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**Constructing and Multilateralizing
the Regional Comprehensive
Economic Partnership: An Asian
Perspective**

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Abstract

In May 2013 the ASEAN+6 countries began to negotiate the Regional Comprehensive Economic Partnership (RCEP). The objective of this paper is to analyze the feasibility of constructing such a region-wide agreement and to examine ways to multilateralize it. The paper first reviews free trade agreement (FTA) developments, and discusses the characteristics and motives of FTAs in East Asia. It then analyzes the contents of major plurilateral FTAs in East Asia, that is ASEAN's five FTAs each with the People's Republic of China, Japan, the Republic of Korea, India, and Australia/New Zealand, which are considered as a base for a region-wide FTA. Finally, the paper examines the feasibility of the RCEP by consolidating the ASEAN+1 FTAs and discusses the possible ways to multilateralize the RCEP.

JEL Classification: F13, F15, O19, O24

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1. INTRODUCTION

Asia began to witness the emergence of free trade agreements (FTAs) in the 21st century. Asia was a latecomer in the FTA race that started in the early 1990s in the rest of the world. The number of bilateral and plurilateral FTAs increased sharply and rapidly, giving rise to a concern over the emergence of a complicated trade system, or the spaghetti or noodle bowl effect, which could reduce trade by raising trade cost. Recognition of such concern by Asian countries has resulted in the discussions of establishing a region-wide FTA. Two major frameworks were proposed, one consisting of the member countries of the Association of Southeast Asian Nations (ASEAN), the People's Republic of China (PRC), Japan, and the Republic of Korea (ASEAN+3), and the other consisting of ASEAN+3, plus India, Australia, and New Zealand (ASEAN+6). After several years of discussions on the desirability and feasibility of these two frameworks, East Asian countries led by the ASEAN member countries have decided to establish a region-wide FTA with the ASEAN+6 countries under the name of the Regional Comprehensive Economic Partnership (RCEP). ASEAN+6 countries began the RCEP negotiations in May 2013.

FTAs have been theoretically shown to be second best in terms of global welfare, while the first best is global or multilateral trade liberalization. Recognizing this point, policymakers and researchers are keen to investigate whether the recent expansion of FTAs and the rise of regionalism in terms of trade policy would lead to a free multilateral trade system. In other words, the issue is whether regionalism in the form of FTAs is a building block for multilateralism or whether it is a stumbling block.

In light of these discussions and the recent FTA developments in East Asia, this paper examines multilateralization of FTAs from an Asian perspective. To achieve this objective, the paper takes a two-step approach. First, the paper analyzes the feasibility of constructing a region-wide FTA, or RCEP, and then examines the way to multilateralize the RCEP. Section 2 reviews FTA developments in East Asia and section 3 discusses the characteristics and motives of FTAs in East Asia. Section 4 analyzes the five ASEAN+1 FTAs, that is ASEAN's FTAs each with the PRC, Japan, the Republic of Korea, India, and Australia/New Zealand, which are considered as a base for a region-wide FTA. Section 5 examines the feasibility of the RCEP by consolidating the ASEAN+1 FTAs. Section 6 discusses the possible ways to multilateralize the RCEP. Section 7 presents concluding remarks.

2. PROLIFERATION OF FREE TRADE AGREEMENTS IN EAST ASIA

East Asia was not active in the formation of regional trade agreements (RTAs) until the end of the 1990s (Table 1).¹ Indeed, the ASEAN Free Trade Area (AFTA) established in 1992, was the only major FTA until the 21st century, when the number of FTAs

¹ In the GATT/WTO, regional trade agreements (RTAs), which violate one of its basic principles of non-discrimination, are permitted under GATT Article XXIV with several conditions, including liberalization of substantially all the trade of members, not increasing trade barriers on non-members, and completing the RTA process within ten years. For developing members, more lenient conditions are applied under the enabling clause. RTAs include FTAs and customs unions. An FTA is considered to be a shallow form of regional integration, because it only removes tariff and non-tariff barriers among the members, while a customs union is a deeper integration, as it adopts common external tariffs on non-members, in addition to the removal of tariff and non-tariff barriers on trade among the members. All the RTAs established so far in Asia are FTAs.

started to increase rapidly.² Many countries in East Asia began to form FTAs with countries not only in the region but also outside the region.

Table 1: Free Trade Agreements in Asia (cumulative as of January 2013)

| Year | Framework Agreement | | | | | | Type of FTA | |
|------|---------------------|-------------------|-------------|--------|-----------|-------|-------------|--------------|
| | Proposed | Under Negotiation | Negotiation | Signed | In Effect | Total | Bilateral | Plurilateral |
| 1989 | 1 | 0 | 0 | 1 | 3 | 5 | 3 | 2 |
| 1995 | 1 | 0 | 0 | 12 | 19 | 32 | 28 | 4 |
| 2000 | 3 | 0 | 6 | 16 | 30 | 55 | 48 | 7 |
| 2005 | 43 | 18 | 28 | 24 | 56 | 169 | 132 | 37 |
| 2010 | 57 | 17 | 47 | 23 | 97 | 241 | 180 | 61 |
| 2013 | 50 | 14 | 61 | 23 | 109 | 257 | 189 | 68 |

FTA = free trade agreement.

Note: Asia in this table refers to Asian Development Bank members.

Source: Asian Regional Integration Center. Free Trade Agreement Database.

<http://aric.adb.org/fta> (accessed 2 March 2013).

Faced with increasing competitive pressure from the PRC and with a growing regionalism trend in Europe and other parts of the world, the members of ASEAN began the AFTA process in 1992 to make ASEAN a competitive region for exports and an attractive region for foreign direct investment (FDI).³ The 1992 agreement provided for the liberalization of tariff and non-tariff measures under common effective preferential tariffs. The target year for achieving tariff and non-tariff liberalization was originally set for 2008, but was later moved forward to 2002. The AFTA process was completed among the original six AFTA members—Brunei Darussalam, Indonesia, Malaysia, Singapore, Thailand, and the Philippines—in January 2002 when their tariff rates on intra-AFTA trade were reduced to 0–5%, though the exclusion list from tariff reduction and/or elimination was long and individual country circumstances varied. The AFTA process further proceeded and all the tariffs for intra-AFTA trade for the original members were removed with some exceptions by January 2010. New AFTA members, Viet Nam, Lao People's Democratic Republic (Lao PDR), Myanmar, and Cambodia have lowered tariff rates for their intra-ASEAN trade and are expected to complete tariff removal by 2015.

Compared to tariff liberalization, non-tariff barriers, including both border barriers such as import quotas and anti-dumping actions as well as behind-the-border measures such as technical, administrative, and safety regulations, are more difficult to deal with. In order to minimize trade costs arising from these regulations, ASEAN countries have attempted to either harmonize or mutually recognize standards and other regulations. Although some progress has been made in this area, substantial non-tariff barriers still remain.

ASEAN has pursued the liberalization of trade in services under the 1995 ASEAN Framework Agreement on Services (AFAS). AFAS aims to go beyond commitments in the General Agreement on Trade in Services (GATS), in order to improve the efficiency and competitiveness of ASEAN service providers. Services trade liberalization has proceeded through several rounds of negotiations, but there still remain substantial

² For discussions on FTAs in East Asia, see for example, Aggarwal and Urata (2006), Pangestu and Gooptu (2004), Soesastro (2006), Sally (2006), and Kawai and Wignaraja (2011).

³ Chia (2011) gives a detailed account of ASEAN's programs for promoting its economic integration including those related to trade in goods and services and foreign direct investment.

barriers to services trade.⁴ Among the four modes of supply of services trade, (1) cross-border supply, (2) consumption abroad, (3) commercial presence, and (4) movement of natural persons, modes 3 and 4 are most sensitive. ASEAN adopted a flexible approach of “ASEAN minus X” to accommodate ASEAN member countries that are unable to move at the same pace.

FDI liberalization in ASEAN has been underway through the 1998 ASEAN Investment Area (AIA) and 2009 ASEAN Comprehensive Investment Area (ACIA) that provide coordinated investment cooperation and facilitation programs, market access, and national treatment of all industries. The AIA was criticized for its long exclusion lists, but there have been improvements. As with services liberalization, the “ASEAN minus X” formula has been introduced in AIA. Under the ACIA, in addition to the AIA provisions, including investment liberalization and facilitation and investment protection that have provisions on the investor–state dispute settlement mechanisms, transfer and repatriation of capital and others were included.

In 2003 the ASEAN leaders agreed to set the target year of 2020 for the establishment of an ASEAN Community that is composed of the ASEAN Security Community, the ASEAN Economic Community (AEC), and the ASEAN Socio-Cultural Community. Under the AEC, free flow of goods, services, investment, and capital is to be established to make ASEAN a single market and production base. Specifically, the AEC includes trade (goods and services) liberalization and facilitation, FDI liberalization and facilitation, and economic cooperation. The target date for the establishment of an ASEAN Community was later moved forward to 2015. ASEAN countries introduced the AEC Blueprint in 2007 to achieve the AEC. The AEC Blueprint sets out the measures to be taken and the schedule for their implementation. In order to monitor the progress by the ASEAN members for the AEC Blueprint, ASEAN ministers and officials adopted a “scorecard” to assess the progress. According to the scorecard for 2008–2009, 82% of the goals have been achieved for the objective of a single market and production base (Chia 2011).⁵

Besides AFTA, ASEAN as a group as well as its members individually have become active in FTA discussions with other countries. ASEAN has enacted five ASEAN+1 FTAs (with the PRC, the Republic of Korea, Japan, India, and Australia/New Zealand), making ASEAN an FTA hub for East Asia. ASEAN and the PRC enacted an FTA (ACFTA) in goods trade in July 2005 and completed the liberalization process in January 2010. ASEAN and the PRC enacted an FTA in services trade in July 2007 and signed an ASEAN–PRC Investment Treaty in August 2009. ASEAN enacted an FTA in goods trade with the Republic of Korea (AKFTA) in January 2010 and an FTA in services in May 2009. ASEAN and the Republic of Korea signed an Investment Treaty in June 2009. ASEAN and Japan enacted an FTA (AJCEP) in goods in December 2008. ASEAN enacted FTAs with India (AIFTA) and Australia/New Zealand (AANZFTA) in January 2010. The ASEAN–Australia/New Zealand FTA includes trade in services and investment, while the ASEAN–India does not. ASEAN and India are discussing agreements on trade in services and investment.

All the ASEAN members have become active in establishing bilateral FTAs. ASEAN members as a total have enacted 91 FTAs (Table 2). Among the ASEAN members, Singapore has the largest number of FTAs at 18. It is important to note that Singapore established an FTA called P4 (later changed to the Trans-Pacific Strategic Partnership Agreement, or TPP) with Brunei Darussalam, New Zealand, and Chile in 2006.

⁴ By 2010, eight packages had agreed to implement the commitments under the AFAS.

⁵ See also ERIA (2012) for a review of the progress of AEC.

Malaysia and Thailand have enacted as many as 12 FTAs each. Cambodia and Myanmar, which have the smallest number of FTAs among ASEAN members, have enacted six FTAs each.

Table 2: Free Trade Agreements for Selected Asian Countries (as of January 2013)

| Country | Proposed | Under Negotiation | | Conclusion | | Total |
|----------------------------------|----------|-------------------|----|------------|-----------|-------|
| | | A | B | Signed | In Effect | |
| ASEAN | | | | | | |
| Brunei Darussalam | 5 | 2 | 2 | 0 | 8 | 17 |
| Cambodia | 3 | 0 | 2 | 0 | 6 | 11 |
| Indonesia | 5 | 1 | 6 | 2 | 7 | 21 |
| Lao People's Democratic Republic | 3 | 0 | 2 | 0 | 8 | 13 |
| Malaysia | 6 | 1 | 6 | 1 | 12 | 26 |
| Myanmar | 3 | 1 | 2 | 0 | 6 | 12 |
| Philippines | 6 | 0 | 2 | 0 | 7 | 15 |
| Singapore | 5 | 1 | 10 | 3 | 18 | 37 |
| Thailand | 6 | 3 | 5 | 0 | 12 | 26 |
| Viet Nam | 4 | 1 | 5 | 1 | 7 | 18 |
| East Asia | | | | | | |
| People's Republic of China | 6 | 2 | 7 | 0 | 12 | 27 |
| Hong Kong, China | 0 | 0 | 0 | 1 | 3 | 4 |
| Japan | 5 | 0 | 8 | 0 | 13 | 26 |
| Republic of Korea | 11 | 0 | 10 | 2 | 9 | 32 |
| Mongolia | 2 | 0 | 1 | 0 | 0 | 3 |
| Taipei,China | 3 | 1 | 1 | 0 | 5 | 10 |
| Australia–New Zealand | | | | | | |
| Australia | 3 | 2 | 8 | 0 | 9 | 22 |
| New Zealand | 4 | 1 | 6 | 0 | 9 | 20 |
| South Asia | | | | | | |
| Bangladesh | 0 | 2 | 1 | 1 | 2 | 6 |
| India | 7 | 4 | 10 | 0 | 13 | 34 |
| Pakistan | 11 | 4 | 3 | 3 | 6 | 27 |
| Sri Lanka | 2 | 1 | 0 | 1 | 4 | 8 |

A = Framework Agreement; B = FTA; FTA = free trade agreement.

Source: Asian Regional Integration Center. Free Trade Agreement Database.

<http://aric.adb.org/fta> (accessed 2 March 2013).

Compared to the ASEAN countries in Southeast Asia, the economies in Northeast Asia including the PRC, Japan, the Republic of Korea, and Taipei,China had not been active in establishing FTAs until the end of the 1990s. The PRC, Japan, and the Republic of Korea have since become very active in establishing FTAs. Among them Japan has the largest number of FTAs at 13, while the PRC has enacted 12 FTAs. The Republic of Korea, which has enacted FTAs with large trading partners including the European Union (EU) and the United States (US), has nine FTAs. Taipei,China is very keen on having FTAs with many countries but political problems with the PRC have precluded them from achieving this objective. However, the situation is likely to change as Taipei,China enacted an FTA with the PRC in 2010. In addition to the PRC,

Taipei, China has enacted four FTAs with small countries in Central America including Nicaragua and El Salvador.

India has enacted 13 FTAs, including the South Asian Free Trade Agreement (SAFTA), whose membership includes Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. It is currently negotiating a number of FTAs including with BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation)⁶ and the EU.

As a result of the increasing number of FTAs in Asia, the share of trade that is covered by FTAs in overall trade (FTA coverage ratio) has increased for Asian countries. Among the Asian countries, ASEAN registers the highest FTA coverage ratio amounting to 60.0% in 2011 (JETRO 2012). The FTA coverage ratios for the PRC (16.2%), Japan (18.6%), and the Republic of Korea (34.0%) are significantly lower compared to those for ASEAN.⁷ These values indicate that there is room for further FTA expansion for Asian countries, especially for those in Northeast Asia. The FTA coverage ratio for ASEAN+6 countries would become 44.8% if an FTA covering the ASEAN+6 countries is established.⁸

Unlike Europe or the US, both of which have established region-wide FTAs, East Asia so far has established a number of bilateral and minilateral FTAs and not a region-wide FTA. Recognizing the economic benefits of region-wide FTAs such as a large unified market, several ideas have been floated for establishing region-wide FTAs. However, due to differences in opinion among East Asian economies about region-wide FTAs, it took a number of years before reaching a decision in 2012 to establish an FTA covering ASEAN member countries, the PRC, Japan, Republic of Korea, India, Australia and New Zealand, or the ASEAN+6 countries, under the framework of the Regional Comprehensive Economic Partnership (RCEP).

Regional economic cooperation in East Asia began to intensify in order to deal with the currency crisis in 1997, as the first leaders' summit meeting of ASEAN+3 (the PRC, Japan, and the Republic of Korea) was held to discuss the serious situation and ways to overcome the problems. At the leaders' summit meeting in 1998 the leaders decided to set up the East Asia Vision Group, at a proposal of the Republic of Korea's President Kim Dae-Jung, to study a long-term vision for economic cooperation. The group presented the leaders with recommendations including the establishment of an East Asia free trade area (EAFTA), consisting of the ASEAN+3 countries. An expert group that was set up at the recommendation of the ASEAN+3 economic ministers, presented recommendations to the economic ministers in 2006 to start the process in 2007 toward the establishment of an East Asia FTA. The recommendations by the expert group were not adopted and the expert group was asked to conduct further study. The expert group undertook phase two of the project and recommended to start the process toward the establishment of an EAFTA in 2009. Responding to those recommendations, the leaders ordered the government officials to set up four working groups (rules of origin (ROOs), tariff nomenclature, customs procedure, and economic cooperation) as steps toward achieving an EAFTA (EAFTA 2009).

At the 2006 ASEAN+6 economic ministers' meeting, Japan proposed the Comprehensive Economic Partnership in East Asia (CEPEA), which is an agreement including an FTA covering ASEAN+6. ASEAN+6 members are also the members of the

⁶ BIMSTEC members are Bangladesh, Bhutan, India, Myanmar, Nepal, Sri Lanka, and Thailand.

⁷ For comparison, the FTA coverage ratios are 38% for the US and 74.8% for the EU.

⁸ Computed from the world trade matrix presented in JETRO (2012).

East Asian Summit that began in 2005. It has been argued that behind the CEPEA idea lies Japan's strategy of taking a leadership role in setting up a regional institution in East Asia, as it was when the PRC took the initiative in the EAFTA discussions. A similar course of events to those for EAFTA evolved for CEPEA. As was the case for EAFTA, government officials were engaged in the discussions under the four working groups.

After the EAFTA and CEPEA working groups completed reports on the four issue areas, the PRC and Japan jointly proposed to set up three working groups (trade in goods and services and investment) in August 2011. Behind this surprising joint action by the PRC and Japan, who competed to take leadership in the establishment of region-wide FTAs under EAFTA and CEPEA, was their interest in speeding up the process of regional economic integration in East Asia. This motivation was particularly strong for the PRC, as it observed the increasing influence of the US in the formation of a regional economic framework in the Asia–Pacific region under the Trans-Pacific Partnership Agreement. Faced with the threat of losing ASEAN centrality, or the driver's seat, in East Asian regional integration, ASEAN proposed the Regional Comprehensive Economic Partnership (RCEP) involving ASEAN and its FTA partners in November 2011. To follow up the move on the RCEP, ASEAN announced the guiding principles for the negotiation of the RCEP that include WTO consistency, transparency, and open accession to ASEAN's FTA partners and others. ASEAN+6 leaders agreed to launch the negotiation of RCEP in November 2012 to begin in 2013 (ASEAN 2012).

The PRC, Japan, and the Republic of Korea (CJK) began a joint study on their FTA involving government officials, academics, and business persons in 2010. A feasibility study of a tripartite FTA by the private sector involving government-related research institutes began in 2003. The study continued by changing the focus of research topics over time. The joint study completed the discussions in December 2011 and released its report in March 2012. Responding to the recommendation of the joint study that proposed to begin the negotiations, economic ministers of the three countries agreed to launch negotiations in 2013.

Since these three Northeast Asian countries account for a dominant share of gross domestic product (GDP) in East Asia, the successful establishment of the RCEP crucially depends on the establishment of a CJK FTA. In addition to economic issues such as increased competition, non-economic issues including historical and social problems have made it difficult to discuss tripartite cooperation such as a CJK FTA. Although non-economic relations involving Japan on the one hand, and the PRC and the Republic of Korea on the other hand improved, resulting in positive discussions on the formation of a CJK FTA, the situation changed dramatically and negatively after the territorial dispute between the PRC and Japan over the Senkaku or Diaoyu islands in September 2012. Under these unstable political relations the prospects of the negotiations are not clear.

One FTA that has attracted attention recently is the Trans-Pacific Partnership Agreement (TPP). Brunei Darussalam, Chile, New Zealand, and Singapore originally established the TPP in 2006 under the name of Pacific 4 (P4). The TPP started to draw attention when the US along with Australia, Peru, and Viet Nam joined negotiations in March 2010 on the expanded TPP. Since then, Malaysia, Canada, and Mexico have also joined the negotiations. The TPP, ASEAN+3, and ASEAN+6 FTAs (ASEAN+3 and ASEAN+6 FTAs are considered to have been merged into the RCEP) were recognized by APEC leaders in their summit in 2010, as pathways toward a free trade area of the Asia–Pacific (FTAAP) region, covering 21 APEC member economies. It was the US that proposed an FTAAP in 2006. Behind the US proposal of an FTAAP is a concern

that the US would be excluded from East Asia resulting in a decline in its economic activities in East Asia. It should be noted that differences in the members of the RCEP and APEC give rise to important implications of the groups. Taipei, China and Russia, important economic players, are included in an FTAAP, while India, a member of RCEP, is excluded. Besides, Cambodia, Lao PDR and Myanmar are ASEAN members and thus included in RCEP, but they are not included in APEC. Because of this, APEC and more significantly the TPP are regarded as frameworks that may weaken ASEAN cohesiveness. Another important characteristic of the TPP is its high liberalization requirement in that practically all the tariffs on intra-FTA members' trade are to be removed within ten years. Furthermore, the TPP has comprehensive coverage including not only trade (goods and services) and investment liberalization and facilitation, but also competition policy, intellectual property rights, government procurement, labor, and environment.

It is important to point out that the US does not seem interested in promoting regional trade integration with ASEAN countries as a group. Unlike the PRC, Japan, the Republic of Korea, Australia/New Zealand, and India, which enacted FTAs with ASEAN, and the EU, which is negotiating an FTA with ASEAN, the US has not discussed the possibility of a US–ASEAN FTA. Instead, the US has enacted bilateral FTAs with Singapore and begun discussions with selected ASEAN countries within the framework of the TPP. This reflects the US view that the US is interested in a high-level FTA with comprehensive coverage. In the eyes of the US, some ASEAN countries are not ready to participate in such a high-level FTA. It should be noted that the TPP has had significant impacts on the formation of regional economic integration frameworks such as the RCEP and CJKFTA. The process of these frameworks has been sped up by the progress of the TPP negotiations. Indeed, there is the US and the PRC rivalry in establishing a regional economic integration framework. The US is eager to set up a high-level and comprehensive, or 21st century type, FTA, while the PRC, being unable to join a high-level and comprehensive TPP, would like to establish a framework based on communal spirit with an emphasis on cooperation.

3. CHARACTERISTICS AND MOTIVES OF FREE TRADE AGREEMENTS IN EAST ASIA⁹

One notable characteristic of FTAs in East Asia is their comprehensive coverage. As such, some of the FTAs established in East Asia are named as economic partnership agreements (for example, the Japan–Singapore Economic Partnership Agreement) or closer economic partnership arrangements (for example, the PRC–Hong Kong, China Closer Economic Partnership Arrangement), and others. These new types of FTAs typically include facilitation of foreign trade, liberalization and facilitation of FDI, and economic and technical cooperation, in addition to trade liberalization, which is included in traditional FTAs. It is worth noting that the contents of these new types of FTAs are similar to those of the Asia–Pacific Economic Cooperation (APEC) forum, whose three pillars are trade and investment liberalization, business facilitation, and economic and technical cooperation.

The economic and technical cooperation pillar is given special attention in the FTAs established in Asia because narrowing the development gap between the high-income and low-income countries is important for achieving economic prosperity and social and political stability in the region. One of the programs in many FTAs in Asia is the

⁹ This section draws on Urata (2010b).

promotion of small and medium-sized enterprises (SMEs), which would contribute to the construction of a competitive and resilient economic structure and also to the improvement of livelihood of people. These objectives may be achieved because SMEs have important positions in many economies in terms of production and employment. It is important to note that the PRC and Japan (who are eager to play a leadership role in regional integration) have used economic assistance to gain support for FTAs from FTA partners. Having noted a common characteristic of comprehensiveness of FTAs in Asia, specific content differs among the FTAs, reflecting different motives of the countries concerned. Japan emphasizes the importance of liberalization and facilitation of investment and services trade, as such measures would provide a free, transparent, and stable business environment for Japanese firms that have invested heavily in production networks in Asia. In particular, Japan is interested in setting up a well-functioning intellectual property rights protection system. By contrast, developing countries such as ASEAN members and the PRC have a less strong interest in these measures. Indeed, ASEAN and the PRC have adopted a gradual and sequential approach by dealing with trade in goods and services and investment separately with different timing, as liberalization in trade in goods is followed by liberalization in services trade and investment. India is interested in the liberalization of services trade such as IT software, legal, financial, and medical services, while it is less keen on opening up goods trade.

Let us turn to the discussions on the motives of East Asian countries behind their FTA strategies. Various common motives, despite the differences in their importance among the countries, can be identified. First, rapid expansion of FTAs in other parts of the world has made Asian economies realize the importance of establishing FTAs to maintain and expand their export opportunities.¹⁰ FTAs with this kind of market-seeking objective are largely of a defensive nature. An example is Japan's FTA with Mexico. Japanese firms were in a disadvantageous position vis-à-vis US firms and EU firms in the Mexican market because the US and the EU had FTAs, under which their firms had duty-free access to Mexico. In order to overcome this disadvantage, Japanese firms put pressure on their government to negotiate an FTA with Mexico. It should be noted that a stalemate of the Doha Development Agenda negotiations under the auspices of the WTO turned the attention of the WTO members with an interest in trade liberalization to FTAs. The market-seeking motive has played a role in FTAs between and among Asian economies, as trade barriers are still substantial for many sectors in Asian economies.

Second, countries interested in promoting structural domestic reform to achieve economic growth use FTAs as external pressure on the opposition to structural reform, in order to implement domestic structural reform. The motive of promoting domestic reform was important for the Republic of Korea in pursuing an FTA with the US. Being sandwiched between the PRC, a rapidly growing economic giant, and Japan, a highly competitive economic giant, the Republic of Korea needed to carry out structural reforms to maintain and improve competitiveness.

Third, rivalry among Asian economies over gaining a leadership role in the region has activated their FTA strategies. Both the PRC and Japan, which are competing to become a "leader" in the region, are keen on using FTAs to strengthen their relationships with ASEAN, the Republic of Korea, and other countries. In November 2002, Japan proposed an economic partnership framework to ASEAN one day after the PRC agreed to start FTA negotiations with ASEAN. It should also be noted that ASEAN, the Republic of Korea and other countries consider FTAs as a means to

¹⁰ See Urata (2010a) for the discussions on this point.

maintain and increase their influence in Asia. ASEAN has been rigorously pursuing FTAs with major countries in order for them to take a “driver’s seat” in regional integration in Asia, while the Republic of Korea is moving ahead of other countries such as Japan and the PRC to take a lead in the FTA race.

Fourth, countries with active outward foreign direct investment would like to use FTAs to improve the business environment in FDI recipient countries, so that multinational corporations (MNCs) can perform efficiently. This motive is sought by including FDI liberalization and facilitation in FTAs. As pointed out earlier, this is one of the most important motives for Japan as many Japanese MNCs have invested in East Asia. This motive is likely to be more important for other Asian countries in the future, as the number of countries in East Asia with active outward FDI is likely to rise.

So far, this paper has discussed the motives behind bilateral and plurilateral FTAs. The discussion now turns to the motives behind region-wide FTAs such as EAFTA and CEPEA. Many countries in the region realize the importance of establishing a large region-wide, unified market to promote economic growth and reduce development gaps as firms can expect benefits from exploiting scale economies. Besides, economic and technical cooperation may be provided efficiently under one region-wide framework by consolidating separate programs provided by individual countries.

The crises contributed to the discussions on the promotion of region-wide FTAs. The financial crisis in East Asia in the late 1990s increased the awareness among East Asian countries of the need for regional cooperation such as a region-wide FTA to avoid another crisis and to promote regional economic growth. The immediate concern about financial problems resulted in regional cooperation in financial areas. Specifically in 2000, ASEAN+3 countries set up bilateral currency swap arrangements to deal with the shortage in foreign exchange under the name of the Chiang Mai Initiative (CMI). This was expanded to become a multilateral currency swap arrangement in 2009 under the Multilateralized CMI. Furthermore, ASEAN+3 countries are developing the Asian Bond Market to establish efficient and liquid bond markets in East Asia, with a view to better utilize East Asian savings for East Asian investments. It is also expected to contribute to the mitigation of currency and maturity mismatches in financing, which was one of the factors that led to the Asian financial crisis.

The 2008–2009 global financial crisis also increased interest among the East Asian countries to establish a region-wide FTA. Unlike the case of the Asian financial crisis for which financial links with the US and Europe were a problem, it was East Asia’s dependence on the US and Europe for its exports that caused a sharp decline in East Asia’s economic activities. The decline in import demand caused a decline in East Asia’s exports to the US and EU, triggering a downward spiral. In order to avoid such negative impacts caused by factors outside the region, East Asian countries started to argue for the need to increase intra-regional dependence by establishing a region-wide FTA.

4. COMPARISON AND EVALUATION OF ASEAN+1 FREE TRADE AGREEMENTS FROM THE GATT/WTO PERSPECTIVE

This section evaluates the quality of ASEAN+1 FTAs from the point of view of the GATT/WTO rules on regional trade agreements. Specifically, the paper examines them regarding transparency and the level of liberalization in terms of trade in goods and

services. In addition, ASEAN+1 FTAs concerning their rules of origin (ROOs) in trade in goods and the contents of agreements on investment are compared.

An important element for providing a predictable and stable trading environment is to make trade rules as clear and public (“transparent”) as possible. Without transparency, trade rules cannot be implemented or enforced appropriately, discouraging firms’ trading activities, thereby preventing economies from maximizing the benefits from trading opportunities. With this in mind, the Committee on Regional Trade Agreements introduced a new transparency mechanism on RTAs in December 2006 (WTO 2006). Under the new transparency mechanism the members of a newly established RTA are expected to notify the WTO as early as possible, in general no later than the member’s ratification of the RTA. To enhance transparency, the parties to an RTA shall make data available to the WTO secretariat as soon as possible, but normally within a period of 10 weeks (or 20 weeks in the case of RTAs involving only developing countries) after the date of notification of the agreement.

Five ASEAN+1 FTAs are evaluated on the basis of the transparency mechanism explained above, specifically, the notification date and the submission of the data. Table 3 provides the information concerning these two issues. As for the notification, all the FTAs did not meet the “requirement,” as the notification was conducted after the date of entry into force. The shortest lag was 4 months (ASEAN–ANZ FTA), while the longest lag was 13 months (ASEAN–Korea FTA in services). Concerning the submission of the data, only the ASEAN–PRC FTA in goods has submitted the data in the form of factual abstract. These observations indicate the need for improving transparency in the notification of FTAs in East Asia.

Table 3: Transparency in ASEAN+1 Free Trade Agreements

| Free Trade Agreement | Date of Notification | Date of Entry into Force | End of Implementation Period | Factual Abstract |
|----------------------|----------------------|--------------------------|------------------------------|------------------|
| ASEAN–PRC (G) | 21 Sep 2005 | 1 Jan 2005 | 2020 | yes |
| (S) | 26 Jun 2008 | 1 Jul 2007 | | no |
| ASEAN–Korea (G) | 15 Jun 2010 | 1 Jan 2010 | 2024 | no |
| (S) | 15 Jun 2010 | 1 May 2009 | | no |
| ASEAN–Japan | 23 Nov 2009 | 1 Dec 2008 | 2026 | no |
| ASEAN–India | 19 Aug 2010 | 1 Jan 2010 | not specified | no |
| ASEAN–ANZ | 8 Apr 2010 | 1 Jan 2010 | 2025 | no |

ANZ = Australia/New Zealand; ASEAN = Association of Southeast Asian Nations; FTA = free trade agreement; G = goods; PRC = People’s Republic of China; S = services.

Source: World Trade Organization. Regional Trade Arrangements Database.

<http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx>

Let us turn to the level of trade liberalization for ASEAN+1 FTAs. According to GATT Article XXIV: 8, a free trade area shall be understood to mean a group of two or more customs territories, in which the duties and other restrictive regulations of commerce are eliminated on substantially all the trade between the constituent territories in products originating in such territories (WTO 1994). Although there is not yet any agreement on the definition of “substantially all the trade” among the GATT/WTO members, it is important to evaluate the quality of FTAs in terms of trade liberalization. Table 4 shows trade liberalization rate, defined as the proportion of tariff lines (number of products) subject to tariff elimination in total number of tariff lines for five ASEAN+1 FTAs. The last row of the table shows the average trade liberalization rates for the five ASEAN+1 FTAs. The ASEAN–Australia/New Zealand FTA (AANZFTA) has the highest

trade liberalization rate at 95.7%, while the ASEAN–India FTA (AIFTA) has the lowest rate at 79.6%. Indeed, the trade liberalization rate for AIFTA is exceptionally low compared to those for other ASEAN+1 FTAs, whose rates are greater than 90%.

Table 4: Tariff Concessions in ASEAN+1 Free Trade Agreements (%)

| Country | AANZFTA | ACFTA | AIFTA | AJCEP | AKFTA | Average |
|------------------------------|---------|-------|-------|-------|-------|---------|
| Brunei Darussalam | 99.2 | 98.3 | 85.3 | 97.7 | 99.2 | 95.9 |
| Cambodia | 89.1 | 89.9 | 88.4 | 85.7 | 97.1 | 90 |
| Indonesia | 93.7 | 92.3 | 48.7 | 91.2 | 91.2 | 83.4 |
| Lao People's Democratic Rep. | 91.9 | 97.6 | 80.1 | 86.9 | 90 | 89.3 |
| Malaysia | 97.4 | 93.4 | 79.8 | 94.1 | 95.5 | 92 |
| Myanmar | 88.1 | 94.5 | 76.6 | 85.2 | 92.2 | 87.3 |
| Philippines | 95.1 | 93 | 80.9 | 97.4 | 99 | 93.1 |
| Singapore | 100 | 100 | 100 | 100 | 100 | 100 |
| Thailand | 98.9 | 93.5 | 78.1 | 96.8 | 95.6 | 92.6 |
| Viet Nam | 94.8 | NA | 79.5 | 94.4 | 89.4 | 89.5 |
| | | | | | | |
| Australia | 100 | | | | | |
| People's Republic of China | | 94.1 | | | | |
| Indonesia | | | 78.8 | | | |
| Japan | | | | 91.9 | | |
| Republic of Korea | | | | | 90.5 | |
| New Zealand | 100 | | | | | |
| Average | 95.7 | 94.7 | 79.6 | 92.8 | 94.5 | |

AANZFTA = ASEAN–Australia/New Zealand FTA; ACFTA = ASEAN–PRC FTA; AIFTA = ASEAN–India FTA; AJCEP = ASEAN–Japan Comprehensive Economic Partnership; AKFTA = ASEAN–Korea FTA; FTA = free trade agreement.

Notes: HS2007 version, HS 6-digit base. Data for Vietnam for the ASEAN–PRC FTA are missing. Data for Myanmar for the ASEAN–PRC FTA are missing for HS01–HS08. Figures indicate the proportion of tariff elimination in terms of tariff lines.

Source: Kuno (forthcoming).

There are wide variations in trade liberalization rates among the countries in ASEAN+1 FTAs. Among the ASEAN countries, in terms of average trade liberalization rates, shown in the far right column, Singapore has the highest trade liberalization rate of 100%, indicating complete tariff elimination in all five ASEAN+1 FTAs. Indonesia has the lowest trade liberalization rate of 83.4%, reflecting a protective policy stance of the Indonesian government. The remaining ASEAN countries may be arranged in descending order in terms of trade liberalization rates as follows: Brunei Darussalam (95.9%), Philippines (93.1%), Thailand (92.6%), Malaysia (92.0%), Cambodia (90.0%), Viet Nam (89.5%), Lao PDR (89.3%), and Myanmar (87.3%). Among ASEAN's FTA partners, Australia and New Zealand have the highest trade liberalization rate of 100%, as they eliminate tariffs on all their imports from ASEAN countries, while India has the lowest trade liberalization rate of 78.8%. Among the PRC, Japan, and the Republic of Korea, the PRC has the highest trade liberalization rate of 94.1%, followed by Japan (91.9%) and the Republic of Korea (90.5%).

It is interesting to note that many ASEAN countries have quite different trade liberalization commitments depending on their FTA partners. One noticeable pattern is very low trade liberalization rates committed in the AIFTA. In particular, Indonesia registers a very low trade liberalization rate of 48.7% in the AIFTA. The low trade liberalization rate adopted by ASEAN countries in the AIFTA is largely attributable to two factors. One is strong competition in a large number of products between India and many ASEAN countries. One such example is apparel products, which are major export items of India and many ASEAN countries. The other factor is the low trade liberalization rate committed by India. The level of trade liberalization is negotiated bilaterally in ASEAN+1 FTAs. As such, reciprocity becomes an important element in determining the level of trade liberalization. Because India's level of trade liberalization is significantly lower compared to other ASEAN's FTA partners, many ASEAN countries' commitments in trade liberalization turn low in their agreements with India.

Another condition that GATT Article XXIV imposes on RTAs is the length of time for the implementation of the agreement. According to GATT Article XXIV: 5, an interim agreement necessary for the formation of a free-trade area shall include a plan and schedule for the formation of such a customs union or of such a free-trade area within a reasonable length of time (WTO 1994). Understanding on the interpretation of GATT Article XXIV in 1994 indicates that the reasonable length of time should exceed 10 years only in exceptional cases. In cases where members believe that 10 years would be insufficient they shall provide a full explanation to the Council for Trade in Goods of the need for a longer period.

Table 5 shows the schedule of tariff elimination for the five ASEAN+1 FTAs. For the ASEAN FTA partners, tariff elimination is scheduled to take place within ten years from the year of ratification. However, this is not the case for ASEAN countries. Cambodia, Lao PDR, Myanmar, and Viet Nam (CLMV), or the new ASEAN members, are given extra time for the implementation of the agreement. The maximum additional time of 8 years, in total 18 years, is given for the completion of tariff elimination and/or reduction under the ASEAN–Japan CEP. The original AFTA members (ASEAN6 countries), are also given additional time in the cases of the ASEAN–Australia/New Zealand FTA, ASEAN–PRC FTA, and ASEAN–Japan CEP. The findings about the length of the period for the completion of ASEAN+1 FTAs reveal that they are not consistent with the GATT/WTO rules.

In FTAs the rules of origin (ROOs) play a very important role in ensuring that preferential treatment is accorded to FTA members by avoiding trade deflection.¹¹ There are four major ROOs that have been adopted by the ASEAN+1 FTAs: wholly obtained or produced (WO), regional value content (RVC), change in tariff classification (CTC) and specific process rule (SPR). A general rule is applied to all products except those products that are subject to product specific rules (PSRs).

¹¹ The discussions on ROOs draw on Medalla (2011).

Table 5: Tariff Elimination Schedule for ASEAN+1 Free Trade Agreements

| FTA | Year of Enactment | ASEAN6 | | CLMV Countries | | FTA Partners | |
|---------------------|-------------------|--|-----------------------------|----------------------------------|-----------------------------|--|-----------------------------|
| | | Elimination (Normal Track or SL) | Other Reduction (SL or HSL) | Elimination (Normal Track or SL) | Other Reduction (SL or HSL) | Elimination (Normal Track or SL) | Other Reduction (SL or HSL) |
| AANZFTA | 2010 | 2020–2025 | 2020–2025 | 2020–2024 | 2025 | 2020 | - |
| ACFTA | 2005 | 2012 ^{*1} | 2018 | 2018 ^{*1} | 2018 | 2012 ^{*1} | 2018 |
| AIFTA ^{*2} | 2010 | 2017–2020 ^{*3} | 2017–2020 | 2022 ^{*3} | 2022 | 2017 ^{*3} (2020 ^{*4}) | 2020 |
| AJCEP | 2008 | 2018 | 2018–2024 | 2023–2026 | 2026 | 2018 | 2018 |
| AKFTA | 2010 | 2012 ^{*5} (2017 ^{*6}) | 2016 | 2018–2020 ^{*5} | 2021–2024 | 2010 | 2016 |

AANZFTA = ASEAN–Australia/New Zealand FTA; ACFTA = ASEAN–PRC FTA; AIFTA = ASEAN–India FTA; AJCEP = ASEAN–Japan Comprehensive Economic Partnership; AKFTA = ASEAN–Korea FTA; ASEAN6 = Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand; CLMV = Cambodia, Lao PDR, Myanmar, Viet Nam; FTA = free trade agreement.

Notes: *1 Including Normal Track 2. Normal Track 1 for ASEAN6 and the PRC has completed in 2010; *2 In AIFTA, each year corresponds to 31 December of the previous year. For example, 2014 means 31 December 2013; *4 To the Philippines; *3 Including Normal Track 2; *4 To the Philippines; *5 Including Normal Track 2. Normal Track 1 for ASEAN5 has completed in 2010; *6 Thailand.

Source: Modified Table 2 of Fukunaga and Isono (2013).

Table 6 shows the ROOs adopted in the ASEAN+1 FTAs. The figure indicates the number of products subject to the ROO type shown on the left column. The table reveals a wide variety in the application of the types of ROOs among ASEAN+1 FTAs as well as within ASEAN+1 FTAs. Except for the ASEAN–PRC FTA and the ASEAN–India FTA, the basic rule is a co-equal rule: RVC(40) or a change in tariff heading (CTH). The co-equal rule is less restrictive compared to the single rule, because it gives the firm choices in the application of ROOs. RVC(40) requires a minimum 40% regional value content. CTH is equivalent to CTC at the HS 4-digit level. CTSH is equivalent to CTC at the HS 6-digit level, making it less restrictive than CTC. For the ASEAN–PRC FTA, the general rule is RVC(40). In the case of the ASEAN–India FTA, the general rule is RVC(35) and CTSH (a change in tariff sub-heading). In other words, regional content requirement at 35% is less restrictive compared to other ASEAN+1 FTAs, but it has an additional requirement of a change in tariff classification, albeit at a higher 6-digit level, making the ASEAN–India FTA the most restrictive.

Table 6: Frequency by Type of ROOs used in ASEAN+1 Free Trade Agreements

| ROO type | AANZFTA | ACFTA | AIFTA | AJCEP | AKFTA |
|---|---------------|---------------|----------------|---------------|---------------|
| Single Rule or stricter | | | | | |
| WO | 294 | 8 | | 3 | 458 |
| CC | 248 | 1 | | 735 | 61 |
| CTH | 107 | | | 137 | 4 |
| CTSH | | | | 8 | |
| RVC(<40) | | | | | 36 |
| RVC(40) | 68 | 4659 | | 219 | 22 |
| RVC(>40) | | | | | 6 |
| RVC(35)+CTSH | | | 5224 | | |
| CC with exception* | 3 | | | 258 | |
| CTH with exception* | 10 | | | 20 | |
| Various** | 43 | | | | 3 |
| Sub-total | 773 | 4668 | 5224 | 1380 | 590 |
| % share in total | 14.80% | 89.40% | 100.00% | 26.40% | 11.30% |
| "RVC(40) or CTH" or more flexible | | | | | |
| RVC(40) or CTH | 2204 | 122 | | 3057 | 4076 |
| RVC(40) or CTH or Specific Process Rule | 24 | | | | |
| RVC(40) or CTH | 1072 | | | 33 | 61 |
| RVC(40) or CTH or [RVC(35)+CTSH] | 195 | | | | |
| RVC(40) or CTH or Textile Rule | 6 | | | | |
| Sub-total | 3501 | 122 | 0 | 3090 | 4137 |
| % share in total | 67.00% | 2.30% | 0.00% | 59.20% | 79.20% |
| Other "or" rules | | | | | |
| RVC(40) or CC or Textile Rule | | | | | |
| RVC(40) or CC | 583 | 7 | | 126 | 487 |
| Various*** | 367 | 427 | | 628 | 10 |
| Sub-total | 950 | 434 | 0 | 754 | 487 |
| % share in total | 18.20% | 8.30% | 0.00% | 14.40% | 9.30% |
| Total number of 6-digit HS(2002) Lines | 5224 | 5224 | 5224 | 5224 | 5224 |

AANZFTA = ASEAN–Australia/New Zealand FTA; ACFTA = ASEAN–PRC FTA; AIFTA = ASEAN–India FTA; AJCEP = ASEAN–Japan Comprehensive Economic Partnership; AKFTA = ASEAN–Korea FTA; CC = change in commodity classification; CTH = change in tariff heading; CTSH = change in tariff subheading; FTA = free trade agreement; GR = General ROO; PRC = People's Republic of China; ROO = rules of origin; RVC = regional value content; WO = wholly obtained.

Notes: *Exception varies, from sourcing of materials to process; **e.g. CTH + RVC(40), CC + RVC(40), CC + Textile Rule; ***e.g. [RVC(40)+Textile Rule] or CC, RVC(>40) or CTH.

Source: Medalla (forthcoming).

Let us turn to trade in services. Among the five ASEAN+1 FTAs, the ASEAN–PRC, the ASEAN–Korea, and the ASEAN–Australia/New Zealand FTAs contain commitments in trade in services. The service chapters of these three FTAs adopt GATS-style reporting, enabling direct comparison among GATS commitments and ASEAN+1 FTAs. In order to evaluate the liberalization commitment for the GATS-style reporting, Hoekman (1995) proposes a scoring method. This method assigns scores to each of 8

cells (4 modes and 2 aspects—market access [MA] and national treatment [NT]), as follows: assign the value 1 when the sector at issue is “fully liberalized”; 0.5 when “limited (but bound)”; 0 when “unbound” (government has not committed to liberalize) by sector, by mode, and by aspect (market access and national treatment), and take the simple average for aggregation; then calculate the average value for the country. The higher the score, the more liberal are the country’s services trade commitments to its FTA partners.

Ishido (forthcoming) computed the Hoekman Index for the ASEAN–Australia/New Zealand, ASEAN–PRC, ASEAN–Korea FTAs. (Table 7). “Total” means the score based on the simple average of the Hoekman Index derived from 155 sub-sectors. “WTO Plus” is the difference between commitments under FTAs and those under the GATS, meaning “additional commitment” to the WTO commitment. As is shown, most countries have commitment levels of less than 0.5, meaning that the “unbound (no commitment)” is dominant overall. This observation may indicate that the level of commitments under ASEAN+1 FTAs does not meet the requirement under the GATS Article V that stipulates that the agreement has substantial sectoral coverage and provides for the absence or elimination of substantially all discrimination (WTO GATS website).

Table 7: WTO Plus in ASEAN+1 Free Trade Agreements (in terms of the Hoekman Index)

| Country | AANZFTA | | ACFTA | | AKFTA | | Average | |
|----------------------------|---------|------|-------|------|-------|------|---------|------|
| | Total | WTO+ | Total | WTO+ | Total | WTO+ | Total | WTO+ |
| Brunei Darussalam | 0.18 | 0.15 | 0.05 | 0.02 | 0.08 | 0.06 | 0.10 | 0.08 |
| Cambodia | 0.51 | 0.14 | 0.38 | 0.01 | 0.38 | 0.01 | 0.42 | 0.05 |
| Indonesia | 0.29 | 0.22 | 0.09 | 0.03 | 0.18 | 0.11 | 0.19 | 0.12 |
| Lao PDR | 0.24 | NA | 0.02 | NA | 0.07 | NA | 0.11 | NA |
| Malaysia | 0.31 | 0.21 | 0.11 | 0.01 | 0.20 | 0.10 | 0.21 | 0.11 |
| Myanmar | 0.26 | 0.23 | 0.04 | 0.01 | 0.06 | 0.03 | 0.12 | 0.09 |
| Philippines | 0.26 | 0.17 | 0.11 | 0.02 | 0.17 | 0.08 | 0.18 | 0.09 |
| Singapore | 0.44 | 0.33 | 0.30 | 0.19 | 0.33 | 0.22 | 0.36 | 0.25 |
| Thailand | 0.36 | 0.12 | 0.25 | 0.02 | NA | NA | NA | NA |
| Viet Nam | 0.46 | 0.19 | 0.34 | 0.07 | 0.32 | 0.05 | 0.37 | 0.10 |
| ASEAN Average | 0.33 | 0.20 | 0.17 | 0.04 | 0.20 | 0.08 | 0.23 | 0.11 |
| Australia | 0.52 | 0.18 | | | | | | |
| People’s Republic of China | | | 0.28 | 0.04 | | | | |
| Republic of Korea | | | | | 0.31 | 0.09 | | |
| New Zealand | 0.51 | 0.26 | | | | | | |

AANZFTA = ASEAN–Australia/New Zealand FTA; ACFTA = ASEAN–PRC FTA; AKFTA = ASEAN–Korea FTA; WTO = World Trade Organization.

Source: Ishido (forthcoming).

Among the ASEAN FTA partners, Australia and New Zealand committed most, as their respective scores are 0.52 and 0.51, respectively. It should be noted that both Australia and New Zealand made substantially large additional commitments in their FTA with ASEAN beyond their GATS commitments. The Republic of Korea’s and the PRC’s commitments are significantly lower compared to those by Australia and New Zealand, as their respective Hoekman scores are 0.31 and 0.28. Compared to the commitments

by Australia and New Zealand, the Republic of Korea and the PRC have much smaller additional commitments under their ASEAN+1 FTAs.

Turning to the ASEAN countries, an interesting pattern emerges in that their additional commitments are high for AANZFTA while they are low for AKFTA and ACFTA. These patterns reflect the reciprocal approach adopted in FTA negotiations. There exist wide variations in the level of commitment among the ASEAN countries. Cambodia has the highest level of commitment at 0.42 (average), while Brunei Darussalam has the lowest level of commitment at 0.10. Indeed, one can classify the ASEAN countries into three groups in terms of the level of commitment. The high group consists of Cambodia, Viet Nam, and Singapore. The middle group includes Malaysia, Indonesia, and the Philippines. The low group includes Myanmar, Lao PDR, and Brunei Darussalam. Thailand, whose information for AKFTA is not readily available and thus not reported, seems to be placed between high and middle groups based on its score for AANZFTA and ACFTA.

5. MOVES TOWARD THE ESTABLISHMENT OF A REGION-WIDE FREE TRADE AGREEMENT

Asia has seen a rapid increase in the number of FTAs since the beginning of the 21st century. Many of these FTAs are bilateral or plurilateral and unlike the situations in North America or Europe, a region-wide FTA has not been established yet in Asia. Recognizing the benefits of a region-wide FTA with a larger market, Asian countries have been examining ways to establish a region-wide FTA as was discussed in section 2. Two region-wide FTA initiatives, EAFTA and CEPEA were discussed. These two initiatives have been merged to form the RCEP. According to the CEPEA Phase II Report, which conducted a simulation exercise using a computable general equilibrium (CGE) model, the impact of CEPEA (ASEAN+6 FTA with the same membership as RCEP) on economic growth was found to be substantial and larger compared to ASEAN+3 FTA. If the full effect of liberalization in combination with cooperation and facilitation is taken into account under the framework of the CEPEA, the overall impact on GDP will be substantial, ranging from 0.64% for Japan to double-digit figures for Malaysia, Brunei Darussalam, Viet Nam and Thailand (CEPEA 2009). Kawai and Wignaraja (2009) also found similar impacts using a CGE model. In light of the benefit from the establishment of a region-wide FTA under the ASEAN+6 framework, this section examines the possibility of consolidating five ASEAN+1 FTAs by investigating the similarities and differences among these five FTAs.

Let us begin with the agreements on trade in goods. Kuno (forthcoming) analyzed ASEAN countries' commitments in tariff elimination in five ASEAN+1 FTAs. He classified the products in terms of HS 6-digit classification into three categories, "eliminated to all," "depends on FTA," and "protected to all," based on their trade liberalization status in five ASEAN+1 FTAs. Those products that are subject to tariff elimination in all ASEAN+1 FTAs are classified under "eliminated to all," while those products that are excluded from tariff elimination in all ASEAN+1 FTAs are classified under "protected to all." Those products that do not fall under either "eliminated to all" or "protected to all" are classified under "depends on FTA." In other words, those products that are subject to tariff elimination in some FTAs and are excluded from tariff elimination in other FTAs are classified under "depends on FTA."

The results of this exercise (Table 8) indicate wide variations in the liberalization status among ASEAN countries. On average 73.3% of the products fall under the "eliminated all" category, while 0.9% of the products are classified under the "protected to all"

category. The remaining 25.8% of the products fall under the “depends on FTA” category. Although the average rate of trade liberalization is quite low at 73.3%, it is encouraging to observe that on average 99.1% of the products have been liberalized under at least one ASEAN+1 FTA. If ASEAN countries can liberalize the products that are at least liberalized at least to one FTA partner to other FTA partners, they can achieve 99.1% liberalization rate.

Table 8: Distribution of Tariff Lines by Liberalization Status

| Country | % of “Eliminated to All” Products | % of “Depends on FTA” Products | % of “Protected to All” Products |
|-------------------|-----------------------------------|--------------------------------|----------------------------------|
| Brunei Darussalam | 84.1 | 15.9 | 0.0 |
| Cambodia | 64.3 | 35.3 | 0.4 |
| Indonesia | 46.0 | 52.8 | 1.2 |
| Lao PDR | 68.0 | 31.6 | 0.4 |
| Malaysia | 76.0 | 22.9 | 1.1 |
| Myanmar | 66.6 | 31.8 | 1.6 |
| Philippines | 74.6 | 24.4 | 1.0 |
| Singapore | 100.0 | 0.0 | 0.0 |
| Thailand | 75.6 | 24.3 | 0.1 |
| Viet Nam | 78.1 | 19.1 | 2.8 |
| Average | 73.3 | 25.8 | 0.9 |

Source: Kuno (forthcoming).

A closer look at the liberalization status for individual ASEAN countries reveals difficulties in establishing a region-wide FTA, which are masked in the average values examined above. Specifically, it is only Singapore that does not have any problems in achieving a high level region-wide FTA. Other ASEAN member countries face difficulty in liberalizing a number of sectors. Indeed, the shares of “eliminated to all” in all products are low for many countries, Indonesia (46.0%), Cambodia (64.3%), Myanmar (66.6%), and Lao PDR (68.0%), indicating the possible presence of enormous obstacles in tariff elimination. In order to promote trade liberalization in the RCEP, the members may take a sequential approach by setting an explicit schedule in a similar fashion as was done under the AFTA.

Section 5 showed that five ASEAN+1 FTAs have adopted different rules of origin (ROOs), making it difficult to establish a region-wide FTA based on one unified ROO by product. Medalla (2011) compared ROOs adopted by five ASEAN+1 FTAs at 6-digit HS lines. Table 9 shows the number of HS lines that have common ROOs. According to Medalla’s computation, all five FTAs have at least one common ROO in 64% of all HS lines. Moreover, 90% of the time, three or more FTAs share a common ROO. These findings seem to indicate that harmonization of ROOs may not be a far-fetched idea among five ASEAN+1 FTAs.

Table 9: Commonality of ROOs across 5 ASEAN+1 Free Trade Agreements

| Degree of commonality | Frequency distribution of HS lines (6-digit HS2002) | |
|---------------------------------------|---|------|
| | Number | % |
| At least one common ROO in all 5 FTAs | 3318 | 64.0 |
| in only 4 FTAs | 766 | 14.8 |
| in only 3 FTAs | 825 | 15.9 |
| in only 2 FTAs | 255 | 4.9 |
| No common ROOs | 23 | 0.4 |

ASEAN = Association of Southeast Asian Nations; FTA = free trade agreement; ROO = rules of origin.

Source: Medalla (2011).

Turning to trade in services, agreements are included in the ASEAN–Australia/New Zealand FTA, the ASEAN–PRC FTA, and the ASEAN–Korea FTA.¹² Ishido (2011) investigated the liberalization levels of the commitments by sectors under these three ASEAN+1 FTAs and the ASEAN Framework Agreement in Services (AFAS). He found similarities in the level of liberalization commitments among them, as correlation coefficients, which are computed using country-average liberalization levels by sector, between the pair of FTAs are greater than 0.615 (Table 10). Indeed, the correlation coefficient between the ASEAN–Australia/New Zealand FTA and the ASEAN–Korea FTA is as high as 0.870. These findings indicate that the sectoral patterns of liberalization and/or protection for trade in services under the ASEAN+1 FTAs are similar and thus consolidating these FTAs into one FTA may be possible. However, it is important to note that consolidation of FTAs does not necessarily mean liberalization of trade in services.

Table 10: Correlation Coefficients of Service Trade Liberalization Commitments among ASEAN+1 Free Trade Agreements

| FTA | AFAS | AANZFTA | ACFTA | AKFTA |
|---------|-------|---------|-------|-------|
| AFAS | 1 | | | |
| AANZFTA | 0.718 | 1 | | |
| ACFTA | 0.615 | 0.826 | 1 | |
| AKFTA | 0.704 | 0.87 | 0.83 | 1 |

AFAS: ASEAN Framework Agreement on Services; AANZAFTA: ASEAN–Australia/New Zealand FTA; ACFTA: = ASEAN–PRC FTA; AKFTA = ASEAN–Korea FTA; PRC = People's Republic of China.

Source: Ishido (2011.)

6. MULTILATERALIZATION OF FREE TRADE AGREEMENTS

According to Baldwin and Low (2009), multilateralization of regionalism or region-wide FTAs is promoted through the non-discriminatory extension of preferential trading

¹² An agreement on trade in services is included in a chapter in Japan's bilateral FTAs with Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam.

arrangements to non-FTA members. They argue that such extensions can occur in two ways—either through the inclusion of new members in existing agreements or by replacing existing agreements with new ones that extend to new members. One may add that ultimate multilateralization at the global level may be achieved when such extension is applied to all the countries/economies in the world. With these observations in mind, let me discuss the possible ways to multilateralize East Asian regionalism in the form of RCEP.

In order to extend the RCEP to new members, the RCEP needs to have an explicit rule on accession. The general principles state that the RCEP shall have an open accession clause to enable participation of any of the ASEAN FTA partners should they not be ready to participate at the outset as well as any other external economic partners (ASEAN 2012). This is conditional open accession in that only ASEAN's FTA partners may be considered for accession. Although such treatment is necessary for ASEAN to maintain its centrality in regionalism in East Asia, the RCEP needs to have unconditional open accession for its multilateralization. Considering unconditional open accession, the TPP provides useful lessons as it is open to accession on terms to be agreed among the parties, by any APEC economy or other state (TPP 2005).

Focusing on trade in goods, which is a main component of the RCEP, the RCEP needs to establish a very high level of trade liberalization for its multilateralization and to contribute to the promotion of multilateralism. The opposition against liberalizing trade with non-RCEP members, or multilateralizing RCEP, is small and weak, when a high level of trade liberalization is already achieved in RCEP. Two additional comments are in order here. It is important to have an efficient producer country as a member, in order to minimize the negative impacts from multilateralization. If RCEP members are inefficient producers, then the impacts of extending trade liberalization to non-members would incur substantial costs. Another point is the importance of broadening membership before achieving multilateralization completely, as larger membership increases the probability of having efficient producers as members.

Rules of origin (ROOs) play a crucial role in FTAs such as the RCEP; ROOs ensure the benefits of free trade to FTA members. However, ROOs may unnecessarily constrain trade flows because of the spaghetti or noodle bowl effect resulting from the adoption of different ROOs by different FTAs.¹³ In order to avoid the spaghetti or noodle bowl effect, one common ROO should be defined for a specific product and applied to any FTA. Such ROOs have to be created at the WTO. It is important to establish less restrictive ROOs in order to avoid constraining trade flows. If the establishment of such common ROOs is not possible, then a co-equal system, under which choices of ROOs are given for the FTA users, should be adopted. For a region-wide FTA such as RCEP, lenient rules on full or total cumulation should be adopted.

The discussion so far has focused on trade in goods. A similar approach may be applied to trade in services, which is subject to existing rules under the GATS, in order to achieve multilateralization of the services chapter in the RCEP.

So far, discussions have been confined to the RCEP or a region-wide FTA in East Asia. FTA developments in other parts of the world need to be considered in order to achieve multilateralization of regionalism such as the RCEP. In particular, the TPP agreement that has been in negotiation under the APEC framework is an important FTA to consider, as membership overlaps to some extent.

¹³ See Gasiorek, Augier, and Lai-Tong (2009) and Estevadeordal, Harris, and Suominen (2009) on detailed discussions on the issues of ROOs.

Although the contents of the RCEP and the TPP will not be finalized until negotiations are concluded, discussions indicate that these two frameworks are likely to be quite different. Compared to the RCEP, the TPP is more comprehensive in the coverage of issues and has a higher level in terms of trade and FDI liberalization.¹⁴ One of the important features of the RCEP is to provide developing members with economic cooperation, while the TPP places less importance on economic cooperation. Because of these differences, the RCEP and the TPP should complement each other rather than substitute one another. Indeed, these two frameworks may be considered as two different stages. Developing countries that cannot meet high requirements for the TPP membership may achieve economic development under the RCEP, and then may later join the TPP when they can pass the membership requirements.

Although the contents of the RCEP and the TPP are likely to be quite different, it is important to “coordinate” the two, especially to promote multilateralization. Coordination may be effectively conducted if a common guiding principle is adopted. For such guiding principles, APEC’s best practice for RTAs and FTAs, that include comprehensive aspects including trade in goods and services, ROOs, cooperation, and open accession, should be adopted (APEC 2004).

7. CONCLUDING COMMENTS

This paper analyzed developments concerning FTAs in East Asia and pointed out a recent move toward the establishment of a region-wide FTA under the RCEP possibly by consolidating the existing five ASEAN+1 FTAs. An examination of the contents of agreements in trade in goods and services revealed wide variation in the level of trade liberalization and the definitions of ROOs. Given these starting points, a gradual approach of sequential trade liberalization with an explicit liberalization schedule may be realistic. To successfully complete trade liberalization, monitoring is necessary. On ROOs, the RCEP should try to establish one ROO per product. If this is difficult, then a co-equal approach should first be applied to all the products, followed by a gradual move to a one ROO–one product framework. It is also important to introduce a lenient cumulation rule in order to promote intra-RCEP trade. For the multilateralization of the RCEP, the RCEP needs to achieve a high level of trade liberalization and also needs open accession.

One possible impediment to the RCEP negotiations is political tension among the negotiating countries. The most worrisome cases are the territorial and political tensions between the PRC and the Republic of Korea on the one hand, and the PRC and Japan on the other hand. Indeed, Japan’s political relations with these two countries have worsened recently because of disputes over territorial and historical issues. It is encouraging to observe that the PRC, Japan, and the Republic of Korea began trilateral FTA (CJK FTA) negotiations in March 2013 with a second round of negotiations in July–August 2013, despite heightened political tensions. Having noted optimism, it is very important for the leaders to avoid aggravating the situation and to improve political relations in order to make progress on and to conclude the RCEP and the CJK FTA negotiations.

¹⁴ Schott, Kotschwar, and Muir (2013) provide an overview of the TPP, while Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership prepared by ASEAN trade ministers in August 2012 indicates important features of the RCEP (ASEAN).

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