

Mega FTAs: Which Strategy for ASEAN?

---Preliminary version, not to be quoted, comments welcome---

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[Abstract]

Market driven Asian regional integration is facing challenges from mega FTAs, which contain WTO-plus and WTO-extra provisions and are said to be changing global economic governance. Mega FTAs aim for “high quality” rules and regulations that will probably be the new global standards in trade and investment. This will have deep implications for ASEAN and East Asia.

How should ASEAN best respond to the rise of mega FTAs? In which way(s) can ASEAN further deepen regional integration and cooperation? The paper seeks answers to these questions from two aspects: market access and rules for the 21st century trade. It will suggest some elements of a strategic response for ASEAN, including the assimilation of the development of Mega FTAs into the process of regional community building to enhance its functional centrality in Asian regionalism.

[Keywords]

International trade, mega FTA, ASEAN, East Asia

[JEL Classification]

F02, F10, F13

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1. Introduction

The second unbundling of globalization and global value chains (GVCs) have been producing changes that alter international relations, especially in the economic dimension. With international fragmentation of production, competitiveness is determined at the level of sub-stage activities rather than the whole production processes. As the characteristics and productivity of labor are now defined in very details and in various categories, the expansion of global production sharing leads to a finer division of labor and a new pattern of international trade – the 21st century trade that is characterized by the expansion of GVCs.

The current globalization has set itself apart from the one in the nineteenth century by widening the spectrum of goods and services entering international trade. This is associated with the international fragmentation, unbundling and offshoring of production, leading to a finer division of labor and a new pattern of international trade. The emergence of Factory Asia mirrors the expansion of international trade of intermediate goods and services, particularly in a regional context. From a wider angle, Factory Asia is integrally linked to GVCs from the very beginning till now. Behind the goods and services supplied to the global market there is an essential technology transfer from advanced economies outside the region, especially the US.

There are potentially multiple approaches for filling the gaps in global governance in response to the changing world economic order. But the stalemate of multilateral trade negotiation has encouraged mega FTAs to fill the gap in global governance and reshape the world economic order.

There may have been a wide array of motives and objectives in creating trade blocs through mega FTAs.

1. *New Market access.* In this regard, mega FTAs are not much different from multilateral trade negotiation, RTAs, FTAs, and many other types of trade agreements or economic partnerships. Countries' exporters are hoping for better access to foreign markets, particularly those that are fast growing or have a big potential to grow.
2. *Rules for the 21st century.* What distinguishes mega FTAs from others is the pursuit for rules and regulations that go beyond traditional free trade. The agreement is intended to cover sectors not addressed in world trade talks under the auspices of the WTO. This includes regulatory and competition issues, protection of investments and standards for environmental protection and workers' rights.

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The Trans-Pacific Partnership is one of such “21st century free trade agreements”. The TPP initiative built further on the Trans-Pacific Strategic Economic partnership (TPSEP) concluded by Brunei Darussalam, Chile, New Zealand and Singapore in June 2005 (also known as the ‘Pacific-4’ or ‘P-4’), and the US pivot Asia policy which considered the TPSEP compatible with its own strategy. The TPP negotiations involving twelve countries (that were already partly connected by bilateral FTAs) were concluded in October 2015 and the agreement was signed in February 2016.⁴ Four ASEAN member states, Brunei, Singapore, Malaysia, and Vietnam have already joined TPP individually.

Despite the withdrawal of the US from TPP, the Comprehensive Progressive Trans-Pacific Partnership (CPTPP) that was signed by the 11 other TPP member states keeps the core content of the TPP agreement. Either TPP or CPTPP represent the new rules and regulations that have potentials to change global economic governance and have significant impacts on individual economies. In this regard, the change from TPP to CPTPP will not affect our discussion when using TPP in the context of this paper.

A proposal processing in parallel is the Regional Comprehensive economic Partnership (RCEP) which involves all ten ASEAN states, together with China, Japan, Korea, Australia, New Zealand and India. While ‘bilateral’ FTAs already exist between ASEAN and each of these countries, the RCEP seeks to broaden the scope and deepen the commitments. The negotiations for RCEP started in November 2012, on the occasion of the ASEAN Summit held in Cambodia.

An alternative but overlapping scenario is the creation of an FTA among the 21 APEC member states: the Free Trade Area of Asia-Pacific (FTAAP). This concept was first formally discussed at the 2006 APEC Summit in Hanoi. However, it was not followed by formal negotiations. On the occasion of the 2014 APEC Summit in Beijing, APEC member states agreed to commission a strategic study and stated that TPP and RCEP should be considered as building blocks of the FTAAP.

As it has mentioned, the emergence of mega FTAs is not a random phenomenon, but part of the evolution of 21st century regionalism. It is closely connected to so called the 21st century trade that is not only composed of trade in goods, but also trade in services, trade in parts and components, and freer cross-border movement of factors. This is mainly driven by the so-called second unbundling of globalization characterized by an increasingly complicated and widespread network of international production sharing. Global value chains (GVCs) are a key concept of the world economy today.

This paper starts by first contextualizing ASEAN’s participation in mega FTAs in the context of its external trade policy and, more specifically, the trajectory of ASEAN and its member states in FTA negotiations (section two). In section three a short review is presented of *ex ante* estimations of the economic impact of various mega FTA scenarios in order to approximate the order of magnitude of such potential impacts for ASEAN countries. Section four then looks into the effect of mega FTAs on market gravitation, while section five explores the implications of trade rule creation within mega FTAs for ASEAN. Section six concludes.

2. ASEAN’s external trade policy and participation in FTAs in the Asia-Pacific Region

⁴ The 12 TPP member states were: Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam.

As ASEAN is no customs union, there is no common external tariff, and therefore no common external trade policy. It is also unlikely that ASEAN will move in that direction soon, because of the important intra-regional structural differences and divergent development levels among the ASEAN member states (see also Pelkmans 2016: 27). ASEAN's external trade policy is therefore the sum of the external trade policies of the individual member states, together with coordinated action, for example in the case of trade agreements with China, Korea and Japan.

In 2004, the share of extra-ASEAN export trade in total exports of the ASEAN countries was 75,1 %. By 2016, in spite of many years of economic integration among the Southeast Asian economies, this share had increased to 76,0 %. Not only is the share of intra-ASEAN trade still relatively low today⁵, it did not increase. In this situation of dependence on the world market, ASEAN was forced to combine policies of further intra-ASEAN trade liberalization with negotiating free trade agreements with the rest of the world. Of ASEAN's total exports, the Asia-Pacific region accounted for 56 % in 2016 (in 2004: 52 %). China's share in ASEAN's total exports increased from 12.6 % in 2004 to 19.4 % in 2016. We refer to Table 1 for more details.

<Table 1>

The ASEAN countries are also much dependent on FDI inflows from the Asia-Pacific region. As Table 2 shows, in 2016 the Asia-Pacific region accounted for 59,3 % of ASEAN's FDI inflows. China's share in that year amounted at 20,3 %, followed by the USA with 12,5 % and Japan 11,8 %. Further bilateral, plurilateral and multilateral liberalization of investment in the ASEAN countries is rightly considered as a source of economic growth in the future.

<Table 2>

The number of FTAs of Southeast Asia with other countries in the region has increased dramatically. Whereas in 2000 no such FTAs were signed, in 2017 there were 13 with East Asia (of which 10 WTO notified), 7 with Oceania (of which 6 WTO notified) and 9 with South Asia (of which 3 WTO notified). In addition, with countries outside Asia, the countries of Southeast Asia counted 21 FTAs (of which 8 WTO notified).⁶ As a result, an increasing need is felt to overcome the Asian FTA "noodle bowl" for which two routes can be followed: a region-wide FTA and Asian regionalism to be multilateralized (Kawai and Wignaraja, 2011). Moreover, as of December 2016 all bilateral FTAs of the ASEAN countries in the Asia-Pacific region have an investment chapter, except the Japan-Viet Nam Economic Partnership Agreement and the Thailand-Chile Free Trade Agreement.⁷

In order to assess the implications of the trade policies of the individual ASEAN countries for the partner countries in the Asia-Pacific, with which no bilateral FTA is in effect, a first (if narrow) view can be given by considering the MFN tariff duties applied in these countries. Table 3 summarizes some of these data, based on trade weighted tariff duties.

<Table 3>

⁵ It should be taken into account, however, that the intra-regional trade shares are dependent upon the size of the region.

⁶ ADB-Asia Regional Integration Center, Table 4. Bilateral FTAs by Geographic Area, WTO Notification and Status, 2000 and 2017, at <https://aric.adb.org/fta>, accessed on 23.11.2017.

⁷ ADB-Asia Regional Integration Center, Table 7. FTAs in effect with investment chapter or clause (2008-2015), at <https://aric.adb.org/fta>, accessed on 23.11.2017.

It can be seen that MFN tariff protection is in many ASEAN countries still relatively high, and even more so protection of agricultural products. The same holds for MFN tariff protection in major trading partners against imports from ASEAN countries. The weighted average tariff duty applied in China, Japan and the USA on manufactured goods imported from Cambodia or Myanmar show that there is still a lot of scope for tariff reduction.

Regarding the many non-tariff measures that are applied, a recent study by Ghodsi, Grübler and Stehrer (2016) calculated ad valorem equivalents (AVE) for 5221 products at the HS 6-digit level and 118 importing countries. Some of the results relevant for our purpose are reported in Table 4.

<Table 4>

The negative AVEs reported in the Table 4 is because NTMs can also be trade facilitating, and therefore can have a price reducing effect. The average AVEs for all product-country combinations investigated allows a comparison with the Asia-Pacific countries listed. Tariffs in Table 4 relate to average tariffs computed over all observations with at least one non-zero AVE.

We can observe, first, that the price impact of sanitary and phytosanitary measures is still high in ASEAN countries such as the Philippines, Singapore, Malaysia and Thailand, but also in China, New Zealand and Chile. Technical barriers have a large price impact in the ASEAN countries Indonesia and Vietnam, Singapore and Malaysia, as well as in China and New Zealand. Quantitative restrictions are on average more protectionist in Australia and Singapore. Therefore, bilateral, plurilateral or multilateral FTAs among Asia-Pacific countries which also focus on the harmonization or reduction of the many non-tariff measures are likely to offer much welfare gains.

Trade in services seems to be still much protected in the Asia-Pacific region, including the ASEAN countries. The following Table 5 indicates the number of FTAs per ASEAN country having provisions on services. Clearly, for all individual ASEAN countries a minority of the FTAs with trading partners in the Asia-Pacific region contain provisions on services. Not surprisingly, taking into account the importance of trade in services for Singapore, and to a lesser extent Malaysia, the FTAs of both countries within the region score highest in this respect. The provisions on Modes 1 and 2 cross border trade and on commercial presence (often relating to investment) are the most prevalent.

<Table 5>

However, Table 5 should be read with caution. For instance in the ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement, the provision simply states that negotiations will be conducted, aiming at progressively liberalise trade in services with substantial sectoral coverage. One should also take into account that the total number of FTAs considered is biased due to FTAs under negotiation, the relevant provisions of which are still lacking.

In this respect, it is also interesting to make a similar headcount of some of the investment provisions in the relevant FTAs, which is summarised in Table 6. The provisions we considered in Table 6 relate to scope and coverage provisions (indicating that the FTA contains provisions on investment), safeguards, provisions about expropriation and compensation, and provisions about transfers.

<Table 6>

Notwithstanding the importance of FDI inflows in the ASEAN countries, the relative low number of provisions in its FTAs suggests that in many countries fears of losing economic activities which are considered to be of national interest, are still widespread. The provisions headcount for Thailand and Indonesia is revealing. Exceptions seem to be Singapore, and to a lesser extent Malaysia. Due to the fact that FTAs at the ASEAN level with partner countries are also the outcome of a negotiation process and compromising within ASEAN, it will come as no surprise that even the number of investment provisions in Singapore's (or Malaysia's) FTAs is relatively low.

3. Mega FTAs, scenarios, and orders of magnitude of their effects

As already mentioned in the Introduction, several scenarios for the inclusion of ASEAN and its member states in mega FTAs are still open, both in terms of country coverage and in terms of commitments. In addition, one of the great unknowns is indeed whether the US will continue to abstain from engaging in such mega deals and/or to what extent its current bilateral strategy could interfere with the wider negotiation scenarios. This uncertainty adds to the imperfection of the standard tools that are available for ex ante quantitative assessments of the possible/probable economic impact for participants and non-participants in (mega) FTAs. It is well known that the results obtained from simulations with computable general equilibrium (CGE) models are very sensitive to the underlying assumptions and choices, related to the (geographic and sectoral) partitioning of economies, treatment of intermediate inputs, production factor mobility, modeling of industrial competition and the services sector, parameter calibration, etc. (Hazledine 1990; Dearnorff and Stern 1991; Shoven and Whalley 1992; Flôres 2011; Dixon and Jorgenson 2013).

This being said, CGE modeling and simulation have been fine-tuned for over more than three decades now and are able to indicate at least orders of magnitude of policy shocks, which are internally consistent and theoretically grounded. With respect to the various scenarios for the negotiation of mega FTAs in an Asia-Pacific context various simulations have been run already. By the end of 2016, Gilbert et al. (2016) had already counted over 35 ex ante studies of the impact of TPP that were based on CGE modeling. This amount of studies allows to draw several conclusions, even if several of them did not yet take the reorientation of US policy towards the TPP under President Trump into account. Since then, a few additional ones have been published. Relevant examples of such ex ante studies of transpacific mega-deals include: Dordi et al. (2014); Heagney (2013); Itakura (2015); Kawasaki (2014); Lakatos, Maliszewska, Ohnesorge, Petri and Plummer (2016); Lee and Itakura (2017); Petri, Plummer and Zhai (2014); Petri and Plummer (2016); Rahman and Ara (2015); and USITC (2016).

Most of the studies presented so far are based on the GTAP model structure and database, although featuring different choices in terms of closure rules; using adjusted, expanded and/or projected databases; sometimes introducing linkages with other models; and so on. In addition, model builders introduced different policy shocks depending on their information about and interpretation of the negotiation outcomes at the moment of simulating. These variations refer to tariff and tariff quota reductions, exclusion lists, and NTBs reductions (modeled via tariff equivalents). For these reasons, together with the distinct model assumptions and choices (see above), they are therefore often not easily comparable and lead to relatively wide ranges for the results.

We will not address all these different outcomes in detail here, but we will refer to the results presented by Gilbert et al. (2016) which are recent and which take the previous modeling experiences into account.⁸ Their simulations are based on the GTAP9 database and simulate not only TPP but also RCEP and FTAAP. In total, six scenarios were computed. They first simulate the agreed TPP commitments as closely as possible, after which – for comparative purposes – they model complete tariff removal in TPP, RCEP and FTAAP, as well as the expansion of TPP membership. We only selected the results of these scenarios for the ASEAN member states (see tables 7-10).

The main conclusions that can be drawn from these simulation results are as follows:

- Agreed tariff eliminations and tariff-rate quota (TRQ) expansions are estimated to lead to a ‘once and for all’ welfare gain for TPP participants between 15 billion USD (medium run) and 38 billion USD (long run) (table 7). These estimates are rather at the lower end of all available estimates. It is argued by Gilbert et al. (2016: 20) that these estimates are probably underestimating the effects because trade reforms, services liberalization, and other regulatory aspects are not necessarily adequately reflected in the simulations; and in addition, relatively high levels of aggregation also tend to constrain the impacts.
- There are net positive effects for the world but negative effects for non-TPP participants, including from ASEAN (be it the latter negative effects are limited). Of the ASEAN participants, Vietnam comes clearly out as the country with the largest expected gains relative to its GDP. Also Malaysia is overall a relative winner. The negative effects for non-participants obviously crucially depend on possible expansions of TPP and/or negotiation of the other configurations. This clearly follows from the other simulated scenarios (tables 8, 9, 10).
- When looking at the different scenarios, it is clear that the relative gains of the ASEAN countries very depend on the precise configuration that is simulated (and negotiated). Broadly speaking, the participation of ASEAN as a block in mega FTAs is likely to lead to overall positive effects for ASEAN member states, which will be easier to accept politically speaking. Countries like Thailand and the Philippines have a clear incentive to join such mega-deals. It can also be observed that the inclusion of China produces relative winners (e.g. Singapore) and losers (e.g. Vietnam), although net effects for ASEAN will be positive.

<Table 7, 8, 9, 10>

4. Mega FTAs and market gravitation

The market is seeking a potential solution that is big enough in scope and sophisticated enough in content. This is how mega FTAs were born to fit in the world trading system. Typically, mega FTAs will include a large number of important trade partners and link large economies together. As a group, they are big in terms of the market potential, total output, trade and investment, etc. For instance, the 12 TPP countries as a group represent around 40 percent of world GDP and more than one quarter of

⁸ Gilbert et al.’s model is a modified version of the GTAP model: the inter-sectoral mobility of land and the substitutability between domestic and foreign products (Armington elasticities) are allowed to vary by country. Medium and long-run closures are used. And the aggregation level is: 27 regions x 32 sectors (Gilbert et al. 2016: 12-13).

world trade. In comparison, TTIP is even bigger. It covers almost half of global GDP and over 40 percent of world trade flows.

To proxy the market gravitation generated by TPP and RCEP, we employ a variation of Baldwin (2004)'s hub-ness measure (HM).⁹ The basic idea of the HM measure is straightforward: countries care more about their big export destination and therefore put more weight on large trading partner; while the importers might think it not a big deal to permit free imports from small suppliers because of their limited impacts on the domestic market.

At the country to country level (where A and B represent exporting and importing country respectively), the indicator is calculated by Equation 1:

$$HM_{AB} = \frac{EX_{AB}}{EX_A} \cdot \left(1 - \frac{IM_{AB}}{IM_B}\right) \quad (1)$$

where HM_{AB} measures how appealing market B sounds to country A's exports. EX_{AB} and IM_{AB} shows bilateral trade flows from A to B, measured by exports and imports respectively. EX_A represents A's total exports to the world, and IM_B is B's total imports from the world. The value of this indicator ranges from 0 to 1. The closer the value to 1, the more "gravitation" market B has from the perspective of market A's exports.

When applying the calculation to the country to region level (where A represents exporting country and B represents a free trade zone or custom union), a parameter α was added to the above equation to reflect the degree of market integration of B. In case B is a custom union, α equals to 1; if B is a free trade zone, the value of α to is proxy by the percentage of duty free trade among its member states.

Equation 1 then turns into Equation 2 below:

$$HM_{AB} = \alpha \cdot \frac{\sum_{i \in B} EX_{Ai}}{EX_A} \cdot \left(1 - \frac{\sum_{i \in B} IM_{Ai}}{\sum_{i \in B} IM_i}\right) \quad (2)$$

Table 11 compares the market gravitation of TPP and RCEP to AMS based on 2015 trade data. For TPP or CPTPP, the value of α was set to 0.98 since 98 percent of traded goods that the TPP agreement covers are already or will be duty free. For RCEP, we consider three scenarios – the very optimistic and the very conservative one with 95% and 80% duty free respectively, a less optimistic one in between with α equal to 0.9.

<Table 11>

First of all, the results show that to ASEAN and AMS, concluding RCEP can secure a market with greater gravity than TPP even in the most conservative scenario which we assume RCEP will only lead to 80% duty free trade among member states.

⁹ An alternative approach to hub-ness would be by applying social network analysis (SNA) to international trade flows, and calculating measures of (intra-regional) trade density and centrality. For applications of SNA, see e.g. Roth and Dakhli (2000), De Benedictis and Tajoli (2008), Iapadre and Tironi (2009), Iapadre and Plummer (2011).

There are two exceptions. One is Viet Nam, a TPP member state, to whom the TPP arrangement seems to be more appealing unless the RCEP negotiators can agree on some ambitious schemes to reach over 95% duty free trade.

The other one is Cambodia. The country is not a TPP member state. But its exports mainly rely on the American market. Relatively, it's economic dependence on RCEP countries is much less.

Second, the TPP's overall market gravitation shrinks significantly when US withdraw/suspend the TPP agreement. Among the four AMS that join TPP, Viet Nam may feel the largest drop. CPTPP does not seem to be as interesting as TPP or RCEP. Similarly, Cambodia now sees RCEP much more appealing compared to CPTPP.

Third, increasing RCEP's coverage of duty free trade from 80% to 90% tends to make big difference to countries like Laos PDR and Myanmar. The reason is that both countries' exports still highly concentrate on a limited number of products and few markets, mainly in RCEP. Compared to other AMS, their exports are more vulnerable to the level of trade liberalization that RCEP can achieve. But after passing a certain level, the countries' exports seem to see constraints more from its production capacity rather than from the trade barriers.

5. Mega FTAs and new trade rules: what to learn from TPP

In short, TPP intends to cover a wide range of regulations for GVCs that are beyond current WTO system in order to facilitate international production sharing and support sustainable development. TPP is said to be a 21st century FTA with the ambition to set new standards of global governance on international trade and investment in order to meet the needs from the 21st century trade that is characterized by international fragmentation of production and the expansion of global production sharing (so called the second unbundling of globalization).

TPP was concluded on 5 October 2015 but will need another one to two years for member states to ratify the agreement before it eventually enters into force. It requires not only "at-the-border" liberalization but also "beyond-the-border" economic reforms. The new rules and regulations are expected to have various and unequal economic impacts on Asian economies, both TPP member states and non-TPP member states.

Originally, the TPP was widely perceived as a key component of the US's "back-in-Asia" strategy. It attempted to (re)write rules for global trade that are in favor of increasing made-in-America exports, job creation, economic growth, and supporting the middle class in the US. In parallel to the TPP that covers the Asia-Pacific region, the TTIP (Transatlantic Trade and Investment Partnership), the Japan-EU economic partnership, and TiSA (Trade in Services Agreement) may also come into being in the near future.

To support the efficiency and sustainability of GVCs, we need to further develop a well-functioning system of international trade and investment governance. However, there are certain mismatches between what we need and what we have now.

Economically, the idea of mega FTAs was born to support the efficiency and sustainability of GVCs. In addition to the concerns on market potentials, one may realize that the current multilateral framework of global trading system was constructed in the 20th century. However, the WTO rules in effect are not sophisticated enough to regulate the complex, multi-layered network of GVCs. For that reason, mega FTAs contain WTO plus and WTO extra provisions aiming for higher standards and higher quality, which will require at-the-border liberalization as well as beyond-the-border economic reforms. The former refers to the deepening or extension of commitments that member states have already made at the multilateral level; while the latter refers to those new trade related issues that are not yet covered or regulated by the WTO. Horn, Mavroidis and Sapir (2009) categorizes these provisions into two groups based on the assessment on the articles of the PTAs entered into by the EU and the US. (see Table 12) It is worth noting that the WTO plus and WTO extra provisions are somehow overlapping to each other.

<Table 12>

It is evident that mega FTAs are trying to develop an extensive set of rules and regulations in global economic governance. Its impacts on individual countries and regions may vary due to their differences in the stages of development, the legal framework, the political system, and so on. This calls for more in-depth investigation on the related issues in the context of the general global tendency and each country's unique situation as well. At least, there are two points that can be sure. First, mega FTAs will affect not only the regional trade order, but also the global trade order. Second, they tend to have deep impacts on both member and non-member states of the agreements.

6. Conclusions: Asia's and ASEAN's new growth opportunities

All in all, GVCs is the key to understanding the 21st century trade. In addition to the access to global market, the negotiations of a 21st trade agreement make an emphasis of countries' connection to GVCs. The participation in GVCs provides an efficient way for developing countries to accelerate the catch-up process with developed economies. Fundamentally, the capability of invention, innovation, and creation determines a country's position in GVCs. There is urgency for ASEAN to take proper actions in response to the changing world economic order as mega FTAs are re-leveling the play field.

When talking about the region's strategy about mega FTAs, what really matters for ASEAN is the way(s) to continuously promote trade liberalization and regional community building rather than choosing which FTA initiative(s) to join and which ones not to.

First of all, non-tariff measures (NTM) reduction is one of the issues highlighted in mega FTAs. Mega FTAs tend to witness more progress in NTM reductions compared to the multilateral negotiations. But tariff cuts still matter, particularly with regards to agricultural products. Trade liberalization in the agriculture sector is another unresolved issue in WTO. Countries like the U.S. and Australia want to use mega FTAs to facilitate their food and agriculture exports.

Second, trade in services is increasingly important in the global economy. Trade in services has been growing much faster than trade in goods in the past decade. In case of U.S., 80 per cent of its GDP came from the service sector. In 2015, U.S. service exports reached 716 billion USD, half as much as its total exports of goods. Despite the country's trade deficit in goods, there was over 200 billion USD surplus

in service trade in that year. Rules and regulations on trade in services in mega FTAs may complement to that of GATS.

Third, there are needs to draw more attentions on new trade issues. Mega FTAs try to establish new rules in these areas, which could probably later become the global standards in the governance of GVCs. For ASEAN, getting involved in process of new rules setting is probably a best way for developing countries to defend their interests and negotiate for better terms of agreement(s). The region's significance in both the supply and demand of the world economy can make the region to be more confident in its roles in global governance. ASEAN is an integrated part of the "world factory" of manufacturing goods. Its contribution to the efficiency of GVCs and global economy should not be neglected. On the other side, the region hosts the world's largest potential market. It is predicted that by 2030, over two third of world middle class will be in Asia, and the region will account for over 60 percent of the world total middle class consumption as well.

In particular, more concerns will be on the beyond-the-border issues with direct impacts on the domestic markets. It is worth noting that the consequent impacts of joining mega FTAs will have impacts not only at the macro levels, such as gross output, trade, and investment; but also at the micro levels, such as the well-being of households and consumers, SMEs efficiency, and inequality; and the beyond-the-border measures will be associated with social and economic adjustment costs as well.

Pushing forward the related domestic actions will also need regional effort from the aspect of cross border regulatory harmonization or/and the mutual reorganization of standards, and connect to the issue of current account balancing, public budget balancing, job displacement, and so on. The effectiveness of the policy intervention depends on the collaboration between the administration and legislation agencies as well as the cooperation among different government branches, particularly between foreign affairs department(s) and those that are in charge of domestic market regulation.

The Regional Comprehensive Economic Partnership (RCEP) tends to buy all member states a double insurance plan for them to be inclusive and beneficial in this process. It can be seen as an extension of the construction of an integrated ASEAN community. The significance of RCEP is self-illustrating: a regional arrangement among 16 countries, most of them developing countries and less developed countries that covers almost half of the world population, one quarter of world GDP, and around 40 per cent of total trade. Moreover, it is part of Asian countries' efforts to explore collaborative regional governance avenues, and it provides a platform for the region to act as a group and collaboratively have a pivotal role in global economy. ASEAN stays at the core of this process and plays as a functioning hub.

In the long run, it is equally important for ASEAN to aim for new issues and "high quality" provisions that the 21st century trade requires in addition to its effort to secure the main part of its export market. But it doesn't look realistic to accomplish these targets at one stroke. Setting some lower and easier-to-reach targets will help AMS get earlier fruit from the RCEP negotiations.

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Table 1: Export and import shares of ASEAN (2004-2016)

ASEAN's total trade in goods share with	Exports			Imports		
	2004	2010	2016	2004	2010	2016
Extra-ASEAN	75,1%	74,8%	76,0%	76,2%	75,0%	77,9%
Asia-Pacific	52,6%	55,3%	56,1%	50,0%	51,9%	57,3%
China (incl. Hong Kong)	12,6%	17,7%	19,4%	11,3%	14,6%	22,0%
USA	14,1%	9,5%	11,4%	11,1%	8,5%	7,4%
South Korea	3,5%	4,3%	4,0%	4,1%	6,0%	7,2%
Japan	11,8%	9,8%	8,3%	15,1%	12,2%	9,7%
Australia	2,8%	3,6%	2,9%	1,8%	2,0%	1,8%

Source: The authors. Calculations based on <https://data.aseanstats.org/trade.php>

Table 2: Shares of inward FDI in ASEAN (2010-2016)

FDI Source Country	2010	2015	2016
intra-ASEAN	15,1%	17,9%	25,2%
Asia-Pacific	43,6%	51,3%	59,3%
China (incl. Hong Kong)	6,0%	8,8%	20,3%
USA	12,6%	19,4%	12,5%
South Korea	4,0%	4,7%	5,9%
Japan	12,0%	12,2%	11,8%
Australia	3,7%	1,6%	3,5%

Source: ASEAN Secretariat - ASEAN FDI Database as of 31 October 2017, available at https://data.aseanstats.org/fdi_by_country.php

Table 3: Weighted average MFN tariff (%) applied by ASEAN member states and faced by major Asia-Pacific trading partners (2015)

Member state	Overall	Agriculture products	Faced in			
			China	Malaysia	Japan	the US
Brunei	1,2	0,1	...	4,9a	0	...
Cambodia	9,3	12,1	11,1	34,4a	16,0	16,3
Indonesia	6,8	7,8	4,2	13,0a	1,3	7,6
Laos	8,5	11,2	1,1	...	15,6a	...
Malaysia	4,3	11,7	1,8	0	0,5	0,7
Myanmar	5,6	8,6	5,6	...	10,3	...
Philippines	5,3	11,3	1,1	...	0,9	3,9
Singapore	0,5	11,9	2,9	1,3	40,0a	2
Thailand	6,6	36,3	4,3	...	1,3	2,1
Vietnam	5,7	8,3	4,1	...	3,7	7,9

Source: WTO, available at https://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm

Table 4: Binding AVEs of NTMs by importing Asia-Pacific country and NTM type (simple averages)

	SPS	TBT	QRS	ADP	OCA	Tariff
Australia	-0,8	1	24,1	17,8	43,2	2,1
Canada	0,1	-1,9	...	-7,8	1,5	5,1
Chile	3	-0,5	...	-24,2	-27,2	1
China	15,3	7,5	...	14,5	77,5	6,9
Indonesia	0,6	18,5	...	-10,5	10,6	5,1
Japan	-0,9	4,9	0,8	...	...	3,8
Korea	-4,1	0	-1,3	1,1	-0,1	7,1
Malaysia	1,7	5,9	...	-2,2	66,9	5,7
New Zealand	3,7	5,6	...	14,4	-100	3,8
Philippines	7,8	2	...	...	58,2	1,3
Singapore	4,6	8	16,1	...	...	0,4
Thailand	1,5	-0,4	0,3	-37,5	...	8,7
USA	-0,7	-3,3	...	2,2	12,5	3,1
Vietnam	-6	9,1	...	...	...	5
Average World	8,2	10,8	2,5	19,4	...	5
Average East Asia & Pacific	-2	5,1	-0,1	1,2	0,1	...

Source: Ghodsi, Grübler and Stehrer (2016)

Table 5: Provisions on services in FTAs of ASEAN countries (Number of provisions)

	Cross border trade	Commercial presence	Mobility of persons	Market access	Mutual recognition	Number of FTAs
Brunei	4	5	2	1	2	8
Cambodia	3	4	1	1	2	7
Indonesia	4	5	2	2	3	13
Laos	3	4	1	1	2	8
Malaysia	6	7	5	5	6	14
Myanmar	3	4	1	1	2	9
Philippines	3	5	2	2	3	8
Singapore	11	12	8	9	10	22
Thailand	6	7	4	3	4	18
Vietnam	5	6	3	3	4	10

Source: Asian Development Bank, available at <https://aric.adb.org/fta-country>

Table 6: Provisions on investment in FTAs of ASEAN countries (Number of provisions)

	Scope and coverage	Safeguards	Expropriation and compensation	Technology Transfers	Number of FTAs
Brunei	4	1	3	1	8
Cambodia	3		2	1	7
Indonesia	4	1	3	2	13
Laos	3		2	1	8
Malaysia	7	2	6	4	14
Myanmar	3		2	1	9
Philippines	4	1	3	2	8
Singapore	11	3	10	9	22
Thailand	6	1	5	4	18
Vietnam	5		3	2	10

Source: Asian Development Bank, available at <https://aric.adb.org/fta-country>

Table 7: Estimated welfare effects for ASEAN of TPP liberalization with tariff elimination or reduction and TRQ expansions as agreed

Countries	Medium Run			Long Run			
	%GDP	EV	TOT	%GDP	EV	TOT	Capital
Brunei	0,64	107	8	1,83	306	2	173
Malaysia	0,24	689	-462	1,57	4534	-1415	3839
Singapore	0,22	590	692	0,5	1,383	649	738
Vietnam	2,39	3233	1880	3,67	4976	1182	1666
Rest of Southeast Asia	-0,15	-103	-64	-0,15	-107	-44	-25
Indonesia	-0,05	-457	-362	-0,02	-202	-251	111
Laos	-0,03	-2	-1	0,07	6	3	2
Philippines	-0,09	-205	-157	-0,04	-79	-154	109
Thailand	-0,34	-1161	-931	-0,39	-1351	-725	-345
TPP Members		14569	7240		38048	5435	18360
Non-TPP Members		-11263			-11663		
World		3307			26384		

Notes:

%GDP: equivalent variation as a percentage of baseline GDP (2011);

EV: equivalent variation measured in million 2011 USD;

TOT: terms of trade component of EV, measured in million 2011 USD;

Capital: capital accumulation component of EV, measured in million 2011 USD.

Source: Gilbert et al. (2016: 17).

Table 8: Estimated welfare effects for ASEAN of TPP with full tariff liberalization

Countries	Medium Run			Long Run			
	%GDP	EV	TOT	%GDP	EV	TOT	Capital
Brunei	0,65	108	10	1,86	310	5	174
Malaysia	0,25	715	-439	1,58	4577	-1378	3837
Singapore	0,22	600	711	0,52	1416	670	753
Vietnam	2,34	3171	1884	3,65	4945	1184	1691
Rest of Southeast Asia	-0,14	-100	-61	-0,15	-101	-40	-24
Indonesia	-0,05	-460	-354	-0,02	-192	-217	96
Laos	-0,01	-1	0	0,1	8	4	3
Philippines	-0,09	-211	-168	-0,03	-59	-163	130
Thailand	-0,37	-1287	-1046	-0,41	-1434	-834	-316
TPP Members		22227	7719		57985	5448	27153
Non-TPP Members		-12160			-12675		
World		10067			45310		

Notes:

%GDP: equivalent variation as a percentage of baseline GDP (2011);

EV: equivalent variation measured in million 2011 USD;

TOT: terms of trade component of EV, measured in million 2011 USD;

Capital: capital accumulation component of EV, measured in million 2011 USD.

Source: Gilbert et al. (2016: 21).

Table 9: Estimated long run welfare effects for ASEAN of TPP expansion

Countries	Probables				Possibles			
	%GDP	EV	TOT	Capital	%GDP	EV	TOT	Capital
Brunei	2,57	429	71	220	2,84	474	77	245
Malaysia	1,69	4884	-1706	4196	1,81	5238	-2433	4781
Singapore	0,58	1597	784	816	1,11	3047	1587	1494
Vietnam	5,01	6796	2217	1987	2,91	3939	-499	2230
Rest of Southeast Asia	-0,1	-66	-16	-14	-1,02	-709	-274	-203
Indonesia	-0,02	-163	-167	94	0,41	3428	12	2356
Laos	0,04	3	2	1	-0,3	-25	-11	-3
Philippines	-0,03	-63	-222	234	-0,43	-953	-606	-133
Thailand	-0,55	-1916	-893	-613	-1,41	-4870	-2025	-1936
TPP Members		102403	4272	61456		194373	8724	108226
Non-TPP Members		-11360				-25694		
World		91043				168680		

Notes:

%GDP: equivalent variation as a percentage of baseline GDP (2011);

EV: equivalent variation measured in million 2011 USD;

TOT: terms of trade component of EV, measured in million 2011 USD;

Capital: capital accumulation component of EV, measured in million 2011 USD.

Source: Gilbert et al. (2016: 33).

Table 10: Estimated long run welfare effects for ASEAN of RCEP and FTAAP liberalization

Countries	RCEP				FTAAP			
	%GDP	EV	TOT	Capital	%GDP	EV	TOT	Capital
Brunei	2,68	448	68	233	2,93	490	80	255
Malaysia	1,69	4893	-955	3882	2,46	7115	-2224	5675
Singapore	1,64	4482	2338	2201	1,52	4161	2159	2120
Vietnam	1,39	1886	-596	1454	3,27	4436	-551	2482
Rest of Southeast Asia	-0,21	-147	-58	-28	-1,01	-699	-253	-201
Indonesia	0,37	3128	1905	603	0,51	4354	257	2984
Laos	0,97	80	-40	109	-0,3	-25	-4	-2
Philippines	0,19	433	-210	508	0,97	2167	-667	2408
Thailand	1,24	4283	-2887	5160	1,46	5053	-3751	6465
TPP Members		146902	8481			262594	11931	
Non-TPP Members		-19863				-37638		
World		127039				224955		

Notes:

%GDP: equivalent variation as a percentage of baseline GDP (2011);

EV: equivalent variation measured in million 2011 USD;

TOT: terms of trade component of EV, measured in million 2011 USD;

Capital: capital accumulation component of EV, measured in million 2011 USD.

Source: Gilbert et al. (2016: 35).

Table 11: Market gravitation of TPP and RCEP for ASEAN MS

	TPP	CPTPP	RCEP		
			$\alpha = 0.95$	$\alpha = 0.9$	$\alpha = 0.8$
Brunei	0.54	0.53	0.86	0.82	0.73
Cambodia	0.44	0.19	0.22	0.21	0.19
Indonesia	0.41	0.30	0.56	0.53	0.47
Lao PDR	0.21	0.20	0.86	0.82	0.73
Malaysia	0.39	0.30	0.57	0.54	0.48
Myanmar	0.13	0.12	0.86	0.81	0.72
Philippines	0.47	0.32	0.49	0.47	0.41
Singapore	0.29	0.23	0.54	0.51	0.46
Thailand	0.40	0.29	0.51	0.49	0.43
Viet Nam	0.37	0.17	0.37	0.35	0.31
ASEAN	0.33	0.23	0.45	0.43	0.38

Source: the authors.

Table 12: WTO plus and WTO extra areas

	Areas covered
WTO Plus	FTA industrial goods; FTA agricultural goods; Customs administration; Export taxes; Sanitary and phytosanitary (SPS); measures; Technical barriers to trade (TBT); State trading enterprises (STE); Antidumping (AD); Countervailing measures (CVM); State aid; Public procurement; Trade-related investment measures (TRIMs); Trade in services agreement (GATS); Trade-related intellectual property rights (TRIPs).
WTO Extra	Anti-corruption; Competition policy ; Consumer protection; Data protection; Environmental laws; Investment; Movement of capital; Labour market regulations; Intellectual Property Rights (IPR) ; Agriculture; Approximation of legislation; Audio visual; Civil protection; Innovation policies; Cultural cooperation; Economic policy dialogue; Education and training; Energy; Financial assistance; Health; Human rights; Illegal immigration; Illicit drugs; Industrial cooperation; Information society; Mining; Money laundering; Nuclear safety; Political dialogue; Public administration; Regional cooperation; Research and technology; Small and medium enterprise; Social matters; Statistics Taxation; Terrorism Visa and asylum.

Source: Horn, Mavroidis, and Sapir (2009), Tables 2.2 and 2.3.