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Mega FTAs and the Indo-Pacific Economic Framework (IPEF) in the Asia Pacific Region: Will It Be Cooperation or Competition?[1, 2]

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Abstract

The Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) are two mega free trade agreements (FTAs) in the Asia and Pacific region. However, their economic interests are rather deeply divided and related to political and security issues. Trade conflicts between the U.S. and China have continued since 2018. To tackle Chinese expansion, the Biden administration initiated the Indo-Pacific Economic Framework (IPEF) in 2021 instead of returning to the CPTPP. This article reviews the two mega FTAs and IPEF, as well as East Asian collaboration and competition in the region. It examines the East Asian countries' economic interests in participating in the mega FTAs and IPEF and considers how to overcome the protectionism caused by the trade conflicts between the G2. Finally, it analyzes the roles and strategies of major economies overcoming protectionism as the new global supply and value chains are reshaping in the region.

Keywords: Mega FTAs, protectionism, FTA strategy, new global supply and value chains, IPEF

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Introduction

Global trade has contributed to a rapid economic growth since the Second World War. However, the growth of trade volume started to slow particularly after the global financial crisis (GFC) in 2008. It started to recover shortly after 2015 but declined again due to the global trade conflicts between the Group of 2 (G2) countries (the U.S. and China) under the Trump administration in 2018 and the COVID-19 pandemic in 2020. In particular, the pandemic represented an unprecedented disruption to the global economy and world trade, as production and consumption were scaled back across the globe. Additionally, the prospects for the global economy have darkened since the outbreak of war between Russia and Ukraine on 24 February 2022 (declared to be a special military operation in Russia) that puts fragile global trade recovery at risk. As a result, the world trade volume in goods bottomed in the second quarter of

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2020 and is estimated to grow to 3% in 2022, which is down from its previous forecast of 4.7% and 3.4% in 2023. Global gross domestic product (GDP) is expected to increase by 2.8% and 3.2% in 2022 and 2023, respectively, after rising 5.7% in 2021. This estimation is assumed by persistent geopolitical and economic conditions. The large annual growth rate for merchandise trade volume in 2021 was regarded mostly as a reflection of the previous year's slump. Additionally, global trade in services is still expected to lag global trade in goods, particularly in sectors related to travel and leisure, due to a continuing pandemic based on dangerous variants of COVID-19 (although most advanced nations have removed most of the restrictions). Therefore, world trade in goods could grow between 0.5% and 5.5% in 2022 according to the World Trade Organization's (WTO) forecasts (Fig. 1) [WTO, 2021a; 2022].

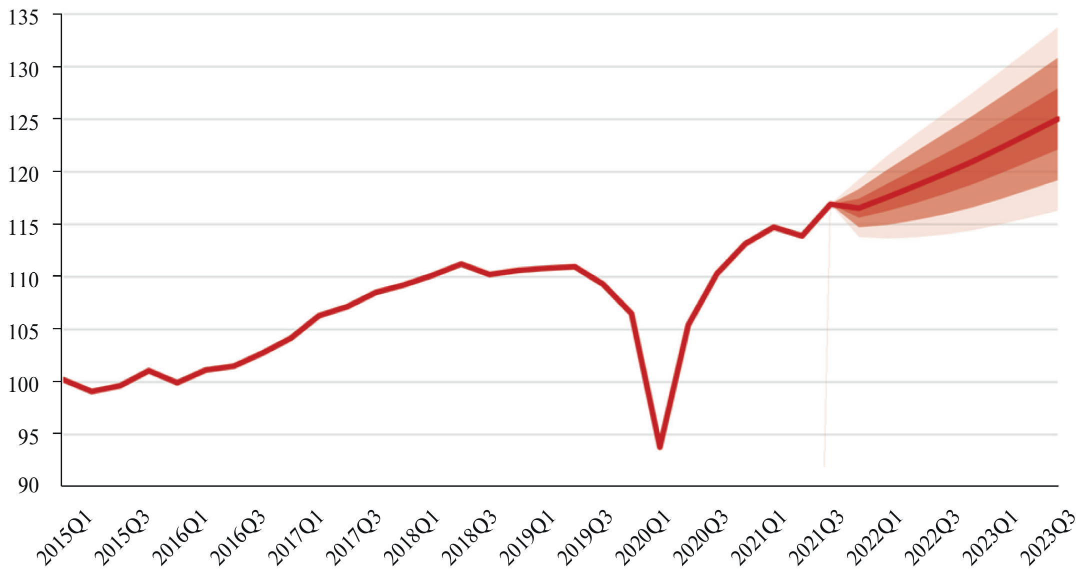

Fig. 1. Estimated Trend of World Merchandise Trade Volume (2015–2023)

Source: [WTO, 2022].

Note: Seasonally adjusted volume index, 2015 = 100.

The world trade volume in merchandise has tended to grow by an average of close to 1.5 times higher than global GDP growth from 1981 to 2020. During the 1990s, particularly, it grew more than twice than GDP growth. However, the ratio of trade growth to GDP growth has become more or less equal since the GFC, apart from growth in 2010, 2011, and 2017. Therefore, many countries, aiming to boost their trade volumes and economic growth, opted to create bilateral, regional, and mega free trade agreements (FTAs) since the 2000s instead of following the WTO's multilateral principles. This new approach worked properly before the GFC but started to show its limitation after the crisis, and it has faced difficulties due to the protectionism and the sudden global trade downturn caused by the trade conflict between the G2 nations, the COVID-19 pandemic, and the outbreak of war in Ukraine. These have seriously hindered the global supply chains (GSCs). The pressure on GSCs started to decline at the end of 2021 but remained high in 2022. Additionally, it is possible that the current war in Ukraine might lead to increased supply chain pressures due to the energy and food crises [Benigno et al., 2022; WTO, 2017; 2021b] (Fig. 2).

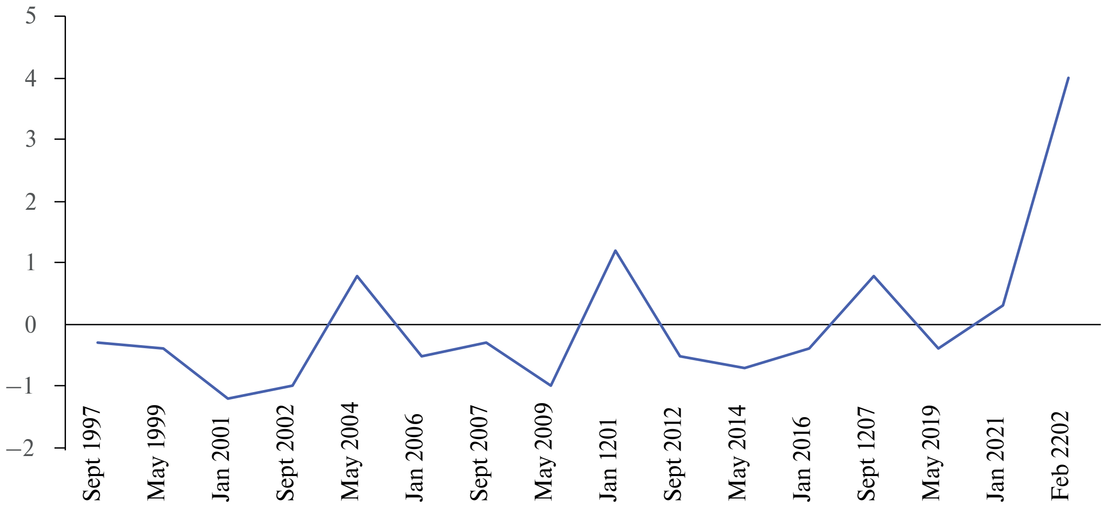

Fig. 2. Trend of Global Supply Chain Pressure Index (1997–2021)

Source: [Benigno et al., 2022].

In January 2022, there were 350 FTAs in force and, among them, 174 were signed and in effect in the Asia and Pacific region. Seventy-seven FTAs are still in negotiation and 15 are signed but not yet in effect. All FTAs are either bilateral or plurilateral. Singapore is the leading country with 37 FTAs and China and Korea follow with 32, respectively. Other Asian countries, including India with 30 and Japan with 27, also play significant roles in terms of FTAs due to the size of their economies in the region [ARIC, n.d.].

In addition to bilateral and plurilateral FTAs, the Asia Pacific region has become a common ground for mega FTAs after the completion of the Regional Comprehensive Economic Partnership (RCEP), led officially by the Association of Southeast Asian Nations (ASEAN) but practically by China, in November 2020 and the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), led by Japan, in December 2018. China negotiated RCEP with the 10 ASEAN states and with six additional states with which ASEAN had existing trade agreements. The ambition of RCEP is to promote regional economic integration in East Asia and to expand it to the Asia-Pacific region, despite the Indian withdrawal from it in the final stage. Among the 15 states in RCEP, seven participate in the CPTPP as well. The CPTPP aims to rebalance Japanese political and economic interests against Chinese influence in the region as a part of global strategies given the U.S. withdrawal from the Trans-Pacific Partnership (TPP) in 2017.

Among the three major economies, only Japan has participated in the two mega FTAs at the same time, while China and Korea have participated only in RCEP. Due to the rapidly changing global trade environment related to security issues and the U.S.-led rebuilding of GSCs, China, Korea, and Taiwan strongly expressed their intentions to join the CPTPP at the end of 2021. Without any participation in the mega FTAs in the Asia-Pacific region, the U.S. initiated the Indo-Pacific Strategy (IPS) in 2022 to engage in the region practically and systematically. It mainly aims to prevent China's further expansion and to reshape the new U.S.-led

GSCs in the global economy. The IPS consists of 10 action plans, and the Indo-Pacific Economic Framework (IPEF) is represented by the core action plan of building new GSCs [Elms, 2018; Graceffo, 2017; Park, Petri, Plummer, 2021; The White House, 2022].

This article focuses on the approaches of the major economies to mega FTAs such as RCEP and the CPTPP and on their development and impact in the near future. Additionally, it deals with possible impacts of the trade conflicts within the G2 on the three major economies and analyzes their implications for East Asian economic collaboration and competition. Finally, it touches upon reasons why the reshaping of the new GSCs in the region through IPEF is necessary. Various research methods are used, including critical analysis of literature, an inference method, and a method of quantitative and qualitative statistical analysis.

Mega FTAs for East Asian Economic Integration and IPEF for Indo-Pacific Strategy

ASEAN-Centric Regional Comprehensive Economic Partnership (RCEP) Led by China

The path to RCEP was long and difficult. After two decades of preliminary discussions on the desirability and feasibility of Asian economic cooperation, East Asian countries, led by ASEAN, decided to establish a regional economic framework, comprehensively known as RCEP. The states participating in RCEP negotiations were the ten ASEAN members and six other states in the region—Korea, China, Japan, India, Australia, and New Zealand. They began the negotiations in November 2012. RCEP negotiations spanned some of the world's most developed and least developed countries, which constrained the ambition of the agreement. However, diversity among the 16 participating countries enabled a more efficient division of labour and enhanced the potential for deepening existing supply chains [Park, 2016; Park, Petri, Plummer, 2021].

It was a long process to agree to RCEP. Regional economic cooperation in East Asia began to intensify in response to the Asian financial crisis in 1997, and the first ASEAN+3 (Korea, China, and Japan) summit meeting was held in 1998. At the summit, Korea suggested the establishment of the East Asia Vision Group to collectively overcome economic and financial problems and difficulties in the region. The expert group focused on examining the goals for long term economic cooperation and further developed the idea of the East Asia Free Trade Area (EAFTA) in 2002. ASEAN+3 economic ministers proposed that the EAFTA would need to be negotiated among ASEAN countries first and that membership could then be opened to other East Asian economies [ASEAN Secretariat, 2009; Joint Expert Group, 2009; Kawai, Wignaraja, 2011; Urata, 2013; 2021].

Parallel to the Korean approach, at the ASEAN+6 economic ministers' meeting in 2006, Japan proposed the Comprehensive Economic Partnership in East Asia (CEPEA), which would be an agreement on a region-wide FTA covering ASEAN+6 states. 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 economic growth for East Asia as a whole. Japan also strongly intended to play a leadership role in setting up a regional institution because China had taken the initiative in the EAFTA discussions. The competition between China and Japan to take a leadership role in the establishment of a region-wide FTA under the EAFTA and the CEPEA encouraged China to speed up the process of regional economic integration in East Asia when Japan decided to participate in the TPP, led by the U.S., in 2011 [Kawai, Wignaraja, 2008; Xiao, 2015].

Under these circumstances, ASEAN proposed RCEP involving ASEAN and its FTA partners in 2011 because it did not want to lose its centrality in East Asian regional integration. ASEAN understood that it could lose its leadership position if China, the U.S., other large economies, and half of ASEAN's members participated in the negotiation of the TPP. After signing multiple bilateral FTAs between ASEAN and other East Asian economies, ASEAN and its regional partners had become concerned about Asian "noodle bowl" effects that emerged as obstacles to establishing new regional production networks based on free markets in East Asia. RCEP thus emerged as a tool to integrate ASEAN and East Asian economies in support of their common aspirations in the region [Yi, 2014].

Furthermore, ASEAN announced that the guiding principles for the negotiations of RCEP would include WTO principles such as consistency, transparency, open accession to ASEAN's FTA partners, and others. Based on such principles, Brunei, Malaysia, Singapore, and Vietnam participated in RCEP and the CPTPP at the same time. As a result, ASEAN+6 leaders agreed to launch the negotiation of RCEP in November 2012 and concluded its agreement in November 2019, without Indian participation. [Hearn, Myers, 2015; Johnston, 2017; Park, 2021].

The population of states within RCEP is more than 2.3 billion people, and the output was over $26 trillion in 2020. Its GDP accounted for 30.7%, and the total trade volume was $10.4 trillion in the same year, that is, 29.5% of the world trade volume in merchandise. There is no doubt that RCEP could create the world's largest trading bloc, until the U.S.-led IPEF is established, even though India withdrew at the last moment. It could have major implications for the global economy, including the spread of global production networks and the reduction of inefficiencies for multiple Asian FTAs [Goodman, Arasaingham, 2022; Park, 2021; Suh, 2014; World Bank, n.d.a] (Fig. 3).

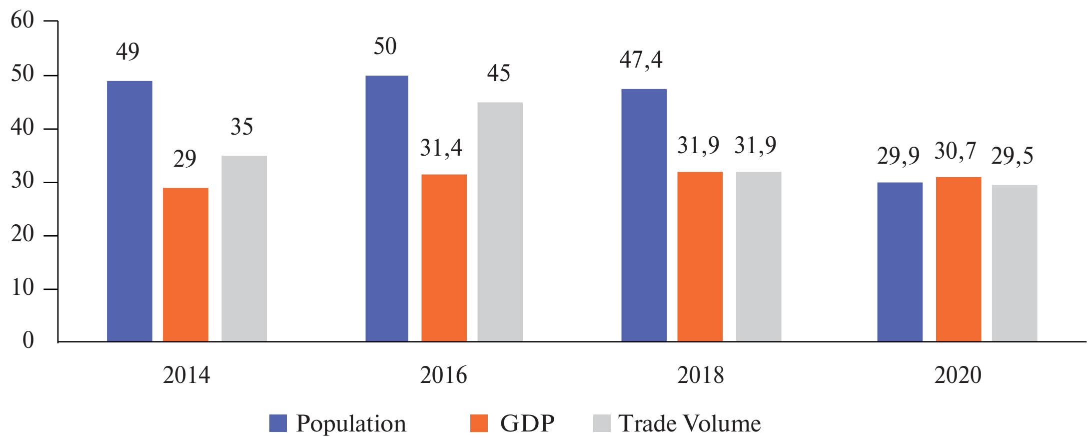

Fig. 3. RCEP's Share of World in Population, GDP, and Trade in Merchandise (%)

Source: [WTO, 2021a; 2021b; World Bank, n.d.a; n.d.b].

*Note: St*atistics in 2020 are without India.

RCEP needs strong leadership, but it must be based on ASEAN's 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. However, RCEP is a tool for rising China in the region and ASEAN, Korea, and Japan are concerned that China could eventually dominate East Asia through a

China-led East Asia Economic Community. Due to the possibility of Chinese economic dominance, countries such as Japan, Korea, the Philippines, and Vietnam have actively tried to balance between China and the U.S. to hedge against China's possible threat. However, in the near future, it will not be possible for China to dominate in East Asia, as Japan did during the 1980s with over 75% of the regional GDP, because the economies of Korea and ASEAN are still vigorous and generate high economic growth. Therefore, the share of China's regional GDP could be around 55–60% to a peak in the future that depends on Indian participation. Later, it will slow as the Chinese economy matures and China faces domestic challenges such as a rapidly aging society and declining fertility [Chen et al., 2022; Park, Pasierbiak, 2018; Suh, 2014; Wang, Zhao, Meng, 2022] (Fig. 4).

The collapse of the TPP leaves China as the de facto leader of large scale regional economic integration, with RCEP as the main pillar. Moreover, RCEP will probably be more open to new members in the Asia-Pacific region. China foresees Chile's and Peru's participation in RCEP and emphasizes its intention to keep its scheme open to any possible members. As a result, RCEP may enhance the regional and global roles of China, which could potentially contribute to creating bilateral rivalry with the United States. Among the major members of RCEP, their priorities are very diverse. China maintains its intention to make RCEP the basis of trade rules in the Asia-Pacific region, while Japan focuses on providing a high level of liberalization, comparable to that of the TPP. Korea stands for high levels of liberalization in trade and investment. In November 2019, 15 RCEP members, without India's participation, finally agreed on all 20 chapters and essentially all their market access issues and decided to proceed with legal processes. RCEP was signed in November 2020 and was expected to be in force by January 2022. China can now use it as a tool to set up trade rules in the region [Basu Das, 2017; Chaisse, 2020; Kumar, Charlton, 2017].

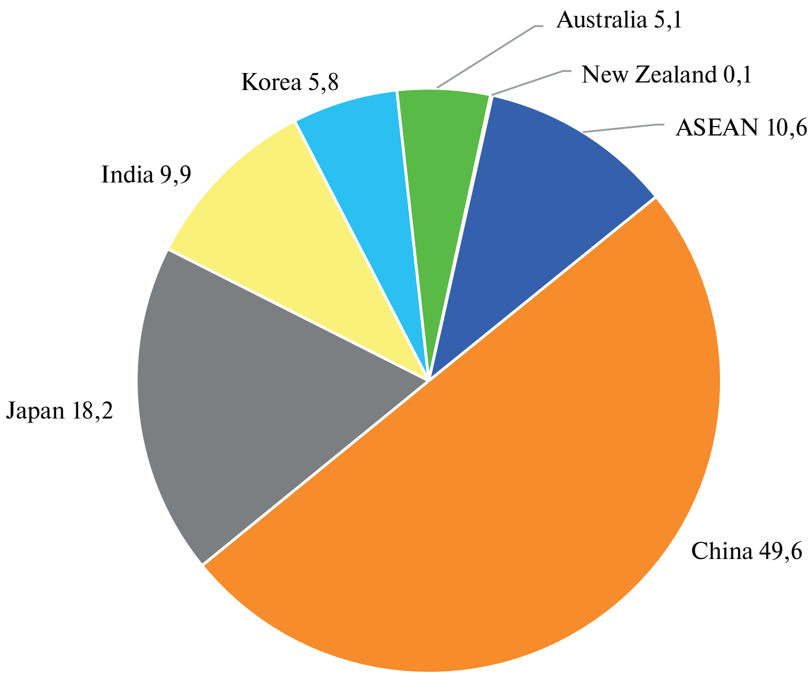

Fig. 4. Share of GDP of RCEP Members (2018, %)

Source: [The World Bank, n.d.b].

International investment agreements have played a positive role in generating economic growth and strengthening regional economic integration, along with trade. RCEP members have been very active in concluding bilateral investment treaties (BITs) and treaties with investment provisions (TIPs) that have intensified regional economic integration and the building of regional supply chains (RSCs). China has led this trend, concluding 125 BITs (106 of which were in force in 2022), while Korea, Malaysia, and Vietnam follow with 93, 66, and 62, respectively. In TIPs, Singapore is the front runner with 38 TIPs, while Korea, Malaysia, and Vietnam follow with 26 in the same year [Bobowski, Drelich-Skulska, 2022; UNCTAD, 2022] (Table 1).

Table 1. Trend of Bilateral Investment Treaties and Treaties With Investment Provisions by RCEP Members (2022)

Members	BITs (in force)	TIPs (in force)
Australia	15 (15)	23 (21)
China	125 (106)	25 (22)
Japan	36 (32)	22 (20)
New Zealand	4 (2)	18 (16)
Korea	93 (87)	26 (21)
Brunei	7 (5)	22 (19)
Cambodia	26 (16)	18 (16)
Indonesia	43 (27)	22 (17)
Laos	23 (21)	17 (15)
Malaysia	66 (55)	26 (23)
Myanmar	10 (8)	16 (14)
Philippines	39 (31)	17 (16)
Singapore	48 (38)	38 (33)
Thailand	39 (36)	24 (22)
Vietnam	62 (49)	26 (20)

Source: [UNCTAD, 2022].

Japan-Led Comprehensive and Progressive Trans-Pacific Partnership Agreement (CPTPP) Without U.S. Participation

The U.S. took over its leadership after participating in the TPP negotiations in 2010 and aimed to create U.S.-led trade rules in the Asia-Pacific region in keeping with the "pivot to Asia" policy under the Obama administration. The U.S. government realized that global trade and investment are critical to the U.S.' economic performance and national security. In fact, more than 95% of the world's population and 80% of its purchasing power exist outside the United States. Moreover, the Asia-Pacific region is regarded as the most rapid economic growth hub in the world, one which will create the greatest consumption growth over the next several decades. Therefore, it is critical for the U.S. to complete region-wide trade agreements, such as the TPP, with allies and other states in the region to strengthen its influence in the regional economies and politics [Task Force on U.S.-China Policy, 2017].

In fact, the U.S. intended to use the TPP as a mechanism for isolating China in East Asia. The TPP, with the high standard of agreement, is still a high barrier for China to overcome in the near future, although China has announced that it is ready to participate in the CPTPP. The CPTPP, without the participation of the U.S., does not intend to exclude China in East Asia. However, it is practically difficult for China to agree to all the terms of the CPTPP because it is inevitable that China will change its policies to sustain economic growth through state subsidies to state-owned corporations and will ensure social stability via strong state control instead of the free market mechanism. Chinese leadership understands that rapid market reform is not a feasible pathway and that, therefore, China cannot participate in the CPTPP negotiations, at least in the short term. The recent announcement of Chinese participation in the CPTPP is thus purely political, intended to gain a major symbolic and strategic victory as it seeks to replace the U.S. as the economic hub of the agreement in the region. Along with this Chinese attempt, Korea and Taiwan also expressed their intentions to join the CPTPP in September 2021 [Hopewell, 2021; Suh, 2014].

The TPP's position in the world economy and trade is very significant as well. The output of its 12 members accounted for $28.9 trillion in 2016, which was about 37.1% of the world's GDP. Its population share was slightly higher than 11% in the same year. The TPP's GDP share in the world economy increased from 38% in 2014 to 38.2% in 2015 and declined slightly to 37.1% in 2016. Total world trade volume in 2014 accounted for $23.4 trillion and declined to $20.9 trillion in 2015—an 11.2% decline. However, total trade share of the TPP in world trade increased from 32% in 2014 to 41.5% in 2015, clearly showing the TPP's weight in the world economy and trade. The TPP had become the second largest mega FTA in terms of its GDP and trade volume. However, its economic size declined rapidly after the U.S.' withdrawal in 2017. The CPTPP's position in the world population, GDP, and trade volume accounted for 6.7%, 12.8%, and 14.9%, respectively, in 2020 [Francois, Elsig, 2021; WITS, n.d.; World Bank, n.d.c] (Fig. 5).

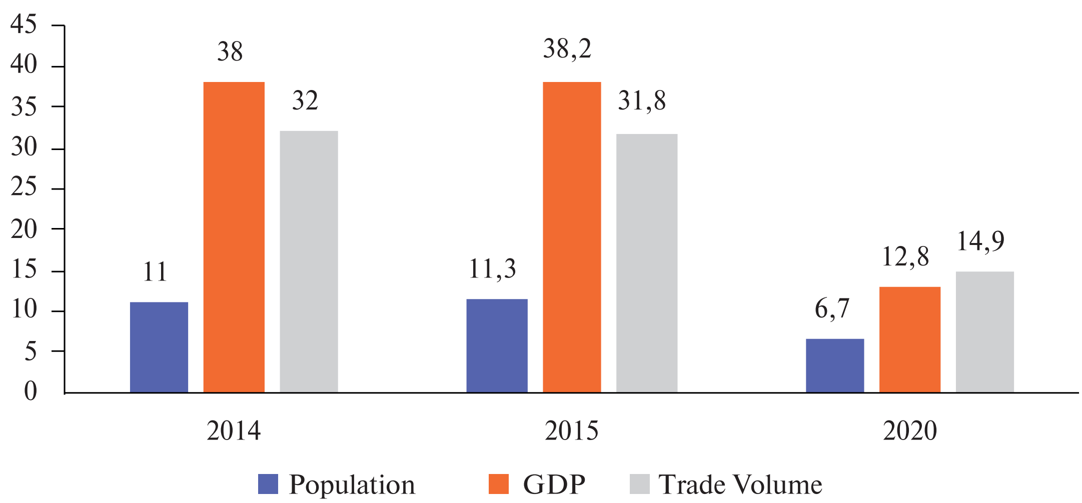

Fig. 5. TPP and CPTPP's Share of World in Population, GDP, and Trade in Merchandise (%)

Source: [WTO, 2021a; 2021b; World Bank, n.d.c; Francois, Elsig, 2021].

Note: Statistics in 2020 are without the United States.

Due to the firm U.S. focus on bilateral FTAs instead of multilateral ones and the U.S.' withdrawal from the TPP, Japan, under Abe's leadership, tried to move the TPP forward without the U.S.' participation. Despite the strong resistance of Malaysia and Vietnam, Japan, and other members, including Australia and New Zealand, were able to create the CPTPP in May 2017. The CPTPP incorporates most of the TPP provisions by reference but suspended 22 provisions that the U.S. had preferred, but which other members had opposed [Government of New Zealand, n.d.].

Eleven states reached an agreement in January 2018 to conclude the CPTPP and it was formally signed on 8 March 2018 in Santiago, Chile. The agreement specified that its provisions would enter into force 60 days after ratification by at least 50% of the signatories, that is, six of eleven states. The sixth to ratify the CPTPP was Australia on 31 October 2018. As a result, the CPTPP came into force for the initial six ratifying countries on 30 December 2018. The CPTPP represented around 13% of global GDP in 2020 and accounted for approximately $11 trillion, making it the third largest FTA in the world by GDP after RCEP and the USMC. Its share of global GDP declined heavily to 12.8% due to the COVID-19 pandemic in 2020. The Japanese share of GDP was overwhelming at 46.7% (as was the Chinese share in RCEP). However, the share of the CPTPP in global GDP shrank dramatically due to the U.S.' withdrawal [Francois, Elsig, 2021; Torrey, 2018; World Bank, n.d.a, 2022] (Fig. 5 and 6).

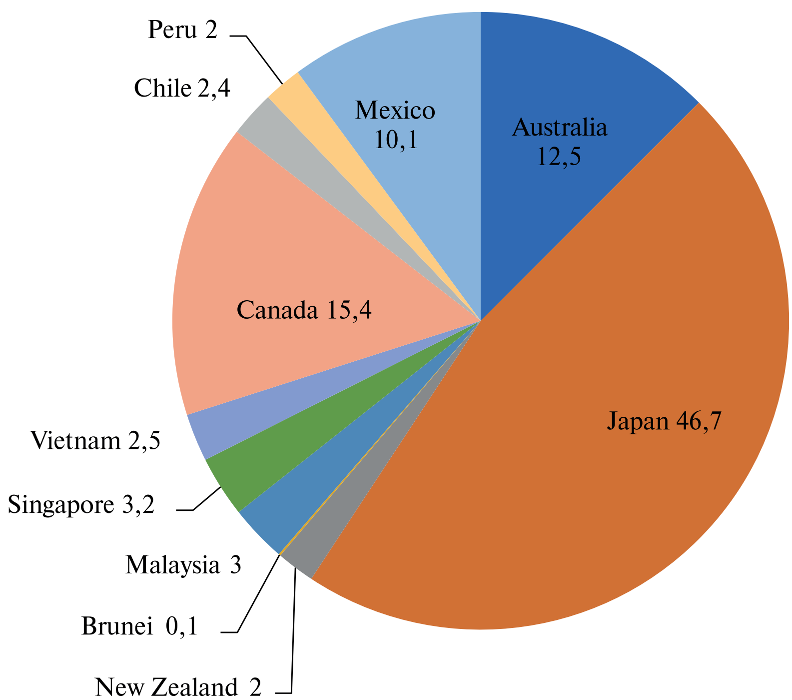

Fig. 6. GDP Share of CPTPP Members (2020, %)

Source: [World Bank, n.d.a].

The U.S.-Led IPEF for Indo-Pacific Strategy (IPS)

The U.S. has recognized the Indo-Pacific region as vital to its security and prosperity since its arrival in the region in 1850. In particular, U.S. governments have solidified their ties with the region in the post-war era through treaty alliances with Australia, Japan, Korea, the Philippines, and Thailand. This foundation of regional security allowed the alliances' emerging democracies to generate high economic growth and social stability. This expanded further to the region's premier organization, ASEAN, which developed close trade and investment relationships as well as international law and norms such as human rights, rule of law, democracy, and freedom of navigation. Owing to the growing strategic value of the Asia-Pacific region, U.S. administrations from George W. Bush to Donald Trump accelerated their prioritization of Asia and invested new diplomatic, economic, and military resources. Particularly, the Trump administration recognized the Indo-Pacific as the world's centre of gravity, although his policy priority was represented as "America first." Under the Biden administration, the U.S. will strengthen its long-term position and commitment to the Indo-Pacific region in order to check and control the Chinese economic, diplomatic, military, and technological influences in the region [The White House, 2022a].

In 2022, the Indo-Pacific region had over half of the world's population, including 58% of youth, and accounts for approximately 60% of the global GDP and generates two thirds of global economic growth. Additionally, it covers 65% of the world's oceans and 25% of its land. It is no wonder why the U.S., even under the Trump administration, has recognized its strategic interests there. The U.S. focus has intensified due to the mounting challenges by China as it pursues influence in the region, in particular, and seeks to become the world's most influential power in general. With Chinese expansion in the region, Korea and Australia have experienced economic coercion, and Taiwan is threatened by Chinese aggression. Additionally, ASEAN members in the East and South China Seas are still confronting for their sovereignty guaranteed by the international laws. Overall, these issues have caused regional instability and threatened the prosperity of the Indo-Pacific region.

The U.S. government has also recognized that the region faces other major challenges such as climate change, the COVID-19 pandemic, and North Korea's illicit nuclear weapons and missile programme. To tackle these comprehensive challenges, the Biden administration decided to strengthen the collective capacity of its allies and partners and thus empower the Indo-Pacific to adapt to the 21st century's challenges and seize its opportunities. The U.S. is committed to building a free and open Indo-Pacific that is more connected, prosperous, secure, and resilient. The U.S. vision for launching the IPS recognizes the strategic value of an increasing regional role for the European Union (EU), and the EU has announced its cooperation in the IPS in line with the U.S. strategy of supporting democratic resilience. The IPS has five objectives: a free and open Indo-Pacific, connections within and beyond the region, regional prosperity, Indo-Pacific security, and regional resilience against transnational threats [The White House, 2022a].

To implement this strategy, the Biden administration will pursue ten core action plans until late 2023. IPEF is included as one of these plans, which was proposed in October 2021 at the annual East Asia summit and which is regarded as the centrepiece of the administration's economic strategy in the region. IPEF consists of four pillars: fair and resilient trade; supply chain resilience; infrastructure, clean energy, and decarbonization; and tax and anti-corruption. The U.S. Trade Representative (USTR) deals with the first pillar, while the Department of

Commerce (DOC) is in charge of the other three [Goodman, Arasaingham, 2022; Natalegawa, Poling, 2022] (Table 2).

This economic strategy is absolutely needed and urgent for the U.S. because it has deep and abiding interests in the region, and because a fierce competition is unfolding over whose economic rules and norms will prevail. Since the U.S. withdrew from the TPP in 2017, it is largely sitting on the sidelines while other countries are actively negotiating trade agreements to establish regional rules and preferential access that raise concerns for the U.S.' allies and partners, despite the U.S.' military and diplomatic presence in the region. Therefore, countries in the region, except China, welcome IPEF, which could make the U.S. an active, reliable, and durable partner in the regional economic engagement. The U.S.' allies and partners characterized IPEF as the second-best option to the U.S. joining the CPTPP [Goodman, Arasaingham, 2022; Goodman, Reinsch, 2022].

Despite the warm welcome of its allies and partners, the Biden administration will face challenges and trade-offs across each pillar due to the diversity of economies and political constraints throughout the region. The USTR announced that the trade pillar focuses on fair and resilient trade with high ambitions, including binding commitments. However, it may be complicated because IPEF will be an executive action rather than a traditional trade deal requiring congressional approval. This means that the U.S. administration cannot offer increased market access or any other concessions that would require amendments to U.S. laws. This has led to concerns among allies and partners that IPEF could be vulnerable to U.S. domestic politics or future administrations because it could be abandoned if it does not contribute to strengthening U.S. national interests. Therefore, several partners may hesitate to sign on high standard provisions, particularly on digital trade, labour, and environmental standards, that do not provide allies and partners with low and medium levels of GDP per capita any short term economic and political benefits.

Table 2. Content and Administration Structure of IPEF

Pillars	**Major Work**	**Content**	**Administration in Charge**
1st Pillar	Fair and resilient trade	Labour, environment, and digital standards	USTR
2nd Pillar	Supply chain resilience	Five strategic industrial sectors such as semiconductors, large-sized batteries, critical minerals and materials, and pharmaceutical products	DOC
3rd Pillar	Infrastructure, clean energy, and decarbonization	Cheaper renewable energy rather than fossil energy, financial support, Build Back Better World (B3W)	DOC
4th Pillar	Tax and anti-corruption	Least Clear and Least Attractive to Regional Partners: Global Minimum Corporate Tax Agreement	DOC

Source: Author's own adaptation based on Goodman and Arasaingham [2022] and The White House [2022b].

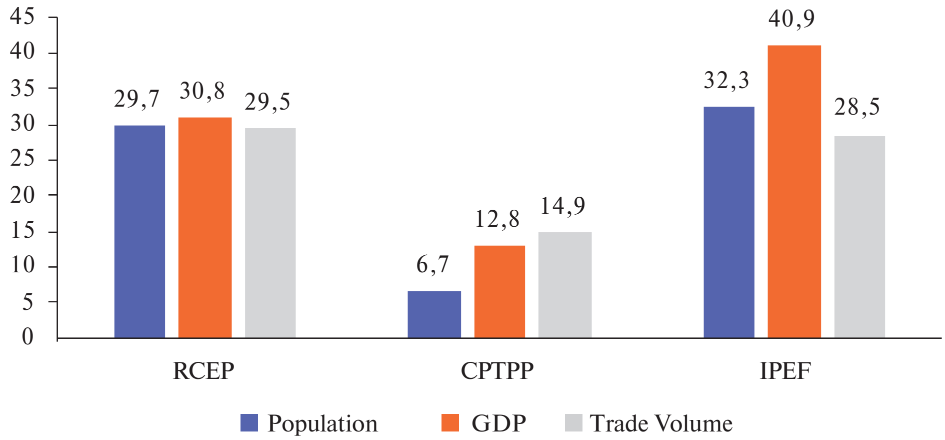

Fig. 7. Comparison of RCEP, CPTPP, and IPEF in Population, GDP, and Trade Volume (2020, %)

Source: [World Bank, n.d.c].

Accordingly, the U.S. administration expects that the most developed economies in the region such as Australia, Japan, Korea, New Zealand, and Singapore will join IPEF, while other allies and partners will talk with DOC on the other three pillars. Surprisingly, however, President Biden announced, a day before the Quadrilateral Security Dialogue (QUAD) summit in Tokyo on 23 May 2022, that six developed economies, India, and seven ASEAN states (excluding Cambodia, Myanmar, and Laos) would join IPEF as an open platform. A couple of days later, the Pacific Island country, Fiji, announced that it would join IPEF as well. This brought the membership of IPEF to 14, and its population, GDP, and trade volume in merchandise in 2020 accounted for over 32%, 40%, and 28%, respectively [Goodman, Arasingham, 2022; Reuters, 2022; The White House, 2022b; World Bank, n.d.c] (Fig. 7).

Possible Political and Economic Effects of the Mega FTAs and IPEF on Major Economies by Reshaping GSCs

Political Effects

Two mega FTAs have been competing to set the trade rules in the Asia-Pacific region. Additionally, the newly launched IPEF could play a significant role in challenging RCEP and cooperating with the CPTPP. These two mega FTAs were completed in 2018 and 2020, respectively, without the participation of the U.S. or India. At the same time, the U.S. and India participated in IPEF when it was launched in May 2022. These FTAs are dominated by East Asian countries and were the only major multilateral FTAs signed in the Trump era. After the U.S. withdrawal from the TPP, the two mega FTAs have forcefully stimulated intra East Asian integration around China and Japan. In such a circumstance, the U.S. needed to rebalance its economic and security strategies to strengthen not only its economic interests, but also its political interests and security goals by initiating the IPS in 2021 [Petri, Plummer, 2020a; The White House, 2022a; 2022b].

RCEP and the CPTPP are expected to make the economies of East Asia more efficient and to strengthen their linkages in technology, manufacturing, agriculture, and natural resources.

They also create not only incentives in supply chains across the region, but also political sensitivities. In particular, China will gain economic and political influence in RCEP because the agreement is not restricted to intellectual property rules (IPRs), labour, environment, and state-owned enterprises, which are included in all key chapters of the CPTPP. Additionally, RCEP could improve access to Chinese Belt and Road Initiative funds that enhance market access by strengthening transport, energy, and communication links. The two mega FTAs are powerful countermeasures to the global decline in rules-based trade due to the protectionism caused by the trade conflicts with the G2. If RCEP motivates mutually beneficial growth, China and other members will gain influence across the world.

The trade conflicts have added high-tech development and hegemony to the security agenda. The U.S. has used protectionist measures to ban high-tech exports to China to maintain the U.S.' high-tech hegemony and to suppress the Chinese aspiration to become an economic and political superpower. To control and check China's bid, the U.S. has tried to build new strategic supply chains with its allies in the Asia-Pacific region. It also advised its companies operating in China, and those of its allies, to move to other Southeast Asian countries, their own states, or the U.S. so that they can participate in the new GSCs led by the U.S. in line with IPEF. Additionally, the U.S. strongly aims to rebuild its strategic high-tech sector, including semiconductors, large-capacity batteries, critical minerals and materials, and pharmaceutical products for the primary ingredients of generic drugs, to secure the domestic supply and value chains with core allies such as Japan and Korea in the Indo-Pacific region. These are regarded as strategic key industrial sectors for U.S. national security. The U.S. has strongly recommended that its allies producing semiconductors and large capacity batteries should build manufacturing facilities and expand their production capacities in the U.S., in line with reshaping the GSCs and global value chains (GVCs). It regards these high-tech sectors as strategic infrastructures for its national security [Pederson, 2021; The White House, 2021, 2022a; 2022b; Wolf, 2020].

In this new environment, the China-led RCEP could be a double-edged sword to other members. In particular, Korea, Singapore, and Japan are strongly linked to China in terms of regional value chains (RVCs) compared to other RCEP members. Additionally, Korea and Japan are actively participating in reshaping GSCs, particularly in semiconductors and large-capacity batteries, that could create new trade conflicts between China, Japan, and Korea based on trade nationalism, even though the trade and economies of three Northeast Asian countries are deeply linked and integrated. This means that Korea and Japan, in RCEP and the CPTPP, face risks from China based on the interruption of the GSCs due to sudden lockdowns in several production facilities (as during the pandemic) and artificial production control on key resources such as rare earth products, lithium, magnesium, and tungsten, due to the China-U.S. rivalry for high-tech hegemony and GSCs in the Asia-Pacific region. In that case, Korea may be more exposed than Japan because Korea's economic and trade dependency on China is higher than Japan's [Francois, Elsig, 2021; Lee, 2020] (Fig. 8).

The Korean industry in terms of intermediate products is more dependent on Chinese industry than Japanese and U.S. industries. Given the analysis of the Korea Institute for Industrial Economics and Trade (KIET), the dependent ratios of Korean intermediate products on China in two categories of over 50% and over 70% accounted for 25.1% and 17.5% in 2020, respectively, while the Japanese ratios were 34.5% and 13.8%, respectively, in the same year. In contrast, the U.S. dependent ratios on China were rather moderate, at 16.8% and 10.3%, respectively. Thus, Japan is more exposed, to over 50% dependent on Chinese intermediate products, than Korea, while Korea takes a higher risk than Japan, being over 70% dependent on Chinese intermediate products if China-based supply chains are restricted. Therefore, Korea and Japan could face difficulties whenever China interrupts the supply chains artificially or owing to its domestic reasons [Kim, 2021] (Fig. 9).

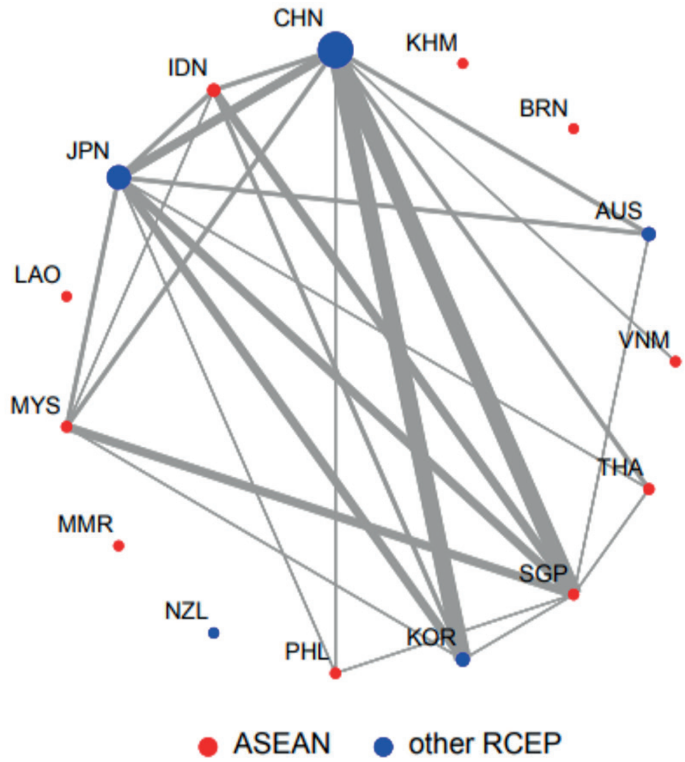

Fig. 8. Regional Value Chain Connections Within RCEP (2018)

Source: Adapted from Francois and Elsig [2021].

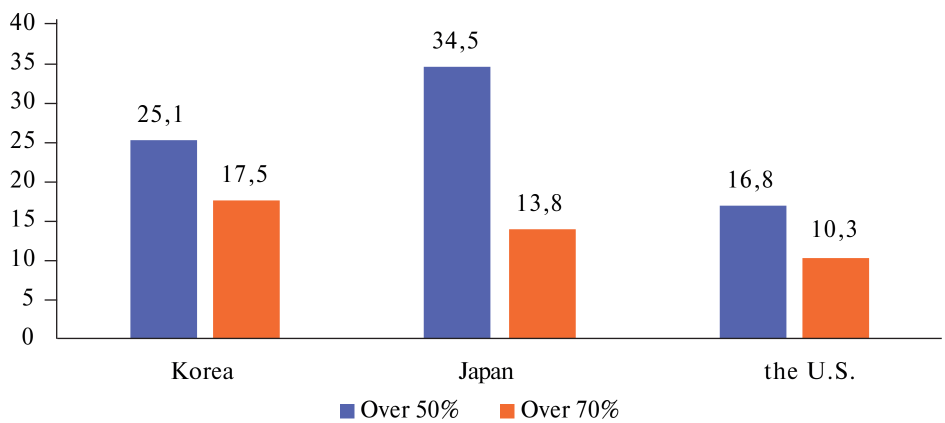

Fig. 9. Dependent Ratios of Korea, Japan, and the U.S. Industries on Chinese Intermediate Products (2020, %)

Source: Adapted from Kim [2021].

The Biden administration launched IPEF with 14 members in May 2022, at the Tokyo summit. The U.S. was keen to create an open forum such as IPEF in the Indo-Pacific region to tackle China's expanding economic and political influences not only in the region, but also in the world. However, participating in mega FTAs based on the free trade principle could cause or deepen the deindustrialization and rising unemployment rate in traditional industrial areas that already happened in the rust belt area. Therefore, former Democrat presidential candidate, Hilary Clinton, also refused the TPP officially during the election campaign. At the same time, Republican presidential candidate Donald Trump also criticized multilateral FTAs, preferring bilateral FTAs for his America First policy, and won the presidential election. Due to the internal political environment, the Biden administration pursued fair and resilient trade as the first pillar instead of free trade in IPEF. Additionally, it set the reshaping of GSCs in strategic industrial areas as the second among four pillars to revitalize and restructure domestic manufacturing sectors thereby creating new employments and mitigating critics of deindustrialization [Goodman, Arasaingham, 2022; Goodman, Reinsch, 2022; Natalegawa, Poling, 2022].

Economic Effects

In the global economy, 2015 was the first year to see negative growth in global GDP and trade compared to the previous year since the GFC in 2008. Therefore, its economic impact on the Asia and Pacific region was significant. In a negative economic environment, RCEP was able to increase its global GDP share from 29% in 2014 to 31.9% in 2018 (before it declined slightly to 30.7% in 2020) despite the Indian withdrawal, while the global GDP share of the CPTPP shrank radically from 38% in 2014 to 15% in 2020 due to the U.S. withdrawal [Francois, Elsig, 2021; World Bank, n.d.c].

Additionally, the global share of RCEP in trade declined moderately, from 35% in 2014 to 29.5% in 2020, while the CPTPP saw its share fall dramatically from 32% in 2014 to 14.9% in 2020. This may indicate that RCEP has a higher growth potential than the CPTPP in the future because most of its members, particularly China and the ASEAN countries, can create high economic growth based on their trade volume increase and have high potential for inward FDI. Although four ASEAN states—Brunei, Malaysia, Singapore, and Vietnam—are members of both RCEP and the CPTPP, their potential to contribute to a massive expansion of trade growth in the CPTPP is limited. However, their roles can be intensified in RCEP, along with those of other rapidly developing states such as China, Indonesia, the Philippines, and Thailand, rather than in the CPTPP with Chile, Mexico, and Peru. Their potential in the CPTPP is even worse without U.S. participation because the total economic size of the CPTPP has shrunk to only one third of the TPP. This is why Malaysia and Vietnam were strongly against participation in the CPTPP despite Abe's appeal in 2017. That said, they agreed to participate in the CPTPP in March 2018, after the Abe administration eased restrictions on imports for agricultural products in advanced members, and on forced labor as well as free data flow, which were set by the U.S. government to exclude Chinese participation in the TPP [Hoang, Hoan, 2019; Tiezzi, 2021].

Due to the visible imbalance between RCEP and the CPTPP in the region, the Biden administration has been keen to engage in the Indo-Pacific region to balance between the two mega FTAs and check Chinese economic expansion and influence in the region. It launched IPEF, which included India, seven ASEAN members, and Fiji. IPEF's 2020 output and trade volume in the world accounted for 40.9% and 28.5%, respectively, and IPEF could outproduce RCEP in the near future, given the participation of vigorous economies such as India, Indonesia, Malaysia, the Philippines, and Thailand [The White House, 2022a, 2022b].

The economic impacts of the two mega FTAs on the East Asian countries in general, and the three major economies in Northeast Asia in particular, vary from income increases to trade for exports. To estimate the economic effects of RCEP and the CPTPP, the Computable General Equilibrium (CGE) model was adopted, which remains the workhorse of ex ante trade policy modelling and provides quantitative insight into economy-wide results for multiple regions and projects for production and trade in various economic sectors. It covers 29 regions and 19 economic sectors and projects annual results from 2015 as the base year to 2030. In this analysis, the projection of East Asia in 2030 among 29 regions was used [Park, Petri, Plummer, 2021; Petri, Plummer, 2020b].

RCEP reflects data and judgments based on the published agreement, and average tariff reductions comply with the 90% average tariff elimination announced at the conclusion of RCEP. It is regarded as a medium level FTA in terms of market openness. By contrast, the CPTPP aimed to meet the tariff schedules and nontariff barriers that had been achieved under the high-quality trade agreements in the Korea-U.S. Free Trade Agreement (KORUS FTA) and the U.S.-Mexico-Canada (USMCA) agreements.

With respect to income effects of RCEP in the East Asian countries, Korea and Japan will gain the most benefits, while China and ASEAN states will add moderate gains. In the CPTPP, some ASEAN members—Brunei, Singapore, and Vietnam—as well as Japan can expect to generate high income increases, while China and Korea are at a disadvantage. Given the estimation of the trade effects in RCEP, Japan, Korea, and China will see expansion, while Japan and some ASEAN members—Malaysia, Singapore, and Vietnam—will gain their export growth primarily in the CPTPP. To the contrary, Thailand, Korea, and China will lose trade expansion in the CPTPP [Park, Petri, Plummer, 2021] (see Tables 3 and 4).

Table 3. Income Effects of RCEP and the CPTPP in China, Japan, Korea, and ASEAN

	Incremental Income ($ Billion)			Income Change (%)	
	2030 Income	**RCEP**	**CPTPP**	**RCEP**	**CPTPP**
Brunei	31	0	1	0.53	3.01
China	27,839	127	–14	0.46	–0.05
India	5,487	–7	–5	–0.13	–0.09
Indonesia	2,192	4	–2	0.18	–0.09
Japan	4,924	60	57	1.22	1.17
Korea	2,243	28	–4	1.27	–0.16
Malaysia	675	7	29	1.03	4.36
Philippines	680	3	0	0.39	–0.05
Singapore	485	0	15	0.05	3.14
Thailand	812	7	–5	0.88	–0.67
Vietnam	497	5	17	0.97	3.38
Other ASEAN	283	2	0	0.56	–0.06
Total	**46,148**	**236**	**89**	**7.41**	**13.98**

Source: Adapted from Park, Petri, and Plummer [2021].

Table 4. Export Effects of RCEP and the CPTPP in China, Japan, Korea, and ASEAN

	Incremental Exports ($ Billion)			**Export Change (%)**	
	2030 Income	**RCEP**	**CPTPP**	**RCEP**	**CPTPP**
Brunei	16	0	1	0.6	3.6
China	4,976	234	–6	4.7	–0.1
India	1,360	–5	–3	–0.4	–0.2
Indonesia	446	13	–3	2.8	–0.6
Japan	1,190	133	100	11.2	8.4
Korea	1,089	65	–6	6.0	–0.5
Malaysia	491	12	45	2.5	9.3
Philippines	184	7	0	3.7	–0.1
Singapore	470	–2	30	–0.5	6.4
Thailand	561	28	–7	4.9	–1.2
Vietnam	357	16	35	4.4	9.7
Other ASEAN	93	4	0	4.5	–0.5
Total	**11,233**	**505**	**186**	**44.4**	**34.2**

Source: Adapted from Park, Petri, and Plummer [2021].

The same CGE modelling carried out for the economic impacts of the TPP in 2015 shows that the TPP will increase annual real incomes in the U.S. by $131 billion, or 0.5% of GDP, and annual exports by $357 billion, or 9.1% of exports, over baseline projections by 2030 when the agreement is fully implemented. U.S. investments are also predicted to raise U.S. real incomes by 1%, resulting in mutual benefits for capital and labour. However, in each year during implementation of the TPP, the churn rate will increase, although the transition effects of the TPP are likely to represent less than a 0.1% increase in labour market churn. As a result, most workers losing jobs could find alternative employment, but workers in specific locations and industries, or with low skill jobs, may experience serious transition costs such as long wage cuts and unemployment. It is estimated that the total costs of displaced workers could be a fraction of overall U.S. gains from the TPP [Lawrence, 2014; Petri, Plummer, 2016].

This was the core reason the Trump administration withdrew from the TPP in 2017, and many observers have asserted that the U.S. lacked an economic and trade strategy sufficient to counter China's increasing economic influence in the region and thus had limited ability to influence the direction of trade policy or to keep pace with technological developments in the region. Therefore, the Biden administration initiated IPEF, requiring a broader base of domestic economic and political support than the TPP had enjoyed. It focused largely on the security of the GSCs, including five strategic industrial areas, previously noted, that could minimize the loss caused by an increasing churn rate and rising unemployment. It is still too early to analyze or estimate the economic effects of IPEF in the region. However, it is certain that GSCs based on economic efficiency will be replaced by those supporting economic security in the region [CRS, 2021].

Conclusion

Trade and investment have substantially contributed to global economic growth in the last five decades. During that period, the growth rate of trade has been double that of economic growth. However, the GFC in 2008 caused a severe decline in trade and marked negative economic growth afterwards. The global economy further slowed, and trade volume declined radically due to the COVID-19 pandemic in 2020, although it started to recover moderately after 2021. The military conflict between Russia and Ukraine began in February 2022, and since then the global political economy has experienced turmoil due to increasing energy and food prices overall. In these circumstances, two mega FTAs in the Asia-Pacific were completed in 2018 and 2020 and ratified in 2019 and 2021, without the participation of the U.S. and India respectively.

Mega FTAs are not only for economic cooperation, but also for political and security cooperation in the region. Therefore, RCEP and the CPTPP compete by setting trade rules and reshaping the new GSC, and membership in both is declared to be open to states in the region. Accordingly, participating states are keen to calculate which mega FTA will allow them to maximize their national interests in politics, economy, social welfare, technology development, and infrastructure. In this sense, RCEP focuses mainly on East Asian economic interests while the CPTPP seeks to advance the economic interests in the Asia-Pacific region, even for those states that are not members. At the same time, the two mega FTAs were formed and are led by China and Japan. As a result, acceleration of East Asian and Asian Pacific economic integration is centred on those economies.

Although the U.S. withdrew from the TPP in 2017, it continues to be involved in reshaping the GSCs through the newly launched IPEF, not only in the Indo-Pacific region but also at home, to tackle China's competing economic and political influence in the region. The U.S. has already begun to rebuild the core supply chains at home, focusing on key five industrial sectors to secure domestic supply and value chains and to maintain its high-tech hegemony and gain domestic economic and political support. IPEF attracts domestic support because the TPP could generate economic loss due to the increasing cost of unemployment.

By rebuilding GSCs and GVCs through IPEF, trade conflicts within the G2 and with members of RCEP, the CPTPP, and IPEF become inevitable due to the confrontation of their national interests, although they can generate economic and political interests in economic growth and influential power in the global economy for most. Therefore, members such as Japan, Korea, and Singapore must be well prepared to minimize the risk posed by China as a double-edged sword after participating in IPEF because their economic and trade dependencies on China are higher than those of other members.

Overall, RCEP, the CPTPP, and IPEF can contribute to intensified regional economic integration in East Asia and the Indo-Pacific region. At the same time, however, the risk posed by China will remain while trade conflicts between the G2 states based on trade nationalism and reshaping the GSCs and GVCs to exclude China exist. As pointed out, Japan and Korea will be most exposed to this risk with respect to basic materials and resources because they are key states and allies of the U.S., with strong capabilities in strategic high technologies such as semiconductors and large-capacity batteries and are participating in the new GSCs and GVCs on U.S. soil and in other regions. At the same time, as major economies in the region, they are also exposed to high risk because their industries in intermediate products are more dependent on China than the U.S. or other members of RCEP, the CPTPP, or IPEF. This means that the Asia-Pacific or Indo-Pacific region has become the core area in the global economic and political arena for setting a new global trade order in the 21st century. Unfortunately, the role of global trade has shifted from economic growth based on economic efficiency toward economic security based on political allies and friends. This is the core problem and the limitation of the current global trade system.

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