Saving Potential of Regional Comprehensive Economic Partnership (RCEP): Implication for China and Japan

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Abstract

ASEAN community and six ASEAN FTA partners' leaders have engaged in strengthening economic development within the region by establishing RCEP. ASEAN had signed trade agreements with all the other six FTA partners. The other six ASEAN trading partners within RCEP have no free trade agreements yet among them. Therefore, the RCEP is involved in tough negotiation among the six non-ASEAN member countries. RCEP commitment is established through ASEAN as a catalyst. This study will examine the total saving potential of free trade agreement by using ex-ante FTA analysis and the political implication of RCEP for non-ASEAN member countries, especially Japan and China. The impact of RCEP will be insignificant without China and Japan existence. These two countries are essential to be maintained in the RCEP initiatives. The six non-ASEAN members in RCEP are finding ways to exploit the balance benefit among them. China-Japan relations will be embedded in the RCEP association if RCEP is concluded. From the economic perspective Japan and China seems to have strong economic interdependence. From the political perspective both countries have long history relations, distrust and mistrust. Therefore, economic interdependence could be the way forward for both countries to have a harmonious relationship. Japan and China need ASEAN and other RCEP members to tighten the economic and political relations among them.

Keywords: Japan; China; ASEAN; RCEP; Political; Economy; Regionalism

INTRODUCTION

The Association of Southeast Asian Nations (ASEAN) community is building a relationship with some other countries under free trade agreements (FTAs). The ASEAN community consists of ten countries: Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam. ASEAN leaders and six ASEAN FTA partners' leaders are engaging in strengthening economic development within the region by establishing a Regional Comprehensive Economic Partnership (RCEP). RCEP member countries are ASEAN member countries, plus the People's Republic of China (PRC), Japan, Republic of Korea (ROK), India, Australia, and New Zealand. RCEP has been proposed based on the ASEAN community during the 21st ASEAN Summit in November 2012 (ASEAN.org, 2016). The RCEP objective is achieving a modern, high-quality economic partnership and comprehensively contributing towards mutual benefit among members (ASEAN.org, 2016). In addition to trade and economic developments, politics are among the main factors affecting the regional relationship of the RCEP members. Political factor as a driving force is one of the essential factors in the free trade agreement and relationship building among countries. ASEAN centrality is the critical role in strengthening economic collaboration and magnifying economic integration within RCEP. Furthermore, RCEP will negotiate on trade in goods, investment, trade in service, intellectual property, competition, economic and technical cooperation, dispute settlement and other issues (ASEAN Secretariat, 2016b).

ASEAN Plus Three (APT) is cooperation between PRC, Japan, and ROK. This APT cooperation was institutionalized in 1999 by issuing a joint statement on East Asia Cooperation and adopting the comprehensive partnership in 2007 (ASEAN Secretariat, 2017). ASEAN and China signed FTA in November 2002; ASEAN, Australia, and New Zealand had signed FTA in February 2009; ASEAN and India signed trade in good agreement in August 2009; ASEAN and Japan signed a comprehensive economic partnership agreement in April 2008; ASEAN and ROK have signed FTA in December 2005 (ASEAN Secretariat, 2016a). Some of the other six ASEAN trading partners within RCEP have no free trade agreements yet among them. Therefore, the RCEP is having tough negotiation among the six non-ASEAN member countries.

China and Japan are the big countries that contribute a significant percentage of GDP compared to other participant countries. China and Japan have been viewed as rivalry states with greater political and economic power than other countries within the RCEP (Yoshimatsu, 2017). India feels pressure to reduce tariff more than 90% to all RCEP members, including China (Sen, 2018). These non-ASEAN member countries are negotiating to find the balance of optimal benefit among them. These non-ASEAN member countries are bargaining in terms of political and economic perspectives. The bargaining political and economic powers among non-ASEAN members are essential to be analyzed for the sustainability of RCEP. This paper will analyze the following questions: How has the relationship between China and Japan developed within ASEAN centrality? How much is the potential saving tariffs reduction of FTA between these China and Japan?

Many studies have been conducted in order to explore the economic implication of the free trade agreement between ASEAN and six trading partners within RCEP. Itakura (2014) has evaluated the potential liberalization impact on economic among ASEAN member states (AMsS) by using a computable general equilibrium (CGE) model. He has conducted a simulation to get the picture of building FTAs in which AMSS participate. Ahmed & Singh (2016) have investigated the financial integration of RCEP. Fukunaga & Isono (2013) have identified the opportunity, benefit and challenges of the RCEP formation and delineating FTA impact between RCEP and ASEAN+1 using dynamic GTAP analysis. Cheong & Tongzon
This study examines the potential impact of free trade agreements by using ex-ante FTA analysis and analyze the dynamic relations between China and Japan within RCEP. The potential saving of free trade agreement among six non-ASEAN members has not been measured yet. This study will calculate the total potential saving of trade agreements between six non-ASEAN member countries, especially China and Japan, by using ex-ante FTA analysis. A clear and accurate analysis is necessary to be considered before its implementation (Plummer, et al., 2010, p.2). The ex-ante analysis is a critical analysis to figure out the overall cost-benefit analysis, overall country negotiation position, and to identify what the country can and cannot provide to its negotiation's partners (Plummer, et al., 2010, p.2). The ex-ante analysis is increasingly utilized by researchers to be used as a free trade agreement assessment (Ziltener, 2017).

This paper will combine qualitative and quantitative methods. An in-depth literature review will be used as a qualitative method. The quantitative method will be used to calculate the potential savings of China and Japan countries if the RCEP negotiation will be concluded in the future. Both qualitative and quantitative analyses will give a useful contribution to gain knowledge from a different perspective. The literature review approach will be used to explore the development of political, economic ASEAN and RCEP negotiation process. This study mainly focuses on China and Japan within RCEP in the regional free trade implications context.

This study will be organized in the following order: the literature review will be described in section 2. Section 3 will describe the data and measurement result. Section 4 will be an analysis of the maximum saving potential for China's exporters and Japan's exporters by the year or cumulative results. Section 5 will explain the conclusion of the study, limitation, and recommendation for further study.

**LITERATURE REVIEW**

**RCEP Economic Perspectives**

ASEAN has signed ASEAN +1 FTA agreements. The agreements with ASEAN +1 do not distribute broader market access for ASEAN countries compare to RCEP. Moreover, RCEP gives an opportunity for ASEAN to broaden market access by maintaining commitments in trade of goods and services, and rules of origin (ROO) (Fukunaga, 2015). Table 1 below shows that the world percentage ASEAN GDP was small at 3.37% in 2016. The other six ASEAN FTAs partners of RCEP GDP is 27.96% in 2016. It shows that ASEAN's GDP is only a small number percentage of GDP without the other six FTAs partners sign-up in the RCEP. In this regard, Fukunaga (2015) suggests that ASEAN centrality plays a role as the "facilitator of process" and as "the driver of substance." ASEAN has become the driver of substance by considering the political aspect and economical aspect. Fukunaga (2015) explains that ASEAN +1 FTAs is creating the "noodle-bowl" situation. Therefore, RCEP facilitates the "noodle-bowl" problem with different rules and commitments.

| Table 1. ASEAN GDP VS RCEP GDP | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|--------------------------------|------|------|------|------|------|------|
| ASEAN GDP                      | 3.13%| 3.24%| 3.26%| 3.20%| 3.27%| 3.37%|
| 6 ASEAN FTAs Partners          | 24.99%| 26.08%| 25.57%| 25.86%| 27.34%| 27.96%|
| RCEP                           | 28.13%| 29.32%| 28.82%| 29.05%| 30.61%| 31.32%|

Data source: The World Bank, authors’ calculation

Figure 1 below shows the proportion of the total RCEP GDP. It shows that China's GDP dominated among the other countries within RCEP. ASEAN contributes 11% of the total RCEP GDP.

![Figure 1. Pie Chart ASEAN GDP within RCEP GDP in 2016](Image)

Data source: The World Bank, authors’ calculation

The formation of Regional Trade Agreements (RTA) is triggering some arguments whether RTAs become “building blocks” or “stumbling blocks” in achieving its goal of opening a regional trading system (Scollay & Gilbert, 2001, p.10). It could not be generalizing in all trade regionalism processes. The outcome will be different based on the nature and characteristics of the countries involved in the RTA formulation. The RTA has a different objective based on the countries involved in the formulation of RTA. It is assisting the developing countries to improve their economic performance through trade and policies.

In the globalization era, the production system turns out to be more fragmented because of outsourcing and vertical specialization (Balaam & Dillard, 2014, p.127). For instance, China produces iPhone 3G's. The significant components of this product are coming from Japan, Korea, and other countries (Xing & Detert, 2010, p.4). The ‘World Is flat’ book by Friedman has explained that the production processes was spreading fast through the world especially for India and China (Balaam & Dillard, 2014, p.127). Both are two powerful countries to collaborate and compete at global level

RCEP commitment is established through ASEAN as a catalyst. From the economic perspective, ASEAN deliberately attempts to maintain the ASEAN center within external economic relations of RCEP with FTAs network. The formulation of regional economics group can be used as a tool for controlling the agenda and membership within the regional block (Hamanaka, 2014). The potential saving of FTA will contribute to non-ASEAN member countries if RCEP is concluded in the future. Ravenhill (2010) argues that East Asian regionalism is being driven by “political domino” rather than “economic domino.” The table 2 below shows the trade agreements between sixteen countries that formulated RCEP. The table shows that the other six countries, particularly Australia-India, Japan-Korea, China-Japan, China-India, Japan-New Zealand, and India-New Zealand, have no free trade agreement yet.

**RCEP Political Perspectives**

Protection in international trade shows that economist insufficient to give political influence on trade policy. Baldwin, (1989, p.131) believes that economic self-interest and people welfare need to be considered as a driving force for political action. It has become a vital part of developing a better national trade policy formulation influenced by international trade agreements. Robert Kuttner has explained that "trade is always political" (Balaam & Dillard, 2014, p.128). Cai (2010, p.40) explains that the evolving of global economic since 1945 is demonstrating a different pattern of global politics and economics setting. It leads to different national interests and decision makers concern for their national economic development. These arguments show that economics, trade, and politics are interrelated to each other.
Some countries are eager to have some bilateral and multilateral trade agreement. Limão (2007) has argued that preferential trade agreement (PTA) motivation is not only trading. PTAs have some other non-trade objectives or motives. Non-trade motives of PTAs describes each of the motive consequences on the multilateral trading system. Political strategy is needed to realize the trade objectives between countries. Internal politics, social, environmental, and international securities are essential to be negotiated in the bilateral or multilateral trade negotiations (Egger & Olarreaga, 2014, p.136).

International trade policy and trade negotiations between some countries are influencing domestic trade policy as well.

Table 2. RCEP Trade Policy (TP) Matrix

| Country | RIN CAM DN LAOS MYS MYA PHL SGF THAI VNM AUS CHINA INDIA JAPAN NZL ROK |
|---------|-------------------------|
| Japan   | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| China   | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| India   | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Japan   | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| China   | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| India   | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Japan   | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| China   | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| India   | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Japan   | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| China   | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| India   | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |

Dai, (2015, pp.5-6) differentiates between regionalization and regionalism. He explains that regionalization is economic flows within region that merge and regionalism is intergovernmental economic cooperation which is mainly politics. Ravenhill's (2010) article shows little support for the argument that the new East Asian economic regionalism objective is to expand its market to other countries under the free trade agreements. He argues that there is a regionalism political domino effect plays the major part compared to an economic domino effect.

RCEP will be part of the regional partnership that intergovernmental economic cooperation is dominated by political objective than economic objective. The ten AMSs had the central trade negotiations within RCEP. RCEP negotiations recognize the unique setting of ASEAN. Therefore, ASEAN as a catalyst is playing an essential role in the RCEP mega trading negotiation and ASEAN is balancing its position with non-ASEAN members (Fukunaga, 2015). Yoshimatsu (2017) explains that ASEAN is trying to maintain the central position by creating a social constitution and norms system. ASEAN has maintained the centrality between China-Japan relations by placing them in the social constitution construction and keeping away exclusive links with each of the two countries.

China and Japan Relations: Competition and Cooperation

There are two perspectives of China’s rise: liberal and realist perspectives. The liberal perspective believed that economic interrelation between countries such as foreign direct investment and trade would lead to peace and harmony (Takeuchi, 2014, p.8). Neo-liberal is viewing China integration will be peaceful utilizing trade would lead to peace and harmony (Xie and Page, 2010, p.481). The realist perspective believed that China’s economic growth, China’s ambition of its territory, China’s power confident escalation, Japan’s economic stagnation, Japan’s nationalism, and Japanese people’ fear of China are increasing the rivalry tensions between both countries (Takeuchi, 2014, p.8). John Mearsheimer, as a realist theorist, believed that great powers are feared and compete with each other to reach dominant power to maintain their sustainability (Xie and Page, 2010, p.481).

Sino-Japanese bilateral relations complexities have affected not both countries but also the East Asian regional level and global level (Honghua, 2010, p.75). The complexity of Sino-Japanese has accompanied by long history relations, distrust, and mistrust (Honghua, 2010, p.75). Mistrust and fear play a pivotal part in several expositions of international conflict (Kydell 2000, p.325). Sino-Japanese tensions are complex and durable, but the South East Asians elites look forward to eliminating the conflict escalation and to increase the engagement level with ASEAN and South East Asian countries as an opportunity (Singh, et al. 2017, p.112).

China and Japan have improved the economic interdependence within the last twenty years and Sino-Japanese relations have notably developed from 2006 to 2012 (Takeuchi, 2014, p.29). Takeuchi (2014, p.29) has explained that the economic interrelations become a fundamental bilateral relationship development on the assumption that authoritarian leader was having an environment to deliver a strong signal to alter public opinion. Sino-Japanese relations are deteriorating since 2012 because China clearly shows the ambition for Senkaku/Diaoyu Island territory (Takeuchi, 2014, p.29).

Table 3. Japan’s Biggest Trading Partners (2016)

| Japan’s Trading Partners | Export (US$ thousand) | Import (US$ thousand) | Export Partner Share (%) | Import Partner Share (%) |
|--------------------------|-----------------------|-----------------------|--------------------------|--------------------------|
| United States            | 130,585,866           | 69,221,593            | 11.41%                   | 20.25%                   |
| China                    | 113,830,234           | 156,552,583           | 25.79%                   | 17.65%                   |

Table 3 shows that China is one of the biggest markets for Japan. Japan has depended on the United States for security and economy because China is one of the biggest markets for Japan (Singh, 2002, p.280). It turns Japan will build economic links with Southeast Asian countries to get natural resources and to expand the markets (Singh, 2002, p.280). Japan began dialogue partner with ASEAN since 1977 and China began dialogue partner with ASEAN since 1996 (Singh, et al. 2017, p.107). China has started negotiation with ASEAN countries for a free trade agreement in 2002, and it came into effect in 2010 (Singh, et al. 2017, p.108). The Chinese’ passionate engagement with ASEAN becomes part of the major trend for China’s strategic, economic, and political movement; then later this movement required Japan to respond (Singh, et al. 2017, p.109). Japan is responding to China's initiative on the FTA with ASEAN countries by offering Comprehensive Economic Partnership with ASEAN in January 2002 and concluded in 2007 (Chung, 2011, p.415). Japanese Prime Minister Koizumi Junichiro has proposed to include Australia and New Zealand to balance China’s influence (Chung, 2011, p.415). China and Japan have encouraged economic regionalism by means of larger FTAs across Asia-Pacific (Webster, 2008, p.318). China and Japan have a different style of adopting FTA. Japan is adopting a comprehensive and orthodox style, and China is adopting gradualism and flexibility of FTA approaches (Webster, 2008).

China becomes the largest market for Japan, and Japan becomes a source of capital and technology for China (Taylor, 1996, p.58). The strategy of Chinese leaders to search for Japanese investment shows that both countries are planning for industrial development and the subsequent expanding role in the economic growth of East Asian (Taylor, 1996, p.56). The Chinese leaders believed that Japanese investment is vital for the economic leverage and Japan is the most desired partner based on the advanced technology, geographic closeness, and cultural similarity (Taylor, 1996, p.58). Japanese industrialist's investment in China is encouraged by the high cost of production as an appreciation of yen and production based abroad is increasing to gain a competitive advantage (Taylor, 1996, p.57).
The spreading effect of regional integrations, China's economic growth, Japan's political effort of expansion in regional and global areas, ASEAN's normative influence, and United States' strategic alignment are the dominant dynamics pattern in East Asian subsequent development (Honghua, 2010, pp.81-82). The main concern is that the major power dynamics among Sino-Japanese competition is viewed as the manifestation of Sino-US power dynamics (Singh, et al., 2017, p.115). China and Japan relationship is the main factor of peaceful rise because China could not build a peaceful Asian international society that is peaceful at regional and global arenas without Japan (Buzan, 2010, p.35). China should lead the initiative for a peaceful rise strategy because Japan has an alliance with the United States (Buzan, 2010, p.35). Japan’s relations with Southeast Asia is a way for the United States to strengthen Southeast Asian against China communism, to maintain Japan’s access for security, to get raw materials and markets and to minimize trade between Japan and China (Schaller, 1982, p.393). China should lead first because China will gain the most from the change and will lose from the status quo (Buzan, 2010, p.35).

The Sino-Japanese connection has both competition and cooperative components. Japan demonstrates the efforts to equal to China's influence on Asian-Western Pacific regional arrangements built within the last 14 years (Chung, 2011, p.423). Based on Honghua (2010, p.74) China and Japan have consensus on the new strategic relationship: maintaining partner’s harmonious development to develop bilateral political trust, intensifying mutual cooperation to attain mutual progress, reinforcing dialogue and communication to protect and to encourage regional stability, increasing Chinese and Japanese people exchanges to enrich the common understanding between both countries, and reinforcing cooperation and coordination to reach regional and global challenges. In 2006, the Japanese Prime Minister Abe Shinzo broke the tradition by choosing China as the first foreign country visit instead of the United States (Takeuchi, 2014, p.16). The Chinese government respected the Japanese government’s signal and followed Chinese President Hu Jintao’s visit to Japan in 2008 (Takeuchi, 2014, p.16). Chinese and Japanese leaders are defining the mutual benefit relation associated with fundamental strategic interest (Takeuchi, 2014, p.16). The connection of economic interdependence is supporting to prevent the escalation of serious conflict (Honghua, 2010, p.74). China and Japan have mistrust and distrust, but mutual interdependence is growing (Honghua, 2010, p.74). It shows that the two of the most important Asian powers are collaborating to preserve security and generate prosperity for both countries and the neighborhood (Chung, 2011, p.423). In 2017, Prime Minister Shinzo Abe and Chinese President Xi Jinping met on the sidelines of Asia Pacific Economic Cooperation (APEC) Vietnam summit. Both leaders are maintaining to improve relation ties, to cope and control the dispute between the two countries, and to keep in good condition the stability of relationship (Takenaka, 2017).

DATA ANALYSIS OF SAVING POTENTIAL DUTIES

China’s export and Japan’s export will be described in this section. The following table shows the Japan and China exports in the ten years data between 2006-2015.

Table 4. China and Japan exports

| Year | China’s Export to Japan (US$ thousand) | Japan’s Export to China (US$ thousand) |
|------|---------------------------------------|---------------------------------------|
| 2006 | 118,525,736                           | 115,672,581                           |
| 2007 | 127,922,366                           | 133,950,504                           |
| 2008 | 143,299,984                           | 150,600,041                           |
| 2009 | 122,574,081                           | 130,937,525                           |
| 2010 | 153,203,234                           | 176,736,084                           |
| 2011 | 183,882,190                           | 194,567,856                           |
| 2012 | 188,500,370                           | 177,832,336                           |
| 2013 | 180,977,514                           | 162,245,573                           |
| 2014 | 181,294,159                           | 162,920,512                           |
| 2015 | 160,559,699                           | 142,902,573                           |

Data source: WITS 2018

The saving potential method will be used to calculate the saving potential for both countries. The potential saving is the export duties that should be paid by any World Trade Organization (WTO) member countries to another country based on the composition of its export duties that have not been reduced at FTA based (Zilitener, 2016b). The model will use country A and country B as a trading partners. The trading values of country A in a certain year will be multiplied with the tariff of country B and the other way around. The tariff calculation is based on the Most Favor Nation (MFN) tariff rate at the six-digit level Harmonized System Code (HS code). World Customs Organization (WCO) has developed the HS code. HS code is used as a multi-function for the international product nomenclature (World Customs Organization, 2017). The cross-section data will be used in this study. The most current year trade data will be accessed through the UN Comtrade website. The applied tariff rate data will be collected through WTO statistics trade and tariff. The other data will be collected from the World Integrated Trade Solution (WITS) and the World Bank.

This maximum saving potential will be described in detail at the statistical analysis of the saving potential duties between China and Japan. The explanation is based on the tariff reduction for the exporters in China and Japan. The scenario of the tariff reduction in this paper assumes that both sides will reduce the tariff into the maximum zero. This assumption is close to real calculation of FTA but some conditions might be applied in the realistic application of the free trade agreement. The conditions that might be applied in reality will not eliminate all the tariffs reduction into zero. In this paper, the calculation scenario of saving potential is reducing all tariffs into zero.

The statistical analysis of saving potential trade includes the Information Technology Agreement (ITA). ITA is concluded with 29 participants in Singapore, December 1996 (WTO, 2018). ITA is an agreement that leads to eliminate 201 information and technology (IT) products tariffs. The statistical analysis shows the result of both excluding ITA and including the ITA. The statistical analysis in this paper excludes four commodities: 1) HS code 71 is natural, cultured pearls, precious, imitation jewelry, semi-precious stones, precious metals, metal clad with precious metal, articles thereof, and coin, 2) HS code 93 is arms and ammunition, 3) HS code 97 is works of art, collectors’ pieces and antiques, 4) HS 99 commodities not specified according to kind.

Japan’s Exports to China

The saving potential value results for Japan’s export to China shows that Japan would gain big amount of saving potential if China eliminate most of their tariffs rate for Japan. The following table shows the saving potential for Japan’s export in each commodity cluster and total saving potential.

Table 5. Saving potential for Japan’s exports to China excluding ITA (2016)

| Commodities                      | HS Code | Trade Values (US$ million) | Potential Duties (US$ million) |
|----------------------------------|---------|---------------------------|--------------------------------|
| Transportation                   | 86-89   | 14,277                    | 2,520                          |
| Machinery / Electrical           | 84-85   | 67,658                    | 2,271                          |
| Miscellaneous                    | 90-96   | 16,631                    | 1,213                          |
| Chemicals & Allied Industries    | 28-38   | 14,434                    | 832                            |
| Plastics / Rubbers               | 39-40   | 10,215                    | 750                            |
| Metals                           | 72-83   | 12,695                    | 710                            |
| Stone / Glass                    | 68-70   | 2,140                     | 290                            |
| Textiles                         | 50-67   | 4,777                     | 826                            |
| Mineral Products                 | 25-27   | 1,469                     | 91                             |
| Foodstuffs                       | 16-24   | 301                       | 58                             |
| Animal, Animal Products          | 01-15   | 418                       | 46                             |
| Vegetable Products               |         |                           |                                |
| Wood & Wood Products             | 44-49   | 1,451                     | 43                             |
| Footwear / Headgear              | 64-67   | 49                        | 9                              |
| Raw Hides, Skins, Leather, & Furs| 41-43   | 55                        | 5                              |

Schaller, (2011, p.423)
The total maximum saving potential duties for Japan is 9,074 US$ million. This total maximum saving potential is excluding the ITA. Table 5 above shows that the potential duty of transportation commodity is 2,520 US$ million, the highest potential duties among other commodities. The trade value of transportation commodities is less than the machinery/electrical commodities. It represents that China is high tariffs on transportation. In Figure 2 the transportation commodities show that the ma maximum tariff is 45%, the average tariff is 12.5%, the minimum tariff is 0%, and the mode tariff is 10%.

Figure 2. Tariff Range of China imports from Japan excluding ITA

Data source: WTO 2018, authors’ calculations

Table 6 below shows the Japan potential export saving duties to China, including ITA. The total potential duties value is decreasing by 11% from 9,074 US$ million to 8,073 US$ million. Table 6 shows that the potential duties values for machinery/electrical, miscellaneous, chemicals, and allied industries commodities are decreasing after including the ITA.

Figure 3 shows that the average tariff for machinery/electrical is decreasing from 8.4% to 7.5%. The average tariff for the miscellaneous is decreasing from 11.2% to 9.9%. The average tariff for chemicals and allied industries is decreasing from 6.9% to 6.8%.

Figure 3. Tariff range of China imports from Japan including ITA

Data source: WTO 2018, authors’ calculations

Table 6. Saving potential for Japan’s exports to China including ITA 2016

| Commodities                      | HS Code | Trade Values (US$ million) | Potential Duties (US$ million) |
|----------------------------------|---------|----------------------------|--------------------------------|
| Transportation                   | 86-89   | 14,277                     | 2520                           |
| Machinery / Electrical           | 84-85   | 67,658                     | 1,803                          |
| Miscellaneous                    | 90-96   | 16,631                     | 788                            |
| Chemicals & Allied Industries    | 28-38   | 14,434                     | 724                            |
| Plastics / Rubbers               | 39-40   | 10,215                     | 750                            |
| Metals                           | 72-83   | 12,695                     | 710                            |
| Stone / Glass                    | 68-70   | 2,140                      | 290                            |
| Textiles                         | 50-63   | 2,577                      | 236                            |
| Mineral Products                 | 25-27   | 1,469                      | 91                             |
| Foodstuffs                       | 16-24   | 301                        | 58                             |
| Animal, Animal Products & Vegetable Products | 01-15 | 418                        | 46                             |
| Wood & Wood Products             | 44-49   | 1,451                      | 43                             |
| Footwear / Headgear              | 64-67   | 49                         | 9                              |
| Raw Hides, Skins, Leather, Furs  | 41-43   | 55                         | 5                              |

Data source: UN Comtrade 2018, authors’ calculations

Table 7. Ten highest saving potential for Japan’s transportation commodities exports to China (HS 6 digits level) 2016

| HS Code | Duties | Trade Value (US$ million) | Potential Duties Values (US$ million) | Descriptions |
|---------|--------|----------------------------|---------------------------------------|--------------|
| 870323  | 25%    | 4,940                      | 1,235                                 | Vehicles; spark-ignition internal combustion reciprocating piston engine, cylinder capacity exceeding 1500cc but not exceeding 3000cc |
| 870324  | 25%    | 2,545                      | 636                                   | Vehicles; spark-ignition internal combustion reciprocating piston engine, cylinder capacity exceeding 3000cc |
| 870840  | 9%     | 4,114                      | 370                                   | Vehicle parts; gear boxes and parts thereof |
| 870899  | 14%    | 481                        | 68                                    | Vehicle parts and accessories; n.e. in heading no. 8708 |
| 870829  | 10%    | 399                        | 40                                    | Vehicles; parts and accessories, of bodies, other |
China's exports to Japan. The tariff range figure of Japan's duties show that the tariff barrier from each commodity for China's exports to Japan is relatively lower than China's import tariff. The Japan import tariff statistical analysis shows that there is no significant difference between excluding ITA and including ITA. Table 9 above shows the ten highest duties of tariff reduction into more detail by using ex-ante analysis to find out the tariff barrier of China's duties.

Table 9. Ten highest saving potential for China's textile commodities exports to Japan. (HS 6 digits level) 2016

| HS Code | Duties | Trade Value (US$ million) | Potential Duties (US$ million) | Descriptions |
|---------|--------|---------------------------|-------------------------------|--------------|
| 610910  | 10%    | 614                       | 60                            | T-shirts, singlets and other vests; of cotton, knitted or crocheted |
| 610990  | 10%    | 553                       | 54                            | T-shirts, singlets and other vests; of textile materials (other than cotton), knitted or crocheted |
| 620462  | 10%    | 524                       | 50                            | Trousers, bib and brace overalls, breeches and shorts; women's or girls', of cotton (not knitted or crocheted) |
| 620820  | 10%    | 410                       | 45                            | Textiles; made up articles (including dress patterns), n.e.c. in chapter 63, n.e.c. in heading no. 6307 |
| 620830  | 10%    | 427                       | 42                            | Anoraks (including ski-jackets), wind-cheaters, wind-jackets, and similar articles; men's or boys', of human-made fibers, other than those of heading no. 6203 (not knitted or crocheted) |
| 620840  | 10%    | 439                       | 42                            | Blouses, shirts, and shirt-blouses; women's or girls', of human-made fibers, knitted or crocheted |
| 620850  | 10%    | 450                       | 42                            | Anoraks, wind-cheaters, wind-jackets, and similar articles; men's or boys', of human-made fibers, other than those of heading no. 6307 |
| 620860  | 10%    | 462                       | 42                            | Trousers, bib and brace overalls, breeches and shorts; women's or girls', of synthetic fibers (not knitted or crocheted) |

China's Exports to Japan

Japan's import tariff is relatively lower than China's import tariff. The Japan import tariff statistical analysis shows that there is no significant difference between excluding ITA and including ITA. Japan's import tariffs for 201 IT products (based on ITA) are already zero. Table 8 below shows that the total saving potential duty for China's export to Japan is 3,710 US$ million. The highest total duty is the textiles commodity. The total duty for the textile commodity is 1,810 US$ million.

Table 8. Saving potential for China's exports to Japan

| Commodity | HS Code | Trade Value (US$ million) | Potential Duties (US$ million) |
|-----------|---------|---------------------------|-------------------------------|
| Textiles  | 50-63   | 21,555                    | 1,810                         |
| Foodstuffs | 16-24   | 4,755                     | 474                           |
| Footwear / Headgear | 64-67 | 3,726                     | 383                           |
| Raw Hides, Skins, Leather, & Furs | 41-43 | 2,704                     | 253                           |
| Animal, Animal Products & Vegetable Products | 01-15 | 3,964                     | 237                           |
| Plastics / Rubbers | 39-40 | 5,575                     | 161                           |
| Chemicals & Allied Industries | 28-38 | 7,515                     | 127                           |
| Miscellaneous | 90-96 | 14,730                    | 103                           |
| Metals | 72-83 | 8,129                     | 71                            |
| Wood & Wood Products | 44-49 | 3,096                     | 62                            |
| Stone / Glass | 68-70 | 2,091                     | 18                            |
| Mineral Products | 25-27 | 1,339                     | 9                             |
| Machinery / Electrical | 84-85 | 71,167                    | 2                             |
| Transportation | 86-89 | 4,180                     | 28                            |
| Total | | 154,530                   | 3,710                         |

The total trade value of textile 21,555 US$ million is less than the total value of machinery/electrical 71,167 US$ million. The tariff range of textiles is higher than the tariff of machinery/electrical. The all Japan's transportation tariffs are zero. Figure 4 below shows that the maximum tariff is footwear/headgear at 28.5%; animal, animal products, and vegetable products at 28.5%; and raw hides, skins, leather, and furs at 25%. The foodstuff is the second highest duties value with the total potential duties at 474 US$ million. The average duty of foodstuff is 10.3%.

Figure 4. Tariff range of Japan’s imports from China excluding ITA

The saving potential tariff analysis is a useful analysis to figure out the saving potential that could be utilized from the free trade tariff reduction agreement. Table 9 above shows the ten highest duties of the textile commodity. The detail calculation of the duties shows that each of the commodities has a different tariff. Therefore, the free trade agreement could utilize the results of saving potential analysis of tariff reduction into more detail by using ex-ante analysis to find out the tariff reduction value.
The maximum saving potential for Japan's exports and China's exports have been calculated. In this paper, the scenario for the maximum free trade calculation of saving potential starts at the year of enforcement basis. The data of this paper is retrieved from the latest year available in 2016 from the UN Comtrade. The maximum saving is calculated based on the assumption that all these products are according to the rules of origin and utilization rate is 100%. It means that the free trade agreement will be effectively applied for all products. In the real application of FTA shows that utilization rate has not utilized up to 100%. For example, the utilization rate of Swiss export to Germany is 50% and another 40% exports on the duty-free basis (Ziltener and Blind, 2015). The ex-ante analysis is using the free trade utilization rate in order to analyze the saving potential close to reality (Ziltener, 2016a). The ideal utilization rate obtains from the ex-post analysis. The free trade agreement utilization rate calculates the free trade agreement successfully implemented to attain duty-free export (Ziltener, 2016a). If the utilization rate utilized is 66%, it means 66% of all exports (value based) in that year have been free from customs duties (Ziltener, 2016a). Therefore, the utilization rate is used to assume as a scenario for free trade between Japan and China. There are three scenarios in this paper. The first scenario is using the maximum utilization rate of 100%, the second scenario is using a medium utilization rate at 66%, and the third scenario is using the low utilization rate at 33%.

The assumption will calculate closer to the realistic projection by including export growth. The assumption of export growth: Japan's export to China growth annually is 5.4%, and China's export to Japan growth annually is 5.6%. These average export growths are calculated based on the average of country growth (%) data available in WITS. The China country growth of export is averaging from 1992 to 2015. The Japan country growth of export is averaging from 1993 to 2015.

The free trade negotiation between Japan and China has not been concluded yet. The maximum saving potential estimation could not be based on the specific agreement. The assumption can be made by assuming that it will cover substantially all trade as the GATT article (Ziltener, 2016a). The tariff will take part over ten years in 10 equal steps. The assumption is that the tariff will be eliminated on the first day of enforcement. Thus, the realization of the maximum saving potential in year one will be projected up to year 10.

### Table 10. Comparison of GDP to maximum saving potential

| No. | Japan (US$ million) | China (US$ million) |
|-----|---------------------|---------------------|
| 1.  | GDP (current US$) 2016 | 4,939,380           | 11,199,145         |
| 2.  | Max saving potential | 8,073               | 3,710              |
| 3.  | Ratio (2/3)          | 0.2%                | 0.03%              |

**Data Source:** WITS 2018, authors’ calculations.

The comparison of the GDP to maximum saving potential between Japan and China shows that the ratio for maximum saving potential to GDP for Japan 0.2% and for China 0.03%. Therefore, Japan has bigger ratio of saving potential than China.

### DATA ANALYSIS OF MAXIMUM SAVING POTENTIAL BY YEAR FOR ALL THE TOTAL PRODUCTS

The maximum saving potential for Japan's exports and China's exports have been calculated. In this paper, the scenario for the maximum free trade calculation of saving potential starts at the year of enforcement basis. The data of this paper is retrieved from the latest year available in 2016 from the UN Comtrade. The maximum saving is calculated based on the assumption that all these products are according to the rules of origin and utilization rate is 100%. It means that the free trade agreement will be effectively applied for all products. In the real application of FTA shows that utilization rate has not utilized up to 100%. For example, the utilization rate of Swiss export to Germany is 50% and another 40% exports on the duty-free basis (Ziltener and Blind, 2015). The ex-ante analysis is using the free trade utilization rate in order to analyze the saving potential close to reality (Ziltener, 2016a). The ideal utilization rate obtains from the ex-post analysis. The free trade agreement utilization rate calculates the free trade agreement successfully implemented to attain duty-free export (Ziltener, 2016a). If the utilization rate utilized is 66%, it means 66% of all exports (value based) in that year have been free from customs duties (Ziltener, 2016a). Therefore, the utilization rate is used to assume as a scenario for free trade between Japan and China. There are three scenarios in this paper. The first scenario is using the maximum utilization rate of 100%, the second scenario is using a medium utilization rate at 66%, and the third scenario is using the low utilization rate at 33%.

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The free trade negotiation between Japan and China has not been concluded yet. The maximum saving potential estimation could not be based on the specific agreement. The assumption can be made by assuming that it will cover substantially all trade as the GATT article (Ziltener, 2016a). The tariff will take part over ten years in 10 equal steps. The assumption is that the tariff will be eliminated on the first day of enforcement. Thus, the realization of the maximum saving potential in year one will be projected up to year 10.
CONCLUSION

The maximum saving potential analysis for a free trade agreement between China and Japan has shown that there is a potential gain for China's exporters and Japan's exporters as the expansion of big free trade regional partnership scheme within the RCEP. China and Japan are holding the two biggest GDP countries among RCEP members. If Japan and China conclude the free trade agreement, it will lead to another smooth way of concluding the RCEP agreement. The result shows that each country has different utilization rate based on maximum saving potential at 768 US$ million in year 5 and 2,018 US$ million in year 10. If Japan’s exporters utilize free trade agreement 33% of their exports and export growth at 5.4% annually, then they will make maximum saving potential at 1,644 US$ million in year 5 and 4,277 US$ million in year 10.

The different scenarios range from low, medium, and maximum utilization. The three scenarios have been used to estimate an approximation of the maximum saving potential in different conditions. This analysis helps to figure out the maximum saving potential benefit of tariff reduction from a free trade agreement perspective.

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Cheong, I., & Tongzon, J. (2013). Comparing the Economic Impact of the RCEP are finding ways to exploit the balance benefit among them. China and Japan relation will be embedded in the RCEP association if RCEP is concluded.

RCEP is opening for other countries to join. However, RCEP is emerging as ASEAN plays a central role in the free trade agreement with other six non-ASEAN members. It means if there is other countries want to join with the RCEP they have to follow the agreement that will be made. The difficult part to conclude RCEP is that six other non-ASEAN members should adjust their interests according to the interests of countries who are involve within RCEP. The other countries who have not joined in the RCEP initiatives are possible to join RCEP, but it will find it difficult to adapt its position to other RCEP members unless newcomer agree to follow the conclusion of the agreement.

China and Japan admitted the structure and searched for getting closer with the RCEP association and network. ASEAN has made an effort to keep in good condition the social constitution by getting China and Japan's definite commitment to regional cooperation (Yoshimatsu, 2017, p.22). Regional cooperation is the essential element of a regional social network to avoid special linkage of the two great powers and to develop the institutional system to enable RCEP initiative (Yoshimatsu, 2017, p.22). China and Japan are holding great powers. The regional stability of RCEP is essential to be maintained by ASEAN. The free trade agreement will give a great contribution to China and Japan. It will maintain a better harmony relation, especially between both China and Japan and RCEP in general.

Some limitations of this paper could generate future research suggestions: 1) the calculation of the maximum saving potential based on maximum reduction into zero in the calculation, which is unrealistic in some cases for the free trade agreement because most of countries have maintained its protectionism for some of their products/commodities, 2) the utilization rate could figure out after the free trade agreement has been concluded, therefore in this paper based on three scenarios by using low, medium, and high utilization rate scenarios, 3) there must be some other factors that should be considered, such as detail regulation in each country tariff specification for different countries, different tariff in different period, and in different level of HS code digit tariff.

Figure 7. Maximum saving potential ten years projection at 33% utilization rate based

**Data Source:** UNCOMTRADE 2018, authors’ calculation

Figure 7 shows the projection of maximum saving potential statistical analysis result using 33% of utilization rate. If China's exporters utilize the free trade agreement 33% of their exports (value) and export growth at 5.6% annually, then they will make maximum saving potential at 768 US$ million in year 5 and 2,018 US$ million in year 10. If Japan's exporters utilize free trade agreement 33% of their exports and export growth at 5.4% annually, then they will make maximum saving potential at 1,644 US$ million in year 5 and 4,277 US$ million in year 10.

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