggregate share of world exports (%)	24	30	46

Source: Schott (2014) and ESCAP calculations based on APEC statistics

However, in addition to economic size, there are other notable differences between the two mega-regionals:

- Membership:** The TPP is limited to APEC economies, having grown from an original deal between the ‘P4’ members: Brunei Darussalam, Chile, New Zealand and Singapore. It now includes 12 APEC economies (including two others which are also in ASEAN that is Malaysia and Viet Nam). In contrast, RCEP is limited to the 10 ASEAN members and 6 FTA partners (known as ASEAN+6) which are mostly also APEC members. However, some APEC economies do not participate in either of the two mega-regionals: The Russian Federation, Taiwan Province of China, and Hong Kong, China, participate in neither TPP nor RCEP. Further, RCEP involves four economies that are not in APEC: Cambodia, India, Lao PDR, and Myanmar. As FTAAP would involve all 21 APEC members (as per the current proposal), these LDCs from ASEAN, as well as India, would remain excluded.

Figure 1: TPP, RCEP and FTAAP: Overlapping memberships



Source: ESCAP

- **Time horizons:** TPP negotiations were scheduled to conclude in 2014, though it is now more likely that the final deal may occur in 2015 or 2016. In contrast, RCEP talks are still in a relatively early state and may take several more years to conclude (although the initial ambition was to conclude them by the end of 2015). Challenges for RCEP include accommodating the least-developed ASEAN members as well as India which has not yet shown great willingness to pursue significant further trade liberalization, especially not in areas beyond current WTO coverage.
- **Depth of liberalization:** It is likely that the TPP deal will be considerably more ambitious and substantial in terms of both trade liberalization and rule-making. TPP is billed as a ‘twenty-first century’ agreement that will include agreement on issues beyond current WTO obligations in several areas including: labour and environmental standards; intellectual property rights; investment and competition policy; and disciplines on state-owned enterprises. Obligations may be enforced through binding dispute settlement modelled on those in the Korea-US FTA. RCEP will also seek to expand liberalization commitments contained in existing FTAs between ASEAN and its six bilateral partners, but is less ambitious and will likely contain more exemption for sensitive products and services.

Economic Potential of TPP and RCEP

Both RCEP and TPP account for significant shares of global trade (see table 1 above) and could deliver substantial benefits if they deliver significant trade liberalization as well as progress on harmonization of rules and standards. Estimates of the potential benefits of the two agreements vary depending on methodology and assumptions on the depth of commitments undertaken. One study puts the global income gains by 2025 from TPP at \$223 billion and that from RCEP at \$644 billion (Petri et al, 2014). The larger gains from RCEP derive mainly from assumptions of increased trade amongst the large ASEAN+6 partners i.e. Japan, China and India, because there is no agreement at present involving all three of these countries, rather than from greater trade with the ASEAN economies.

Current merchandise trade between countries involved in the two mega-regionals shows that the composition of trade within the two blocs is relatively similar (table 2). The shares of trade in machinery and transportation equipment (defined by SITC) constitute slightly higher percentage among TPP countries, while trade in manufactured goods constitutes higher percentage among RCEP countries; this is evidence for the greater participation of RCEP economies (notably ASEAN and China) in global manufacturing supply chains.

In terms of the technological level of traded goods, the TPP countries trade a higher percentage of medium-tech goods and a lower percentage of resource-based goods as compared to RCEP countries (figure 2). RCEP’s somewhat surprisingly higher share of high-tech goods probably reflects RCEP economies—such as China, Malaysia and Republic of Korea’s—involvement in the electronics industries, though this may not equate to high-value added in these sectors.

Table 2: Trade among TPP and RCEP economies by sector (SITC Rev. 3)			Figure 2: Technology content of trade among TPP and RCEP economies	
Sector	TPP	RCEP		
Animal/veg oil/fat/wax	0%	1%		
Beverages and tobacco	1%	0%		
Chemicals/products	8%	10%		
Commodities (nes)	5%	2%		
Crude materials. excl food/fuel	4%	7%		
Food & live animals	6%	4%		
Machinery/transport equipment	41%	36%		
Manufactured goods	10%	14%		
Mineral fuel/lubricants	16%	15%		
Miscellaneous manufactures	8%	10%		

Source: calculated by ESCAP based on UN comtrade data downloaded from WITS, accessed in Dec 2014

Scope for Tariff Reductions

Existing FTAs—alongside unilateral and multilateral liberalization—have already significantly reduced tariff rates among the countries negotiating RCEP and the TPP. Currently, applied tariff rates are very low on average amongst economies in the TPP negotiations (2.55%) and somewhat higher among RCEP economies (8.66%) (tables 3 and 4). RCEP could therefore generate significant benefits from tariff liberalization. These low average rates, however, conceal tariff spikes on sensitive products such as agricultural goods. Negotiating concessions in these sensitive areas will be one of the most contentious areas for discussion, as disagreements between Japan and the US have already demonstrated. A particular challenge for RCEP will be unifying different tariff reduction rates and coverage of goods under the existing ASEAN+1 FTAs.

Table 3: Trade weighted average applied tariffs among TPP economies

		Importers													Average
		AUS	BRN	CAN	CHL	JPN	MYS	MEX	NZL	PER	SGP	USA	VNM		
Exporters	Australia		0.91	1.54	2.12	1.83	2.83	2.28	0.00	1.19	0.00	0.57	1.98	1.39	
	Brunei	0.00		10.52	4.88	0.00	2.16	19.72	0.00	7.76	0.00	9.23	0.55	4.98	
	Canada	1.59	3.19		2.44	1.34	1.50	4.03	0.06	2.14	0.00	0.02	3.09	1.76	
	Chile	0.16	0.52	0.46		0.93	0.36	0.49	0.03	0.47	0.00	0.19	1.92	0.50	
	Japan	3.84	1.44	2.65	3.70		6.01	3.60	3.68	3.15	0.00	1.55	5.49	3.19	
	Malaysia	0.74	1.94	1.39	6.00	0.32		1.67	0.77	3.29	0.00	0.88	2.81	1.80	
	Mexico	2.29	3.26	0.12	2.28	1.12	4.19		1.85	3.40	0.00	0.01	3.79	2.03	
	New Zealand	0.00	0.57	16.36	2.13	6.69	1.75	18.48		1.08	0.00	4.75	4.41	5.11	
	Peru	0.86	0.00	0.13	1.84	0.41	1.41	2.96	1.27		0.00	0.00	0.53	0.85	
	Singapore	0.00	1.39	0.36	2.63	1.46	0.43	1.48	0.00	1.33		0.07	6.41	1.41	
	United States	0.85	4.93	0.90	1.00	1.76	2.18	3.59	1.74	1.64	0.00		4.05	2.06	
	Vietnam	0.39	1.97	7.60	6.00	0.78	9.11	17.51	2.78	7.43	0.00	7.32		5.54	
		Average	0.98	1.83	3.82	3.18	1.51	2.90	6.89	1.11	2.99	0.00	2.24	3.18	2.55

Source: ESCAP calculations based on WITS

Table 4: Trade weighted average applied tariffs among RCEP economies

		Importers																Average
		AUS	BRN	KHM	CHN	IND	IDN	JPN	KOR	LAO	MYS	MMR	NZL	PHL	SGP	THA	VNM	
Exporters	Australia		2.40	21.75	6.41	19.20	3.38	4.66	5.59	16.20	6.70	9.16	0.00	7.03	0.00	3.39	5.70	7.44
	Brunei	0.00		10.99	0.02	10.50	0.00	0.00	2.62	x	5.20	x	0.00	3.59	0.00	0.20	4.23	2.87
	Cambodia	0.00	x		12.63	76.04	2.28	0.79	41.62	32.99	4.51	x	0.00	3.87	0.00	16.30	6.23	15.17
	China	9.54	3.74	18.77		15.10	3.99	5.00	9.80	22.78	4.23	8.39	9.29	7.43	0.00	10.47	15.68	9.61
	India	7.71	3.02	16.96	7.27		3.22	2.30	7.56	13.10	7.92	4.38	6.47	12.87	0.00	8.23	7.90	7.26
	Indonesia	4.05	5.27	12.03	6.20	51.49		0.88	1.90	x	1.49	3.70	2.44	5.48	0.00	11.25	5.69	7.99
	Japan	8.86	12.86	38.85	11.50	19.93	5.87		4.16	43.99	15.11	6.98	10.19	6.46	0.00	13.23	16.74	14.32
	Republic of Korea	6.74	16.44	23.20	8.41	18.84	3.88	2.27		49.91	11.87	7.78	6.72	6.78	0.00	7.90	19.79	12.70
	Lao PDR	0.00	0.03	10.69	11.34	20.59	0.00	0.29	0.03		0.01	x	0.00	1.35	0.00	5.10	1.63	3.65
	Malaysia	3.13	1.93	13.40	4.97	27.44	1.32	0.87	1.81	16.47		3.49	2.21	3.41	0.00	8.43	5.65	6.30
	Myanmar	0.00	0.04	12.03	4.11	31.23	0.01	0.27	7.54	x	0.10		0.00	2.84	0.00	7.66	1.11	4.78
	New Zealand	0.00	0.97	23.06	16.83	21.01	3.81	12.58	13.42	13.70	3.65	5.58		5.51	0.00	13.63	20.29	10.27
	Philippines	4.84	1.23	15.29	0.99	14.76	1.38	2.95	4.48	12.81	0.28	4.33	2.45		0.00	20.17	4.80	6.05
	Singapore	0.00	1.29	18.13	6.42	13.91	0.78	2.69	0.82	65.72	1.01	3.10	0.00	2.64		8.52	11.53	9.10
	Thailand	0.90	6.67	17.90	7.03	22.20	2.71	2.26	11.26	19.25	4.42	3.56	2.14	16.56	0.00		7.32	8.28
	Vietnam	1.15	3.95	23.17	6.09	35.02	0.70	3.96	10.01	13.24	10.94	5.26	8.44	61.67	0.00	8.05		12.78
	Average	3.13	4.27	18.41	7.35	26.48	2.22	2.78	8.17	26.68	5.16	5.48	3.36	9.83	0.00	9.50	8.95	8.66

Source: ESCAP calculations based on WITS

Rules of origin and non-tariff barriers

Rules of Origin (ROOs) help determine whether traded products are eligible for preferential treatment under an FTA. While they serve to promote production and trade of original goods among FTA members, the existence of multiple overlapping ROOs under different FTAs can create “noodle bowl” effects that pose difficulties for businesses and lower the numbers of firms utilizing available preferences. Harmonization of different ROOs could thus be a major benefit of the mega-regionals. However, RCEP members will face particular difficulties on this front as there are at least 22 different types of ROOs with many product-specific rules under existing ASEAN+1 FTAs (Menon, 2014). It may thus be difficult for countries to compromise on a single set of ROOs that can effectively replace existing ones. In such an outcome, the RCEP’s ROOs could simply add further complexity to the system.

The TPP faces some similar challenges but may include more flexible ROOs; in 2011 the TPP parties agreed to have a single set of ROOs rather than include complicating bilateral or product-based exceptions. However, some labour unions in the United States are currently advocating for stricter ROOs in the TPP in order to protect domestic employment and production of certain goods. This would diminish the prospects for the development of supply chains within the TPP economies. For example, the US-proposed “Yarn Forward Rules of Origin” requires textile products to use yarn produced in TPP member countries in order to benefit from TPP’s preferential treatment. This ROO would prevent Viet Nam from fully reaping the benefit of a more open United States textile market, since Viet Nam often imports cheaper yarn from non-TPP members. The TPP’s ROOs will therefore have to balance between maximizing intra-TPP trade and the interests of domestic constituencies unwilling to see changes to current supply chains.

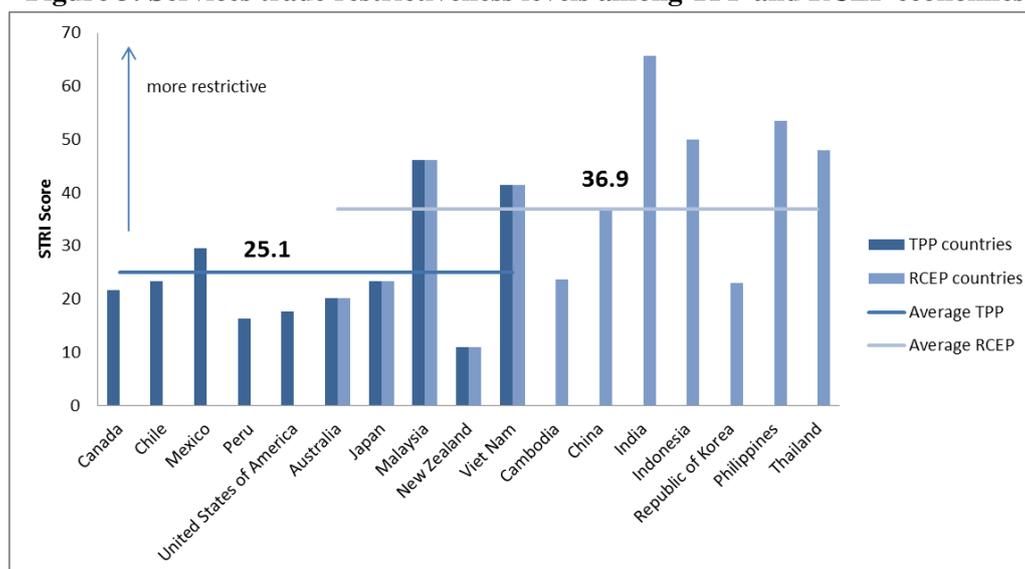
Furthermore, non-tariff measures, such as technical barriers to trade, have increasingly moved to centre stage in recent trade agreements. As average tariffs have generally fallen non-tariff measures now often present greater barriers to trade. Both RCEP and TPP will contain provisions on NTMs. However, there is often a gap between commitments and implementation in NTM reduction. To the extent that the RCEP model replicates the underperformance of ASEAN in effectively reducing NTMs it is unlikely to deliver very substantial gains. The TPP may deliver more meaningful commitments but the wide variations in overall development between members (for instance between Viet Nam and the United States) will make agreement difficult, for instance on standards harmonization.

Potential for services trade and investment liberalization

The average level of services trade restrictiveness among RCEP economies is higher than that among TPP countries (figure 3).² While this indicates there is greater scope for services liberalization under RCEP, expectations are not high that RCEP will produce substantial progress. Services trade in RCEP is likely to be based on the ASEAN Framework Agreement of Services (AFAS), and the three ASEAN+1 FTAs that have chapters on services trade (AANZFTA, ACFTA and AKFTA) as well as relevant provisions under the ASEAN Economic Community (AEC) (Das, 2014). These are widely regarded not to have generated much liberalization beyond countries' existing WTO commitments under GATS. Domestic political barriers are likely to pose an obstacle to significant movement on, for instance, foreign equity participation, land ownership and cross-border movements of professionals.

As generally more service oriented economies, TPP economies have less restrictive services trade regimes. The TPP is an opportunity to push for further comprehensive services trade liberalization in multiple areas including government procurement, movement of business persons and competition policy. In particular, the United States has been seeking deeper market access in areas such as financial services, telecommunications, insurance and e-commerce. TPP negotiations on services trade are expected to be built upon the negative list approach favoured in current FTAs between the United States and Australia, Chile, Peru and Singapore. Areas where progress will be important include competition policy, government procurement, labour mobility, mutual recognition of qualifications and interoperability of standards.

Figure 3: Services trade restrictiveness levels among TPP and RCEP economies



Source: World Bank's Services Trade Restrictions Database; averages calculated by ESCAP

Investment liberalization will also be an important component of both deals. Although most existing FTAs between TPP and RCEP parties contain some investment commitments these are often shallow. The opportunity therefore exists for both agreements to make a meaningful difference to the sectors open to foreign investment and to the protections that investors receive. The latter issue has been particularly controversial, as Investor-State Dispute Mechanisms which may feature, at least in the TPP, have been attacked as placing undue restrictions on government's ability to take policy decisions in the public interest (Forbes, 2014).

² Brunei Darussalam, Singapore, Lao PDR and Myanmar do not have data available in the World Bank's Services Trade Restrictions Database.

Pathways from the mega-regionals to the FTAAP

Significant overlaps in membership between RCEP and TPP, as well as a number of existing agreements between participating countries, should promote some degree of coordination and convergence between the two agreements. There are several options for using the momentum from these regional agreements towards the eventual goal of a wider FTAAP. The APEC Leaders' Declaration makes clear that the FTAAP should build on these initiatives. Three alternative pathways are discussed below: (i) expanding TPP; (ii) expanding RCEP; and (iii) a 'hybrid' agreement.

Expansion of the TPP

Seven of the sixteen RCEP economies are already involved in the TPP negotiations. Four further RCEP economies (Indonesia, the Philippines, Republic of Korea, and Thailand) are also considered potential participants in a 'second tranche.' These countries are attracted to TPP participation because of the benefits from TPP-inspired regulatory reforms and deeper liberalization, as well as fear of trade diversion from non-participation. TPP has always been declared open to potential new members (though procedures for joining have yet to be agreed). Therefore some TPP architects have put forward the prospect of building an eventual FTAPP from the foundations of the TPP. APEC economies could thus gradually join the TPP when ready to do so via a process analogous to WTO accession.

As the largest regional economy, the participation of China in the TPP would be decisive in establishing the TPP as the premier vehicle for regional integration and basis for a future FTAPP. To date, China has not appeared ready to accept TPP obligations, particularly those on transparency and disciplines on government intervention in the market (Schott, 2014). Instead, China chose to promote RCEP and emphasized ASEAN-centrality (Hong, 2014). Some indications are that China is making incremental steps towards deeper commitments in these areas that might prefigure a willingness to join the TPP. For instance, in October 2013 China formally requested to join the Trade in Services Agreement (TiSA) negotiations which entered their 6th round in February 2014. This is a plurilateral negotiation under the WTO to modernize and liberalize rules of services trade (although benefits of the agreement will not be multilateralized to the rest of the WTO membership, unlike the Information Technology Agreement).

Recently, China has made even more positive statements about potential TPP membership. Foreign Minister Wang Yi, outlining priorities for 2014, said that "China will face the member states of the TPP talks with an open attitude, as well as other regional or cross-region FTA initiatives" (Hong, 2014). According to the China Daily, in October this year, "Chinese Vice-Finance Minister Zhu Guangyao expressed in Washington recently that TPP would be 'incomplete' in the long-term without China" (China Daily, 2014).

Several factors may persuade China to pursue eventual TPP membership:

- Trade with TPP parties accounted for 33% of China's total trade in 2013 (\$4160 billion). Indeed, among its 10 largest trading partners, 5 are TPP member countries (United States, Japan, Australia, Malaysia and Singapore).
- As China has become a significant outward investor the TPP investment chapter protections (such as protection from expropriation, guarantees of equitable treatment, and access to investor-state arbitration) have become more attractive for Chinese firms. In 2012 total outward FDI reached \$75 billion making China the 6th largest foreign investor in the world. TPP members are major recipients of Chinese FDI (Hong, 2014).
- Among reformist policymakers in China, TPP is seen as a vehicle for pushing domestic reform, particularly in sensitive areas like State-Owned Enterprises. This has echoes of the way WTO entry in 2001 was used to overcome domestic opposition to liberalization.

Expansion of RCEP

RCEP could form an alternative platform or template for expansion towards an FTAAP. Whether RCEP could emerge as this alternative pathway is more questionable than for the TPP at this stage. One issue is related to whether it will achieve the high standards and binding obligations on the ‘WTO-plus’ issues that are a prerequisite for participation from advanced economies. The other issue relates to changing membership rules. In contrast to the ‘open’ nature of the TPP, RCEP negotiations are presently only among countries which have bilateral agreements with ASEAN. This would need to be altered if it was to be the platform for a wider regional agreement.

A hybrid approach?

If China chooses not to participate in the TPP then alternative ‘hybrid’ approaches for the FTAAP could be considered. For instance, an ‘umbrella’ agreement could link together the “hard” elements of the TPP and the “soft” elements of the intra-Asian approaches to trade integration. Under this option, the FTAAP as an overarching framework would link together RCEP and TPP economies providing some reciprocal obligations but with the most comprehensive and binding of the TPP provisions only remaining in force among TPP members (Schott, 2013). This would have the advantages of deepening economic linkages among the major APEC economies, especially the United States and China, but without problems posed by incorporating China directly into the TPP. Under a hybrid system, the FTAAP might be initially multi-tiered system: economies could choose to opt-in to RCEP, FTAAP, or TPP standards. The expectation might be that countries would eventually converge towards the highest standards but could do so at their own pace (Petri et al, 2014). Another possibility raised is that “the FTAAP becomes a living agreement that is upgraded over time. Precedents for an evolutionary approach are offered by ASEAN’s experience with combining ‘plus one’ agreements and bilateral agreements with external partners, and with its upgrading of the ASEAN Free Trade Area and some ASEAN-plus-one partnerships. Unfortunately, United States political precedents are harder to find” (Petri et al, 2014).

Conclusion

There are large potential economic gains from further trade liberalization in the region. These potential gains increase markedly with the scale of the integration, suggesting that expanding the current mega-regionals towards an FTAAP would bring substantial benefits. For instance, some estimates are that expanding the TPP from 12 to 17 members would triple global benefits from \$285 billion to \$893 billion in 2025. Since that expansion would include most large economies in the FTAAP, overall gains would be similar. But the size of expected gains also depends on the ‘quality’ of the agreement and the depth of liberalization pursued. Global FTAAP benefits would be \$2.4 trillion with a TPP-style agreement compared with \$1.9 trillion from a less ambitious ‘intermediate’ level deal (Petri et al, 2014). The level of benefits accruing will also depend on the progress of multilateral negotiations; if the Doha round is finalized the liberalizing impact of preferential deals will be correspondingly smaller.

At present TPP and RCEP negotiations are on parallel tracks towards the APEC vision of economic integration leading towards a broader FTAAP. As it is likely to be concluded first, the TPP has ‘first-mover’ advantage and could set regional precedents that would shape any eventual FTAAP. Several additional countries are considering joining the TPP, most importantly China. With China and other countries participation, the TPP could therefore emerge as the template for a wider FTAAP, or even for upgrading WTO rules. However, as the TPP requires adherence to high-standards and binding obligations, expanding the membership may pose too difficult. In this case APEC members could adopt a hybrid solution.

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