

# RCEP versus TPP with the Trump Administration in the USA and Implications for East Asian Economic Cooperation

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## ABSTRACT

**Objective:** The objective of this article is to evaluate the two mega FTAs, namely RCEP and TPP in the Asia Pacific region in general and the new trends and directions of these mega FTAs with Trump Administration in the USA in particular. Moreover, it estimates implications for East Asian Economic cooperation. The article deals with possible impacts on the US withdrawal from TPP and post TPP visions. Furthermore, it also analyses what implications can be provided for East Asian economic cooperation.

**Research Design & Methods:** In order to meet the research targets, various methods are used, such as the method of critical analysis of literature, the inference method, and the method of statistical analysis, which include quantitative and qualitative analyses.

**Findings:** While investigating regional economic integration between RCEP and TPP with the member states, it is visible that the majority of the member states in the two mega FTAs are more dependent on RCEP than on TPP. It means that RCEP can generate more economic benefits to the member states in the region than TPP in the long run.

**Implications & Recommendations:** It implicates that RCEP can play important roles in shaping new trade governance in the Asia Pacific region which could establish Asia Pacific Free Trade Agreement (APFTA).

**Contribution & Value Added:** The originality of this work lies in exploring the two mega FTAs in the Asia Pacific region, how they have competed with each other and implemented their national trade strategies.

**Article type:** research paper

**Keywords:** Mega FTA; protectionism; economic growth; FTA strategy; economic cooperation

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## INTRODUCTION

It is absolutely true that global trade has contributed to a rapid economic growth in the world since the Second World War. However, the growth of the trade volume started to slow down in the global economy particularly after the global financial crisis in 2008. In 2016, the growth in the world trade volume in goods and services reached only 1.9% although its forecast was 2.8% based on the statistics of the World Trade Organization (WTO). The WTO forecasts that the world trade volume could grow 2.4% in 2017, while the International Monetary Fund (IMF) projects the trade volume growth of 3.8% in the same year. Regarding the IMF statistics, the global GDP growth is projected to rise by 3.4% in 2017 and it rose by 3.1% last year. It concerns deep uncertainty about the near-term economic and policy developments which are increasing the forecast risk in 2017. The slowdown in the emerging markets was the main reason why the global trade growth was lower than expected in 2016. Among the emerging markets, however, East Asian countries are expected to return to modest growth in 2017 (WTO, 2017; IMF, 2017).

The world trade volume in merchandise tended to grow on average 1.5 times higher than the world GDP growth from 1981 to 2016. During the 1990s, it grew more than twice as high than the world GDP. However, the ratio of trade growth to GDP growth has become more or less equal since the global financial crisis except for the years 2010 and 2011. After the global financial crisis, the G20 was formed to overcome the global financial crisis and to fight against the trade protectionism. Despite such close cooperation between the G20 member states, the trade growth rate in 2016 marked lower than the world GDP growth rate, that is the fourth time since 1981. Therefore, many countries have tried to create bilateral, multilateral, regional and mega FTAs since the 2000s in order to boost their trade volumes and economic growths. This new approach worked properly till before the global financial crisis, but started to show its limitation after the crisis (WTO, 2017; National Board of Trade, 2016).

Moreover, the trade patterns have changed dramatically, particularly since the 2000s. These can be explained as the following two patterns. Firstly, the intensity of economic growth has shifted from the West to the East. Supply chains in the globe have been linked increasingly between developed and developing countries deeper than ever. It recognises the fact that emerging economies account for the majority of the global economic growth due to their high economic growth based on increasing productivity with the trade liberalisation first time since the global financial crisis. Secondly, regional trade arrangements such as bilateral, multilateral, and mega free trade agreements (FTAs) have proliferated at a global scale, but nowhere more so than in Asia (Hearn & Myers, 2015; Melitz & Redding, 2014; Melitz & Trefler, 2012).

In 2016, there were 228 free trade agreements (FTAs) in the world, and among them 147 FTAs were signed and came into effect in the Asia and Pacific region. 68 FTAs are still under negotiation, 5 FTAs are signed but not yet in effect, and 3 FTAs are discontinued. All FTAs are either bilateral or multilateral. Singapore is the leading country with 33 FTAs, and India follows with 28 FTAs. Three major East Asian countries, South Korea with 25 FTAs, Japan with 24 FTAs and China with 23 FTAs also play significant roles in terms of FTA due to their national economic sizes in the region (Asia Regional Integration Center, 2015).

In addition to bilateral and multilateral FTAs, the Asia Pacific region has become the common ground for mega FTAs which are in the process to build Regional Comprehensive

Economic Partnership (RCEP) led by ASEAN officially, but by China practically and Trans Pacific Partnership (TPP) led by the United States. China negotiates RCEP with ten ASEAN member states and six nations with which ASEAN have trade agreements. RCEP aims to promote regional economic integration in East Asia. Among 16 nations in RCEP, seven nations participate in TPP as well. TPP targets to rebalance US political and economic interests against the Chinese emerging in the region as a part of global strategies.

RCEP was expected to be completed by the end of 2016, but is still in the process. It is planned to be completed in 2017, and China pushes hard to complete it because it has already announced the protection of the free trade mechanism based on globalisation in the World Economic Forum in January 2017, while TPP faces turbulence after the Trump government announced its official withdrawal from TPP in January 2017 although twelve member states agreed to TPP in October 2016. As a result, the future of mega FTAs in the Asia Pacific region has become unforeseeable, particularly in TPP (Graceffo, 2017).

This article focuses on mega FTAs, such as RCEP and TPP, on how these will develop in the near future. Additionally, it deals with possible impacts on the US withdrawal from TPP and post-TPP visions. Furthermore, it also analyses what implications can be provided for the East Asian economic cooperation. In order to meet the research targets, various methods are used, such as the method of critical analysis of literature, the inference method, and the method of statistical analysis, which include quantitative and qualitative analyses.

## LITERATURE REVIEW

### Theoretical Debates

Economic regionalism based on *de jure* regional economic integration can be defined as an institutional combination of separate national economies into larger economic blocs or communities. Usually, the process is understood as a state-led project which promotes a definable geographic area by the development of specific institutions and strategies. Thus, economic regionalism is a conscious and coherent, top-down policy of states (Robson, 1998; Beeson & Stubbs, 2012).

By contrary, regionalisation based on *de facto* regional economic integration is regarded as a process of integration, in which market factors such as an activity of enterprises and other private entities interested in developing cross-border relations play the most important roles. In such a way, it generates an increase in trade, investment and production in the region. Thus, compared to regionalism, regionalisation is a spontaneous, complex and bottom-up process by which material patterns of transnational transactions among individuals and groups knit a loosely defined geographical area together (Söderbaum, 2012; Beeson & Stubbs, 2012).

The distinction between the terms of regionalism and regionalisation are of key importance in East Asia, as this region's market integration processes diverge from the institution based approaches in Europe and North America. As a result, East Asian countries have become increasingly interdependent in terms of trade, investment, finance and production. The predominance of regionalisation in East Asia does not mean that processes of regionalism do not exist. On the contrary, they exist, but rather as 'soft' regionalism or informal regionalism (Pempel, 2010; Zhao, 1998; Katzenstein, 1997).

Furthermore, it is also fully possible that East Asian regionalism anticipates that the evolutionary dynamics of institutionalising East Asia will take place in the coming decades because East Asian countries' turn to bi-lateral FTAs shows their increasing interests in institutional engagement. In fact, a number of bi-lateral FTAs completed in the 2000s created a lattice regionalism in East Asia that will ultimately take from bi-lateral to pluri-lateral and regional path toward institutionalisation. With time, several bi-lateral FTAs will turn to region-wide FTAs without any regional centre because interlocking and overlapping FTAs generate inevitably high transaction costs, such as spaghetti bowl effects (Dent, 2003).

In fact, East Asian countries joined multiple institutions whose memberships overlap with each other because they were not able to develop a core regional institution being the basis for regional integration and cooperation in terms of economy and politics owing to differences in terms of religion, history, ethnic groups, etc. Moreover, regional institutions in East Asia have developed in the areas of individual issue without creating systematic linkages. As a result, there is no regional institution which deals with economies, politics, and security comprehensively (Katzenstein, 2005; Pempel, 2013).

An economic integration is the process of removing progressively those discriminations which occur at national borders. Another definition describes it as the abolition of discrimination between economic units that belong to different national states. The economic integration means the absence of various forms of discrimination between national economies. Countries interested in the process usually start from a simpler form of free trade zone, and then progress through more advanced forms of the customs union, common market, economic union, up to full economic union. In practice, however, this sequence does not always occur, and the achievement of the final stage is challenging, as it entails a level of political integration that causes the withdrawal from sovereignty in member states (Hosny, 2013; Balassa, 1962).

Accordingly, the theory of pluri-lateral and regional path toward institutionalisation in East Asia is adopted to explain East Asian economic integration processes in the article. The reason why that is the pluri-lateral theory can be explained by East Asian dynamic economic development more comprehensively than the theories of soft regionalism or informal regionalism.

## **MATERIAL AND METHODS**

### **Mega FTAs in Asia Pacific Region**

#### **Regional Comprehensive Economic Partnership (RCEP)**

After several years of discussions on the desirability and feasibility of Asian economic cooperation, East Asian countries led by the ASEAN member states decided to establish the Regional Comprehensive Economic Partnership (RCEP). The countries participating in the RCEP negotiations are the ten ASEAN member states and six other countries, such as Korea, China, Japan, India, Australia, and New Zealand. They began the negotiations in 2013.

East Asia has not established a region-wide FTA due to different opinions among East Asian economies about creating the region-wide FTA. It was a long process to agree to the RCEP. Regional economic cooperation in East Asia began to intensify in order to deal with the Asian Financial Crisis in 1997 as the first ASEAN+3 (Korea, China, and Japan) Summit Meeting was held in 1998. In the summit, Korea proposed to set up the East Asia Vision

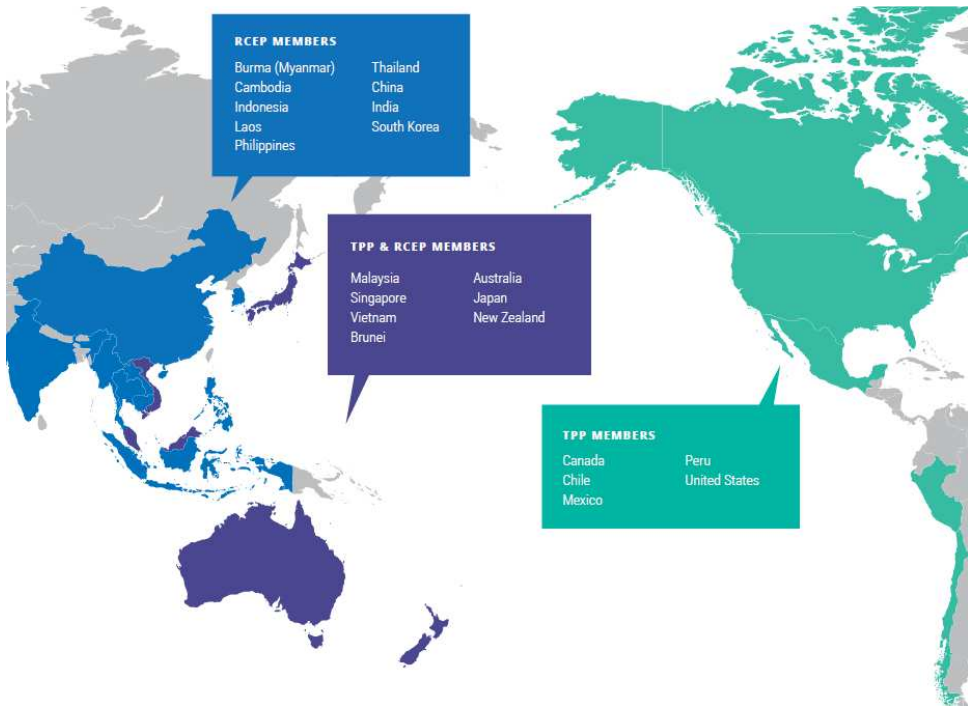
Group (EAVG) in order to overcome economic and financial problems collectively in the region. Moreover, EAVG studied a long term vision for economic cooperation in the region. The expert group developed further the idea of East Asia Free Trade Area (EAFTA) in 2002 and proposed ASEAN+3 economic ministers that the EAFTA first needs to negotiate among ASEAN countries and their memberships can be open to other East Asian economies. However, this proposal was not accepted by ASEAN+3 ministers in 2006. The economic rationale of EAFTA was based on highly developed production networks and supply chains among ASEAN+3 countries and harmonising the rules of origins among these countries which could create tangible economic benefits. Additionally, the cooperation among ASEAN+3 countries has developed the most feasible regional framework in East Asia (Urata, 2013; EAFTA, 2009; ASEAN Secretariat, 2009; Kawai & Wignaraja, 2011).

Parallel to the ASEAN+3 approach, Japan proposed the Comprehensive Economic Partnership in East Asia (CEPEA) at the ASEAN+6 economic ministers' meeting in 2006, which is an agreement of the region-wide FTA covering ASEAN+6 member states. These 16 countries are also the member states of the East Asia Summit which began in 2005. Japan's economic rationale to set up the CEPEA was that the economic advantage of the CEPEA could be larger than that of the EAFTA because the incorporation of resource-rich Australia and rapidly growing India could generate the economic growth of East Asia as a whole. However, the reason why Japan suggested the CEPEA is that Japan tried to play a role in the leadership for setting up a regional institution because China took the initiative in the EAFTA discussions. By competing with each other between China and Japan to take the leadership in the establishment of the region-wide FTA under the EAFTA and the CEPEA, China speeded up the process of regional economic integration in East Asia when Japan decided to participate in the Trans Pacific Partnership (TPP) in 2011 (Kawai & Wignaraja, 2008; Xiao, 2015).

The Chinese motivation to establish the region-wide FTA was stronger than of any other country in the region because it observed increasing US influences to form a regional economic framework in the Asia Pacific region under the TPP. Under these circumstances, ASEAN proposed the RCEP involving ASEAN and its FTA partners in 2011 because it did not want to lose ASEAN centrality in East Asian regional integration. ASEAN understood that it could lose its role of the leadership position in the process of economic integration in East Asia if big economies in the region and half of ASEAN member states participate in the negotiation of TPP. Additionally, ASEAN tried to maintain its centrality in the regional economic cooperation. After signing ASEAN+1 (China) FTA, ASEAN and its regional partners were concerned about the Asian noodle bowl effects which became new obstacles to establish new regional production networks based on free markets in East Asia. Therefore, the RCEP has emerged as a tool to integrate ASEAN+1 (China) FTA in order to support their common aspirations of the region (Yi, 2014).

Furthermore, ASEAN announced the guiding principles for the negotiations of the RCEP which include the WTO consistency, transparency, and open accession to ASEAN's FTA partners and others. Based on such principles, four ASEAN member states, such as Brunei, Malaysia, Singapore, and Vietnam, participated in the TPP as well. As a result, ASEAN+6 leaders agreed to launch the negotiations of the RCEP in 2012 and to start in 2013. The RCEP was scheduled to conclude by the end of 2015, but did not meet the target and was rescheduled

to be completed in 2017. It targets to reassure the free trade commitment in the world (ASEAN Secretariat, 2012; Urata, 2013; Hearn & Myers, 2015; Johnston, 2017), (Figure 1).



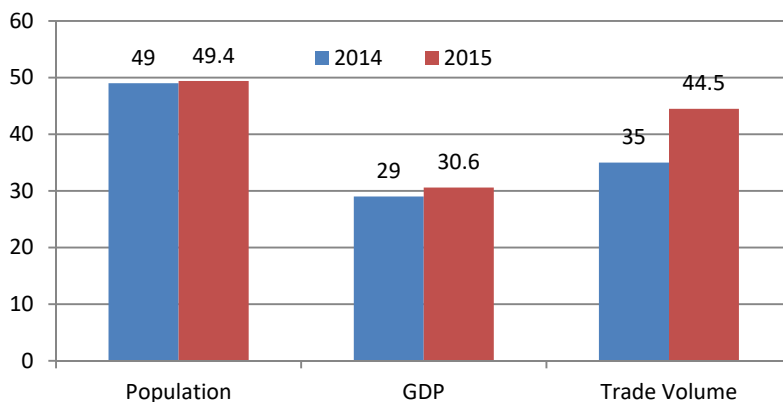
**Figure 1. RCEP and TPP Member States (As of 2015)**

Source: adopted by Hearn & Myers, 2015.

In fact, the RCEP is a strong rival of the TPP in the East Asian economic integration. It includes more than 3.4 billion population, the output of about 22.7 trillion US dollars, and accounts for around 44.5 percent of the world trade in 2015. Its GDP accounted for 30.6%, and the total trade volume was 9.31 trillion US dollars in the same year. There is no doubt that the RCEP could create the world largest trading bloc, if it is successfully concluded. It could provide major implications for the global economy, such as the spread of global production networks, reducing inefficiencies of multiple Asian FTAs, etc. (Suh, 2014; World Bank, 2016; World Integrated Trade Solution, 2017), (Figure 2).

The RCEP needs strong leadership which is absolutely necessary to conclude the negotiations successfully. The leadership must be based on the ASEAN centrality because its role is regarded as impartial. In addition, China and Japan might not trust each other due to their rivalry in the region. In fact, the RCEP is a tool for rising China in the region. ASEAN, Korea, and Japan are concerned that China will eventually dominate East Asia through the China-led East Asia Economic Community. Therefore, some countries such as Japan, Myanmar, the Philippines, Vietnam have actively tried to balance between China and the US in order to hedge China's possible threat. Therefore, the RCEP based on the ASEAN centrality can play a role in checking the rise of China and balancing the power in the region (Suh, 2014).

Since the Trump Administration in USA started in January 2017, the prospects of the RCEP have changed dramatically because the US government officially announced its withdrawal from the TPP. It will open the door for China to play a more pronounced leadership role in the region. In the Asia Pacific region, China is already a major trade and investment partner for the TPP member states. Canada and Mexico seek to open trade talks with China, while Chile, Australia, New Zealand and Malaysia try to expand their existing trade and investment deals. Furthermore, seven of twelve TPP member states participate in the RCEP negotiations. Therefore, China could gain new opportunities to expand trade and investment in other TPP markets after the US withdrawal (Shott, 2017).



**Figure 2. RCEP's Share in the World Population, GDP, and Trade (%)**

Source: WTO, World Trade Statistics, 2015, 2016, World Bank, 2016.

The collapse of the TPP leaves China as the leader of large scale regional economic integration with the RCEP which plays the role of the main pillar. Moreover, RCEP will probably be more open to new members in the Asia Pacific region. China foresees Chile and Peru's participation in the RCEP and emphasises its intention to keep its scheme open to any possible member states. As a result, the RCEP may enhance the regional and global roles of China which potentially contributes to creating bilateral rivalry with the USA. Among the major member states in the RCEP, their priorities are very diverse. China enhances its intention to make the RCEP the basis of trade rules in the Asia Pacific region, while Japan focuses on providing a high level of liberalisation comparable to that of the TPP. India is keen to provide the liberalisation of trade in goods more than in services and investment, while Korea stands for high level of liberalisation in trade and investment. Despite wide and different national interests among member states, they have agreed to discuss goods, services, and investment as one package, primarily at India's insistence. The prospects of the RCEP seem to be positive because compromises leading to the agreement are feasible. Sixteen member states have accumulated their experiences by completing ASEAN+1 (China) FTA, ASEAN+3 (China, Japan and Korea) FTA, and other bilateral FTAs in the region (Kumar & Charlton, 2017).

During the 2016, the APEC Summit and the 2017 World Economic Forum (WEF), China announced to accelerate the RCEP negotiations. However, it is doubtful that China can put the RCEP agenda forward officially because the RCEP is officially led by ASEAN, and the trade pack includes members which may not accept the Chinese dominating

negotiations. Accordingly, China supports the ASEAN member states trying to complete the RCEP negotiations for Chinese national interests in 2017 that can celebrate the ASEAN 50th anniversary. At the same time, ASEAN may strive for a better quality trade pact in the absence of the TPP. After completing the RCEP negotiations, China can use it as a tool to set up trade rules in the region (Basu Das, 2017).

### **Trans Pacific Partnership Agreement (TPP)**

The USA participated in the TPP negotiations in 2010 and took over its leadership after the former President Obama announced his Asia Pivot Policy which aims to create US-led trade rules in the Asia Pacific region. The reason is that global trade and investment are critical to the US economic performance and national security. The USA has realised that more than 95 percent of the world's population and 80 percent of its purchasing power exist outside the USA. Additionally, the Asia Pacific region will create most of the consumption growths in the future. Therefore, it is critical for the US government to complete region-wide trade agreements such as TPP with allies and other countries in the region in order to strengthen its influential powers. The TPP rules bring benefit to the USA given their scope and treatment of sectors that are critical to the future of the US economic growth and the vitality of the US economy (Schell & Shirk, 2017).

The TPP can be regarded as a new global standard for international trade. With 29 chapters, 12 member states set up new disciplines on certain activities, such as regulatory coherence, supply chain competitiveness, and small and medium-sized enterprises (SMEs), which were not addressed in FTAs and the WTO until the TPP was signed in 2015. It is the reason why the TPP is regarded as a 21st century regional FTA.

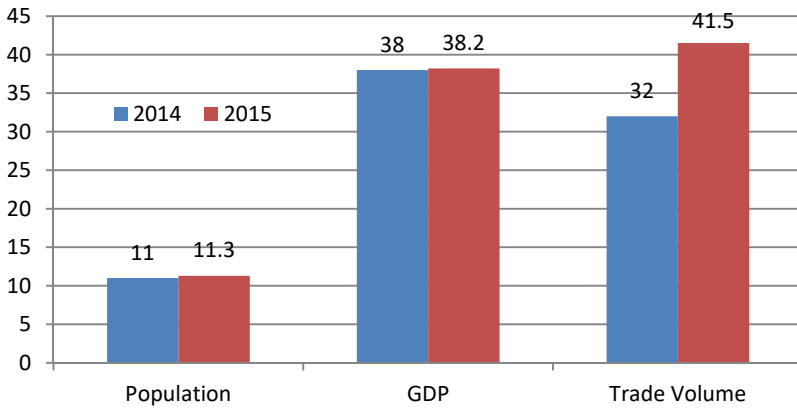
In fact, the TPP is a mechanism to isolate China in East Asia. Therefore, a serious imbalance could take place in the two competing mega FTAs if Korea and Taiwan become the 13th and 14th members of the TPP. It is the high standard of agreement and creates a high barrier for China to overcome in the near future. Although the TPP does not intend to marginalise China in East Asia, it is not possible for China to accept the content of the TPP because China cannot change its policies to sustain economic growth and ensure social stability. The Chinese leadership understands that a rapid market reform is not a feasible pathway so that China cannot participate in the TPP negotiations at least in the near future (Suh, 2014).

However, China should concern Japanese participation in the TPP negotiations because Japan's entry into the negotiations means that the US has taken a step forward in isolating China in the region. In this situation, Korean and Taiwanese participations in the TPP may not be desirable for China. It could even provoke a serious imbalance between the TPP and the RCEP. China could suffer from declining competitiveness, if Korea and Taiwan joined the TPP negotiations in terms of the trade position based on economy and security. The impact could be largely instable in the region.

The TPP's position in the world economy and trade is very significant as well. Its output of 12 member states accounted for 27.8 trillion US dollars in 2015 although its population share is slightly higher than 11 percent in the same year. TPP's GDP share in the world economy increased from 38 percent in 2014 to 38.2 percent in 2015 although global GDP declined by 4.2 percent in the same period. The total world trade volume in 2014 accounted for 23.4 trillion US dollars and declined to 20.9 trillion US dollars in 2015 that accounts for a 11.2 percent decline. However, total trade share of the TPP in the world trade increased from 32% in 2014 to 41.5 percent in 2015. It shows clearly the TPP's weight in the world economy



and trade. As a result, the TPP became the second largest mega FTA in terms of its GDP and trade volume (World Bank, 2016; World Integrated Trade Solution, 2017), (Figure 3).



**Figure 3. TPP's Share in the World Population, GDP, and Trade (%)**

Source: WTO, World Trade Statistics, 2015, 2016; World Bank, 2016.

The TPP was launched in 2010, and its negotiations were completed in October 2015, it was signed in February 2016. It had grown into twelve member states drawn from the APEC member states and they have to ratify it in their legislatures. Among the member states, only Japan ratified in the Diet on 9 December 2016 and tried to persuade other member states, despite the withdrawal from the TPP by Trump administration. The US government formally withdrew from the TPP in January 2017. Given its current legal status, the TPP cannot enter into force without the US ratification. The US withdrawal from the TPP may hinder its further process ultimately because of the Article 30.5 in the TPP agreement. According to Article 30.5, at least six members accounting for 85 percent of the total GDP in TPP member states must ratify before the agreement enters into force. The share of US GDP accounted for 64.8 percent of the total TPP GDP in 2015, which is absolutely overwhelming compared to any other member state. Therefore, the US withdrawal makes it numerically impossible for other member states to meet the requirement (Nikkei Asian Review, 2016; Wilson, 2017; USTR, 2017), (Figure 4).

The impacts of the US withdrawal from the TPP have resulted in dramatic changes of trade policies in many nations participating in the TPP. Particularly Asian countries started to reappraise their regional trade strategies. Many Asian governments regard the TPP without the US participation as impossible. As a result, their trade policies have shifted to ongoing RCEP negotiations. During the Lima APEC Summit in November 2016, trade policies and RCEP's potential roles in the region were discussed between member states. In the summit, China as a driving force behind the RCEP pledged its commitment to economic openness and pushed to complete RCEP negotiations. Even Japan addressed its priority of trade policy from the TPP to the RCEP (Reuters, 2016; Wilson, 2017).

The USA will set up the three principles in its trade policy under Trump administration. Firstly, it will focus on bilateral FTA negotiations rather than multilateral FTA negotiations. Replacing the TPP by pursuing bilateral trade deals with the TPP member states is the signal to change its trade policy. Secondly, it will consider to renegotiate and to reform the

existing agreements, such as NAFTA and Korea US FTA. Last, but not least the USA will point out all unfair trade practices which put the US national economy at disadvantage by creating trade deficit job loss, hollowing out manufacturing sectors, etc. (Wah, 2017).

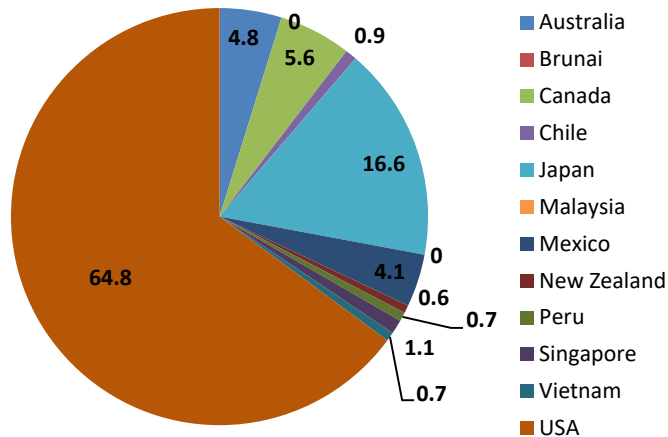


Figure 4. GDP Share of TPP Member states (As of 2015, %)

Source: World Bank, 2016.

## RESULTS AND DISCUSSION

### Analysis on RCEP AND TPP

Two mega FTAs such as the RCEP and TPP have been competing with each other in order to set the trade rules in the Asia Pacific region till the USA took the leadership to complete the TPP negotiations in 2015. Twelve member states of the TPP finally concluded the mega FTA in October 2015, and Japan already ratified it in the Diet in December 2016 although the Japanese government knew that the then President elect Trump announced the withdrawal from the TPP when his government would come to power. It means that all the member states focus on their national interests as their first priority to access to the mega FTAs. Therefore, the USA pulled out its membership in TPP, while Japan has tried hard to rescue the TPP without the USA.

In the global economy, the year 2015 is a turning point to mark negative growths in terms of the world GDP and trade compared to the previous year since the global financial crisis in 2008. Therefore, its economic impact on Asia and Pacific region is also significant. Under such a negative economic environment, the RCEP was able to increase its global GDP share from 29 percent in 2014 to 30.6 percent in 2015, while the TPP could expand its share from 38 percent to 38.2 percent marginally in the same period. The reason for it is that the RCEP member states particularly in developing economies, such as China, India, Indonesia, Malaysia, the Philippines, Thailand, Vietnam were vigorous and created high economic growths in 2015, while the TPP member states could not generate high economic growths except for Malaysia, Mexico, Vietnam in the same year.

Additionally, the RCEP increased its global share of trade from 35 percent in 2014 to 44.5 percent in 2015, while the TPP expanded its share from 32 percent to 41.5 percent in the same period. Both were able to increase their trade share by nearly 10 percent compared to the previous year, although the total volume of the world trade declined by 12.1 percent from 2014 to 2015. In the RCEP, the Chinese trade volume declined from 4.3 trillion US dollars in 2014 to 3.7 trillion US dollars in 2015, which was a 14.1 percent decline. In the TPP, the US trade volume decreased from 4.05 trillion US dollars to 3.4 trillion US dollars in the same period, which was a 15.8 percent decline. Although two leading nations' trade volumes declined, other developing economies' trade volume in the Philippines and Vietnam increased. At the same time, trade volumes in other regions declined more than in the Asia Pacific region. As a result, their trade share increased to 44.5 percent and 41.5 percent in 2015, respectively (Table 1 and 2).

In the RCEP, three major economies, namely China, Japan and Korea show different patterns of trade trend from 2013 to 2015. Firstly, Chinese import volumes increased from 1.79 trillion US dollars in 2013 to 1.81 trillion US dollars in 2014 and declined heavily to 1.32 trillion US dollars in 2015. However, its export volume increased continuously from 2.15 trillion US dollars in 2013 to 2.24 trillion US dollars in 2014 and 2.37 trillion US dollars in 2015. This trend is closely related to the new Chinese industry policy focused on a domestic consumption driven growth strategy in the 12th Five Year Plan (2011-2015). By implementing the strategy, China created a historically high trade surplus with 359 billion US dollars in 2013, 435 billion US dollars in 2014, and 1.05 trillion US dollars in 2015.

Secondly, Japanese import volumes increased from 785 billion US dollars in 2013 to 799 billion US dollars in 2014, but declined to 626 billion US dollars in 2015. Its export volumes increased slightly from 695 billion US dollars in 2013 to 699 billion US dollars in 2014, but declined heavily to 625 billion US dollars in 2015. During that period, Japan made trade deficits continuously. Lastly, Korean trade pattern looks different compared with other two major economies. Korean import volumes decreased continuously from 535 billion US dollars in 2013 to 524 billion US dollars in 2014 and 437 billion US dollars in 2015. Its export volumes declined also from 618 billion US dollars in 2013 to 613 billion US dollars and 527 billion US dollars in 2015. However, Korea made a large amount of trade surplus during the period as the Chinese case (Table 1).

In the TPP, two major economies such as USA and Japan have clearly the same pattern of the trade trend. US import volumes increased from 2.29 trillion US dollars in 2013 to 2.39 trillion US dollars in 2014, but declined to 2.31 trillion US dollars in 2015. Its export volumes increased from 1.59 trillion US dollars to 1.63 trillion US dollars, but dropped to 1.50 trillion US dollars heavily in the respective years. As a result, the USA made heavy trade deficits in a row, which is the same in the Japanese trade pattern (Table 2).

It indicates that the RCEP may have a higher potential than the TPP to grow further in the future because the majority of the member states, particularly China, India, and ASEAN countries can create high economic growth based on their trade volume increase. Although four ASEAN member states, such as Brunei, Malaysia, Singapore, Vietnam participate in the TPP, their roles in contributing to a massive expansion for trade growth in the TPP must be limited. Therefore, the roles of these four ASEAN member states can be intensified in the RCEP along with other rapidly developing nations, such as China, India, Indonesia, the Philippines, Thailand, etc., rather than in the TPP as a whole.

**Table 1. Trade Trend in RCEP Member states (100 Million of US Dollars)**

Nations	2013		2014		2015	
	Import	Export	Import	Export	Import	Export
China	17.896	21.486	18.087	22.438	13.238	23.722
Brunei	49	118	37	111	32	64
Cambodia	95	65	107	75	107	85
India	4.817	3.192	4.724	3.284	3.907	2.644
Indonesia	1.763	1.821	1.683	1.753	1.782	1.760
Japan	7.846	6.949	7.990	6.992	6.256	6.249
Korea	5.354	6.182	5.241	6.130	4.365	5.269
Laos	N.A.	N.A.	N. A.	N. A.	N. A.	N. A.
Malaysia	1.717	2.023	1.729	2.075	1.762	2.002
Myanmar*	39	73	39	73	42	76
New Zealand	387	397	410	420	365	344
Philippines	622	445	672	498	702	586
Singapore	3.617	4.374	3.582	4.378	2.967	3.466
Thailand	2.274	2.275	2.094	2.267	2.020	2.109
Vietnam	1.233	1.320	1.301	1.502	1.658	1.620
Australia	2.497	2.542	2.403	2.407	2.001	1.878

\* statistics in 2010.

Source: World Integrated Trade Solution, 2017.

**Table 2. Trade Trend in TPP Member states (100 Million of US Dollars)**

Nations	2013		2014		2015	
	Import	Export	Import	Export	Import	Export
USA	22.943	15.920	23.855	16.333	23.068	15.039
Australia	2.497	2.542	2.403	2.407	2.001	1.878
Brunei	49	118	37	111	32	64
Canada	4.727	4.664	4.739	4.783	4.192	4.088
Chile	747	764	686	750	630	634
Japan	7.846	6.949	7.990	6.992	6.256	6.249
Malaysia	1.717	2.023	1.729	2.075	1.762	2.002
Mexico	3.816	3.807	4.004	3.977	3.952	3.806
New Zealand	387	397	410	420	365	344
Peru	417	429	407	395	301	332
Singapore	3.617	4.374	3.582	4.378	2.967	3.466
Vietnam	1.233	1.320	1.381	1.502	1.658	1.620

\* statistics in 2010.

Source: World Integrated Trade Solution, 2017.

### Implications for the East Asian Economic Cooperation

Economic benefits for the RCEP and TPP for the Asia Pacific region have already been studied by the computable general equilibrium (CGE) model. Given the analysis of the CGE model, the RCEP generates a total increase of 644 billion US dollars which accounts for 2 percent of Asian GDP by 2025 based on its GDP in 2007, while the TPP generates 223 billion US dollars in the same year (Petri & Plummer, 2014).

Additionally, two mega FTAs could reduce the noodle bowl effect of overlapping bilateral FTAs in the region that hinder the member states from increasing trade volumes and strengthening their trade interdependence and regional economic integration. In fact, the noodle bowl effect has caused high costs to utilise preferential concessions for the private sector because the private sector must pay attention to different rules and regulations. Accordingly, the RCEP and the TPP can solve the negative effect and achieve a complete set of free trade principles which could contribute to generating the economic growth and increasing productivity in the member states (Estevadeordal & Taylor, 2013; Park, 2016).

Trade dependency in the Asia Pacific region has increased substantially since the year 2000. The majority of East Asian economies have become more dependent on the RCEP than the TPP. Even Australia and New Zealand show their higher trade dependency on the RCEP than the TPP. However, the Chinese trade dependency on the RCEP was 14.96 percent in 2002 and decreased to 14.39 percent in 2012 slightly, while its trade dependency on the TPP accounted for 17.77 percent and declined to 15.78 percent in the same period substantially. The Chinese trade dependency on ASEAN+3 also declined from 14 percent to 11.98 percent in the same period as well.

However, the US trade dependency on ASEAN+3, RCEP, and TPP increased in the same period. Its trade dependency on ASEAN+3 increased from 5 percent to 6.52 percent, while its trade dependency on the RCEP accounted for 4.96 percent in 2002 which increased to 7.17 percent in 2012. Its trade dependency on TPP also increased from 7.76 percent to 8.87 percent in the same period. It means that the Chinese economy has been less dependent in the regional economic system and has become more globalised, while the US economy has become more integrated in the Asia Pacific economic system although its shares are much lower than those of the Chinese (Table 3).

The US withdrawal from the TPP can be regarded as a strategic turning point in the open economic order. In fact, the TPP cannot continue without the US participation. Therefore, the RCEP can be the only one mega FTA in the region that can solve the most of negative problems for many bilateral FTAs. As a result, the RCEP is now the most significant initiative on the global trade scene in this regard.

East Asian economies are the most dynamic in the world economy and integrated to a high extent although there is no virtual legal framework as like the EU and NAFTA except ASEAN. Thus, the RCEP provides several implications for the East Asian economic cooperation as follows; Firstly, East Asian economies need to establish a solid platform to intensify the regional economic integration for their further economic growth by forming a region-wide FTA. Secondly, the RCEP can contribute to the liberalisation of trade and investment in the region. Still several nations such as China, India, Indonesia, and many of developing countries in RCEP have barriers to trade and investment. Easy liberalization could create large economic gains not only for developing countries, but also for developed countries in the RCEP. Last, but not least, the RCEP is a pathway to create a Free Trade Area of Asia and the Pacific (FTAAP) which pushes for opening market and deepening reforms to strengthen economic integration not only for member states, but also for Europe and the rest of the world (Armstrong & King, 2017; Basu Das, 2017).

**Table 3. Trade Interdependency Ratio in Mega FTAs Member states (2002-2012, %)**

Category	ASEAN+3		RCEP		TPP	
	2002	2012	2002	2012	2002	2012
Brunei	61.57	74.99	68.75	91.99	54.97	62.32
Cambodia	25.19	48.11	25.68	49.37	33.63	38.64
Indonesia	22.61	25.83	25.55	29.04	22.98	19.08
Laos*	–	84.5	–	85.7	–	–
Malaysia	85.25	77.84	91.79	87.49	89.13	55.63
Myanmar*	–	80.8	–	90.5	–	–
Philippines	39.89	24.98	42.09	26.34	52.4	20.1
Singapore	123.14	131.28	133.95	148.22	124.18	83.09
Thailand	48.62	67.69	52.35	74.67	52.61	51.05
Viet Nam	48.94	80.8	54.4	86.89	37.87	48.44
China	14	11.98	14.96	14.39	17.77	15.78
Japan	6	11.68	7.1	13.31	6.94	7.88
Korea	20	36.75	21.72	41.16	22.3	28.33
Australia	15	19.28	17.1	21.27	15.07	11.5
India	4	9.71	4.05	10.6	5.17	8.22
New Zealand	13	17.11	22.52	25.39	23.78	19.18
USA	5	6.52	4.96	7.17	7.76	8.87

Source: Adopted by NEAT Working Group based on UN Comtrade and WDI Database, 2014.

## CONCLUSIONS

Trade and investment have contributed to the global economic growth substantially during the last five decades. In that period, the growth rate of trade has been twice as high as the economic growth rate. The global financial crisis in 2008 caused a severe decline of trade and marked a negative economic growth. Since the global financial crisis, the world economy has started to recover by strengthening the trade growth. However, the global trade growth rate has started to be lower than the global economic growth rate since 2012. Finally, the global trade growth rate declined in 2015 compared to the previous year.

Despite the slowdown of the trade growth, many countries prefer to choose regional bilateral FTAs instead of multilateral FTAs in order to boost their economic growth. This trend spread out in the Asia Pacific region, and countries in the region have continuously developed to negotiate pluri-lateral FTA, such as China, Japan, Korea FTA and mega FTAs, such as RCEP and TPP.

Mega FTAs are not only for economic cooperation, but also for the political and security cooperation in the Asia Pacific region. Therefore, these mega FTAs compete with each other by setting trade rules, although both declared to open to any member states in the region. Therefore, the countries participating in mega FTAs are keen to calculate their national interests which must be maximised by choosing proper mega FTAs. In this sense, the RCEP focuses mainly on East Asian economic interests in particular, while the TPP seeks for economic interests in the Asia Pacific region as a whole although all nations in the region do not participate in the agreements.

The RCEP is still in the process of completing its negotiation and targets to be completed in 2017, while the TPP was already completed in 2015. However, the US withdrawal from the TPP in January 2017 changed the situation of mega FTAs completely. As a result, the TPP is not expected to put in force without the US participation because the US economic share among the TPP member states accounted for nearly 65 percent in 2015. Although Japan has tried strongly to persuade the US government to reconsider the participation in the TPP, the US government rejected it. Japan also asked other member states to ratify the TPP agreement. However, no member nation has ratified the agreement except it. Therefore, the RCEP is the only mega FTA in the region which will represent East Asian and Oceania economic interests and attract other Pacific nations.

Many East Asian countries need to participate in the RCEP in order to solve the noodle bowl effect, because their regional bilateral FTAs overlap. Additionally, many developing nations in the region need to liberalise their trade and investment in the RCEP in order to develop their national economies further. Moreover, the member states have to utilise the RCEP as a platform to intensify the regional economic integration which creates the regional economic system interdependent.

By creating the regional economic bloc representing East Asian economic interests, the RCEP can develop further to create the region-wide FTA that is FTAAP pursuing open markets, protecting the global free trade system and generating further global economic growth. Therefore, the RCEP can play roles in a close regional economic integration in East Asian countries which must be a pathway to set FTAAP not only for the Asia Pacific region, but also for other part of economic regions. For it, not only large sized economies such as China, Japan, India, and Korea, but also small sized economies such as Malaysia, Thailand, and Vietnam must play their roles as member states actively in RCEP. After launching the FTAAP, it may be possible that all member states can set new governance of the global trade.

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