



The Status of East Asian FTAs

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I. Current status of FTAs in East Asia

- **1.FTA proliferation**
- ASEAN as an early developed regional organization took the lead in forming its FTA. ASEAN's role is unique. On the one hand, ASEAN itself seeks to benefit from more FTAs with it as a hub, ASEAN becomes attractive to other regional partners that led to outside initiatives for making FTA with it.
- China's FTA initiative with ASEAN aroused others' quick responses, especially from Japan and ROK
- In making FTAs, few economies restricted themselves only in East Asia. Each one has selected its negotiation partners on a global reach



Current status of FTAs in East Asia (cont.)

- **2. Current status**
- Currently, East Asian economies have concluded 37 FTAs, while 39 still under negotiations and a further 33 proposed.
- In general, more developed economies tend to be more active in negotiating FTAs. For less developed economies, they tend to rely more heavily on FTAs based on AFTA and ASEAN +1 instead. Until now, most of the agreements that East Asian economies have concluded or initiated are with non-Asian countries



Free Trade Agreements in East Asia (ASEAN+3)

Negotiating body	Under Implementation	Signed	Under negotiation	Proposed	Total	Inside EA	Outside EA
ASEAN	3	1	3	2	9	5	4
Brunei Darussalam	4	2	3	4	13	6	7
Cambodia	3	1	3	2	9	5	4
China, People's Republic of	7	1	5	10	23	6	17
Indonesia	4	2	4	6	16	6	10
Japan	6	3	6	4	17	11	6
Korea, Republic of	5	1	5	11	22	8	14
Lao People's Dem. Rep.	5	1	3	2	11	6	5
Malaysia	5	2	8	4	19	7	12
Myanmar	3	1	4	2	10	5	5
Philippines	3	2	3	4	12	6	6
Singapore	13	2	12	5	32	8	24
Thailand	8	1	9	6	24	9	15
Viet Nam	3	1	5	2	11	6	5
Total	30	7	39	33	109	23	86
Under Implementation						12	18
Signed						3	4



FTAs involving countries in East Asia (ASEAN+6)

☑ concluded, ⊙ under negotiation, ⊖ under consideration

	Japan	ROK	China	ASEAN	India	Australia	N.Z.
Japan		⊙		☑	⊙	⊙	⊖
ROK	⊙		⊖	☑	⊙	⊖	⊖
China		⊖		☑	⊖	⊙	☑
ASEAN	☑	☑	☑	☑	⊙	⊙	⊙
India	⊙	⊙	⊖	⊙☑			
Australia	⊙	⊖	⊙	⊙☑			☑
N. Z.	⊖	⊖	☑	⊙☑		☑	



II. Main features of FTAs in East Asia

- **1. General characteristics**
- The FTAs in East Asia vary extensively in terms of the institutional arrangements. AFTA adopted a CEPT, service and an investment area; China-ASEAN started with EHP, separate agreements for trade in goods, service and investment, same as for ROK, Japan adopted bilateral and regional approach.
- CEP has broad coverage, including liberalization, cooperation, facilitation, protection and differential treatment
- FTAs in East Asia seek for a freer trade and investment situation instead of real economic “integration-oriented” approach.



Main features of FTAs in East Asia (*cont.*)

- **2. *Tariff reduction***
- AFTA, ACFTA, AKFTA, Singapore-New Zealand FTA, and Singapore-Australia FTA, have pursued a negative list approach, AJFTA, JSEPA, and some other FTAs take a positive list way. There are usually some transitional periods for less developed countries.
- For time schedules, the earliest time for zero tariff is 2010, the latest time is 2020.



Main features of FTAs in East Asia(*cont.*)

- **3. Rules of origin**
- ROOs vary from a local or regional content (VC) approach, to a change in tariff classification (CTC) rule and a specific process (SP) rule. Agreements allow for cumulative ROOs to determine the total bilateral or regional local content of a product.
- the criterion of 40% VC was first introduced by AFTA, China and ROK accepted it in making the FTA with ASEAN. JSEPA specifies a wholly obtained or produced entirely rule.



Overview of ROO of FTAs in East Asia

	<i>AFTA</i>	<i>ACCEC</i>	<i>AJCEP</i>	<i>AKCEC</i>	<i>JSEPA</i>	<i>NCFTA</i>
CTC	Yes, but not necessary	Yes, but not necessary	Yes	Yes	Yes	Yes
RVC Ratio	40%	40%	40%	60-40%	60-40%	50-30%
SP	Chap. 50-63	Chap. 50-63	Chap. 50-63	Not mentioned	Chap. 28-40,50-63	Chap. 28-40,50-63
Cumulation	Yes	Yes	Yes	Yes	Yes	Yes
De Minimis	Not mentioned	Not mentioned	7-10%	10%	8-10%	Not mentioned



ROOs of bilateral FTAs in East Asia (AEAN+6)

Value Added Criterion (VC)	
Singapore-New Zealand	Cumulative local content >40%
Singapore-Australia	Cumulative local content >50%
Australia-New Zealand	Cumulative local content >50%
Change of tariff code classification (CTC)	
Japan-Malaysia	HS 4 digit
Thailand-Australia	HS 4 digit or HS 6 digit
Thailand-New Zealand	HS 4 digit or HS 6 digit
Singapore-ROK	HS 4 digit or HS 6 digit
Alternative	
Japan-Singapore	Cumulative local content >40%, or CTC HS 4 digit
Requirement of VC and CTC	
Thailand-India and CTC HS 4 digit	Cumulative local content >40%, and CTC HS 4 digit
Singapore-India	Cumulative local content >40%,



Main features of FTAs in East Asia(*cont.*)

- **4. Economic cooperation**
- FTAs contain a variety of commitments relating to economic cooperation in a number of areas, usually in framework agreement, many of them have no specific work plan, time schedule or review mechanism
- Cooperation ranging from infrastructure, energy, information and communications, technology, human resource development, tourism, transportation and logistics, capacity building, SMEs, environment and standards conformity and mutual recognition (some of them are facilitation measures)



III. Way to Overcome Problems

- **1. New challenges**
- **Asian noodle bowl** Complex FTAs could potentially disrupt the processes of cross-border production networks. FTAs have different phase-in modalities, i.e. tariff reduction schedule, thus an exporter faces different tariff by destination. As for the ROOs, there are several types, and they are differently used even in a same agreement. Thus, the negative effects of FTAs happened due to two effects: one is that the scope and the models of tariff liberalization arrangements vary in each agreement, while the other is differences of ROO



Way to Overcome Problems (*cont.*)

- ***New challenges (cont.)***
- *Low utilization rates* AFTA preferences (CEPT) were not being well used, ranging from 11.2% to 4% for Thailand and Malaysia. JETRO survey showed, among more 700 Japanese companies, 11.9% utilized FTAs, 22.8% plan to utilize, 37.4% do not plan to use. SMEs have lower utilizing rate and planning utilizing rate, large companies tend to have higher utilizing and planning utilizing rate.
- The margins of preferential tariff versus MFN tariff rate are too small to compensate for the administrative cost and delay of applying for preferential tariff treatment. IT related products enjoy the benefit of Information Technology Agreement (ITA), and for most intermediate goods for exports, they are exempted from the tariffs.



Way to Overcome Problems (*cont.*)

- ***Benefits of a wider regional FTA***
- A wider-regional FTA will help overcome most challenges including negative “Noodle Bowl” effects. The economic gains are significant if either moving toward EAFTA (ASEAN+3), or CEPEA (ASEAN+6) from current bilateral FTAs and ASEAN+1 FTAs.
- An integrated FTA in East Asia is desirable, but it may not be possible to put on the near future agenda by the regional leaders.



Way to Overcome Problems (*cont.*)

- ***Adopting the best practice***
- Considering the difficulties for moving toward an integrated FTA in East Asia, an alternative way to do is to standardize the FTAs by adopting “guiding principles” and following the “best practice”. APEC has done the work on guiding principles for FTA best practice. By adopting best practice, the differences of FTA modalities may be largely reduced, and they become more transparent and disciplinary.



Way to Overcome Problems (*cont.*)

- ***Harmonizing ROOs***
- ROOs should maximize trade creation and minimize trade distortion. One approach is to simplify ROOs that make them easy to understand and to comply with. At for a country, ROOs are consistent across all of its FTAs.
- One way to enhance flexibility and reduce origin complexity would be to design co-equal rules of origin. This would give a choice among a standardized tariff shift rule, RVC rule, or specific rule. It could enhance existing cumulation provisions to full cumulation provisions by creating a regional standard and related regional implementation process for cumulation convergence



Way to Overcome Problems (*cont.*)

- ***Facilitation***
- Considering the difficulty in moving toward a wider regional FTA, it is feasible to initiate facilitation agenda to smooth the business transaction in the region. An immediate step for reducing business cost is to adopt a single window program in East Asia, either by extending ASEAN's single window initiative to other East Asian countries, or agreed on a single window agreement among ASEAN+3 countries, or EAS members.