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**ECONOMIC AND STRATEGIC DIMENSIONS OF MEGA-FTAS: A
PERCEPTION SURVEY OF ASIAN OPINION LEADERS**

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**S. RAJARATNAM SCHOOL OF INTERNATIONAL STUDIES
SINGAPORE**

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Abstract

The advent of mega-free trade agreements (mega-FTAs) including the Trans-Pacific Partnership (TPP), the Regional Comprehensive Economic Partnership (RCEP) and the Transatlantic Trade and Investment Partnership (TTIP) is a defining feature of global trade governance in the 21st century. What are the costs and benefits of mega-FTAs? What is the political and strategic calculus behind mega-FTAs? Is there a “domino effect” triggering off the mega-FTA troika in a chain of reactions? Does mega-regionalism reinforce or undermine multilateralism? Since commonly used econometrics models cannot shed light on non-economic issues, this paper examines mega-regionalism by conducting a perception survey. This survey received responses from 648 opinion leaders located in 31 Asian countries. Respondents felt that mega-FTAs are good trade policy instruments that are “building blocks” to multilateralism. Linked by a “domino effect”, the mega-FTAs have important political and strategic dimensions. The United States wants to socialise China by writing high-standard “rules of the road” through the TPP. China then pivoted to RCEP to counter the TPP. Brussels through TTIP wanted to join the mega-FTA bandwagon to stay relevant. Additionally, remaining questions on decentralising global economic architecture highlight the need for regional and global institutions to complement each other.

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Economic and Strategic Dimensions of Mega-FTAs: A Perception Survey of Asian Opinion Leaders¹

1. Introduction

Trade liberalisation has come a long way in the global economy. Freer international commerce increases societal welfare, leads to a more efficient allocation of scarce resources, and spreads new ideas and innovations across the globe. In the past few decades, the General Agreement on Tariffs and Trade (GATT), and its successor, the World Trade Organisation (WTO), have been the cornerstone of a transparent, rules-based global trading system. Under the GATT/WTO, member countries progressively reduce restrictive measures to trade through a series of negotiation rounds, and everyone is guaranteed equal (national) treatment.

However, as world trade relations grow more complex and the global economic centre of gravity shifts to emerging economies, reaching global agreements on trade policies – especially those concerning “behind-the-border” regulatory and standard issues – has become a difficult task to accomplish for the WTO’s 164 members. In the absence of major breakthroughs in the latest Doha Development Agenda (DDA) that commenced in 2001, many countries are resorting to regional trade agreements (RTAs) to liberalise trade and investment reciprocally. As of 1 July 2016, 635 notifications of RTAs² had been received by the GATT/WTO, and all WTO members have engaged in at least one RTA. At the sub-multilateral level, there are also two issue-based plurilateral agreements³ that allow a subset of WTO members to de-regulate specific economic sectors on a voluntary basis. In late 2000s and early 2010s, mega-free trade agreements (mega-FTAs) attracted global attention with the successive launches of the negotiations for the Trans-Pacific Partnership (TPP), the Regional Comprehensive Economic Partnership (RCEP) and the Transatlantic Trade and Investment Partnership (TTIP).

¹ The research was supported by the Academic Research Fund (AcRF) Tier 1 Grant awarded by the Ministry of Education, Singapore (RG174/14).

² The figure counts goods, services and accessions agreements separately.

³ The two agreements are the Agreement on Trade in Civil Aircraft and the Agreement on Government Procurement. The International Dairy Agreement and International Bovine Meat Agreement were terminated in 1997.

Although the three mega-FTAs have yet come into effect,⁴ it is useful to examine the rationale, economic effects and systemic impact of mega-FTAs and their geopolitical repercussions for four main reasons. First, mega-FTAs provide a new modality of negotiating FTAs in addition to preferential,⁵ bilateral, regional and plurilateral agreements. Mega-FTAs represent deep, exclusive economic partnerships among groups of economically and politically diverse economies located in different parts of the world. Second, mega-FTAs flourish despite the long-standing theoretical agreement that regionalism is the second-best trade policy option⁶ and their modest aggregate economic gains. What then accounts for the popularity of mega-blocs that are in the making? Third, mega-FTA partners encompass a significant share of global trade flows, gross domestic product (GDP) and foreign direct investment (FDI),⁷ and hence have the potential to reshuffle existing global trade orders. It is therefore warranted to examine their potential effects on emerging trade architecture in the Asia Pacific and, more generally, the multilateral trading system that is overseen by the WTO. Are the TPP and RCEP possible pathways to the Free Trade Area of the Asia Pacific (FTAAP)? Does the rise of mega-FTAs necessarily mark the decline of the WTO? Does mega-regionalism reinforce or undermine multilateralism? Finally, major economic powers around the globe, such as the United States (U.S.), China, the Association of Southeast Asian Nations (ASEAN) and the European Union (EU), had all entered into mega-FTA negotiations one after the other. Are the mega-FTAs troika inter-connected? Is there any “domino effect” behind the spreading mega-regionalism? Are the mega-FTAs competitive against or complementary to each other?

So far, the bulk of literature on the gains and losses associated with mega-FTAs has centred on studies that employ computable general equilibrium (CGE) models.⁸ Those studies, however, tend to underestimate the impact of mega-FTAs because the models cannot fully capture the dynamic effects of trade facilitation and the removal of regulatory and technical

⁴ Among the three mega-FTAs, the TPP looks particularly ill-fated after the U.S. President-elect Donald Trump announced plans for the U.S. to withdraw from the TPP. However, the relevance of the survey results in this paper will not be discounted because of the dim prospect of the TPP. On the contrary, uncertainties and anxieties surrounding the upcoming Trump presidency have compelled many Asian countries to step up their commitments to concluding RCEP to compensate for a probably more protected U.S. market.

⁵ In the WTO, preferential trade agreements refer to non-reciprocal, unilateral schemes granted usually to the least developed countries. One notable example of preferential agreement is the Generalized System of Preferences schemes.

⁶ Bhagwati, J. (1992). Regionalism versus Multilateralism. *World Economy*, 15(5), 535-556. doi: 10.1111/j.1467-9701.1992.tb00536.x; Meade, J. (1955). *Trade and Welfare*. London: Oxford University Press.

⁷ WEF. (2014). *Mega-regional Trade Agreements: Game-Changers or Costly Distractions for the World Trading System?* Geneva: World Economic Forum.

⁸ CEPR. (2013). *Reducing Transatlantic Barriers to Trade and Investment: An Economic Assessment*. London: Centre for Economic Policy Research; Cheong, I., & Tongzon, J. (2013). Comparing the Economic Impact of the Trans-Pacific Partnership and the Regional Comprehensive Economic Partnership. *Asian Economic Papers*, 12(2), 144-164. doi: 10.1162/ASEP_a_00218; Petri, P. A., Plummer, M. G., & Zhai, F. (2011). *The Trans-Pacific Partnership and Asia-Pacific Integration: A Quantitative Assessment* *East-West Center Working Papers*. Honolulu: East-West Center.

impediments to trade.⁹ Another reason that CGE simulations can only provide a partial picture is that they do not incorporate political, strategic and other non-economic, unquantifiable elements into the analysis. For these reasons, our study analyses the multi-faceted mega-FTA phenomenon by conducting a perception survey. The main objective of the survey is to solicit views of Asian opinion leaders on (i) the costs and benefits of participating in mega-free trade deals; (ii) political and strategic motivations of pursuing mega-FTAs; and (iii) the relationship between (mega-)regionalism and multilateralism. The emergence of FTAs coincided with a boom in other regional initiatives and institutions – the once centralised global economic architecture (GEA) built on key Bretton Woods institutions has gradually decentralised. An added focus of the survey therefore is to find out the drivers of change and to figure out what should be the appropriate relationship between regional institutions and their global counterparts. As far as we are aware, this is the first time such a survey on mega-FTAs and GEA had been conducted.

The paper is organised as follows. Section 2 provides an overview of the TPP, RCEP and TTIP. Section 3 outlines survey methodology, and Section 4 elaborates on the results in detail. Section 5 presents selected comments from the respondents. Section 6 concludes the paper with policy recommendations.

2. Overview of mega-FTAs

2.1 Trans-Pacific Partnership

The TPP is a proposed FTA among 12 Pacific Rim countries comprising Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the U.S. and Vietnam. In 2008, the U.S. joined the negotiations for the Trans-Pacific Strategic Economic Partnership (TPSEP). This transformed the accord into the TPP by bringing countries like Japan and Australia on board. Following several years of intense talks, the TPP was concluded on 5 October 2015 and signed on 4 February 2016.

It is estimated that the TPP will increase real GDP in the U.S. by \$131 billion, or 0.5 per cent of GDP, and exports by \$357 billion, or 9.1 per cent of exports, over baseline projections per annum by 2030.¹⁰ Apart from the U.S., Vietnam (8.1 per cent of GDP), Malaysia (7.6 per cent), Brunei (5.9 per cent), Singapore (3.9 per cent) and Japan (2.5 per cent) will all profit

⁹ Badri, N. G., Ciuriak, D., & Singh, H. V. (2015). *Quantifying the Mega-regional Trade Agreements: A Review of the Models*. Winnipeg: International Institute for Sustainable Development; EPRS. (2014). *EU-US Transatlantic Trade and Investment: Partnership Detailed Appraisal by the EP Ex-ante Impact Assessment Unit of the European Commission's Impact Assessment*. Brussels: European Parliamentary Research Service.

¹⁰ Petri, P. A., & Plummer, M. G. (2016). *The Economic Effects of the Trans-Pacific Partnership: New Estimates* *PIIE Working Paper Series*. Washington, DC: Peterson Institute for International Economics.

from the deal significantly.¹¹ Among non-TPP countries, Thailand and South Korea are likely be most vulnerable to the TPP's trade diversion; TPP's hit to their real economic outputs are projected to be around 0.8 per cent and 0.3 per cent, respectively.¹² The TPP emphasizes rule-making and norm-setting along two dimensions: WTO-plus and WTO-extra. The TPP community aspires to write new trade rules applicable to areas that are not covered by existing multilateral rules, and to simultaneously deepen their pledged commitments under the WTO. As a 21st century trade agreement, the TPP seeks to tackle a broad spectrum of sensitive and controversial trade issues in the heart of trade politics, including intellectual property rights, environment, labour standards, state-owned enterprises, investment protection, access to government procurement and other cross-cutting issues.¹³ Therefore, the ratification¹⁴ of the TPP will produce the most comprehensive and strict trade deal that the world has ever seen.

2.2 Regional Comprehensive Economic Partnership

RCEP is an FTA that is being negotiated between ten members of the Association of the Southeast Asian Nations (ASEAN)¹⁵ and six ASEAN+1 partners (Australia, China, India, Japan, South Korea and New Zealand). RCEP was formally launched in November 2012 at the 21st ASEAN and Related Summits, but the negotiations missed the deadline of end 2015, dragging on through 2016. As of October 2016, 15 rounds of negotiations have been carried out.

RCEP is predicted to offer sizable income gains to all parties in the negotiations. A study by Wignaraja (2014) showed that Thailand would see real GDP increase by 12.8 per cent by 2017. The deal would also favour other dynamic economies in the region such as Vietnam (7.6 per cent), Malaysia (6.3 per cent) and Singapore (5.4 per cent).¹⁶ As to non-ASEAN economies, South Korea (6.4 per cent growth) and New Zealand (5.2 per cent growth) are expected to be the greatest benefactors.¹⁷

¹¹ Ibid.

¹² Ibid.

¹³ Fergusson, I. F., McMinimy, M. A., & Williams, B. R. (2015). *The Trans-Pacific Partnership (TPP): In Brief CRS Report*. Washington, DC: Congressional Research Service.

¹⁴ The TPP agreement will come into force when more than six countries including the U.S. and Japan complete domestic ratification procedures. At the time of writing (October 2016), Japan, Malaysia, Mexico, New Zealand and Peru have introduced TPP legislations in active preparation for the final ratification; consultation processes are still going on in other countries. See ATC. (2016). *Special Edition: TPP Ratification Status Sheet Updated*. Singapore: Asian Trade Centre.

¹⁵ ASEAN countries are Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

¹⁶ Wignaraja, G. (2014). *The Regional Comprehensive Economic Partnership: An Initial Assessment*. In G. Tang & P. A. Petri (Eds.), *New Directions in Asia-Pacific Economic Integration*. Honolulu: East-West Center.

¹⁷ Ibid.

It is unlikely that RCEP is going to match the TPP's (and TTIP's) ambitions in terms of setting out high-standard trade rules or breaking new ground in regulatory cooperation. The Asia-centric RCEP, however, has three distinctive features. First, RCEP is the *only* multi-party trade grouping that allows some of the world's most populous countries – China, India, Indonesia, Japan and the Philippines, for instance – to open up their protected markets to each other. It is staggering to note that RCEP is capable of conferring economic benefits to 3.4 billion people, accounting for 48.2 per cent of the world's total population. Second, RCEP is a development-friendly trade arrangement¹⁸ which promises special and differential treatment for less developed economies through economic and technical cooperation provisions. Third, RCEP attempts to consolidate Asia's complex and fragmented regional production networks by complementing the region's market-led integration with active policy support.

2.3 Transatlantic Trade and Investment Partnership

TTIP is a proposed FTA between the EU and the U.S. The negotiations for a comprehensive economic partnership across the Atlantic were inaugurated in July 2013 on the recommendation of a High-Level Working Group on Jobs and Growth. Since then, negotiators have been meeting regularly every few weeks; as of October 2016, a total of 15 rounds of formal negotiations were completed. However, TTIP did not meet the scheduled target of reaching an agreement in 2015 despite the high frequency of trade talks and a long history of intimate economic relations. Nonetheless, both sides are committed to seal the deal before President Obama leaves office.

The transatlantic free trade zone, if brought to reality by TTIP, would be the largest and wealthiest in the world. The EU and the U.S. collectively contribute around half of the world's GDP and nearly a third of global trade flows. The EU and the U.S. is also each other's largest investor – as of 2014, the EU allocated more than 34 per cent of its outward FDI stocks in the U.S., while the U.S. in turn channelled around 56 per cent of its FDI to the EU. Furthermore, transatlantic trade supports up to 15 million mutually “on-shored” jobs¹⁹ and a third of the EU-U.S. trade consists of intra-company transfers.²⁰ This underscores the true depth of economic inter-dependency and higher-than-perceived level of transatlantic integration.

¹⁸ Wignaraja, G. (2016). A tale of two trade pacts in Asia: TPP and RCEP *Nikkei Asian Review*. Retrieved 17 October 2016, from <https://www.adb.org/news/op-ed/tale-two-trade-pacts-asia-tpp-and-rcep-ganeshan-wignaraja>

¹⁹ Hamilton, D. S., & Quinlan, J. P. (2016). *The Transatlantic Economy 2016: Annual Survey of Jobs, Trade and Investment between the United States and Europe*. Washington, DC: Center for Transatlantic Relations.

²⁰ EC. (2016). United States. Retrieved 30 June 2016, from <http://ec.europa.eu/trade/policy/countries-and-regions/countries/united-states/>

An ex-ante assessment conducted by CEPR²¹ predicted that an ambitious TTIP deal—which envisages the elimination of a quarter of non-tariff barriers and all tariffs—would result in €120 billion and €95 billion real GDP gains for the U.S. and the EU by 2027, respectively. The European Commission’s in-house estimation suggested that a deep TTIP could generate millions of new jobs in various export-dependent industries.²² Given the already low at-the-border barriers between the EU and the U.S., four-fifth of the gains are likely to be realised through the reduction and elimination of non-tariff barriers and regulatory divergence.²³

3. Survey methodology and responses

The email bank of Asian opinion leaders was constructed by combining (i) the mailing list of S. Rajaratnam School of International Studies; (ii) the Singapore Economic Review Conference mailing list; (iii) personal files of the authors; and (iv) publicly available contacts from top Asian universities, think tanks and research consortiums such as the Asia-Pacific Research and Training Network on Trade (ARTNet). The final list of invitees was obtained after filtering the master email bank according to the contacts’ expertise and affiliations, with the aim of maximising the validity of the results. In the end, we identified a stratified sample of 5,879 opinion leaders in four categories: government officials, academics, representatives from business sectors and media. The target community encompassed trade experts, policymakers, managers of import-export companies, scholars and consultants whose opinions are representative and/or influential over international trade issues.

The questionnaire comprised four parts and 19 questions—five questions on the timing, costs and benefits of mega-FTAs, six questions about the rationale behind mega-FTAs’ formation and propagation, three questions on the relationship between (mega-)regionalism and multilateralism, and five questions on the relationship between regional and global economic institutions. At the end of the survey, respondents were given an opportunity to share their thoughts on mega-FTAs and/or GEA via an open-ended question. To increase the likelihood of response, the questionnaires were designed to take no more than 15 minutes of a respondent’s time. English was used in the questionnaires. We did not translate the questionnaires into other languages. The questionnaires used in this paper can be available upon request.

²¹ CEPR. (2013). Reducing Transatlantic Barriers to Trade and Investment: An Economic Assessment. London: Centre for Economic Policy Research

²² EC. (2013). Transatlantic Trade and Investment Partnership - The Economic Analysis Explained. Brussels: European Commission.

²³ See note 21.

The perception survey was conducted via the online platform SurveyMonkey™ for a period of five weeks from 1 February to 4 March 2016. In the cover letter that accompanied the questionnaire, we briefed opinion leaders about the background and the objectives of the survey. We also assured our respondents that their responses would be kept anonymous and would not be used in any other identifiable manner. After sending out the invitations, we followed up with the respondents who did not reply, and who did not complete the survey, by sending them regular reminders. At the end of five weeks, a total of 648 responses (including 551 complete responses and 97 partial responses) from more than 31 economies were collected (Fig. 1), corresponding to 11 per cent of the sample. We received more than 140 comments as well. The response rate is considered reasonably high for this type of survey using digital format to ask technical questions. To put the figure into perspective, a similar survey conducted by the Asian Development Bank (ADB) in 2008 which engaged a professional survey firm and telephone calls had a response rate of 14.7 per cent.²⁴

Table 1 summarises the number and percentage of responses by region and category. 49 per cent of the respondents came from academia, 18 per cent from government officials, 14 per cent from business sectors, 5 per cent from media and 14 per cent from those who identified themselves as “others” such as retired diplomats, international civil servants, trade unionists and non-governmental organisation staff. Among the 648 responses, 161 were from Singapore, accounting for about 25 per cent of the total responses; 92 responses from India (14 per cent); 62 responses from China (10 per cent); 39 responses from Indonesia (6 per cent); and 33 responses from Malaysia (5 per cent). Notably, there was one response from a social worker in the Democratic People’s Republic of Korea (Korea DPR). In addition, we reached a handful of Asian expats and opinion leaders currently based in Belgium (1 response), Canada (1), Denmark (1), France (3), Germany (3), Nigeria (2), Russia (2), Sweden (1), the United Kingdom (5) and the U.S. (10).

²⁴ ADB. (2008). *Emerging Asian Regionalism: A Partnership for Shared Prosperity*. Manila: Asian Development Bank.

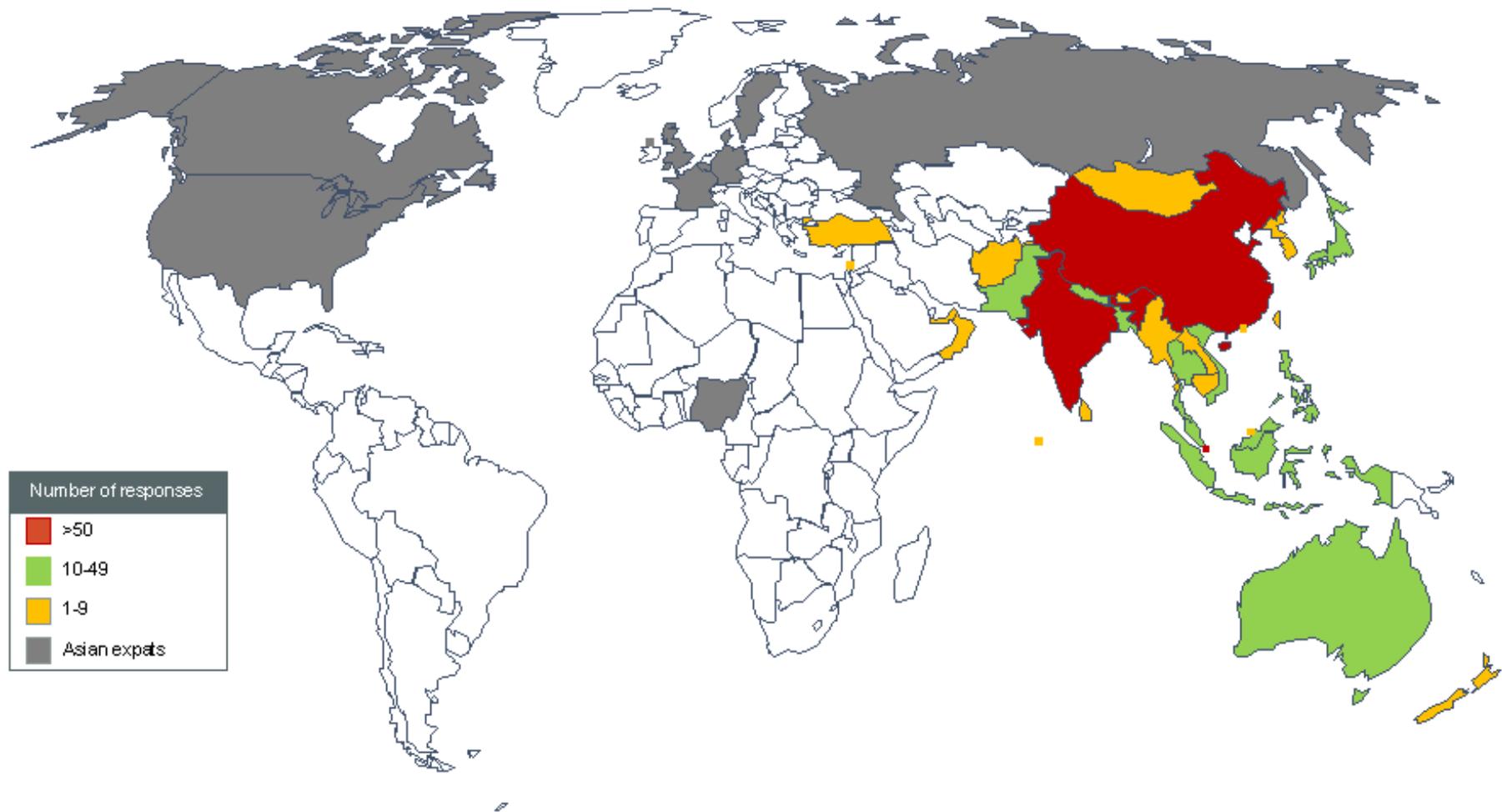


Fig. 1 Distribution of respondents by countries

Table 1: Survey response profile by region and category

	Academia		Business		Government		Media		Others		Total
	Num	%	Num	%	Num	%	Num	%	Num	%	Num
Afghanistan	1	50	1	50	0	0	0	0	0	0	2
Australia	16	76	3	14	0	0	0	0	2	10	21
Bhutan	1	13	2	25	5	63	0	0	0	0	8
Bangladesh	6	46	0	0	3	23	0	0	4	31	13
Brunei Darussalam	3	50	0	0	3	50	0	0	0	0	6
Cambodia	0	0	0	0	1	50	1	50	0	0	2
China	36	58	13	21	4	6	1	2	8	13	62
Hong Kong, China	3	75	1	25	0	0	0	0	0	0	4
India	43	47	6	7	10	11	10	11	23	25	92
Indonesia	20	51	2	5	9	23	5	13	3	8	39
Japan	16	80	1	5	2	10	0	0	1	5	20
Korea, DPR	0	0	0	0	0	0	0	0	1	100	1
Korea, Republic	4	80	0	0	1	20	0	0	0	0	5
Lao PDR	1	17	0	0	5	83	0	0	0	0	6
Lebanon	0	0	0	0	1	100	0	0	0	0	1
Malaysia	19	58	1	3	5	15	1	3	7	21	33
Maldives	0	0	1	50	0	0	1	50	0	0	2
Mongolia	0	0	0	0	0	0	0	0	2	100	2
Myanmar	1	33	0	0	0	0	1	33	1	33	3
Nepal	8	31	1	4	8	31	4	15	5	19	26
New Zealand	8	89	0	0	0	0	0	0	1	11	9
Oman	1	100	0	0	0	0	0	0	0	0	1
Pakistan	10	45	2	9	7	32	0	0	3	14	22
Philippines	11	38	1	3	9	31	0	0	8	28	29
Singapore	60	37	52	32	35	22	5	3	9	6	161
Sri Lanka	3	38	0	0	1	13	0	0	4	50	8
Taiwan, ROC	3	100	0	0	0	0	0	0	0	0	3
Thailand	13	67	1	5	2	10	1	5	4	29	21
Turkey	4	67	0	0	0	0	0	0	2	33	6
United Arab Emirates	0	0	0	0	1	100	0	0	0	0	1
Vietnam	10	83	0	0	2	17	0	0	0	0	12
Others	14	52	3	11	5	19	2	7	3	11	27
Total	314	48	91	14	119	18	33	5	91	14	648

4. Survey results

4.1 Costs and benefits of mega-FTAs for participants

We asked opinion leaders how they rated the costs and benefits of participating in mega-FTAs. The costs included (i) trade diversion from more efficient trading partners to less efficient mega-FTA partners; (ii) domestic adjustment costs; (iii) the possibility of inducing third-party defensive regional blocs; (iv) a loss of enthusiasm for multilateral negotiations; (v) greater economic inequality as mega-FTAs are allegedly tailored to corporate interests;²⁵ and (vi) sovereignty erosion by investor-state dispute settlement (ISDS) clauses. The benefits of forming mega-FTAs we listed for respondents to rate were (i) trade creation by spurring new economic opportunities between mega-FTA partners; (ii) closer political relationships; (iii) stronger regional voices in international negotiations as countries align their policy preferences through mega-FTA negotiations; (iv) deeper regional economic cooperation and integration; (v) reduced likelihood of trade disputes between mega-FTA partners; and (vi) the possibility of being the rule-writers instead of rule-takers in global trade.

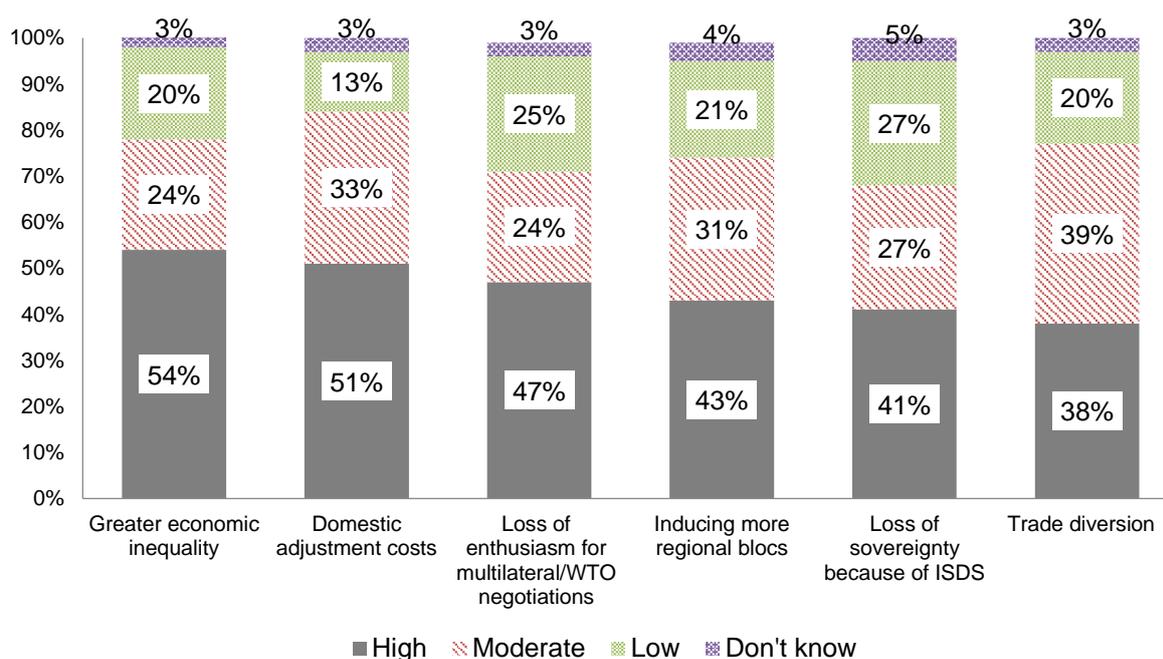


Fig. 2 Costs of mega-FTAs for participants

The question was formulated as follows—Q1. In your opinion, what are the costs of participating in mega-FTAs?

Note: Values are based on actual number of responses per option and numbers may not add due to rounding.

²⁵ Stiglitz, J. (2015). The secret corporate takeover of trade agreements. *The Guardian*. Retrieved 26 September 2016, from <https://www.theguardian.com/business/2015/may/13/the-secret-corporate-takeover-of-trade-agreements>

Figure 2 summarises the responses to the first set of questions. More than half of the respondents were concerned with the adverse distributional effects of mega-FTAs within participating countries: greater economic inequality (54 per cent) and high domestic adjustment costs (51 per cent)²⁶. This implies that more political capital and economic resources should be devoted towards helping vulnerable communities and sheltered industries weather the storm of trade liberalisation as the agreements phase in. The next most important cost was the loss of enthusiasm for more inclusive multilateral trade liberalisations (47 per cent), followed by the danger of propelling excluded parties to forge their own trading blocs (43 per cent). Not many Asian opinion leaders (41 per cent) labelled investor protection provisions (ISDS)—which critics claim would allow companies to sue governments in secretive international tribunals—as an imminent threat. However, the ISDS is arguably the single most controversial issue in TTIP negotiations, with the European Parliament in 2015 passing a resolution rejecting the incorporation of any “extra-judicial arbitration mechanism” in TTIP. Only 38 per cent of the respondents saw trade diversion as a significant cost for participating countries.

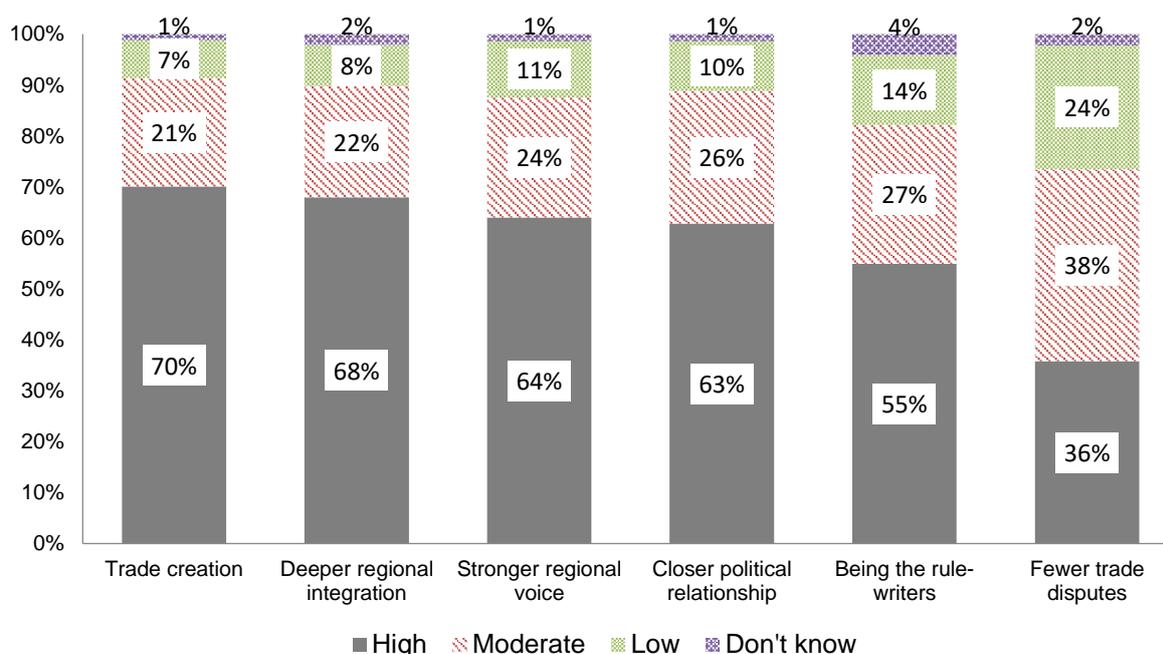


Fig. 3 Benefits from participating in mega-FTAs

The question was formulated as follows—Q2. In your opinion, what are the benefits from participating in mega-FTAs?

Note: Values are based on actual number of responses per option and numbers may not add due to rounding.

²⁶ For an analysis of the adjustment and income distribution impacts of the TPP, see Lawrence, R. Z., & Moran, T. (2016). *Adjustment and Income Distribution Impacts of the Trans-Pacific Partnership PIIE Working Paper Series*. Washington, DC: Peterson Institute for International Economics.

As shown in figure 3, seventy per cent of the opinion leaders cited trade creation as the top benefit that countries would accrue from mega-FTAs. Removing trade barriers and exploiting new commercial opportunities through mega-FTAs were perceived to provide impetus to economic growth when traditional macroeconomic policies fell short in the shadow of ultra-low interest rates and tight budgetary constraints. Many respondents also hailed that mega-FTAs are conducive to regional economic integration and cooperation (68 per cent), enabling signatories to speak in one stronger voice in other international fora (64 per cent). Over 60 per cent (63 per cent) of the respondents were of the view that closer economic relationships instituted by mega-FTAs could translate into closer political relationships between partners. Fifty-five per cent of the respondents felt that negotiating mega-FTAs (while others do not) allows participants to write and interpret the rules for regional and global trade. This figure is surprisingly low; it should be made aware that provisions enshrined in previous mega-FTA deals could set important legal precedents for future negotiations. For example, Richard Baldwin talked about “21st century regionalism” posing a serious threat to “the WTO’s role as a rule writer, not as a tariff cutter.”²⁷ Finally, reduced likelihood of trade disputes (36 per cent) was seen to be the least beneficial (or least likely) outcome.

We then asked the opinion leaders if pursuing mega-FTAs is a good trade policy option on balance and whether countries should endeavour to join more than one mega grouping. Figures 4 and 5 present their views.

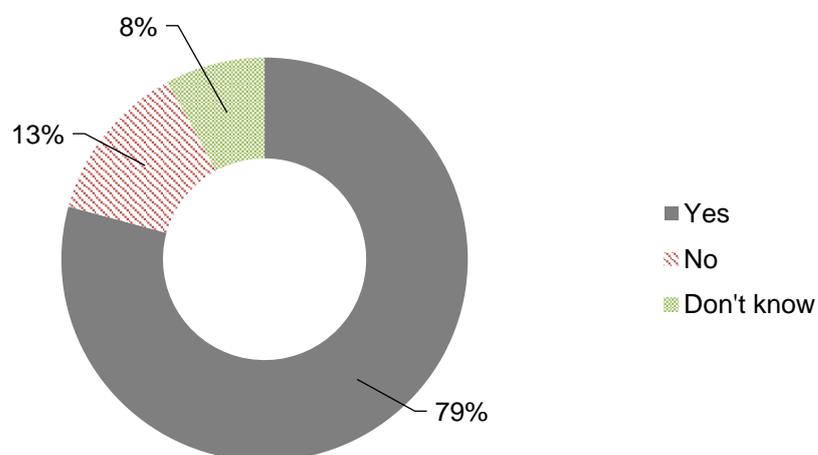


Fig. 4 Is pursuing mega-FTAs generally a good trade policy decision?

The question was formulated as follows—Q3. In your opinion, is pursuing mega-FTAs (e.g. TPP and RCEP) generally a good trade policy decision?

Note: Values are based on actual number of responses per option and numbers may not add due to rounding.

²⁷ Baldwin, R. (2011). 21st Century Regionalism: Filling the gap between 21st century trade and 20th century trade rules *Staff Working Paper*. Geneva: World Trade Organization.

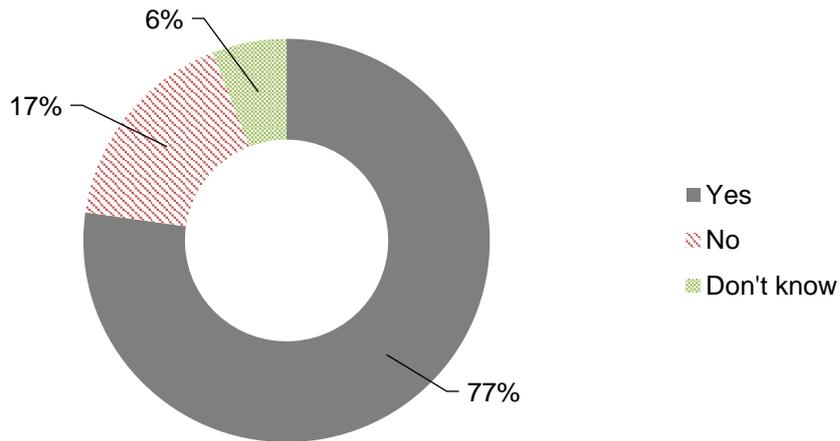


Fig. 5 Do you think it is desirable for economies to join more than one mega-FTA?

The question was formulated as follows—Q4. Do you think that it is desirable for economies to join more than one mega-FTA?

Note: Values are based on actual number of responses per option and numbers may not add due to rounding.

Respondents overwhelmingly judged that engaging mega-FTAs is a good trade policy decision (79 per cent) and that countries should aspire to join more than just one mega-FTA (77 per cent). In theory, multiple FTA memberships allow countries to secure preferential trade relations with many countries, while off-setting the disadvantages associated with being outside third-party trade blocs. In practice, however, as one respondent pointed out, countries with a stack of mega-FTA memberships would face problems in aligning their internal economic policy objectives with a profusion of external obligations. Currently, there are no countries that are party to all three mega-FTAs, but a total of 8 countries (Australia, Brunei, Japan, Malaysia, New Zealand, Singapore and Vietnam in the TPP and RCEP, and the U.S. in both the TPP and TTIP) take part in two mega-FTAs. It is also interesting to note that if the TPP and RCEP are both implemented, Singapore and New Zealand would have as many as five layers of FTAs²⁸ linking these two like-minded economies.

4.2 Timing and sequencing of mega-FTA negotiations

The TPP is waiting for U.S. congressional approval, while negotiations for RCEP and TTIP are still going on. We asked opinion leaders for their views on when or whether the three mega-FTAs could be ratified and implemented. It is clear from the survey results (Fig. 6) that most of the respondents believed that all the three mega-FTAs will eventually enter into force, albeit at different times; only 2-3 per cent said “Never”.²⁹

²⁸ These five FTAs are Agreement between New Zealand and Singapore on a Closer Economic Partnership (ANZSCEP), ASEAN-Australia-New Zealand Free Trade Area (AANZFTA), the TPSEP, the TPP and RCEP.

²⁹ Readers should take note that the survey was conducted before the U.S. presidential elections.

As the TPP agreement is already signed, 21 per cent of the respondents felt that the TPP will enter into force before 2017. Fifty-seven per cent of the respondents were of the view that the TPP is more likely to be effective after a new U.S. President assumes office and before 2020, rightly disregarding the possibility that the TPP could be passed in the lame duck session. Similarly, the most feasible window of RCEP ratification and implementation, according to the respondents, is between 2017 and 2020 (45 per cent), although there were a significant minority of opinion leaders (32 per cent) who expected RCEP to see pushbacks and come into force after 2020. In the case of TTIP, 37 per cent of respondents felt that TTIP would be implemented sometime between 2017 and 2020. Thirty-four per cent thought that TTIP's entry into force will only take place after 2020.

A common thread of the three mega-FTAs is that their negotiation deadlines have been repeatedly missed as negotiators tussle with a cocktail of “political, diplomatic, commercial, economic, regulatory, and technical issues”.³⁰ Post-negotiations, many countries have had to adjust certain segments of domestic laws and regulations to pave the way for TPP legislation. Adding to the sheer complexity pertaining to modern and far-reaching trade deals – which go much deeper than mere tariff reduction – is the strain of isolationist, xenophobic and anti-free trade sentiment in many parts of the world that could steer mega-FTA processes into serious roadblocks. As such, expeditious ratifications of the trade deals should not be expected.

The data in figure 6 also suggest that TTIP had a relatively lower degree of awareness among Asian opinion leaders – who understandably pay more attention to the TPP and RCEP that are closer to their shores – with more than one-fifth of them (22 per cent) ticking the box of “Don't know”.

³⁰ Chia, S. Y. (2015). Emerging Mega-FTAs: Rationale, Challenges, and Implications. *Asian Economic Papers*, 14(1), 1-27.

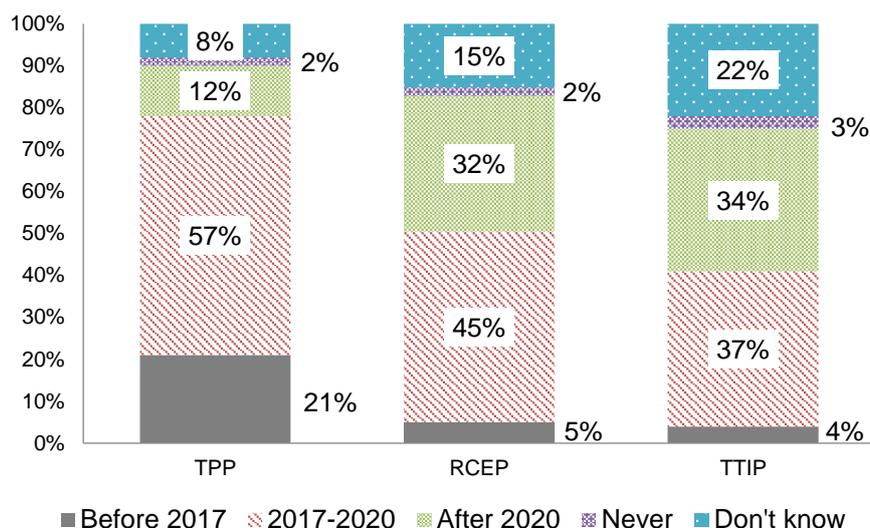


Fig. 6 Timing of mega-FTA ratification and implementation

The question was formulated as follows—Q5. The TPP negotiations have concluded recently, while RCEP and TTIP negotiations are still on-going. When do you think that the three mega-FTAs will be ratified and implemented?

Note: Values are based on actual number of responses per option and numbers may not add due to rounding.

The negotiations for the TPP were officially kicked off in March 2010; this was caught up with by the start of negotiations for RCEP and TTIP in November 2012 and July 2013, respectively. We asked opinion leaders if there is any underlying economic³¹ or political³² “domino effect”, in which one mega-FTA triggers off the subsequent mega-FTAs in a chain of reactions. We further asked the respondents to describe the relationship between the three mega-FTAs. Specifically, are they “competitive”, “complementary”, “neutral/overlapping” or “irrelevant”?

From figure 7, it is shown that most of the opinion leaders (77 per cent) felt that there is indeed a “domino effect”, or “a mad race of FTAs with countries rushing to join them” as one respondent put it. The majority of Asian opinion leaders also gravitated towards the perception that the three mega-FTAs are not unrelated, idiosyncratic events (Fig. 8). However, the respondents appeared to be divided when it came to characterising the relationship between the mega-FTAs troika. 41 per cent of the respondents preferred to understand the TPP, RCEP and TTIP as neutral, *geographically* overlapping free trade groupings without holding solid connotations of either complementarity or competitiveness. The rest of the respondents were evenly divided, with 29 per cent of them feeling that the mega-FTAs are competitive against each other in the context of great power rivalries, and the other 29 per cent feeling the opposite.

³¹ Baldwin, R. (1993). A Domino Theory of Regionalism *NBER Working Paper* Cambridge: National Bureau of Economic Research.

³² Ravenhill, J. (2010). The ‘new East Asian regionalism’: A political domino effect. *Review of International Political Economy*, 12(2), 178-208.

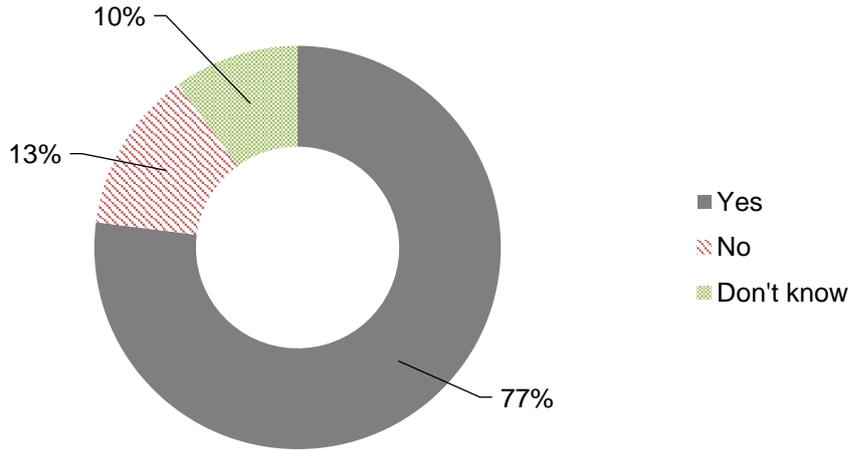


Fig. 7 Is there any “domino effect” triggering mega-FTA negotiations?

The question was formulated as follows—Q6. The TPP, RCEP and TTIP were launched successively within a relatively short period of time. Do you think that there is a “domino” effect triggering them?

Note: Values are based on actual number of responses per option and numbers may not add due to rounding.

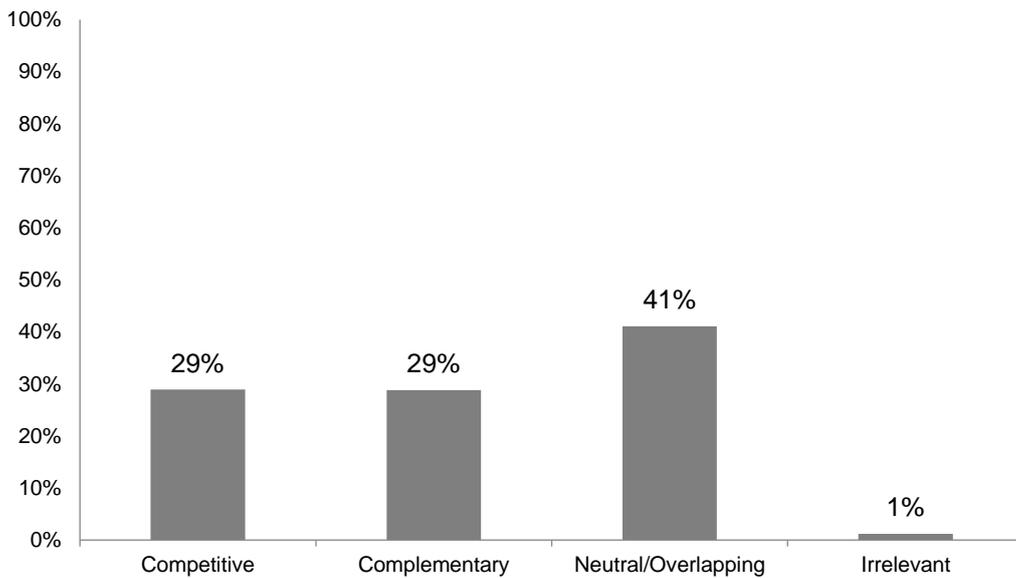


Fig. 8 Relationship between mega-FTAs

The question was formulated as follows—Q7. In your opinion, the three mega-FTAs are?

Note: Values are based on actual number of responses per option and numbers may not add due to rounding.

4.3 Strategic motivations for pursuing mega-FTAs

While the long-term viability of RTAs depends more on economic parameters, countries are often informed by considerations that are not fundamentally economic when they launch trade treaty negotiations.³³ Bearing this in mind, we asked opinion leaders on the political and strategic rationale underlying these mega-FTAs and the pretext in which mega-FTAs become a preferred trade policy instrument. In those questions, we focused on the U.S., ASEAN, China and the EU, because their strong leadership and commitments are the prerequisite for the negotiations to progress.

The TPP is not a U.S.-conceived scheme – it morphed from the Trans-Pacific Strategic and Economic Partnership concluded between Brunei, Chile, Singapore and New Zealand. Two successive U.S. administrations under George W. Bush and Barack Obama promoted these deals with much fanfare. It is often argued that the U.S. wanted to socialise China through international regimes like the WTO and the TPP which are moulded to its favour, so that Washington can incrementally change the way China rises. To achieve this strategic objective, the U.S. purposely excluded China from crafting the TPP agreement. Based on the assumption that China does not want to lose out on the TPP grouping's economic benefits, China will join the pact on U.S. terms, as was the case when Washington cleared China's accession to the WTO when Beijing gave in to key U.S. demands. Figure 9 shows that over three quarters of the respondents (76 per cent) tended to agree with this thinking. The strategic calculus behind the TPP should not be confused with the "competitive liberalisation" strategy³⁴ that is usually associated with U.S. free trade deals. The TPP is not an attempt by the U.S. to leverage its economic might for the purpose of inducing more economic liberalisation in other countries in a "competition for liberalisation"; rather, it aims to subject its strategic rival, China, to trade rules and liberalisation roadmaps drawn up by the U.S. As President Obama, promoting the TPP, asserted: "America should write the rules" for global economy, adding that "other countries should play by the rules that America and our partners set, and not the other way around."³⁵

³³ See note 7.

³⁴ Bergsten, C. F. (1996). *Competitive Liberalization and Global Free Trade: A Vision for the Early 21st Century Working Paper*. Washington: Institute for International Economics.

³⁵ Obama, B. (2016). The TPP would let America, not China, lead the way on global trade. *The Washington Post*. Retrieved 26 October 2016, from https://www.washingtonpost.com/opinions/president-obama-the-tpp-would-let-america-not-china-lead-the-way-on-global-trade/2016/05/02/680540e4-0fd0-11e6-93ae-50921721165d_story.html?utm_term=.e24e8f4ea6ff

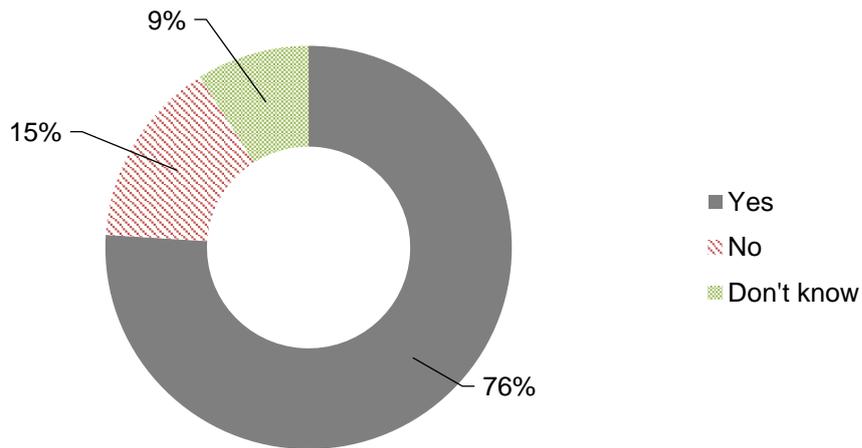


Fig. 9 Percent of respondents answering “Yes”, “No” or “Don’t know”.

The question was formulated as follows—Q8. Some commentators note that the US’ strategy since the 1990s has been to entice China into institutions that operate according to Western rules like the WTO. This explains US’ position of excluding China from TPP negotiations at the present but welcoming it only after pro-Western TPP rules have been written and established. Do you agree with this statement?

Note: Values are based on actual number of responses per option and numbers may not add due to rounding.

RCEP was the second mega-FTA in the pipeline. Given that ASEAN has bilateral FTAs with all the other participants of RCEP, many wondered what was the value-add for ASEAN. We asked opinion leaders to rate the factors that could have affected ASEAN’s positions. Figure 10 shows that the majority of respondents (68 per cent) felt that ASEAN wanted to capitalise on RCEP to facilitate ASEAN-driven regional economic integration, a process that began with the ASEAN Free Trade Area in 1992 and was continued by the ASEAN Economic Community (AEC) 2015 and lately by the AEC Blueprint 2025. Since ASEAN countries take part in RCEP as a whole, rules of origin entails that inputs and intermediate goods produced in one ASEAN country that form part of a final product exported by another ASEAN country to a non-ASEAN RCEP partner will enjoy preferential treatment. This will give a major boost to the production sharing networks in ASEAN, constituting an important step towards the AEC’s goal of having a single market and production base in Southeast Asia. Preservation of “ASEAN Centrality”³⁶ was also viewed as a key contributing factor (64 per cent). This is because there are concerns that the TPP’s engagement of individual ASEAN countries (Brunei, Malaysia, Singapore and Vietnam) – instead of ASEAN en bloc – could water down regional cohesion and retard economic integration in Southeast Asia. This might dilute ASEAN’s linchpin status in East Asian regionalism. By contrast, respondents felt that simplifying convoluted trade relations among RCEP partners as a result of five heterogeneous ASEAN+1 FTAs (49 per cent) and countering the U.S.-led TPP (36 per cent) were less of a priority from the ASEAN perspective.

³⁶ Petri, P. A., & Plummer, M. G. (2014). ASEAN Centrality and the ASEAN-US Economic Relationship *Policy Studies*. Honolulu: East-West Center.

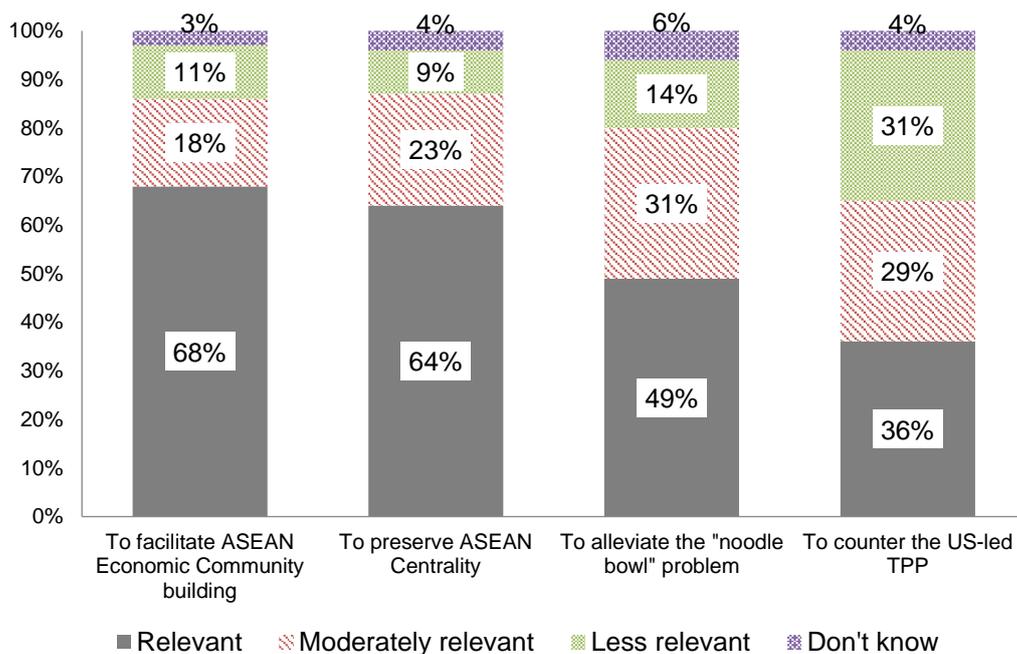


Fig. 10 ASEAN's motivations for pursuing RCEP

The question was formulated as follows—Q9. Since ASEAN has signed bilateral ASEAN+1 FTAs with all the other RCEP members, why was ASEAN interested in RCEP?

Note: Values are based on actual number of responses per option and numbers may not add due to rounding.

As the RCEP grouping's largest economy and *de facto* leader, China made a dramatic U-turn on its mind-set towards the conceptualisation and membership structure of RCEP. In 2004, China proposed to conduct a feasibility study on an ASEAN+3 (ASEAN, and China, Japan and Korea) East Asia Free Trade Agreement (EAFTA); and two years later, Japan proposed an alternative study on the ASEAN+6 (ASEAN+3 plus Australia, India and New Zealand) Comprehensive Economic Partnership in East Asia (CEPEA). The fundamental difference between EAFTA and CEPEA was that China sought a narrower membership for it to assume leadership whereas Japan considered adding Australia and India as a counterweight to China's dominance.³⁷ China and Japan finally came to an agreement on a joint proposal on East Asian economic cooperation in 2010. This was put forward shortly afterwards as the RCEP concept, which is to a large extent a replica of Japan's CEPEA by design.³⁸ In our survey, we invited opinion leaders to assess China's buy-in of RCEP given Beijing's initial disapproval.

Three quarters of opinion leaders felt that China was reacting defensively to the TPP, since it was excluded from the TPP negotiations (Fig. 11). Examining the TPP through the prism of balance of

³⁷ Hamanaka, S. (2015). Trans-Pacific Partnership versus Comprehensive Economic Partnership: Control of Membership and Agenda Setting *ADB Working Paper Series on Regional Economic Integration*. Manila: Asian Development Bank.

³⁸ Ibid.

power, China responded by endorsing RCEP as “antidote”. A majority of respondents (69 per cent) also felt that Beijing was eager to formulate and disseminate China-friendly trade rules through RCEP negotiations. Some respondents (49 per cent) felt that China turned to RCEP to expand trade in the face of a deadlocked Doha Development Agenda (DDA). Additionally, 46 per cent of the respondents were of the opinion that greater trade policy alignment and convergence between China, Japan and Korea post-RCEP could presage the much anticipated China-Japan-Korea Free Trade Agreement among the old antagonists in Northeast Asia. Fewer opinion leaders (36 per cent) were convinced that China wanted to engage India, which was accused of being a foot-dragger in negotiations, under the framework of RCEP. A case in point is that India’s push for a three-tiered structure of differentiated tariff cuts across RCEP partners³⁹ was met with objections from other parties, especially from Japan which insisted on a single-tiered, “one-size-fits-all” approach of tariff liberalisation.

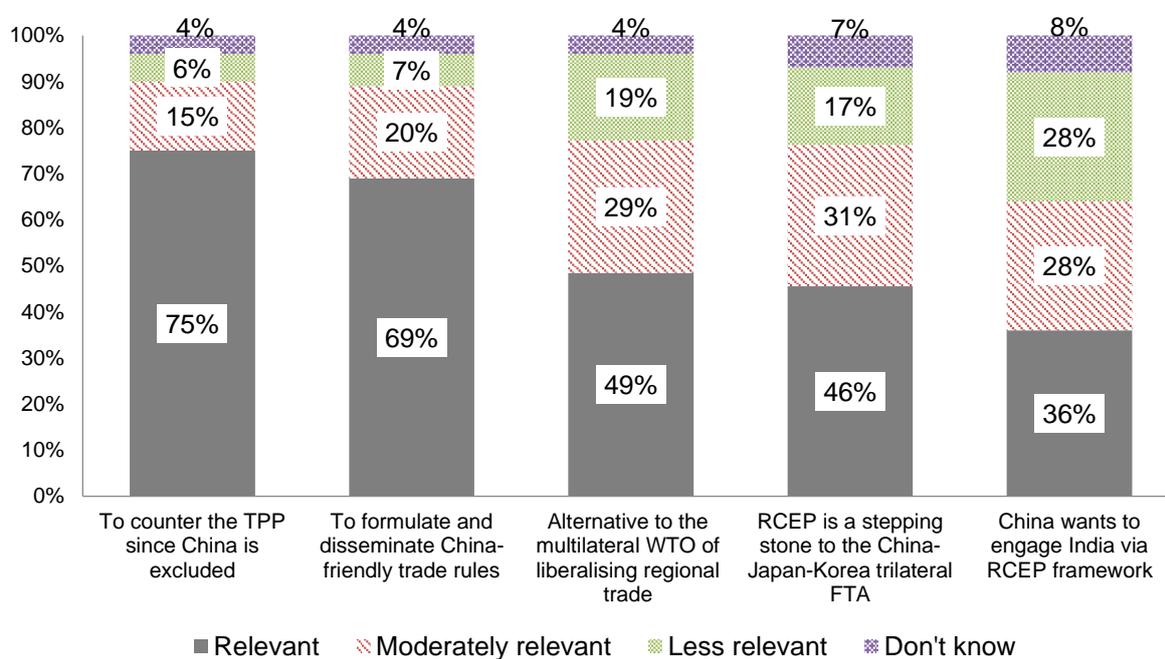


Fig. 11 China’s motivations for endorsing RCEP

The question was formulated as follows—Q10. Previously China was suspicious of the Japanese proposal for an ASEAN+6 FTA, and was instead promoting an East Asian ASEAN+3 FTA. In your opinion, why did China change its stance and endorse RCEP, an ASEAN+6 FTA similar to that proposed by Japan?

Note: Values are based on actual number of responses per option and numbers may not add due to rounding.

³⁹ The Indian proposal of three-tier tariff reduction plan treated RCEP members differently, depending on whether they have an existing FTA with India or not. Under the plan, India proposed 80 per cent per cent per cent per cent per cent tariff cuts to the ASEAN countries, 65 per cent per cent per cent per cent per cent to South Korea and Japan and finally 42.5 per cent per cent per cent per cent per cent tariff liberalisation to China, Australia and New Zealand. See Mishra, A. R. (2016). India’s new stance at RCEP may benefit China. *LiveMint*. Retrieved 4 October 2016, from <http://www.livemint.com/Politics/qGEPZqVoHO4U4YYvfBgCNP/Indias-new-stance-at-RCEP-may-benefit-China.html>

Under the watch of then EU Trade Commissioner Pascal Lamy (who later became the Director-General of the WTO), the EU exercised an informal, self-imposed moratorium on FTA ventures since 1999 until 2007 in support of the WTO Doha Round.⁴⁰ Even afterwards, the EU officials have been reiterating that it is one of the core tasks of the EU to safeguard the multilateral trading system and the WTO.⁴¹ Yet, the EU, together with the U.S., announced the decision to launch TTIP negotiations at the G8 summit at Lough Erne in June 2013.

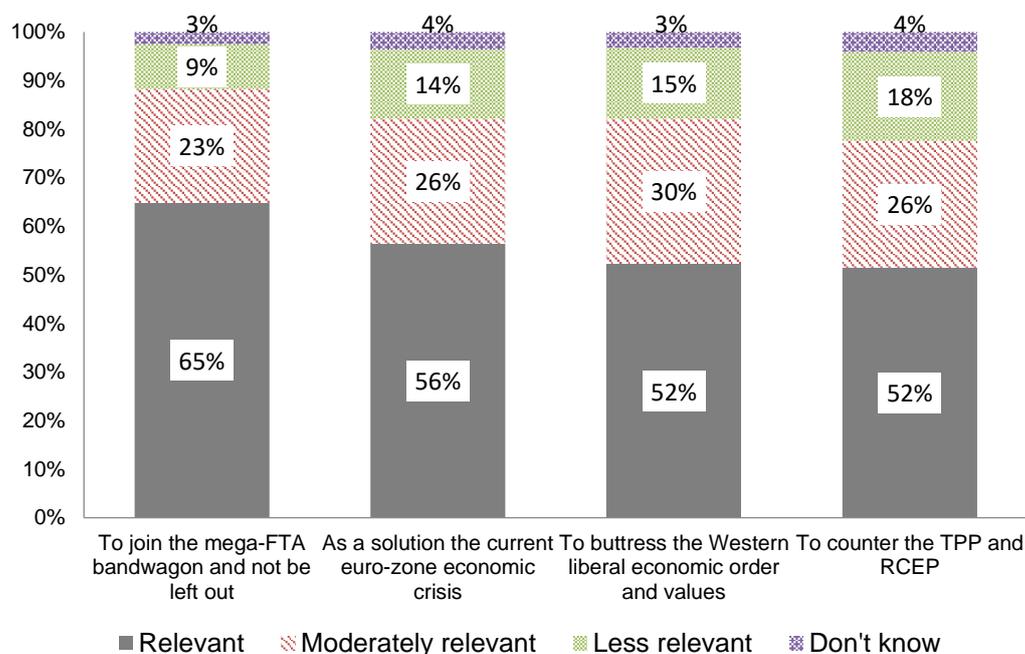


Fig. 12 EU's motivations for pursuing TTIP

The question was formulated as follows—Q11. *Despite a self-imposed moratorium on FTAs, in your opinion why did the European Union (EU) launch TTIP with the US in 2013?*

Note: Values are based on actual number of responses per option and numbers may not add due to rounding.

Figure 12 shows that 65 per cent of the surveyed Asian opinion leaders opined that Brussels negotiated TTIP to join the mega-FTA bandwagon, lest they were marginalised and left out in the mega-FTA race. More than half of the respondents (56 per cent) viewed the job-creating and pro-growth TTIP to be economically vital to the EU, as the euro crisis still afflicts many euro zone economies. Some analysts⁴² depict TTIP as the West's attempt to cement the economic principles (i.e. rules-based market economy) and political values (i.e. liberal democracy) they espouse.

⁴⁰ Woolcock, S. (2007). European Union policy towards Free Trade Agreements *ECIPE Working Paper*. Brussels: European Centre For International Political Economy.

⁴¹ EUCS. (2015). Workshop on "Rethinking EU's Engagement in the Asia-Pacific". Singapore: EU Centre in Singapore.

⁴² van Ham, P. (2013). The Geopolitics of TTIP *Clingendael Policy Brief*. Hague: Clingendael.

Likewise, former U.S. Secretary of State Hillary Clinton boasted of TTIP as an “Economic NATO”. Around half (52 per cent) of Asian opinion leaders were in agreement with them. Slightly more than half of the sample (52 per cent) felt that the genesis of TTIP reflects the EU’s desire to hedge against the TPP and RCEP. In general, this suggests that Asian opinion leaders do not see the two Asia Pacific trade pacts as an economic threat to Europe that necessitates countermeasures. This view validates one recent estimation made by Petri and Plummer⁴³ which expected the EU to realise real GDP gains of 0.2 per cent by 2030 from the TPP deal. This is in part because service liberalisation and a rules-based trading environment in the Asia Pacific established under the TPP would also favour external service exporters such as the EU in a process called “reverse trade diversion”.⁴⁴

4.4 Relations between (mega-)regionalism and multilateralism

In international trade, there has been a debate on whether RTAs are friends or foes of global trade liberalisation.⁴⁵ Trading blocs are described to be “building blocks” if they inject dynamism to multilateralism, whereas they are “stumbling blocks” if they crowd out multilateral negotiations.⁴⁶

Some observers assert that regionalism is discriminatory in nature, thereby violating the WTO’s founding principle of equal treatment for all trading partners. In addition, the proliferation of FTAs leads to a tangled web of intersecting, and sometimes incompatible, trade rules. This phenomenon is metaphorically referred to as the “spaghetti bowl” (or “noodle bowl” in the Asian context) by Jagdish Bhagwati⁴⁷ – that impedes multilateralism. The “noodle bowl” problem often results in low and incomplete FTA preference utilisations among exporters who do not have the capacity to understand complex inter-state trade regimes.⁴⁸ On the other hand, proponents of FTAs emphasise that regionalism constitutes a stepping stone towards multilateralism and that it induces more trade creation than trade diversion.⁴⁹

⁴³ See note 10.

⁴⁴ See notes 7 and 10.

⁴⁵ Bhagwati, J. (1991). *The World Trading System at Risk*. Princeton: Princeton University Press.

⁴⁶ Bhagwati, J. (2008). *Termites in the Trading System: How Preferential Agreements Undermine Free Trade*. Oxford: Oxford University Press; Baldwin, R., & Seghezza, E. (2007). Are Trade Blocs Building or Stumbling Blocks? New Evidence *CEPR Discussion Paper No. DP6599* London: Centre for Economic Policy Research.

⁴⁷ Bhagwati, J. (1995). U.S. Trade Policy: The Infatuation with Free Trade Agreements. In C. Barfield (Ed.), *The Dangerous Obsession with Free Trade Areas*. Washington: American Enterprise Institute.

⁴⁸ Kawai, M., & Wignaraja, G. (2010). *Asia’s Free Trade Agreements: How is Business Responding?* Cheltenham: Edward Elgar; Reuters, & KPMG. (2015). 2015 Global Trade Management Survey. Retrieved 15 July 2016, from <https://www.kpmg.com/SG/en/IssuesAndInsights/ArticlesPublications/Documents/Tax-IndTax-2015-Global-Trade-Management-Survey.pdf>

⁴⁹ Summers, L. (1991). Regionalism and the World Trading System *Policy Implications of Trade and Currency Zones*. Wyoming: Federal Reserve Bank of Kansas City.

The debate is still alive, and there is a renewed disagreement among scholars on whether the mega-FTAs represent “building blocks” towards multilateral convergence or “stumbling blocks” towards regional fragmentation.⁵⁰ Our survey results suggest that 62 per cent of Asian opinion leaders felt that mega-FTAs are catalytic “building blocks”, while only 29 per cent of the respondents framed mega-regionals as “stumbling blocks” to multilateralism (Fig. 13). This predisposition towards viewing mega-FTAs positively could help explain why Asian countries are among the most active advocates and participants of mega-FTAs.

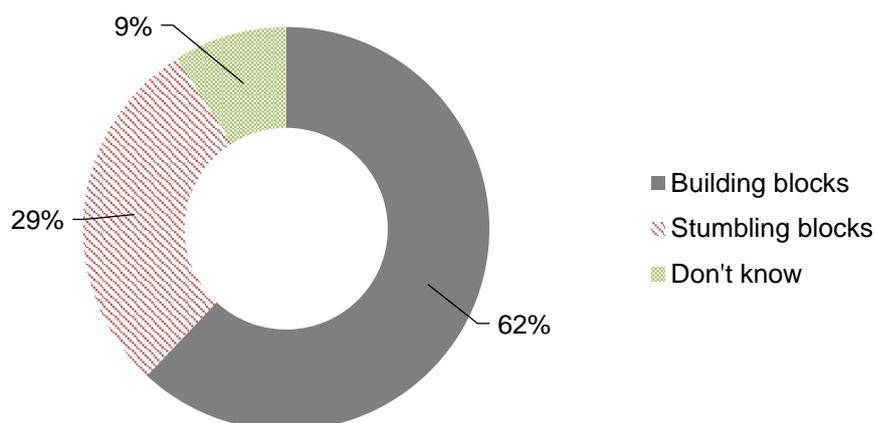


Fig. 13 Are mega-FTAs “building blocks” or “stumbling blocks” to multilateral trade liberalisation?

The question was formulated as follows—Q12. In your opinion, are mega-FTAs “building blocks” or “stumbling blocks” to multilateral trade liberalisation?

Note: Values are based on actual number of responses per option and numbers may not add due to rounding.

Nevertheless, many respondents also called for caution because mega-FTAs risk reducing momentum on both fronts of unilateralism and multilateralism. On the one hand, as one respondent put it: “Mega-FTAs may not motivate countries to unilaterally undertake necessary domestic reforms. Instead, it may even provide excuse to countries to avoid and/or delay domestic reforms because market access can be given even [with]out reforms.” On the other hand, “If respondents were thinking small, they might have a lot of good things to say about the TPP and especially RCEP in microcosm, before being reminded that in the macrocosm they undermine [multilateralism]”. It is feared that FTAs, especially mega-FTAs among mutually important trading partners, tend to disincentivise signatories to make painstaking concessions at the WTO negotiation rounds.⁵¹

⁵⁰ See note 7.

⁵¹ Ji, X. (2014). Free Trade Agreements: Not As Free As You Think. *The Diplomat*. Retrieved 5 July 2016, from <http://thediplomat.com/2014/08/free-trade-agreements-not-as-free-as-you-think/>

The U.S., the EU and China, which all used to be the most fervent supporters and major beneficiaries of the global trading system under the auspices of the GATT/WTO, have been assimilated into mega-regional blocs one after another. This is the paradox which Pascal Lamy alluded to – while the global value chains are multilateralising, and yet trade governance is bilateralising and regionalising. Do the successive launches of the TPP, RCEP and TTIP signal that the great powers have redirected their loyalty from the inclusive multilateralism/WTO to exclusive (mega-)regionalism? This concern shows in the survey data. As illustrated in figure 14, close to 60 per cent of Asian opinion leaders felt that the WTO is losing its appeal among its most influential members after DDA negotiations were ground to a halt. The data is indicative of the perception that mega-FTAs are grabbing the pole position in governing world trade relations. Thus, this is pushing the WTO to the back of the queue and rendering its business model obsolete.

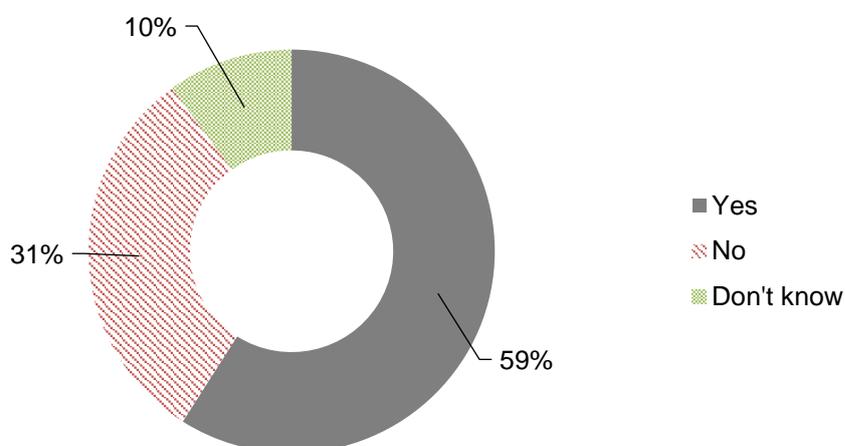


Fig. 14 Are trading powers redirecting their loyalty from multilateralism to regionalism?

The question was formulated as follows—Q13. In your opinion, do the successive launches of TPP, RCEP and TTIP signal that world powers have redirected their loyalty from the non-discriminatory multilateralism/WTO to exclusive regionalism?

Note: Values are based on actual number of responses per option and numbers may not add due to rounding.

An apparent contradiction between figure 13 and 14 is noteworthy. Asian opinion leaders appeared to believe that mega-FTAs were building blocks to multilateralism, yet they felt that governments were drifting away from the WTO supremacy to mega-FTA centrality. A possible explanation is as follows. The respondents felt that, in the short term, major economic powers prioritise mega-regionals for pragmatic purposes; but in the long run, there will be greater need to revitalise the WTO as the legitimate arbiter, to rationalise a multiplicity of mega-FTAs marked with inconsistent provisions. One comment from the respondents illustrates this point well, s/he argued that “[...] in the short run, [mega-FTA] may balkanize international trade, but [...] it will reach saturation point where its utility will not increase any further even with the onset of new ones. States will realize that, in the end, there is no substitute to a global trade regime.” In short, mega-FTAs could be best understood as short-term “stumbling blocks” and long-term “building blocks”.

If the mega-FTAs are pathways to a free trade area involving all countries from across the Asia Pacific, we asked opinion leaders, from the institutional perspective, which of the three FTAs should serve as the “template(s)”: (i) the TPP; (ii) RCEP; and (iii) the potential China-Japan-Korea FTA (CJKFTA) should they all come to fruition. In this question, we allowed the respondents to select multiple options. Both the TPP and RCEP stand out as the preferred prototypes of an Asia Pacific FTA (Fig. 15), and two logical extrapolations can be made from the results. First, in the future, countries may have to fit a plethora of parallel trade regimes together before a coherent, broad-based Free Trade Area of the Asia Pacific could be achieved. Second, Japan is in a propitious position to bridge the overlapping FTAs in the region and beyond as it is party to the TPP, RCEP, CJKFTA and the EU-Japan Economic Partnership Agreement.

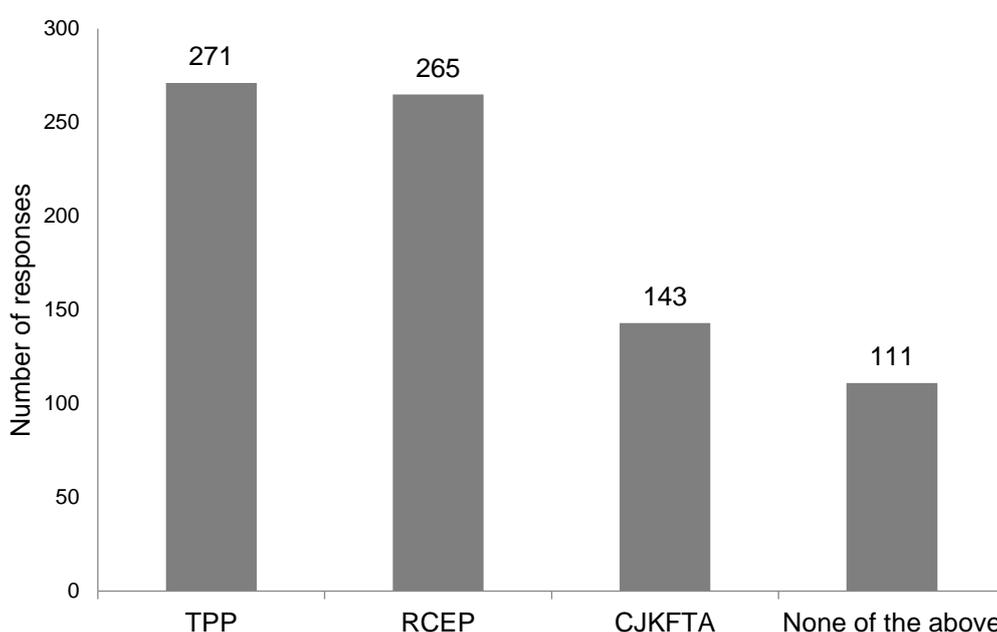


Fig. 15 Which agreement(s) should serve as the template(s)?

The question was formulated as follows—Q14. If mega-FTAs could ultimately be multilateralised to form a free trade area in the Pacific Rim, which of the following agreement(s) do you think should serve as the template(s)?

Note: Values are based on actual number of responses per option and numbers may not add due to rounding. In this question, we allowed respondents to select multiple options, so the number of responses instead of percentage is reported.

4.5 U.S.-led vs. China-led institutions

Thanks to eight rounds of multilateral trade negotiations since the end of World War II, average applied tariffs are already low. Thus, there could be diminishing returns to attempts that aim to bring down tariff barriers further. With production fragmentation, trade flows nowadays seem to depend more on logistics and other non-price determinants of trade competitiveness. With this in mind, we asked the Asian opinion leaders if they agree with the hypothesis that “infrastructure development and financing schemes such as China’s “One Belt, One Road” initiative (B&R Initiative) and Asian

Infrastructure Investment Bank (AIIB) are more relevant than the TPP in the context of the 21st century world”. As shown in Figure 16, 61 per cent of the respondents felt that the TPP may not create as many economic activities as the B&R Initiative and the AIIB - which both seek to spur new economic opportunities by slashing logistics impediments and creating new trade routes⁵² - do, thus becoming less relevant comparatively. Nevertheless, two caveats are worth highlighting. First, the TPP is by no means a stand-alone trade arrangement – it serves as the economic arm of President Obama’s “Pivot to Asia” strategy in an attempt to reverse the waning U.S. influence in the region. Second, sprawling transport networks entail innovative governing rules for them to function optimally. In this regard, synergies between the two seemingly competitive strategies should be explored.

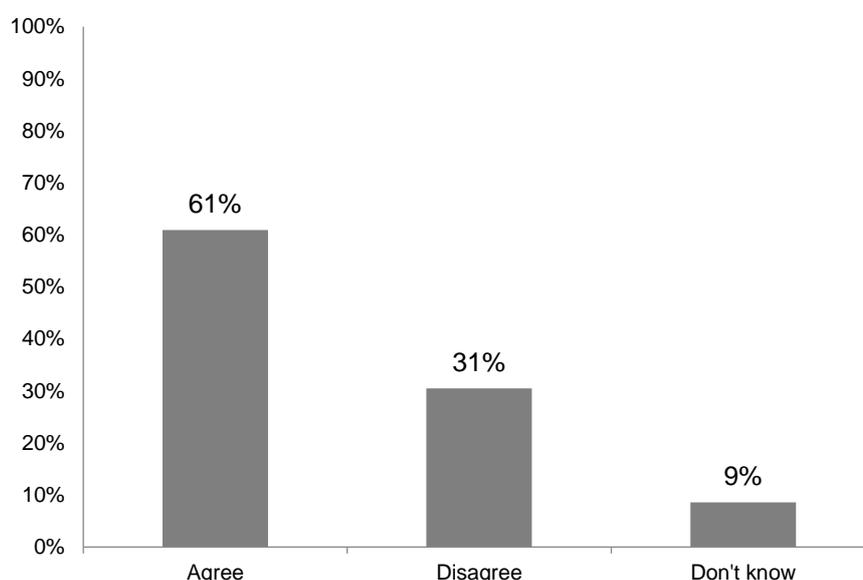


Fig. 16 Do you agree that B&R Initiative and AIIB are more relevant than the TPP in the context of 21st century trade?

The question was formulated as follows—Q15. As tariffs are already low, trade competitiveness nowadays depends more on logistics. Therefore, infrastructure development and financing schemes such as China’s “One Belt, One Road” (B&R) initiative and Asian Infrastructure Investment Bank are more relevant than the TPP in the context of the 21st century world. Do you agree with this statement?

Note: Values are based on actual number of responses per option and numbers may not add due to rounding.

⁵² Ji, X. (2016). Promoting Regional Development Bank Complementarity: Challenges to Asia and Lessons from Europe *EU Centre in Singapore Working Paper*. Singapore: EU Centre in Singapore.

Closely related to the competition between the TPP and the B&R Initiative/AIIB is the possibility of intensifying conflicts between the U.S.-led institutions and China-centric institutions.⁵³ Asian opinion leaders were asked if we need a “New Bretton Woods” (NBW) system⁵⁴ to accommodate the rise of China and to diffuse potential tensions between the parallel economic governance frameworks that are taking shape. There was no consensus among the opinion leaders on this question. Instead, the sample split considerably (Fig. 17); only 41 per cent of respondents were receptive to the idea of re-designing a whole new system. The respondents also seemed to be uncertain when assessing the necessity of a NBW, as this question saw a high proportion of the sample choosing “Don’t know” (19 per cent).

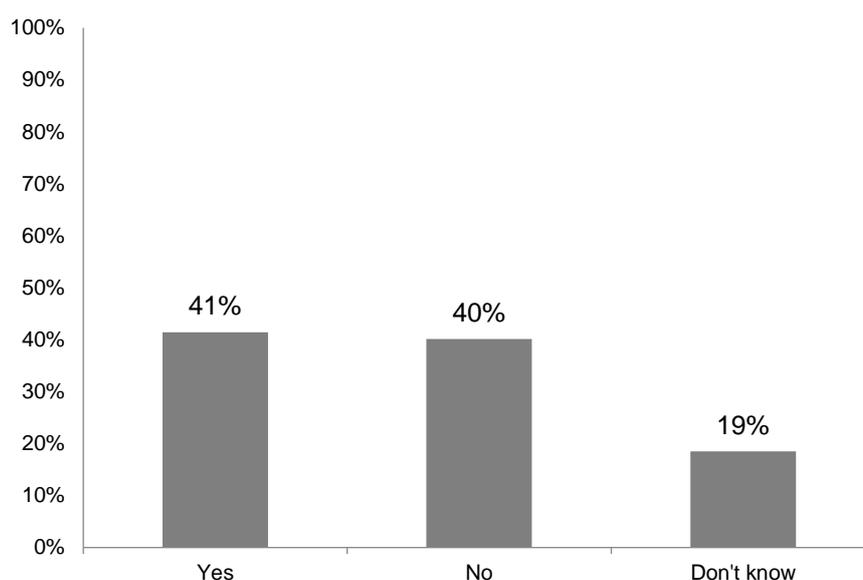


Fig. 17 Do we need a New Bretton Woods System to resolve the potential conflicts between the U.S.-led and China-centric institutions?

The question was formulated as follows—Q16. Many have warned of the possibility of intensifying conflicts between U.S.-led institutions and China-centric institutions. Do you think we need a New Bretton Woods System to resolve the potential conflicts between the two?

Note: Values are based on actual number of responses per option and numbers may not add due to rounding.

According to the respondents’ comments, advocates of a NBW argued that the Western-backed system must “change to accommodate China’s increasing economic and political role internationally”. Opponents, for their part, played down the urgency of mapping out new global master plans. They reasoned that there is “nothing wrong with the evolution of global governance” and that we just need

⁵³ Rana, P. B. (2014). Conflict between US-led and China-led economic architecture. VOX. Retrieved 5 July 2016, from <http://voxeu.org/article/us-led-vs-china-led-economic-architecture>; Rana, P. B. (2015). Time to start thinking of a 'New Bretton Woods'? *China Daily*. Retrieved 5 July 2016, from http://www.chinadaily.com.cn/opinion/2015-09/29/content_22006438.htm

⁵⁴ Rana, P. B. (2014). From a centralized to a decentralized global economic architecture: an overview. In M. Kawai, P. J. Morgan & P. B. Rana (Eds.), *New Global Economic Architecture: The Asian Perspective*. Cheltenham: Edward Elgar.

to make available the space for co-existing architectures to evolve and interact. There are also some respondents who felt that an over-emphasis on reconciling U.S.-led *vis-à-vis* China-centric systems misses the point of restructuring the prevailing global system. They argued that the priority should be for countries to shake off the ideological and doctrinal shackles of Bretton Woods institutions, and then agree on a new set of indicators that correspond to a higher level of economic development – such as Human Development Index and environmental sustainability—in evaluating global institutions’ performances, rather than dismantling the hard-earned establishment altogether.

4.6 Decentralisation of global economic governance architecture

The post-war global economic governance architecture is built on the back of three key institutions—the World Bank, the International Monetary Fund (IMF) and the GATT/WTO—established in the 1944 Bretton Woods Conference. This once centralised framework is now becoming decentralised and multi-layered gradually, with national, bilateral, regional and non-traditional initiatives working closely with an overarching “senior” global institution.⁵⁵ Yet, what are the drivers behind the process? Are they structural, institutional or ideological in nature?

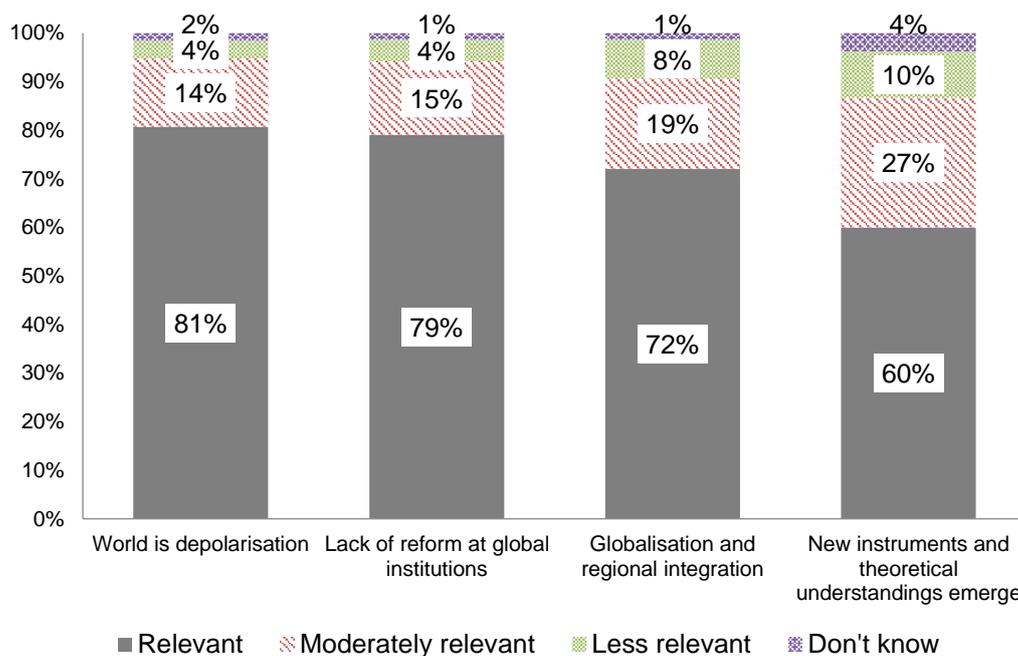


Fig. 18 The drivers behind the decentralisation process of GEA

The question was formulated as follows—Q17. Centralised global economic architecture established at the Bretton Woods conference of 1944 (i.e., IMF, the World Bank and GATT/WTO) is now becoming more decentralised and multi-layered. Rate the drivers of the decentralisation process.

Note: Values are based on actual number of responses per option and numbers may not add due to rounding.

⁵⁵ Ibid.

Our survey results presented in figure 18 show that all the three factors are propelling GEA's decentralisation. A large majority of the respondents (81 per cent) felt that the process was essentially a mirror image of the de-polarising world, which is itself undergoing a major transition from uni-polarity to multi-polarity. In addition, 79 per cent of Asian opinion leaders held the lack of institutional reform at global economic institutions responsible for the emergence of regional and non-Western institutions. For instance, discontent over the stalled IMF and World Bank voting right and quota reforms is believed to have played a key role in China's push for the New Development Bank and the AIIB. Besides globalisation (72 per cent), the advent of contending economic theories and policy paradigms were also rated by more than half of the respondents (60 per cent) to be an important enabler. In this regard, we could have posed one question on the pros and cons of the neo-liberal "Washington Consensus" and the "Beijing Consensus" based on state capitalism.

In the aftermath of the Asian financial crisis of 1997–1998, ASEAN+3 countries accelerated their efforts in monetary integration and adopted various regional self-help measures. Notably, the Chiang Mai Initiative Multilateralisation (CMIM), a multilateral currency swap arrangement, and its independent surveillance unit, the ASEAN+3 Macroeconomic Research Office (AMRO), were put in place to serve as the institutional skeleton of East Asia's regional financial safety nets. Figure 19 shows that a vast majority of the respondents (86 per cent) felt that the IMF and other global institutions alike should work in tandem with regional financing arrangements in preventing and resolving future financial crises in Asia. Furthermore, a similar number of Asian opinion leaders (81 per cent) believed that regional institutions and their global counterparts should forge complementary partnerships in delivering global public goods (Fig. 20). The collaboration and division of labour should be done with the understanding that regional and global institutions should not try to undermine each other, or perform tasks in which they do not possess the comparative advantage. These findings are consistent with the results of a previous survey by Rana, Chia, and Jinjarak,⁵⁶ and support Pardo and Rana⁵⁷ and Rana and Pardo⁵⁸ who made a strong case for complementarities between regional and global institutions. That said, it is important to point out that healthy and benign inter-institutional competition should be welcomed as it will provide countries with alternative funding sources, spur policy innovations and promote mutual organisational learning.

⁵⁶ Rana, P. B., Chia, W.-M., & Jinjarak, Y. (2012). Monetary integration in ASEAN+3: A perception survey of opinion leaders. *Journal of Asian Economics*, 23(1), 1-12. doi: <http://dx.doi.org/10.1016/j.asieco.2011.11.001>

⁵⁷ Pardo, R. P., & Rana, P. B. (2015). Complementarity Between Regional and Global Financial Governance Institutions: The Case of ASEAN+3 and the Global Financial Safety Net. *Global Governance*, 21, 413-433.

⁵⁸ Rana, P. B., & Pardo, R. P. (2015). ASEAN+3 and the IMF: The Need for a Marriage of Convenience. *Global Asia*, 10(1), 64-71.

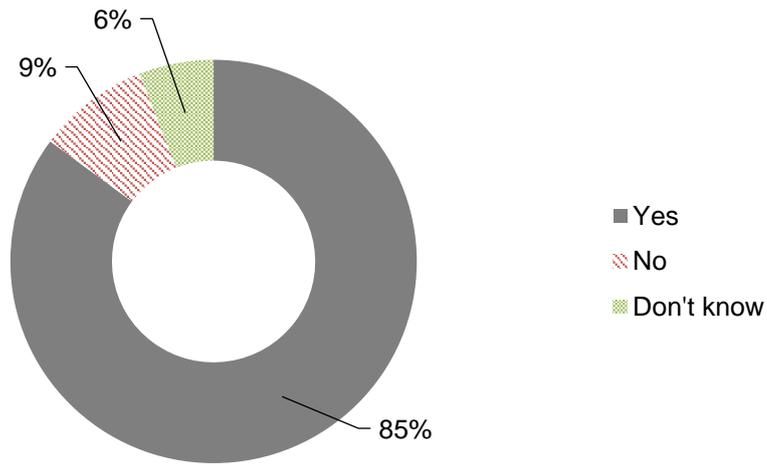


Fig. 19 Should the IMF work together with the CMIM and AMRO?

The question was formulated as follows—Q18. Do you think IMF should work together with regional monetary institutions such as the ASEAN+3 Macroeconomic Research Office (AMRO) and Chiang Mai Initiative (CMIM) in trying to prevent and resolve future financial crises in Asia?

Note: Values are based on actual number of responses per option and numbers may not add due to rounding.

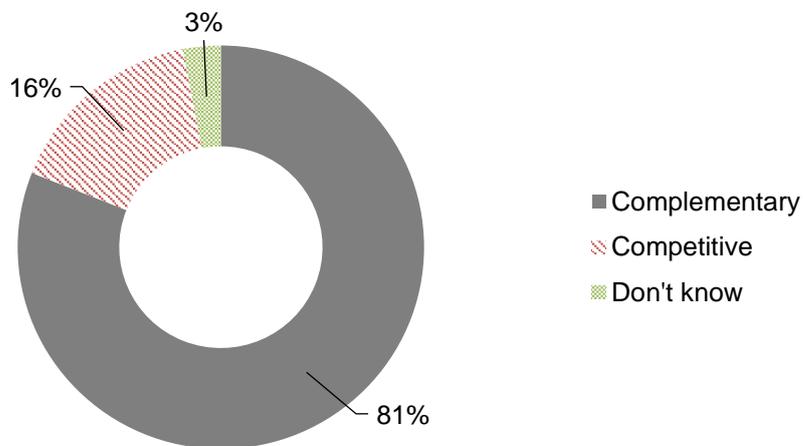


Fig. 20 Should regional institutions complement or compete with global institutions?

The question was formulated as follows—Q19. In your opinion, should regional institutions complement or compete with global ones in delivering global public goods? For example, what should be the relationship between AIIB and World Bank (and Asian Development Bank)?

Note: Values are based on actual number of responses per option and numbers may not add due to rounding.

5. Additional comments from the respondents

The survey questionnaire had provided a box where the respondents could offer additional comments on mega-FTAs and the evolving GEA. Selected comments are summarised in Table 2.

Table 2: Selected comments from respondents

Respondents' comments	
Pros and cons of mega-FTAs	<ul style="list-style-type: none"> • The Mega-FTAs, if properly negotiated and positioned, can help ameliorate global conflicts based on conflicting strategic perceptions and create greater peace. [...] Therefore a world layered with Mega-FTA may help create win-win for all stakeholders if negotiated with all their concerns in view. • The mega-FTAs are adding to the complexity of foreign trade and introducing trade alliances in competition to free trade as well as interrupting fiscal and economic sovereignty thus should be slowly phased out.
Impact on third countries	<ul style="list-style-type: none"> • Issues (concerns) should be discussed and addressed as regards the impact and implications of mega-FTAs for countries that are left out (preference erosion, market loss, undermining of competitiveness, being left out of production networks and value chains etc.). For example, inclusion of Vietnam in TPP [may have] implications for apparels-exporting LDCs [less developed countries] such as Bangladesh and Cambodia [...]. • [T]he TTIP, TPP and RCEP are immensely important for excluding countries (like Bangladesh's real GDP would fall by 0.5 per cent) which has been missed in this survey.
Timing of mega-FTA implementation	<ul style="list-style-type: none"> • [...] Also as for TPP and TTIP I wanted to add that I think it all depends on the outcome of the U.S. presidential election. But if Hilary Clinton wins I think the agreement will pass relatively quickly. Otherwise I am not sure what is going to happen to the world if the leading [R]epublican candidate wins. All trade negotiations might suddenly break down in this event. So I really see the U.S. elections as pivotal to all this.
Motivations behind and relationship between mega-FTAs	<ul style="list-style-type: none"> • The mega FTAs appear to be oriented more towards working for the future than actually addressing existing problems that can be solved by discussion. • While the TPP is a free trade agreement for members, it is a way to exclude countries outside the agreements. For China, to keep itself relevant, it has to pursue other FTAs in order to counter the effect of the TPP. RCEP would be this case. • It would be wise to break down the different parts of the agreements as they are obviously about far more than trade. The relationship between these agreements and security. Who writes the rules? Do they signal economic power is shifting toward Asia? What type of economic power? • While the TPP and RCEP are in tight competition, the U.S.-EU pact is not a competitor to RCEP because the actors are different. • The strategic dimensions – especially the US Pivot to Asia and the crisis in Europe – will be catalysts.
(Mega-)regionalism vs. multilateralism	<ul style="list-style-type: none"> • Regional trade agreements including mega-FTAs could be considered as a second-best alternative to promote freer trade among countries. The larger the FTA group with many member countries, the better chance to move towards global free trade. • FTAs particularly mega FTAs will ultimately lead to death of WTO which was established after prolong[ed] effort[s].

	<ul style="list-style-type: none"> I am afraid the intentions of Mega FTAs seem to contain the rather than [advance] regional co-operation. This may lead to new disintegration of the world.
Regional vs. global institutions	<ul style="list-style-type: none"> Despite suggested complementarity, the rise of regional economic institutions would imply reducing the dominance of western-centric global institutions. The new era will either require a re-writing of the post-WWII rules, or will see the creation of competing systems and development logics. The latter need not be a bad thing if it does not lead to open aggression, but rather to a competition between good ideas. Vigilance is the watch word to prevent monopolisation of the major economic powers. FTA and other such organisations should try to balance the powers. “The East is East, the West, West” and when the twine meet you get the very best of both worlds.
Other comments	<ul style="list-style-type: none"> While global economic forces are pushing for global free trade, the current global political climate is increased nationalism and protectionism, making the process of any FTA delayed and even cancelled. Very high skills are required for countries to navigate the noodle-bowl. Equally important is their ability to mobilise their business community to align itself to the governments’ commitments to the Trade Pacts. Not many can achieve both. As with any other initiative in international trade relations, this trend will create a new set of haves and have-nots. If RCEP takes longer to materialise or remains a lame agreement, [Eurasian] Economic Union would make equally relevant. Hope Russia is as serious about EEU as U.S. was for TPP.

6. Summary and recommendations

The survey resulted in a number of conclusions and policy implications. First, despite some costs and a hostile political climate questioning the virtues of liberalised foreign trade, mega-FTAs are a good trade policy instrument on balance and therefore should be pursued. They enable countries to edge ahead in an increasingly anarchic and unpredictable global commercial environment. Although mega-FTAs and stronger trade enforcement could be advantageous to contracting parties, a large number of our respondents were deeply concerned about mega-FTAs' discrimination against outsiders. Currently there are some 160 countries that are not part of the negotiations, and many of them are developing countries.

To minimise negative externalities, mega-FTAs should strive to be genuinely "open regionalism" that are willing to accept new members when the applicants comply with the rules of accession. Prospective TPP members include South Korea, Taiwan and Thailand. Hong Kong, ASEAN's seventh largest trading partner as of 2015, could be accepted as the 17th member of RCEP upon the completion of the ASEAN-Hong Kong FTA this year. European Free Trade Association countries (Iceland, Liechtenstein, Norway and Switzerland) and Turkey are potential new entrants of TTIP grouping because of their extensive economic, political and institutional links with the EU. The United Kingdom could also be keen on retaining its TTIP membership in spite of Brexit to secure its favourable trade relations with both continental Europe and the U.S.⁵⁹

Second, there appears to be tight competition among leading economies in negotiating mega-FTAs, giving rise to a "domino effect" of proliferating mega-regionalism. The U.S.-led TPP sowed the seeds of subsequent mega-FTAs by creating strong economic and/or strategic incentives for China, ASEAN and the EU to respond in kind. With the ratification of the TPP pending, opinion leaders believed that the TPP would be operational first, followed by RCEP and then TTIP. However, given the twist of fate of the TPP under the Trump presidency, the previously under-the-radar RCEP could leapfrog to become the first mega-FTA to be implemented. Moreover, as with embarking on trade talks, there could be a rush among countries in concluding and implementing the mega-FTAs.

Third, the survey shows that wide-ranging mega-FTAs have not only economic dimensions but also important political and geo-strategic ramifications. Asian opinion leaders confirmed the view that the TPP represents a continuation of Washington's strategy of "socialising" China through selected international regimes, aiming to eventually lock China into TPP norms and terms and the embedded American world views. Fearing that the TPP is a coercive legal shackle devised to check the rising power of China, Beijing institutionalised a strategic equivalent, RCEP, in East Asia. RCEP is also a high-stakes matter for ASEAN as it will strengthen the latter's internal integration as well as "ASEAN Centrality" in external affairs. The EU's motives behind TTIP were largely two-fold. Brussels wanted to

⁵⁹ Ji, X. (2016). Brexit Makes TTIP More Important. *Global Trade*. Retrieved 4 October 2016, from <http://www.globaltrademag.com/eu-trade/brexit-makes-ttip-important>

join the mega-FTA bandwagon to attract economic activities that would otherwise be drawn to the Asia Pacific region by the TPP and RCEP. At the same time, the EU hoped to combat the euro zone crisis by liberalising transatlantic trade and investment.

Fourth, both the TPP and RCEP were supported by opinion leaders to be possible pathways toward an all-encompassing Free Trade Area of the Asia Pacific. Since neither agreement includes both the U.S. and China, Japan, which is party to both mega-FTAs, may find itself in a strong position to take the lead in achieving region-wide economic integration while disentangling itself from Asia Pacific's "noodle bowl" problem.

Fifth, approximately six out of ten respondents felt that mega-FTAs are building blocks to multilateralism. Nevertheless, the perception is not a foregone conclusion; it is essential for the WTO to not only recognise the systemic impact and functional value of mega-FTAs, but also to participate in the ongoing negotiations with the aim of maximising their potential for multilateralisation. Otherwise, unfettered and contagious mega-FTAs would usher in an era of de-globalisation and economic downturns. This is because excluded parties such as Russia, Brazil and South Africa may be provoked to play their own regionalism game.

Sixth, given the already low tariffs levels and the understanding that infrastructural deficit could be the real bottleneck for expanding trade, two-thirds of Asian opinion leaders were of the opinion that China's Belt and Road Initiative and the AIIB could be more useful than the U.S.-backed TPP in determining trade patterns and bringing about more growth to the under-performing global economy. That said, it is in everyone's best interests that these large-scale international economic arrangements could complement each other, strengthening both the hardware and software components of trade in the 21st century.

Finally, two major sources of GEA's decentralisation process are the de-polarisation of the world order and a lack of governance reform at global economic institutions. The opinion leaders also expressed the view that global and regional institutions should form cooperative partnerships in delivering global public goods. Specifically, our respondents felt that the IMF should work together with regional self-insurance arrangements such as the CMIM and AMRO to prevent new episodes of Asian financial crisis; so should the AIIB, ADB and the World Bank in financing international development.

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