



## **ADB Working Paper Series**

### **Asian FTAs: Trends and Challenges**

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Masahiro Kawai and  
Ganeshan Wignaraja

No. 144  
August 2009

**Asian Development Bank Institute**

Masahiro Kawai is dean of the Asian Development Bank Institute (ADBI) in Tokyo. Ganeshan Wignaraja is a principal economist in the Office of Regional and Economic Integration at the Asian Development Bank (ADB) in Manila. This paper was prepared as a chapter for a forthcoming book, *Asian Regionalism in the World Economy: Engine for Dynamism and Stability*, edited by Masahiro Kawai, Jong-Wha Lee, and Peter A. Petri.

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Suggested citation:

Kawai, M., and G. Wignaraja. 2009. Asian FTAs: Trends and Challenges. ADBI Working Paper 144. Tokyo: Asian Development Bank Institute. Available: <http://www.adbi.org/working-paper/2009/08/04/3256.asian.fta.trends.challenges/>

Asian Development Bank Institute  
Kasumigaseki Building 8F  
3-2-5 Kasumigaseki, Chiyoda-ku  
Tokyo 100-6008, Japan

Tel: +81-3-3593-5500  
Fax: +81-3-3593-5571  
URL: [www.adbi.org](http://www.adbi.org)  
E-mail: [info@adbi.org](mailto:info@adbi.org)

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**Abstract**

Although a latecomer, economically important Asia has emerged at the forefront of global free trade agreement (FTA) activity. This has sparked concerns about the negative effects of Asian FTAs, including the “noodle bowl” problem. Amid slow progress in the World Trade Organization’s (WTO) Doha negotiations and the global financial crisis, however, Asian regionalism seems to be here to stay and the focus for policymakers should be how best to minimize the costs of FTAs while maximizing their benefits. Adopting a pragmatic perspective, this paper examines key trends and challenges in Asian FTAs. It provides new evidence from firm surveys, analysis of specific agreements, and computable general equilibrium estimates. It makes a case for strengthening the support system for using FTAs, rationalizing rules of origin and upgrading their administration, ensuring better coverage of agricultural trade, forging comprehensive “WTO-plus” agreements, and encouraging a region-wide FTA. Political economy considerations suggest that a likely scenario is for FTA consolidation in Asia to be followed by connections with North America and Europe. In conclusion, a bottom-up approach to a Doha Round Agreement emerges from the analysis.

**JEL Classification: F1, F15, and O24**

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# 1. INTRODUCTION

The recent advent of free trade agreements (FTAs) will likely have a marked impact on Asia's trade policy and its cherished status as the global factory. This paper deals with the spread of FTAs in economically important Asia since 2000, including the current FTA landscape, challenges FTAs pose for business and public policy, and what might be done to make Asian FTAs more multilateral friendly.

Three recent and interrelated developments provide the context for this chapter:

First, Asia's advanced production networks, which underlie its spectacular global export success over the past several decades, have deepened regionally (Kimura 2006; Asian Development Bank [ADB] 2008). Production networks have been broken into smaller steps, with each step in the most cost-effective location, thereby further improving efficiency. Falling regional trade barriers and logistics costs, along with technological progress, underlie this trend. Intraregional trade in Asia has increased significantly, particularly in parts and components, and this trend may continue with further regional liberalization via FTAs.

Second, East Asia—a relative latecomer to using FTAs as a trade policy instrument—is now at the forefront of global FTA activity with 54 concluded FTAs. The Association of Southeast Asian Nations (ASEAN) is emerging as the hub for Asia's FTAs, with other major Asian economies joining the FTA bandwagon. Policy support for the deeper integration of production networks, regional integration efforts in other major markets, and the 1997–1998 Asian financial crisis have spurred the growth of Asian FTAs (Urata 2004; Kawai 2005). With many more FTAs currently under negotiation, there is little sign of a diminishing appetite for FTAs in Asia.

Third, there is emerging literature on the economic effects of Asian FTAs. Issues and concerns highlighted in the new literature include little use of FTA preferences, a "noodle bowl" problem of criss-crossing agreements that potentially distort trade toward bilateral channels, excessive exclusions and special treatment in FTAs, and the possibility that the multilateral trading system may be progressively eroded (Baldwin 2006; Bhagwati 2008). FTAs are a relatively new phenomenon in Asia and a dearth of empirical evidence, particularly with respect to patterns of Asian FTAs and business impacts, has made it difficult to verify the validity of these concerns. With the availability of new data, the time is ripe for an evidence-based assessment of Asian FTAs.

Amid the economic downturn following the global financial crisis and the stalled World Trade Organization (WTO) Doha negotiations, regionalism and FTAs in Asia are likely to persist as a means to promote liberalization. Liberalizing trade regionally, as opposed to globally, may be easier to achieve because fewer parties are involved. Moreover, regional agreements may be able to extend further in key policy areas. Accordingly, business will need to learn to export more effectively under a regional trade regime anchored on FTAs. The focus for policymakers is how best to minimize the costs of Asian FTAs (e.g., transactions and administrative costs) while maximizing their benefits (e.g., preferential tariffs, better market access, and new business opportunities.)

Adopting a pragmatic perspective, this paper examines trends and challenges in Asian FTAs with a view to making suggestions. Section II summarizes Asia's emergence as the global factory through outward-oriented development strategies and highlights the region's recent emphasis on FTAs. It charts major trends in Asian FTAs since 2000, including growth, hubs and spokes, cross-regional orientation, and trade coverage. Section III analyses five key challenges posed by Asian FTAs: (i) improving firm-level use of FTAs, (ii) tackling the Asian "noodle bowl" problem, (iii) promoting comprehensive coverage of agricultural trade, (iv) increasing "WTO-plus" elements, and (v) forming a region-wide FTA. New evidence from analysis of FTAs, firm surveys, and computable general equilibrium (CGE) models is used to address these challenges. In response to increasing interest in forming a region-wide

agreement, Section IV explores political economy issues as they relate to FTA consolidation in East Asia and its potential connection with North America and Europe. In conclusion, Section V advocates strengthening the support system for regional production networks, forging comprehensive WTO-plus agreements, and encouraging an East Asia-wide FTA. A bottom-up approach to a WTO Doha Round Agreement emerges from the analysis.

For the purposes of this paper, the term “Asia” is narrowly used to describe the 16 economies that make up “integrating Asia,” while the term “developing Asia” excludes Japan.<sup>1</sup>

## 2. TRENDS IN ASIAN FREE TRADE AGREEMENTS

### 2.1 Emergence of the Global Factory

The story of developing Asia’s spectacular rise from a poor underdeveloped agricultural backwater to become the global factory over a 50-year period is regarded as an economic miracle (Stiglitz 1996). In the 1960s, developing Asian economies lacked natural resources and had high levels of poverty. There seemed to be little prospect of economic advancement. Nonetheless, Asian economies had ample supplies of inexpensive, productive manpower. They were also geographically close to an expanding high-income Japan, with efficient multinational corporations (MNCs) seeking to relocate production to less costly locations in East Asia. Multilateralism through the WTO framework and its predecessor, the General Agreement on Trade and Tariffs (GATT), and open regionalism—supported by unilateral liberalization—centered on Asia–Pacific Economic Cooperation (APEC), underpinned Asia’s approach to international trade policy for several decades. FTAs were absent both internationally and in Asia. International trade policy at the national level was anchored by outward-oriented development strategies, high domestic savings rates, creation of strong infrastructure, and investment in human capital. A booming world economy hungry for labor-intensive imports from Asia, falling tariffs in developed country markets, inflows of trade-related foreign direct investment (FDI), and generous foreign aid flows also favored outward-oriented growth in Asia.

A long period of market-driven expansion of trade and FDI followed, during which Asia increasingly became the global factory. Through strategies of innovation and learning, Asian firms acquired the requisite technological capabilities to either compete internationally or become suppliers to MNCs (Hobday 1995; Mathews and Cho 2000; Wignaraja 2008). This involved developing production engineering skills to use imported technologies efficiently and successfully plugging into the advanced global production networks formed by MNCs and local suppliers. As systematic innovation and learning took place at the firm level, a shift from labor-intensive exports (e.g., textiles, garments, and footwear) to more technology-intensive exports (e.g., chemicals, ships, electronics, and automobiles) occurred in Asia. Some Asian firms built deep innovative capabilities based on investments in research and development, emerging as leading firms in production networks and supply chains. Rising economic prosperity in Asia followed in the wake of rapid industrialization. As a result, three of the world’s richest economies are now in Asia: Japan, Republic of Korea (hereafter Korea), and Singapore.

In addition, intraregional concentration of trade and FDI activities rose as production networks involving Asian firms deepened regionally (Kimura 2006). Rising factor costs in core production locations were a prime driver. Falling regional trade barriers and logistics costs, as well as technological progress, spurred the decentralization of production networks

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<sup>1</sup> Integrating Asia includes Brunei Darussalam; Cambodia; People’s Republic of China; Hong Kong, China; India; Indonesia; Japan; Republic of Korea; Lao People’s Democratic Republic; Malaysia; Myanmar; Philippines; Singapore; Taipei, China; Thailand; and Viet Nam. See Appendix Table 1 for basic economic statistics of the economies in Integrating Asia.

to the most cost-effective locations. Accordingly, trade within Asia increased significantly from 37% of total trade to 54% between 1980 and 2007, led by trade in parts and components (ADB 2008). Toward the turn of the 20<sup>th</sup> century, this simple story of outward orientation and export success was punctuated by a change in the nature of Asia's international trade policy toward FTAs.

## 2.2 Growth of FTAs

Alongside multilateralism, Asia began emphasizing FTAs as a trade policy instrument in the late 1990s and the region is today at the forefront of world FTA activity (Feridhanusetyawan 2005; Fiorentino, Crawford, and Toqueboeuf 2009). Appendix Table 2 provides data from the ADB FTA Database on the number of concluded FTAs in Asia between 2000 and 2009 (as of June 2009). The number of concluded FTAs in Asia as a group increased from only 3 to 54 during that time. Of these, 40 FTAs are currently in effect. The proliferation of FTAs in Asia is likely to be sustained: another 78 are either under negotiation or proposed. Asia is ahead of the Americas in FTAs per country—on average Asia has 3.4 concluded FTAs per country compared with 2.2 for the Americas.<sup>2</sup> On the whole, Asia seems to be opting for bilateral agreements rather than more complex plurilateral ones because bilateral agreements may be easier to negotiate. Bilateral FTAs comprise 74% of the concluded FTAs, with plurilateral FTAs comprising the remainder.

Four main factors underlie the recent spread of FTA initiatives in Asia: (i) deepening market-driven economic integration in Asia, (ii) European and North American economic integration, (iii) the 1997–1998 Asian financial crisis, and (iv) slow progress in the WTO Doha negotiations.<sup>3</sup>

First among these is market-driven economic integration through trade, FDI, and the formation of East Asian production networks and supply chains. Market-driven economic integration has begun to require further liberalization of trade and FDI and harmonization of policies, rules, and standards governing trade and FDI. East Asia's policymakers are increasingly of the view that FTAs, if given wide scope, can support expanding trade and FDI activities through further elimination of cross-border impediments, facilitation of trade and FDI, and other such harmonization efforts. Thus, FTAs can be regarded as part of a supporting policy framework for deepening production networks and supply chains formed by global MNCs and emerging Asian firms.

Second, European and North American economic regionalism—including European Union (EU) expansion into central and eastern Europe, a monetary union in the eurozone, the success of the North American Free Trade Agreement (NAFTA), and incipient moves toward a Free Trade Area of the Americas (FTAA)—has motivated East Asian FTAs. Governments fear that the two giant trading blocs of Europe and North America might dominate rule-setting in the global trading system, thereby marginalizing Asia. Increasingly, policymakers have realized the need for stepping up the pace of integration to improve international competitiveness by exploiting economies of scale and strengthening their bargaining power through a collective voice on global trade issues. FTAs can help insure against the periodic difficulties of multilateral trade liberalization, such as the recent slow progress in the WTO Doha negotiations and a perceived loss of steam in the APEC process.

Third, the 1997–1998 Asian financial crisis made it clear that East Asian economies needed to work together in the area of trade and investment in order to sustain growth and stability by addressing common challenges. This need has not yet been fully met by either regional initiatives to strengthen the international economic system or by national efforts to

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<sup>2</sup> According to the Organization of American States, its 34 members (including the US and Canada) had 75 concluded FTAs in early December 2008 ([www.sice.oas.org](http://www.sice.oas.org)). This compares with 16 Asian countries with 54 concluded FTAs.

<sup>3</sup> More complete explanations can be found in Kawai (2005 and 2007) and ADB (2008).

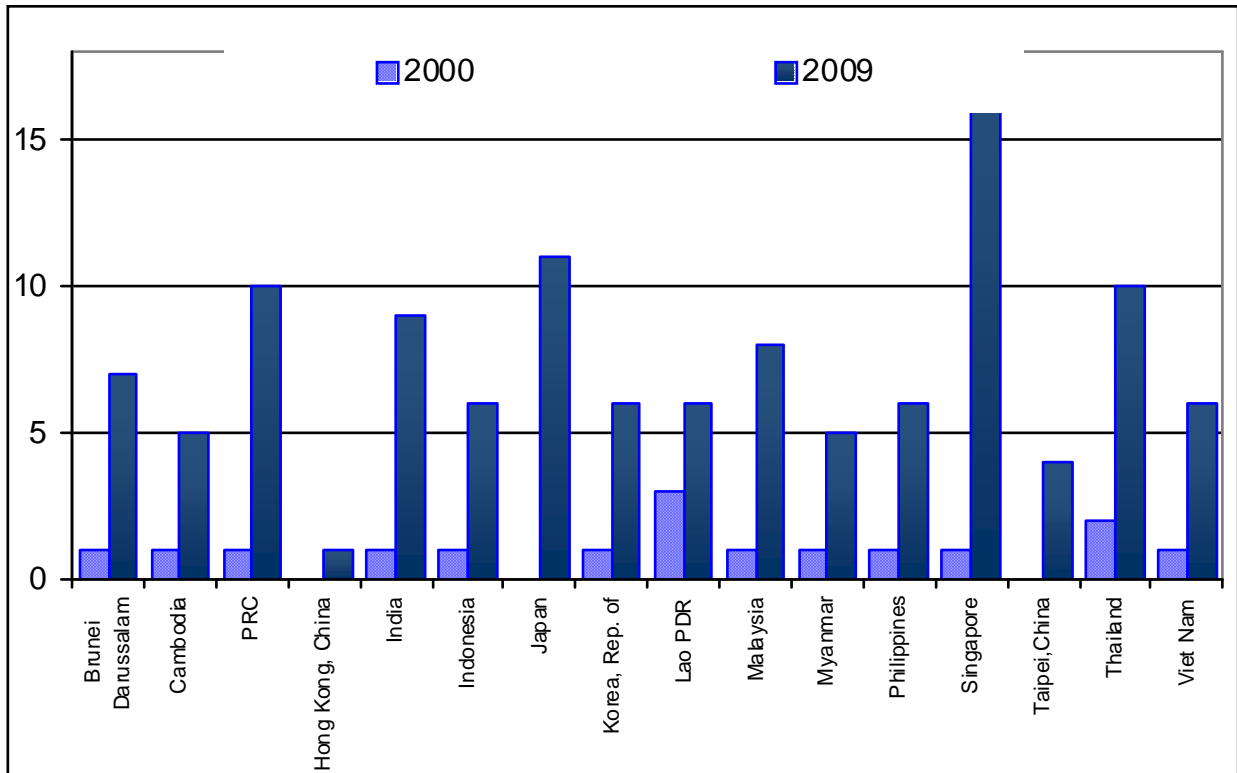
strengthen individual economies' fundamentals, both of which will take time to bear fruit. With the proliferation of FTA initiatives in the region, a number of countries have begun to jump on the bandwagon of these initiatives out of fear of exclusion.

Fourth, slow progress in the WTO Doha negotiations encouraged countries to consider FTAs as an alternative. Hailed as a development round to promote trade-led growth in poor countries, the WTO Doha Development Round began in November 2001. The talks have largely focused on liberalization in two key areas: agriculture and non-agricultural market access. In essence, developed countries were being asked to accelerate the pace and scope of reductions in agricultural tariffs and subsidies, and developing countries were being asked to do the same with regard to tariffs for industrial goods. Seven years of formal negotiations eventually stalled in mid-2008 over concerns in developing countries about safeguard measures to protect poor farmers from rising food and oil prices. However, discussions have continued behind the scenes. As prospects for an early deal diminished over time, pro-business Asian countries emphasized bilateral and plurilateral FTAs for the continued liberalization of trade in goods and services, as well as the adoption of the Singapore issues (i.e., trade facilitation, investment, government procurement, and competition policy), which are currently beyond the scope of the WTO.

### **2.3 FTA Hubs and Spokes**

FTA activity in Asia over the last decade has given rise to a classic hub and spoke arrangement (Hufbauer and Schott 2009). As Figure 1 shows, the region's five largest economies have become key hubs of FTA activity, while smaller neighbors have emerged as spokes. The number of concluded FTAs includes Singapore (18), Japan (11), People's Republic of China (PRC) (10), India (9), and Korea (6), with many more FTAs under negotiation. It is noteworthy that ASEAN—with one of the oldest trade agreements in Asia—is emerging as a major regional hub linking ASEAN members with the region's larger economies. Having enacted FTAs with PRC, Japan, and Korea, ASEAN recently concluded negotiations on bilateral agreements with India and Australia and New Zealand, and is considering negotiating an FTA with the EU. The development of FTA hubs and spokes in Asia can be related to several factors, including economic size, per capita income, levels of protection, economic geography, and the production network strategies of MNCs.

**Figure 1: Growth of Concluded FTAs in Integrating Asia**  
(Number of FTAs by Country)



ADB = Asian Development Bank; FTA = free trade agreement; Lao PDR = Lao People's Democratic Republic; PRC = People's Republic of China.

Note: FTAs in Integrating Asia covers all FTAs with at least one integrating Asia member country.

Source: ADB's Asia Regional Integration Center (ARIC) FTA Database ([www.aric.adb.org](http://www.aric.adb.org)), data as of June 2009.

Singapore is by far the most active Asian economy in terms of the number and geographic coverage of FTAs. With its strategic location, the region's most open economy, and world-class infrastructure and logistics, the country is the regional headquarters for many leading MNCs. Singapore is seeking access to new overseas markets, particularly for services and investments.

The country is a founding member of the ASEAN Free Trade Area (AFTA) and has implemented or concluded agreements with the largest Asian economies—PRC, India, Japan, and Korea—as well as economies outside the region, including the United States (US) and Australia. The US–Singapore FTA, which has been in effect since 2004, was the first such agreement made by the US in Asia and is reputed to be a model agreement in terms of scope.

As a supporter of multilateralism, Japan was a latecomer to FTAs (Urata 2004). The region's first developed economy has the strongest base of giant MNCs involved in production networks and supply chains throughout Asia. One motivation for Japan's engagement in FTAs is to provide a market-friendly and predictable regional business environment for its MNCs. Japan has rapidly implemented bilateral economic partnership agreements (EPAs) with nine countries<sup>4</sup> and an agreement with ASEAN, and is negotiating agreements with Australia, India, and Korea.

The two Asian giant economies, the PRC and India, are forming FTAs to ensure market access for goods and expand regional coverage for outward investment. To this end, the PRC implemented separate FTAs on goods and services with ASEAN and is now finalizing its negotiations on an investment agreement. The PRC has also forged bilateral comprehensive economic partnership agreements (CEPAs) with Hong Kong, China and Macau Special Administrative Region of the People's Republic of China; FTAs with Chile and Pakistan; and is a member of the Asia–Pacific Trade Agreement (APTA). In 2008, the PRC concluded FTAs with Singapore and New Zealand. India is a member of APTA and has a comprehensive agreement with Singapore. It also has agreements with its South Asian neighbors.

Korea has agreements with members of APTA and ASEAN, and Singapore within East Asia; and with Chile and the European Free Trade Area (EFTA) countries outside East Asia. It also signed an agreement with Asia's largest trading partner, the US, in June 2007.

With some exceptions, the region's poorer economies—Cambodia, Lao People's Democratic Republic (Lao PDR), Viet Nam, Philippines, and Indonesia—have tended to rely on ASEAN for concluding FTAs with the region's larger economies. This may reflect weak institutional capacity, lack of resources, and limited leverage to undertake FTA negotiations in poorer economies. The ASEAN framework offers the possibility of pooling scarce capacity and resources.

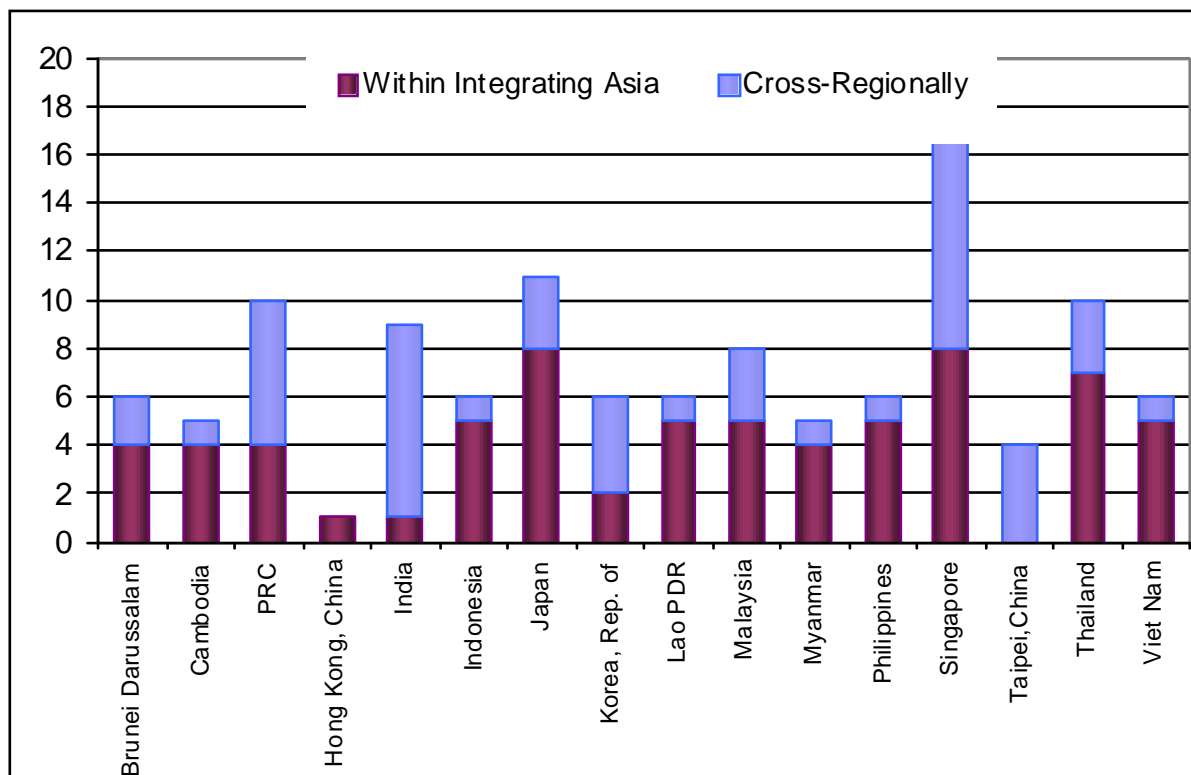
Middle-income countries such as Malaysia and Thailand have emerged as regional production hubs for the auto and electronics industries, respectively. As one of the founding members of ASEAN, Thailand has entered into agreements with PRC, India, Japan, and Australia and New Zealand.

The geographical orientation of Asian FTAs is summarized in Figure 2. A high degree of cross-regional orientation among some of the region's stronger economies is visible—notably for PRC; India; Korea; Singapore; and Taipei, China. The trend toward cross-regional FTAs is even more evident in Asia's proposed FTAs and those under negotiation (see Appendix Table 3 for details). It appears that Asia has a strong preference to maintain open trading relations with the rest of the world rather than becoming inward-looking (Kawai 2005).

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<sup>4</sup> Brunei Darussalam, Chile, Indonesia, Malaysia, Mexico, Philippines, Singapore, Thailand, and Viet Nam.

**Figure 2: Geographical Orientation and Share of Concluded FTAs in Integrating Asia—FTAs within Integrating Asia and Cross-Regionally**  
(Number of FTAs)



ADB = Asian Development Bank; FTA = free trade agreement; Lao PDR = Lao People’s Democratic Republic; PRC = People’s Republic of China.

Note: FTAs within Integrating Asia cover FTAs where all partners are in integrating Asia.

Source: ADB’s Asia Regional Integration Center (ARIC) FTA Database ([www.aric.adb.org](http://www.aric.adb.org)), data as of June 2009.

## 2.4 Trade Coverage of FTAs

The numbers of FTAs are relatively easy to track over time, but by themselves the numbers do not indicate the importance of FTAs to economic activity or trade at the national level. It is informative to get an idea of how much of a country’s world trade is covered by FTA provisions.<sup>5</sup> This is difficult to measure because of exceptions and exclusions contained in many agreements. Furthermore, official statistics on utilization rates of FTA preferences in Asia are hard to come by and published data on the direction of services trade do not exist. Nevertheless, by making the bold assumption that all goods trade is covered by concluded FTAs, indicative estimates can be obtained.<sup>6</sup> Accordingly, Figure 3 shows the share of an economy’s bilateral trade with its FTA partners in its total trade with the world for 2000 and 2008. Two points are worth noting:

First, the region’s larger economies have smaller shares in 2008 than ASEAN members, highlighting the latter’s greater reliance on FTAs, especially AFTA. The shares for the large economies are: Korea (44%), PRC (25%), India (23%), and Japan (11%). There is some diversity within ASEAN, with Brunei Darussalam and Lao PDR having shares in excess of

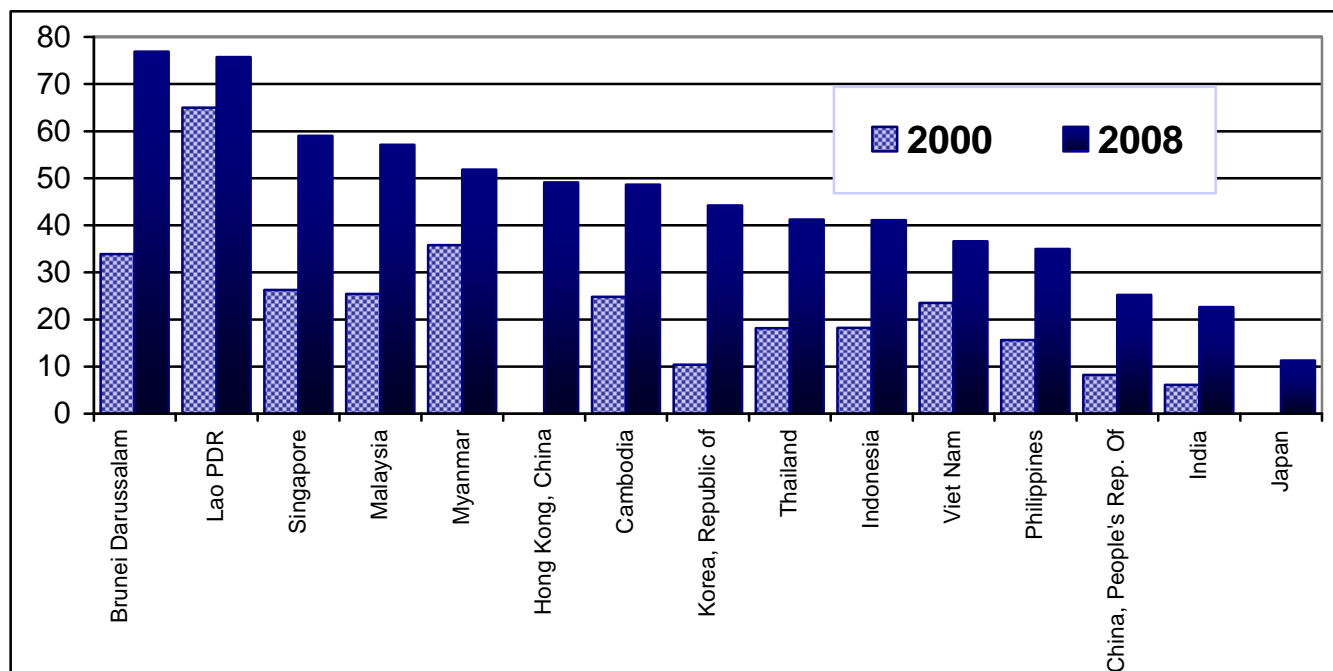
<sup>5</sup> On this point, see Fiorentino, Crawford, and Toqueboeuf (2009).

<sup>6</sup> We are grateful for Richard Baldwin for this suggestion.

75%, and Singapore, Malaysia, and Myanmar over 50%, while others range between 35% and 49%.<sup>7</sup> Meanwhile, Taipei, China has the lowest trade coverage by FTAs at 1%.

Second, all Asian countries experienced a significant increase in reliance on FTAs between 2000 and 2008, reflecting the spread of FTAs throughout the region. Key Asian FTA hubs—Japan, Korea, PRC, and India—have experienced at least a quadrupling of shares over the period. Notable increases are also visible in Singapore, Thailand, and Malaysia.

**Figure 3: Share of an Economy's Trade with Its FTA Partners in the Economy's Total Trade with the World—2000 and 2008 (%)**



ADB = Asian Development Bank; FTA = free trade agreement; Lao PDR = Lao People's Democratic Republic.

Note: Data cover only concluded FTAs for that year. Japan and Hong Kong, China had no FTA partners in 2000.

Source: ADB staff estimates based on Direction of Trade Statistics, International Monetary Fund (June 2009).

### 3. CHALLENGES POSED BY ASIAN FREE TRADE AGREEMENTS

As FTAs have spread across Asia, concerns over such agreements have increased. A cursory analysis of the growing number of political debates, media stories, policy studies, and conference reports on Asian FTAs indicates that a host of challenges exist for regional integration. It is not possible in this short paper to address all the economic, political, and legal issues arising from the subject of integration. From a pragmatic perspective and with a view to making suggestions, five key challenges associated with Asian FTAs merit further examination: (i) improving firm-level use of FTAs, (ii) tackling the Asian “noodle bowl” problem, (iii) promoting comprehensive coverage of agricultural trade, (iv) increasing WTO-plus elements, and (v) forming a region-wide FTA. New evidence from firm surveys, analysis of agreements, and CGE models can be useful in addressing some of these challenges and indicating the way forward.

<sup>7</sup> In Singapore's case, the high ratio reflects a proactive strategy of concluding a large number of bilateral and ASEAN FTAs. In Lao PDR and Brunei Darussalam, this ratio may suggest high commodity dependence and market concentration in a limited export base.

### 3.1 Challenge 1: Improving Firm-Level Use of FTA Preferences

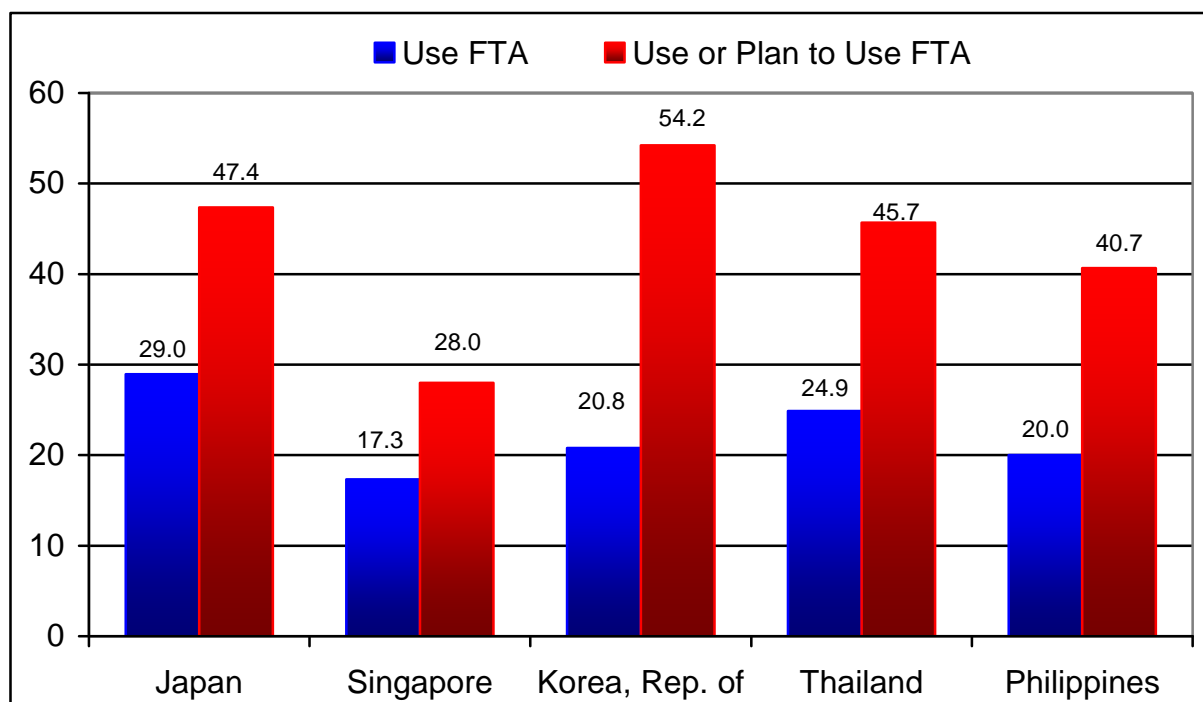
Improving preference use at the firm level is probably the most important challenge associated with Asian FTAs. Well designed and comprehensive FTAs provide numerous benefits, including preferential tariffs, market access, and new business opportunities. One might assume that firms would desire to avail of such benefits once a given FTA is in effect. Previous studies at the country and industry levels, however, suggest that FTA preference utilization rates—based on shares of export value enjoying preferences—are low in East Asian countries and that FTAs are underutilized (Baldwin 2006; World Bank 2007). A firm-level study of Japan's FTAs also reported modest preference utilization rates and related this to the low volume of trade with FTA partner countries (Takahashi and Urata 2008). Accordingly, Asian FTAs are often viewed as discriminatory and a drain on scarce trade negotiation capacity in developing countries (Bhagwati 2008).

Five comprehensive surveys of exporting firms conducted in 2007–2008 by ADB and several partners in Japan, Korea, Philippines, Singapore, and Thailand shed light on the use of FTA preferences.<sup>8</sup> Although data on shares of export value enjoying preferences were not available from the enterprise surveys, it was possible to estimate utilization of FTA preferences based on the incidence of firms—i.e., the share of sample firms in a given country—that use FTA preferences. Figure 4 shows this measure for firms that use and plan to use FTAs. East Asian exporting firms tend to utilize FTA preferences more frequently than previously thought and may even be increasing their utilization rate. Of the 609 East Asian sample firms, 22% use FTA preferences. When plans for using FTA preferences are also factored in, 44% of all East Asian firms either use or plan to use FTA preferences. Japanese and Thai firms are the highest users of FTA preferences, while firms from Korea, Philippines, and Singapore make relatively less use of preferences. Plans for heightened preference use are present in all five countries—in particular Korea, Japan, and Thailand. While these findings are encouraging, room for improvement exists in FTA preference use at the firm level.

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<sup>8</sup> For an overview of the firm surveys, see Kawai and Wignaraja (2009b). The firm surveys for the individual countries will be published by ADBI as working papers and later as a book.

**Figure 4: Utilization of FTA Preferences  
(% of Respondents)**



FTA = free trade agreement.

Source: Kawai and Wignaraja (2009b).

T-tests indicate that the most striking difference between FTA preference users and non-users in East Asian countries is a significant difference in firm size. Japan stands out for its base of large multinational corporations. The average number of employees among Japanese firms using FTA preferences is 30,104, while this number is 1,098 in Singapore, 591 in Thailand, and 395 in the Philippines. The average number of employees among non-users is 7,020 in Japan, 291 in Thailand, 269 in the Philippines, and 142 in Singapore. Accordingly, a classic firm size effect seems to underlie the pattern of FTA preference use in the East Asian sample. The results suggest that using FTAs entails large fixed costs—e.g., learning about FTA provisions, tailoring business plans to complex tariff schedules, and obtaining certificates of origin—and larger firms are better able to muster the requisite financial and human resources than small- and medium-sized enterprises (SMEs).

The reasons that the majority of East Asian sample firms do not currently use FTA preferences are not widely known. The ADB surveys generated responses from 325 East Asian sample firms on the reasons for non-use of FTA preferences. Surprisingly, a lack of information on FTAs is the most significant reason for non-use of preferences as reported by 45% of firms surveyed. Low margins of preference (26%) and delays and administrative costs associated with rules of origin (25%) were the second and third most common reasons cited. Other notable reasons for non-use include: use of other schemes such as export processing zones and the Information Technology Agreement for exporters, which also provide incentives for exporters (11%), and non-tariff measures in partner countries (9%) that inhibit exports and, hence, use of FTA preferences.

Accordingly, use of FTA preferences can be encouraged by raising awareness of (i) FTA provisions, including phasing out tariff schedules; (ii) margins of preference at product level; and (iii) administrative procedures for rules of origin (ROOs). Business associations and governments could make information on how to use FTAs more transparent, particularly for SMEs. Practical ideas include frequent seminars with SMEs, television programs directed at businesses, and dedicated websites and telephone help lines. More generally, institutional

support systems for businesses, particularly for SMEs, need to be improved. Existing support systems for exporting under FTAs are of varying quality and take-up rates. Significant public and private investment is required in East Asia to improve coverage of support services, upgrade service quality, and reduce bureaucratic impediments to service use. Business and industry associations will have to play a greater role in providing members with support services for exporting under FTAs. Attention might focus on upgrading the technical standards, quality, and productivity of SMEs so that they can participate more fully in regional production networks driven by large firms.

### **3.2 Challenge 2: Tackling the Asian “Noodle Bowl” Problem**

ROOs are another potentially challenging aspect of Asian FTAs. These are devices to determine which goods will enjoy preferential tariffs in order to prevent trade deflection among FTA members. For manufactured goods, ROOs comprise three types: (i) a change in tariff classification rule defined at a detailed harmonized system level; (ii) a local (or regional) value content rule, which requires a product to satisfy a minimum local (or regional) value in the country (or region) of an FTA; and (iii) a specific process rule, which requires a specific production process for an item (Estevadeordal and Suominen 2006). An influential strand of literature argues that Asian FTAs have complicated ROOs, sparking concerns about what the attendant rules and administrative procedures would imply for the cost of doing business (Manchin and Pelkmans-Balaoing 2007; Tumbarello 2007). This literature claims that restrictive ROOs in Asian FTAs deter the use of FTA preferences, while complex ROOs raise transactions costs for firms. With the rapid spread of FTAs throughout Asia, this literature further suggests that multiple ROOs in overlapping FTAs pose a severe burden on SMEs, which have less ability to meet such costs. Originally termed a “spaghetti bowl” of trade deals (Bhagwati 1995), this phenomenon has become widely known as the “noodle bowl” effect in Asia. Others suggest that the depiction of Asian FTAs as a complicated noodle bowl is misleading. On the contrary, it has been argued that Asian FTAs may be creating an order of a different sort by building the foundation for a stronger regional trading system (Petri 2008).

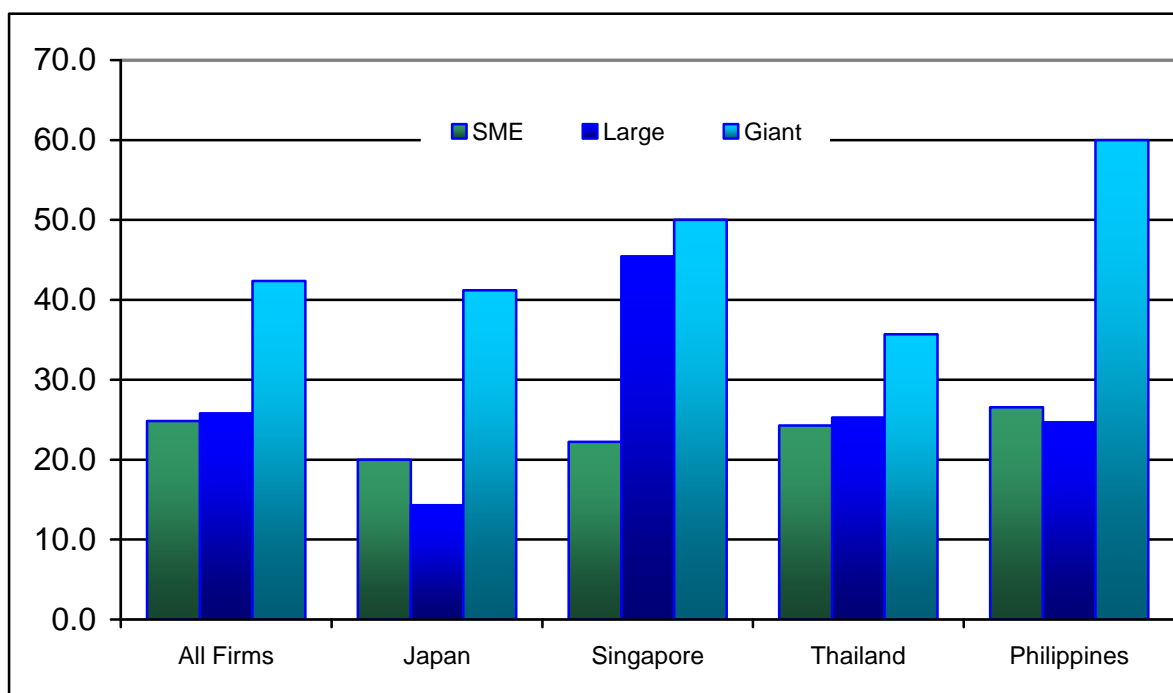
To what extent are multiple ROOs perceived as a problem by businesses in Asia? The ADB firm surveys provide interesting insights into this issue. Specifically, the surveys provide enterprise perceptions of whether dealing with multiple ROOs in the region’s FTAs would significantly add to business costs. The main findings suggested by the surveys are given below.

First, at the present level of concluded FTAs in the region, the evidence suggests that multiple ROOs impose a limited burden on firms in East Asia. Of the 465 firms that responded to the question on this issue, 124 firms (27%) said that multiple ROOs do significantly add to business costs. Meanwhile, the bulk of the sample firms did not think that they were a problem at present. However, the aggregate figure masks interesting country-level variations in perceptions. Singaporean firms had the most negative perceptions regarding multiple ROOs (38%), while Korean firms had the least negative perceptions (15%). In between these two extremes were Japanese, Philippine, and Thai firms with negative responses of 31%, 28%, and 26%, respectively. National FTA strategies, industrial structures, and the quality of institutional support may underlie differences in perceptions of ROOs across Asian countries.

Second, the surveys suggest that larger firms in Asia have more negative perceptions of multiple ROOs than SMEs, which was an unexpected finding (Figure 5). The relationship between firm size and concerns about multiple ROOs presents an interesting puzzle for research. Econometric analysis to resolve the puzzle shows that large established firms tend to export to multiple markets and change their business plans in response to FTAs. Therefore, they are more likely to complain about issues of multiple ROOs (Kawai and Wignaraja 2009b). In contrast, smaller firms tend to export to a single market and hence do

not have much basis for complaining. While inter-country and intra-firm size variations exist, there does not seem to be much variation in perceptions across sectors.

**Figure 5: Burden Imposed by Multiple Rules of Origin in FTAs**  
(% of Respondents by Firm Size)



FTA = free trade agreement; SME = small- and medium-sized enterprise.

Note: SME = 100 or fewer employees, Large = 101 to 1,000 employees, Giant = more than 1,000 employees.

Source: Kawai and Wignaraja (2009b).

Third, most firms want to be able to choose between ROOs included in FTAs. The surveys suggest that firms are supportive of having alternative ROOs for the same product for several reasons: (i) if they cannot reach the value content requirement, having another ROO enables them to avail of FTA preferences; (ii) as the application for the value content rule may require confidential information on costs, suppliers and many firms are often reluctant to divulge such information; and (iii) some ROOs may be better aligned with the technology and production process of particular industries.

The finding of a limited burden imposed by multiple ROOs does not mean that policymakers should be complacent about the issue. As the number of concluded agreements increases, it is possible that multiple ROOs may become more of a problem for firms. Supportive measures—such as encouraging rationalization of ROOs and upgrading their administration—are needed to mitigate the negative effects of the Asian noodle bowl in the future. Widespread gains are possible from pursuing a simplified approach to ROOs in East Asia involving harmonized ROOs, cumulation of value contents, and coequality of ROOs. Likewise, adoption of international good practices in ROO administration would be useful. This may include introduction of a trusted trader program, as is the case with NAFTA, that would allow successful applicants to self-certify their own certificates of origin, a switch to business associations issuing certificates of origin for a fee, increased use of information technology-based systems of ROO administration, and training programs for SMEs.

### 3.3 Challenge 3: Promoting Comprehensive Coverage of Agricultural Trade

A third potential challenge for Asian FTAs may be the extent of coverage of goods trade. Some suggest that the coverage of goods trade differs markedly among Asian FTAs, while agricultural products are largely excluded due to pressures from powerful farm lobbies or social concerns over the rural sector, where poverty is predominant in developing countries (Feridhanusetyawan 2005). As a result, there is a sub-optimal level of liberalization in agricultural products and even conflict with the spirit of GATT article XXIV, which provides exemption to the WTO's most favored nation clause, or nondiscriminatory treatment. Consistency with GATT article XXIV requires FTAs to eliminate trade barriers on “substantially all trade” in originating goods from members within a reasonable period of time, which is sometimes referred to as the “substantially all trade” rule.

Two problems have hampered empirical research on the coverage of agricultural goods trade in Asian FTAs. First, little systematic data and analysis is available on the treatment of agricultural products across Asian FTAs. Second, clear criteria for the “substantially all trade” rule do not seem to exist. With the development of new databases on Asian FTAs—e.g., ADB's Asia Regional Integration Center database—new sources of FTA data are now available. Furthermore, tariff lines for agricultural products can be used as a basis to gauge the criteria of substantially all trade.

A simple three-fold classification system was used to categorize Asian FTAs according to tariff line coverage of agricultural products. Given the complexity of provisions for agriculture in many agreements, and the availability of tariff schedules and exclusion lists at the product level, a combination of coverage of product lines and exclusions was used to assess each agreement. The classifications are as follows:

- Comprehensive coverage—at least 85% of all agricultural product lines in a given agreement are covered, or not more than 150 product lines are excluded. FTAs with these features for agricultural products are taken as covering substantially all trade.
- No or limited coverage—agricultural products are completely excluded in the agreement, or less than 100 product lines are included.
- Some coverage—more agricultural products are included in FTAs than “comprehensive coverage,” but less products are covered than “no or limited coverage.” Agreements with such coverage typically include more than 100 agricultural product lines, but less than 85% of agricultural product lines. These agreements may also exclude over 150 agricultural product lines.

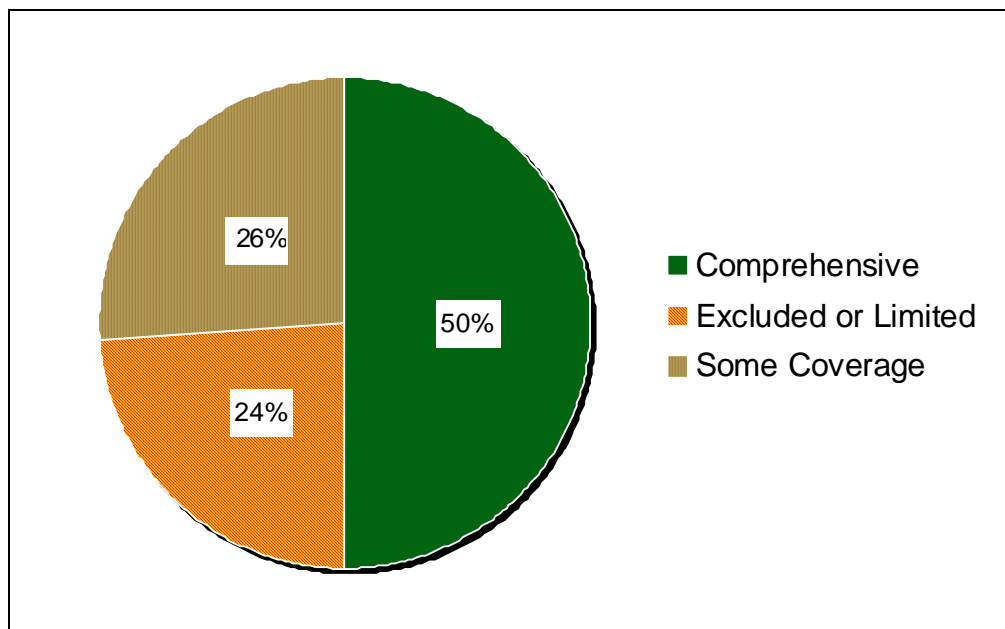
It was possible to apply this classification system to 50 concluded Asian FTAs<sup>9</sup> and the results are shown in Figure 6. Some examples may be illustrative. For example, the Korea–Chile FTA is taken as a comprehensive agreement for agricultural goods as Korea excludes only 21 agricultural products from the agreement, including rice, apples, and pears. ASEAN is also regarded as a comprehensive agreement as members exclude only 20 agricultural products on average.<sup>10</sup> The ASEAN–Australia and New Zealand FTA follows the AFTA model where most tariffs on agricultural products are bound at 0% upon the FTA's entry into force or phased to 0% by 2020. Exclusions from tariff commitments have been kept to a minimum including rice, sugar, and maize. Using this approach, 25 Asian FTAs (50% of the total) can be regarded as comprehensive in terms of coverage of agricultural products, while

<sup>9</sup> The data exclude four agreements involving Latin American countries for which texts were not available in English.

<sup>10</sup> Accordingly, Lao PDR excludes 5 items, Viet Nam 7, Malaysia 16, Philippines 17, Indonesia 24, and Cambodia and Myanmar 36 each. In contrast, Brunei Darussalam and Singapore eliminated tariffs on all agricultural products.

another 13 (26%) have some coverage of these items (see Appendix Table 4 for examples of FTAs with substantial coverage of agricultural products). The remaining 12 (24%) have limited or no coverage. Additional work is needed to refine the criteria for assessing the coverage of agricultural products in Asian FTAs according to the “substantially all trade” rule and to develop new criteria based on the value of total trade.

**Figure 6: Agricultural Coverage of Integrating Asia FTAs (%)**



FTA = free trade agreement, WTO = World Trade Organization.

Notes:

(i) The data cover 50 Integrating Asia FTAs and do not include Taipei,China–Nicaragua FTA; Taipei,China–El Salvador–Honduras FTA; Taipei,China–Guatemala FTA; and Singapore–Peru FTA due to difficulty in accessing official English translations of FTAs. Agricultural products and chapters are classified according to WTO guidelines.

(ii) "Comprehensive" means agriculture is substantially covered (at least 85% of agricultural product lines) or not more than 150 product lines are excluded. "Excluded or Limited" means agriculture is completely excluded or less than 100 product lines are included. "Some Coverage" refers to those cases in between "Excluded or Limited" and "Comprehensive."

Source: Legal annexes of FTAs ([www.aric.adb.org](http://www.aric.adb.org)) and WTO reports; data as of June 2009.

Better coverage of agricultural trade in Asian FTAs is needed and a gradual approach to liberalization seems optimal for developing economies. This is a key element of the continuation of the liberalization agenda for trade in goods. An important future step would be to include provisions on agricultural products in all prospective agreements. This would serve as a signal for producers to adjust to competition and improve productivity. A next step would be meeting the benchmark for comprehensiveness by ensuring coverage of at least 85% of all agricultural product lines in a given agreement and minimizing exclusions to not more than 150 product lines. This can be done by adopting a negative list approach to agricultural products with a few sensitive items. Issues for the future would include a realistic tariff elimination schedule, a transparent sanitary and phytosanitary regime, and reform of subsidies.

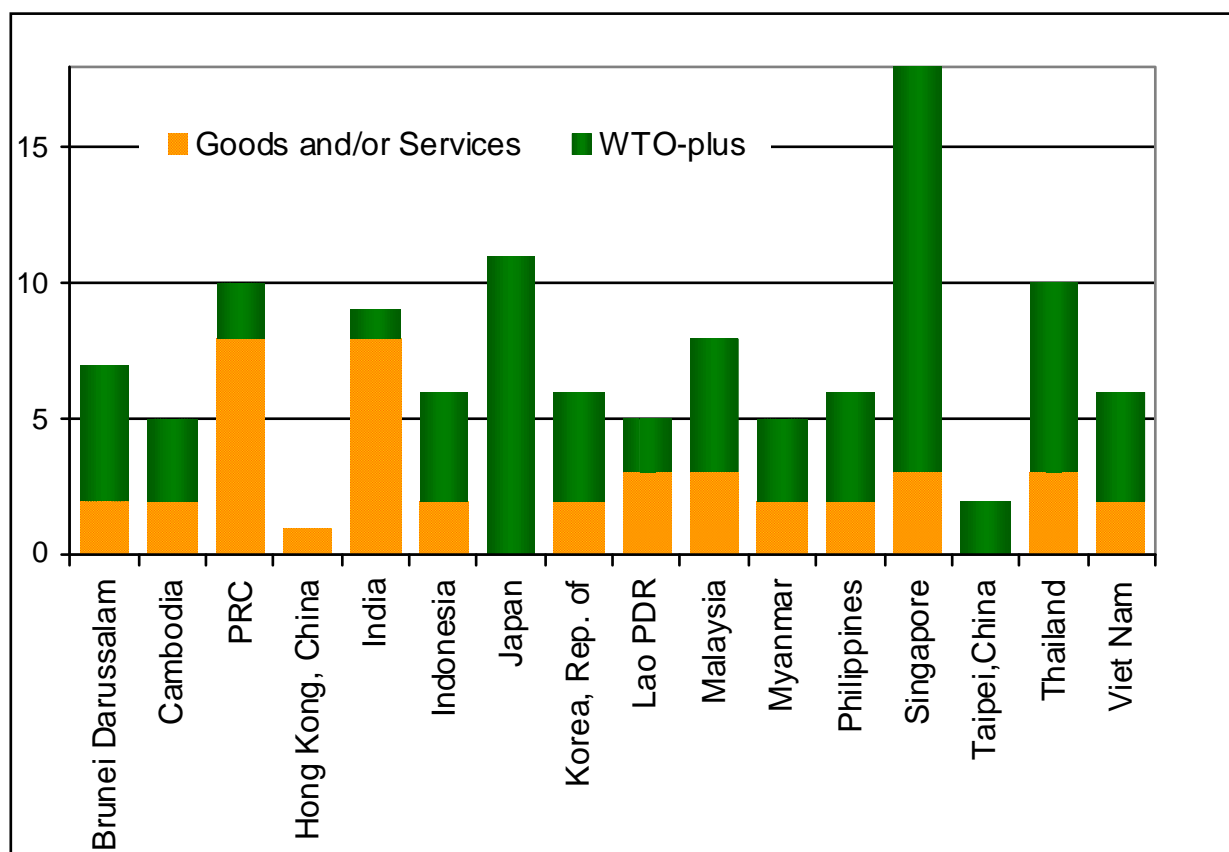
### 3.4 Challenge 4: Increasing WTO-Plus Elements

Asian FTAs are under increasing scrutiny for their scope, i.e., inclusion of new issues that go beyond the WTO framework. The WTO system that emerged from the Uruguay Round in the mid-1990s consisted of substantive agreements on goods and services. The subsequent WTO Doha Development Round initiated in 2001 has focused on liberalization in agriculture and non-agricultural market access. The four Singapore issues were conditionally included

in the work program for the Doha Round, but were dropped at the WTO Ministerial Conference in Cancun in 2004. WTO-plus agreements and new age FTAs, which are comprehensive FTAs that address the Singapore issues, are becoming more common globally (Fiorentino Crawford, and Toqueboeuf 2009). An increase in WTO-plus elements in the landscape of Asian FTAs has been identified as a pressing challenge for economies. Studies suggest that Asian FTAs vary considerably in their scope with some sophisticated agreements alongside limited FTAs (Banda and Whalley 2005; Plummer 2007).<sup>11</sup> Yet, systematic cross-country evidence on the scope of Asian FTAs is lacking, particularly with regard to more recent agreements.

Figure 7 shows the scope of concluded Asian FTAs at the national level according to (i) narrow agreements that primarily deal with good and/or services, and have few WTO-plus elements; and (ii) broad agreements with many WTO-plus elements. The scope of concluded agreements reflects a combination of economic interests, economic strength, and negotiation capacity. See Appendix Table 5 for details.

**Figure 7: Scope of Concluded FTAs in Integrating Asia**  
(Number of FTAs)



ADB = Asian Development Bank; FTA = free trade agreement; Lao PDR = Lao People's Democratic Republic; PRC = People's Republic of China; WTO = World Trade Organization.

Note: Data do not include Taipei,China–Nicaragua and Taipei,China–El Salvador–Honduras FTAs due to difficulty in accessing official English translation of the FTAs.

Source: ADB's Asia Regional Integration Center (ARIC) FTA Database ([www.aric.adb.org](http://www.aric.adb.org)); data as of June 2009.

<sup>11</sup> An early review of 11 Asian agreements concluded that "modern FTAs in Asia, some of which are the most sophisticated in the world, have tended to be more comprehensive in terms of coverage and of the building bloc rather than the stumbling bloc type, though there are some (minor) exceptions in terms of certain components" (Plummer, 2007: 1795). The study suggested a set of best practices to guide future FTAs.

Three leading participants in Asian FTAs—Japan, Korea, and Singapore—strongly favor a WTO-plus approach to FTAs. Appendix Table 6 summarizes coverage of selected FTAs by participant. All of Japan's agreements and most of Singapore's and Korea's are WTO-plus. Likewise, Thailand and Malaysia largely follow a WTO-plus format. Poorer economies, such as Cambodia, Lao PDR, Myanmar, and Viet Nam, as well as the Philippines and Indonesia, which rely heavily on ASEAN for their respective FTA strategies, are party to a mix of WTO-plus and other agreements.

Historically, the PRC and India have been relatively cautious on scope, preferring agreements focusing on goods and services elements. More recently, however, both have begun to experiment by incorporating some WTO-plus provisions such as in the India–Singapore Comprehensive Economic Cooperation Agreement (CECA) and the PRC–New Zealand FTA. Thus, with a few exceptions, Asian economies are increasingly favoring WTO-plus agreements rather than narrowly limited agreements.

Some additional points are noteworthy about WTO-plus provisions in Asian FTAs (Kawai and Wignaraja 2009a). First, agreements between developed countries and developing countries generally take a WTO-plus format. Examples include the ASEAN–Japan FTA, US–Singapore FTA, US–Korea FTA, and PRC–New Zealand FTA. Second, Korea and Singapore tend to behave like developed countries in their agreements with many developing countries. This behavior is visible in the Transpacific Strategic EPA, Singapore–PRC FTA, and Korea–Chile FTA. Third, some existing FTAs are gradually being expanded to have WTO-plus coverage. Comprehensive agreements under negotiation include the ASEAN–Korea CEPA and the India–Sri Lanka CEPA.

The inclusion of WTO-plus provisions—particularly the four Singapore issues—would be desirable in all future Asian FTAs. For example, competition policy and investment provisions are integral ingredients in facilitating FDI inflows and the development of production networks. Inclusion of provisions on trade facilitation and logistics development would help lower transactions costs in conducting trade. Cooperation provisions—along the line of the APEC economic and technical cooperation (ECOTECH) agenda<sup>12</sup>—would stimulate technology transfer and industrial competitiveness. In their FTA negotiations, the US and EU prefer a single undertaking and the inclusion of these WTO-plus provisions. The US–Singapore and US–Korea agreements are cases in point. ASEAN is also considering an ASEAN Investment Agreement as a part of the process of moving toward an ASEAN Economic Community by 2015.

### 3.5 Challenge 5: Forming a Region-Wide FTA

Finally, there is increasing recognition in Asia of the merits in forming a region-wide FTA as a means to consolidate the plethora of bilateral and plurilateral agreements. Such an FTA would confer various economic benefits: (i) increase market access to goods, services, skills, and technology (ii) increase market size to permit specialization and realization of economies of scale; (iii) facilitate the FDI activities and technology transfer of MNCs; and (iv) permit simplification of tariff schedules, rules, and standards.

ASEAN—with the region's oldest FTA—is emerging as an integration hub for FTAs in East Asia. PRC, Japan, and Korea have implemented their respective FTAs with ASEAN. India and Australia and New Zealand are also following suit and implementing FTAs with ASEAN. With key ASEAN+1 agreements underway, the policy discussion in East Asia is focusing on competing region-wide FTA proposals—an East Asia Free Trade Area (EAFTA) among ASEAN+3 countries and a Comprehensive Economic Partnership for East Asia (CEPEA) among ASEAN+6 countries—that will guide future policy-led integration in the region.

<sup>12</sup> ECOTECH is the APEC schedule of programs designed to build capacity and skills in APEC member economies to enable them to participate more fully in the regional economy and the liberalization process. See <http://www.apec.org> for more information.

Seeking to bridge ASEAN and its Northeast Asian neighbors, the EAFTA was an early vision of an East Asia-wide FTA. CEPEA has emerged through the realization that synergies could be gained by linking ASEAN+3 countries with India and Australia and New Zealand. An important challenge is to identify which of the two is more beneficial, between an EAFTA and CEPEA, in terms of economic welfare for Asia.

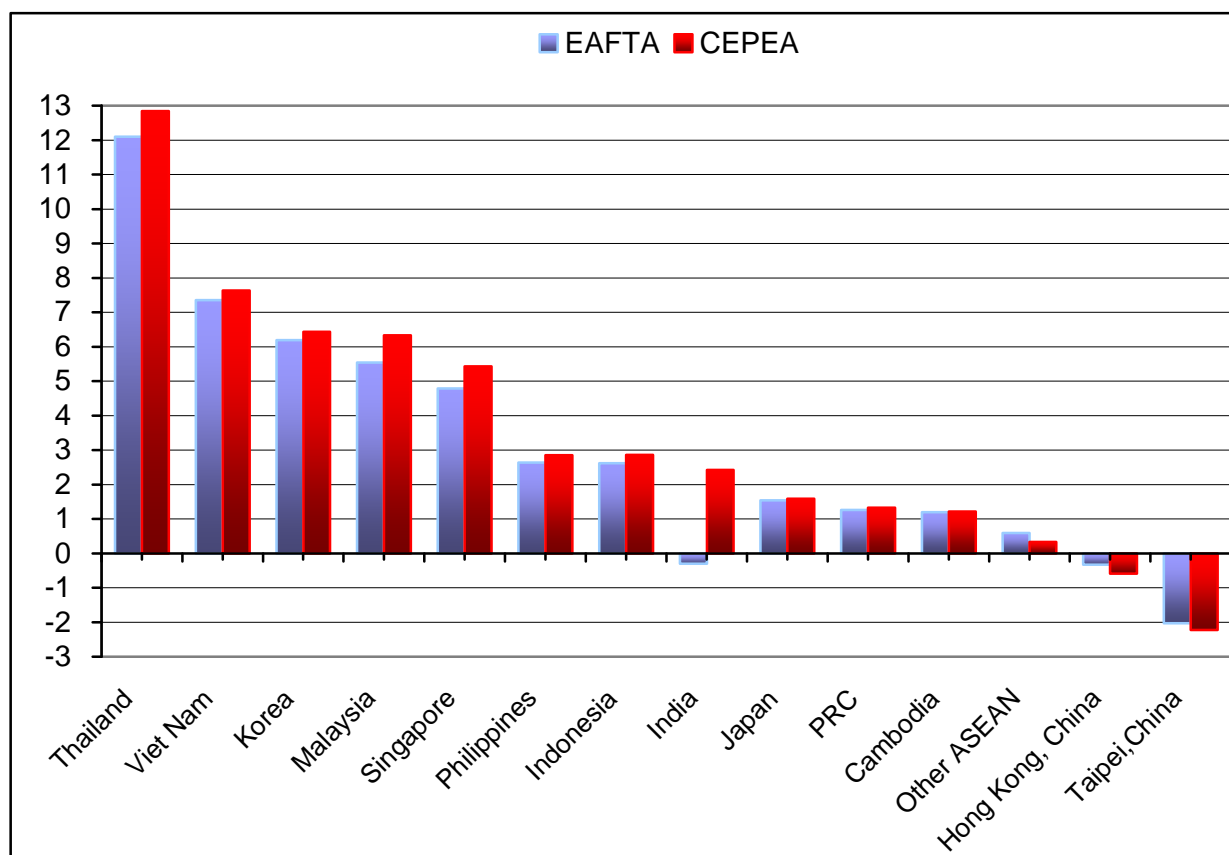
Some studies using CGE models have been conducted on the impact of prospective FTAs on East Asian economies (Gilbert, Scollay, and Bora 2004; Bhir and Fouquin 2006). CGE models have the advantage of being based on consistent structural equations that describe economic activity in each economy. While there has been some CGE work on an EAFTA and other alternatives, only limited work is available on the effects of a CEPEA and on a comparison between an EAFTA and CEPEA (a recent example is Lee, Owen, and van der Mensbrugge 2009). Furthermore, such work tends to narrowly focus on an FTA involving goods only, while other aspects of East Asian FTA coverage—such as services and trade costs—are excluded. A more comprehensive set of CGE estimates is required to inform the policy debate.

Figure 8 shows the results of a CGE exercise for economies in Integrating Asia. The EAFTA scenario provides for free trade among the 10 ASEAN members, PRC, Japan, and Korea. The CEPEA scenario broadens the EAFTA scenario to include India, Australia, and New Zealand. Four model features are noteworthy: (i) strong microeconomic foundations and detailed interactions among industries, consumers, and governments across the global economy; (ii) medium- to long-run investment effects by allowing for trade to affect capital stocks through investment activities; (iii) use of the Global Trade Analysis Project (GTAP) database (version 6.3) through to 2017,<sup>13</sup> which projects trade and production patterns to represent a post-Uruguay Round world using the phaseout of the Agreement on Textiles and Clothing, the implementation of the remaining WTO commitments under the Doha Round, and enlargement of the EU to 27 members; and (iv) a stylized FTA that includes goods, services, and some aspects of trade cost reduction. The model's baseline is 2017 and the simulations show changes from this baseline. As the formation of a region-wide FTA may take time, setting up the model and dataset in this way provides for more realistic scenarios.

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<sup>13</sup> From Kawai and Wignaraja (2009a). These estimates are from the CGE model developed in Francois and Wignaraja (2008).

**Figure 8: Income Effects of Alternative Scenarios Compared to 2017 Baseline**  
(% Change in GDP)



ASEAN = Association of Southeast Asian Nations; CEPEA = Comprehensive Economic Partnership for East Asia; CGE = computable general equilibrium; EAFTA = East Asia Free Trade Area; GDP = gross domestic product.

Source: Kawai and Wignaraja (2009a) based on the CGE model used in Francois and Wignaraja (2008).

Three overall results can be highlighted from the CGE exercise in terms of percentage change from 2017 baseline income: (i) a region-wide FTA, whether an EAFTA or CEPEA, offers larger gains to world income than the current wave of bilateral and plurilateral FTAs; (ii) the CEPEA scenario, which is broader in terms of country coverage, offers larger gains to the world as a whole in terms of income (US\$260 billion, measured in constant 2001 prices) than the EAFTA scenario and (iii) third parties outside either an EAFTA or CEPEA lose little from being excluded from a region-wide agreement. Our overall findings broadly echo those of Lee, Owen, and van der Mensbrugge (2009), whose sophisticated CGE exercise incorporates tariff reduction, trade cost reduction, and endogenously determined productivity levels. These authors also suggest that the CEPEA scenario (US\$201 billion) yields larger gains than the EAFTA scenario (US\$177 billion), and that insiders gain while losses to outsiders are negligible.

- Some interesting national level results in terms of percentage change from 2017 baseline income emerge from this exercise (see Figure 8):
- For ASEAN's more dynamic members, projected gains are significant under the CEPEA scenario: Thailand (12.8%), Viet Nam (7.6%), Malaysia (6.3%), and Singapore (5.4%). For the rest of ASEAN—Cambodia, Indonesia, Philippines, and remaining ASEAN economies—the gains are less than 3.0%.
- Among Northeast Asian countries, Korea experiences the largest gains under the EAFTA (6.2%) and CEPEA (6.4%) scenarios.

- India, Australia, and New Zealand experience losses under the EAFTA scenario and gains under the CEPEA scenario. The losses under an EAFTA are less than 0.5% for each, while under a CEPEA, gains are 2.4% for India, 3.9% for Australia, and 5.2% for New Zealand.
- Third parties like Hong Kong, China and Taipei,China experience small losses from being excluded from both EAFTA and CEPEA.

The CGE analysis indicates that a region-wide agreement in East Asia, particularly a CEPEA, provides welfare gains over the present wave of bilateralism.<sup>14</sup> The gains to members of such an agreement are notable, while losses to non-members are relatively small. Accordingly, arguments for and moves toward CEPEA are supported by economic modeling. The CGE analysis also reveals that some members gain more than others and this issue may need to be addressed in policy discussions. There is a case for further narrowing development gaps by providing financial and technical support for low-income countries, particularly with respect to trade-related infrastructure, customs modernization, enhancing SME development, and capacity building.

## 4. POLITICAL ECONOMY CONSIDERATIONS OF FTA CONSOLIDATION IN ASIA

Even if the consolidation of FTAs into a region-wide agreement—whether in the form of an EAFTA among the ASEAN+3 countries or a CEPEA among the ASEAN+6 countries—yields large economic gains to East Asia, it is not obvious that such a region-wide FTA can be created given political economy considerations. The PRC has been a strong supporter of an EAFTA, while Japan has put more emphasis on a CEPEA. In addition, political rivalry over FTA leadership in East Asia may hinder any such joint venture. Also, given the role of the US in Asia as a security anchor for many countries, one may argue that excluding the US from the Asian integration process may not be viable from a political perspective. Furthermore, the rising importance of European markets for many Asian economies suggests that involving Europe may also make sense.

We consider three competing scenarios for consolidation of various East Asian FTAs into a larger FTA: (i) an East Asia-wide FTA, either in the form of an EAFTA or CEPEA; (ii) a Free Trade Area of the Asia–Pacific (FTAAP) among APEC countries; and (iii) a Free Trade Area of Asia and Europe (FTA AE) among Asia–Europe Meeting (ASEM) countries. An East Asia-wide FTA, whether an EAFTA or CEPEA, addresses the noodle bowl problem among the production network countries, while an FTAAP or an FTA AE takes into account external markets as well. The idea of forming an EAFTA or CEPEA has been on the official agenda of the ASEAN+3 Leaders’ process and East Asia Summit meetings. In the same vein, an FTAAP has been officially considered in the APEC Leaders’ process. However, the idea of establishing an FTA AE has not attracted much attention so far.

To discuss these scenarios and their feasibility, some political economy considerations have to be made with regard to an East Asia-wide FTA (EAFTA or CEPEA) and an FTAAP.

### 4.1 Building Blocks for Wider Agreements

Due to a rise in the number of key players in official negotiations for FTAs, creating a large FTA can become more complicated. This suggests that forming an FTAAP would be more complex than forming a CEPEA, and that forming a CEPEA would be more complex than forming an EAFTA. Therefore, the first step toward consolidation of various FTAs might be to

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<sup>14</sup> As Lee, Owen, and van der Mensbrugge (2009) observed, a worthwhile but difficult extension of CGE models on region-wide Asian FTAs would be to endogenize FDI flows involving Asian countries. Consistent data on bilateral FDI flows in Asia, however, are lacking.

create preconditions—or building blocks—for a smaller region-wide FTA, like an EAFTA, and then to develop further conditions toward a wider FTA, such as a CEPEA or FTAAP. In this process, ASEAN will likely act as the integration hub or convener. The “+3 countries”—PRC, Japan, and Korea—would then need to coordinate their trade and FDI regimes. India, which has only recently moved away from its former protectionist enclosure, needs to pursue deeper structural and regulatory reforms addressing both tariff issues and “behind-the-border” red tape.

**An EAFTA or CEPEA.** An EAFTA or a CEPEA would likely be based on the existing ASEAN+1 FTAs with the “plus countries”—such as PRC, Japan, Korea, India, Australia, and New Zealand—as well as future networks of plurilateral and/or bilateral FTAs among these plus countries. Almost all of the five ASEAN+1 FTAs have been completed, with the ASEAN+India FTA expected to be signed soon. In contrast, other multilateral and/or bilateral FTAs are patchy and some important components—such as a trilateral FTA among PRC, Japan, and Korea or three bilateral FTAs among these three countries—are still missing (Table 1). All these FTAs can facilitate the formation of an EAFTA or CEPEA as important building blocks. From this perspective, the successful formation of an EAFTA or CEPEA requires not only a set of ASEAN+1 FTAs, but also a series of agreements among the plus countries, particularly among PRC, Japan, and Korea.

**Table 1: Bilateral and Plurilateral FTAs**  
(by status)

	ASEAN	Japan	PRC	Korea, Rep. of	India	Australia	New Zealand
ASEAN	⊗	⊗	⊗	⊗	°	⊗	
Japan	⊗	—	♦	°	°	°	♦
PRC	⊗	♦	—	♦	♦	°	⊗
Korea, Rep. of	⊗	°	♦	—	°	♦	°
India	°	°	♦	°	—	♦	♦
Australia	⊗	°	°	♦	♦	—	⊗
New Zealand		♦	⊗	°	♦	⊗	—

⊗ = FTAs negotiations signed or FTAs in place; ° = official negotiation under way; ♦ = official negotiation has not started.

ADB = Asian Development Bank; ASEAN = Association of Southeast Asian Nations; FTA = free trade agreement; PRC = People’s Republic of China.

Source: ADB’s Asia Regional Integration Center (ARIC) FTA database ([www.aric.adb.org](http://www.aric.adb.org)); data as of June 2009.

In principle, ASEAN+3 or ASEAN+6 countries can begin EAFTA or CEPEA negotiations without some of these important building blocks among the plus-three countries in place, as these blocks can be created as a part of the EAFTA or CEPEA negotiations. Nonetheless, given that bilateral negotiations between the PRC and Japan will likely take time, it would be preferable to conclude such a contentious agreement before starting the official negotiation process for an EAFTA or CEPEA. With all the building blocks in place, EAFTA or CEPEA negotiations can lead to the early formation of a single, larger FTA through consolidation and harmonization of existing FTAs.

The respective cases vary for supporting an EAFTA and a CEPEA, yet they are linked. An important reason for an EAFTA is that the production network has been developed most significantly among the ASEAN+3 countries, and harmonizing rules of origin among these countries can produce a tangible benefit. In addition, India is perceived as a slow liberalizer and it would take more time to produce a region-wide FTA if India were included from the beginning. Once a process begins for EAFTA negotiations, pressure could then be applied to India to further open up its economy. On the other hand, a reason for advocating a CEPEA is that the production network is already developing beyond ASEAN+3 countries,

encompassing India and Australia. In addition, the economic benefit from FTA consolidation is larger with a CEPEA than with an EAFTA.

The officially appointed study group for a CEPEA has agreed that ASEAN+3 countries should focus on trade and investment liberalization as the first priority, facilitation as the second, and technical cooperation as the last, and that ASEAN+6 countries may focus on technical cooperation as the top priority, trade and investment facilitation as the next, and liberalization as the least. The study group's description of the difference in terms of priorities between an EAFTA and a CEPEA implies that an EAFTA should proceed first, followed by a CEPEA. This sequenced approach would be realistic.

**A PRC–Japan–Korea FTA.** One of the most important preconditions for an EAFTA is the creation of either a trilateral FTA among PRC, Japan, and Korea (CJK FTA) or three bilateral FTAs between pairs of these countries. However, differences in the eagerness of forming FTAs exist among these three countries. The PRC is keen on establishing FTAs with Japan and Korea, but both Japan and Korea have some reservations over entering into FTAs with the PRC.

The Japanese government is concerned about the rising competitiveness of the PRC's manufacturing sector and the competitiveness of the PRC's agricultural products. Japan wishes to treat the PRC as a non-market economy so that it can use safeguard measures against a rapid increase of PRC imports into the Japanese markets, but the PRC's government insists upon market economy status for itself. Japan also argues that the PRC has yet to clearly demonstrate progress toward implementation of WTO entry commitments, including the treatment of Japanese firms in the PRC, clarity of regulations and rules over firms, and protection of intellectual property rights. Food safety issues are also a concern for Japan. The Japanese government has taken the position that an investment treaty should be a first condition before starting an EPA negotiation.

Korea is concerned about excessive dependence on the PRC market and the lack of an overall policy on how to position itself in terms of trade and investment vis-à-vis the PRC. Korea is also concerned about the PRC's agricultural competitiveness.<sup>15</sup>

Japan and Korea are interested in concluding an FTA with each other, but each country has concerns. Japan's primary concern over a Japan–Korea EPA is the competitiveness of Korea's agriculture and fishery sectors. In contrast, Korea is concerned about Japan's competitiveness in manufactured products (intermediate inputs), Korea's large tariff concessions required due to high most favored nation tariffs, and the risk of greater bilateral trade deficits with Japan.

Despite these problems, if the three countries can negotiate mutually agreeable FTAs, they can provide a strong foundation for a possible EAFTA, and eventually a CEPEA and FTAAP. This will require joint political commitment from the governments of all three countries.

**An FTAAP.** As with an EAFTA or CEPEA, an Asia and Pacific-wide FTA requires a series of plurilateral and/or bilateral agreements among key players, particularly those for the US with ASEAN, PRC, and Japan (the US–Korea FTA has been concluded). Given that the US provides the most open market for Asian products and a security umbrella for key East Asian economies, the region's relationship with the US is critical, both economically and politically.

APEC remains important for both East Asia and the US because it is the only multilateral economic forum that bridges the two. The US has advocated strengthening economic ties among APEC members through the formation of an APEC-wide free trade area (e.g., an FTAAP). While several East Asian countries have concluded bilateral FTAs with the US, others have reservations about a comprehensive agreement with the US. Deeper questions

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<sup>15</sup> Interestingly, Korean farmers do not seem threatened by the Korea–US FTA, but express concerns on agriculture with regard to a Korea–PRC FTA.

remain as to whether the US is ready to agree to an FTA with the whole of East Asia—one that includes the PRC—under the current political environment.

An FTAAP could increase two-way trade of partner countries in a significant way, and could be a useful way of reviving the stalled Doha Round or offer a “Plan B” hedge should the Doha Round permanently fail (Bergsten 2007; Hufbauer and Schott 2009). An FTAAP was proposed for consideration at the APEC Summits in 2007 and 2008. The formation of an FTAAP is expected to take many years and involve studies, evaluations, and negotiations among all 21 member economies. Given that the number of APEC member economies is so large, a smaller group may be more appropriate to initiate the process (e.g., an EAFTA).

A recently emerging FTA, called the Transpacific Strategic Economic Partnership Agreement (Transpacific SEPA), is attracting a growing number of countries sympathetic to its goal of high-standard liberalization (Markheim 2008). The Transpacific SEPA, also known as the Pacific Four (P4) agreement, is a plurilateral FTA among Brunei Darussalam, Chile, New Zealand, and Singapore that came into force in May 2006.<sup>16</sup> The aim of the agreement is to eliminate 90% of all tariffs among member countries upon entry into force and reduce all trade tariffs to zero by 2015. The Transpacific SEPA is a comprehensive agreement covering many WTO-plus elements, including ROOs, trade remedies, sanitary and phytosanitary measures, technical barriers to trade, intellectual property, government procurement, and competition policy. As part of the conclusion of negotiations, the P4 countries agreed to negotiate on financial services and investment within 2 years of Transpacific SEPA’s entry into force.

The Transpacific SEPA has the potential to grow to include many other nations under the agreement’s accession clause. In September 2008, the US announced it had decided to enter into negotiations to join the group. Australia and Peru also expressed interest in similar negotiations. Thus, the Transpacific SEPA could expand and strengthen US economic and strategic ties to the APEC region and could lay the foundation for a wider FTAAP.

There are two possible avenues to creating an FTAAP: one through an EAFTA or CEPEA, and the other through an expanded Transpacific SEPA. However, there are several noteworthy stumbling blocks in pursuing the Transpacific SEPA route. First, APEC is a voluntary, non-binding organization; however, forming an FTA requires the concerned governments’ binding commitments to trade liberalization, which means that this route should be pursued outside of the formal APEC process unless the mandate of APEC changes.<sup>17</sup> Second, the Transpacific SEPA route neglects the importance of ASEAN as the hub for East Asian integration, especially given that not all ASEAN countries are APEC members. Currently, only Brunei Darussalam and Singapore are Transpacific SEPA members from ASEAN and it is highly unlikely that the other ASEAN countries that are also APEC members could join the Transpacific SEPA within a reasonable time frame because the agreement is a high-standard and comprehensive liberalization agreement. Third, India is not an APEC member and, therefore, it would take some time for India to join the Transpacific SEPA.

**Links with Europe.** Though connecting East Asia with Europe is a relatively new idea, the European Commission has already begun negotiating FTAs with ASEAN, India, and Korea. Once the PRC and Japan come into this discussion, a solid foundation for an East Asia–EU FTA (an FTAAE, or even a wider FTA among the ASEM countries) will be in place.

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<sup>16</sup> The Transpacific SEPA was previously known as the Pacific Three Closer Economic Partnership (P3-CEP), with its negotiations first launched at the 2002 APEC Leaders’ Summit.

<sup>17</sup> Changing APEC’s mandate into a prospective FTA organization, however, would likely encounter strong oppositions from many middle-income ASEAN countries.

## 4.2 Likely Scenario: Sequencing of FTA Consolidation

Given the prominence of political economy considerations as they relate to ASEAN regional economic integration, it would likely be difficult to expand the Transpacific SEPA to all of East Asia within a short period of time. FTA consolidation in East Asia is likely to proceed along the line of an ASEAN-centric EAFTA or CEPEA. The most likely scenario would be the following consolidation sequence:

- acceleration of an ASEAN Economic Community (AEC) to be created by 2015;
- completion of ASEAN+1 FTAs with each of the “plus” countries;
- creation of a CJK FTA either through a PRC–Japan–Korea trilateral FTA or three bilateral FTAs among the three countries;
- formation of an EAFTA among the ASEAN+3 countries through mechanisms to connect the ASEAN+1 FTAs and a CJK FTA by allowing simplification, cumulation, and harmonization of ROOs;
- formation of a CEPEA by including India and Australia and New Zealand; and
- connection between East Asia and the US through an FTAAP, and with Europe through an FTAAE.

The dynamics of this “likely scenario” can evolve over time, with each step creating incentives for the next step to be taken. First, completion of an ASEAN Economic Community (AEC) is vital to FTA consolidation in East Asia as this will strengthen ASEAN’s ability to play the region’s integration hub role. Once an AEC is in place, ASEAN will be transformed into a much more coherent entity and, building on this strength, can substantially improve the quality of ASEAN+1 FTAs—to be formed with the “plus” countries of PRC, Japan, Korea, India, and Australia and New Zealand.

Next, creation of a CJK FTA (or three bilateral FTAs among PRC, Japan, and Korea) is a necessary building block for the formation of an EAFTA because without it, integration of the ASEAN+3 countries through a formal institutional arrangement is impossible. The political decision by Japan and the PRC to form an FTA (or EPA) is the cornerstone. ASEAN may play a key role in encouraging Japan and PRC (and Korea) to agree on a Northeast Asian FTA. Once a CJK FTA (or at least a bilateral FTA between the PRC and Japan) is formed, it can be connected with the ASEAN+1 FTAs through various mechanisms that allow simplification, cumulation, and harmonization of ROOs. This development will put competitive pressures on India, an excluded party, to further liberalize so that India will be eventually included in a larger FTA, thus forming a CEPEA.

Along this line of sequencing, several East Asian APEC economies (e.g., Japan and Korea) may join the Transpacific SEPA, and the US may conclude an FTA with ASEAN as an ASEAN+1 partner.<sup>18</sup> Indeed, by that time the US and Europe will likely have concluded a series of FTAs with several key East Asian economies so that it will be possible to eventually connect the whole of East Asia with the US (possibly through an FTAAP), and with Europe (possibly through an FTAAE). All of these nested approaches are important and can potentially accelerate the process of East Asian integration and, more broadly, transpacific economic integration.

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<sup>18</sup> The US has joined ASEAN’s Treaty of Amity and Cooperation, which is a significant political step for the relationship between the two. This can lay a strong foundation for the US to become a legitimate ASEAN+1 partner.

## 5. CONCLUSION

In this paper, we have outlined the main trends and challenges associated with the rapid spread of Asian FTAs, and provided new evidence from firm surveys, analysis of agreements, and CGE results. The paper also considered political economy issues associated with FTA consolidation in Asia, and various competing proposals. The evidence highlights the shift in East Asia's trade policy that has occurred since 2000. With 54 concluded agreements, FTAs are assuming more importance as a tool of commercial policy in East Asia than ever before. A classic hub and spoke arrangement has developed whereby five large economies have emerged as hubs with their smaller neighbors as spokes. Furthermore, the Asian FTAs have maintained a strong cross-regional orientation, the trade coverage of FTAs has increased, and issues other than trade liberalization—such as investment, intellectual property rights, and labor issues—have been included.

The conclusion of a comprehensive Doha Round Agreement would be an invaluable contribution to Asian prosperity. But the outcome of the stalled global trade talks remains uncertain. With a large number of FTAs either under negotiation or proposed, Asian FTAs are here to stay. A pragmatic approach would be to maximize the benefits of FTAs while minimizing their costs. Based on the new evidence presented in the paper, some key elements of a pragmatic approach towards Asia's FTAs might include:

- improving use of FTAs at the firm level through increased awareness and strengthened institutional support systems, particularly for SMEs;
- tackling the Asian “noodle bowl” problem by encouraging rationalization of ROOs and upgrading ROO administration to best practice levels;
- encouraging better coverage of agricultural products in Asian FTAs and a gradual approach to agricultural trade liberalization;
- including WTO-plus provisions—particularly the four Singapore issues—in all future Asian agreements; and
- facilitating the creation of a region-wide agreement in East Asia—particularly a CEPEA—with appropriate sub-sequencing and support for dealing with development gaps among members.

While the economic case for a region-wide agreement such as a CEPEA is borne out by CGE analysis, political economy considerations remain likely to weigh heavily on the final outcome. A sequential approach of first creating a series of building blocks within Asia—deepening ASEAN economic integration, creating a CJK FTA, and developing an EAFTA before moving to a CEPEA—followed by connecting Asia with the US and Europe seems the most likely scenario. In conclusion, a bottom-up approach to a Doha Round Agreement emerges from the analysis.

## APPENDIX: TABLES

**Appendix Table 1: Profile of Integrating Asia Economies**

Country	GNI per Capita	Applied MFN	Exports	
	2007 current US\$ (billion)	2007 average	2008 US\$ (billion)	% of world exports
Brunei Darussalam <sup>a</sup>	—	3.6	9.4	0.06
Cambodia	550	14.2	4.3	0.03
China, People's Republic of	2,370	9.9	1484.1	9.27
Hong Kong, China	31,560	0	354.4	2.21
India	950	14.5	187.4	1.17
Indonesia	1,650	6.9	155.1	0.97
Japan	37,790	5.1	783.1	4.89
Korea, Republic of	19,7300	12.2	417.5	2.61
Lao People's Dem. Republic	630	9.7	1.6	0.01
Malaysia	6,420	8.4	217.4	1.36
Myanmar <sup>a</sup>	—	5.6	6.6	0.04
Philippines	1,620	6.3	64.6	0.40
Singapore	32,340	0	339.4	2.12
Taipei, China <sup>b</sup>	17,250	6.3	246.7	1.76
Thailand	3,400	10	173.2	1.08
Viet Nam	770	16.8	60.8	0.38

GNI = gross national income; MFN = most favored nation; US = United States.

<sup>a</sup> No data available.

<sup>b</sup> Data for Taipei, China are for 2007.

Sources: *World Development Indicators*, World Bank; *DOTS*, International Monetary Fund; CEIC for Taipei, China; and World Trade Organization ([www.wto.org](http://www.wto.org)). Data as of June 2009.

**Appendix Table 2: Growth of Concluded FTAs in Integrating Asia between 2000 and 2009 (Number of FTAs)**

Country	First FTA Year	In effect		Signed		Concluded		Under Negotiation		Proposed	
		2000	2009	2000	2009	2000	2009	2000	2009	2000	2009
		(a)		(b)		(a)+(b)					
ASEAN		1	4	—	1	1	5	—	1	—	1
Brunei Darussalam	1993	1	6	—	1	1	7	—	1	—	4
Cambodia	1993	1	4	—	1	1	5	—	1	—	3
China, People's Republic of	1976	1	9	—	1	1	10	—	3	—	8
Hong Kong, China	2004	—	1	—	—	—	1	—	1	—	—
India	1976	1	5	—	4	1	9	—	12	—	10
Indonesia	1993	1	5	—	1	1	6	—	2	1	8
Japan	2002	—	9	—	2	—	11	—	5	—	4
Korea, Republic of	1976	1	5	—	1	1	6	—	9	—	6
Lao People's Dem. Republic	1991	3	5	—	1	3	6	—	1	—	3
Malaysia	1993	1	5	—	3	1	8	—	7	—	4
Myanmar	1993	1	3	—	2	1	5	—	2	—	3
Philippines	1993	1	5	—	1	1	6	—	1	1	4
Singapore	1993	1	14	—	4	1	18	1	7	—	5
Taipei, China	2004	—	3	—	1	—	4	—	2	—	—
Thailand	1991	2	9	—	2	2	10	—	6	—	7
Viet Nam	1993	1	4	—	2	1	6	—	2	—	3
<b>Integrating Asia</b>		<b>3</b>	<b>40</b>	<b>—</b>	<b>14</b>	<b>3</b>	<b>54</b>	<b>1</b>	<b>46</b>	<b>2</b>	<b>32</b>

— = none.

ADB = Asian Development Bank; ASEAN = Association of Southeast Asian Nations; FTA = free trade agreement.

Note: FTAs in Integrating Asia cover all FTAs with at least one integrating Asia country as a partner.

Source: ADB's Asia Regional Integration Center (ARIC) FTA Database ([www.aric.adb.org](http://www.aric.adb.org)); data as of June 2009.

**Appendix Table 3: Geographical Orientation of Concluded FTAs in Integrating Asia**

Country	Within Integrating Asia	Americas	Europe	Rest of South Asia	Others
<b>ASEAN</b>	AFTA, ASEAN–Rep. Of Korea FTA, ASEAN–PRC FTA, ASEAN–Japan FTA (all ASEAN FTAs=4)				ASEAN–Australia and New Zealand CER (1)
Brunei Darussalam	all ASEAN FTAs; Japan–Brunei Darussalam EPA (5)				Transpacific SEPA; ASEAN–Australia and New Zealand CER (2)
Cambodia	all ASEAN FTAs (4)				ASEAN–Australia and New Zealand CER (1)
China, People's Republic of	ASEAN–PRC FTA, PRC–Thailand PTA, PRC–Hong Kong, China CECA, PRC–Singapore FTA (4)	PRC–Chile FTA; PRC–Peru FTA (2)		APTA, PRC–Pakistan FTA (2)	PRC–Macau Special Administrative Region of the PRC CECA; PRC–New Zealand FTA (2)
Hong Kong, China	PRC–Hong Kong, China CECA (1)				
India	Singapore–India FTA (1)	India–Mercosur PTA, India–Chile PTA (2)		APTA, India–Sri Lanka FTA, India–Nepal Trade Treaty, India–Afghanistan TA, SAFTA, India–Bhutan TA (6)	
Indonesia	ASEAN FTAs, Japan–Indonesia EPA (5)				ASEAN–Australia and New Zealand CER (1)
Japan	ASEAN–Japan; bilateral FTAs with Singapore, Brunei Darussalam, Indonesia, Malaysia, Thailand, Philippines, and Viet Nam) (8)	Japan–Mexico FTA, Japan–Chile FTA (2)	Japan–Switzerland FTA (1)		
Korea, Republic of	ASEAN–Rep. of Korea FTA, Rep. of Korea–Singapore FTA (2)	Rep. of Korea–US FTA, Rep. of Korea–Chile FTA (2)	Rep. of Korea–EFTA FTA (1)	APTA (1)	

Lao People's Dem. Republic	all ASEAN FTAs, Lao PDR–Thailand PTA (5)				ASEAN–Australia and New Zealand CER (1)
Malaysia	all ASEAN FTAs, Japan–Malaysia EPA (5)			Malaysia–Pakistan FTA (1)	PTA Group of Eight Developing Countries; ASEAN–Australia and New Zealand CER (2)
Myanmar	all ASEAN FTAs (4)				ASEAN–Australia and New Zealand CER (1)
Philippines	all ASEAN FTAs, Japan–Philippines EPA (5)				ASEAN–Australia and New Zealand CER (1)
Singapore	all ASEAN FTAs, Japan–Singapore EPA, Rep. of Korea–Singapore FTA, PRC–Singapore FTA, India–Singapore CECA (8)	US–Singapore FTA, Singapore–Panama FTA, Singapore–Peru FTA (3)	Singapore–EFTA FTA (1)		Transpacific SEPA, Singapore–New Zealand FTA, Singapore–Australia FTA, Singapore–Jordan FTA; ASEAN–Australia and New Zealand CER; Singapore–GCC FTA (6)
Taipei,China		Taipei,China–Panama FTA, Taipei,China–Guatemala FTA, Taipei,China–Nicaragua FTA, Taipei,China–El Salvador–Honduras FTA (4)			
Thailand	all ASEAN FTAs, Japan–Thailand EPA, PRC–Thailand PTA, Lao PDR–Thailand PTA (7)				Thailand–Australia FTA; Thailand–New Zealand FTA; ASEAN–Australia and New Zealand CER (3)
Viet Nam	all ASEAN FTAs, Japan–Viet Nam EPA (5)				ASEAN–Australia and New Zealand CER (1)

ADB = Asian Development Bank; APTA = Asia–Pacific Trade Agreement; AFTA = ASEAN Free Trade Area; ASEAN = Association of Southeast Asian Nations; CECA = Comprehensive Economic Cooperation Agreement; CER = Closer Economic Relations; EFTA = European Free Trade Area; EPA = economic partnership agreement; FTA = free trade agreement; GCC = Gulf Cooperation Council; Lao PDR = Lao People’s Democratic Republic; Mercosur = Common Market of the South; PRC = People’s Republic of China; PTA = preferential trade agreement; SAFTA = South Asian Free Trade Area; TA = trade agreement.

Notes: (i) FTAs within Integrating Asia cover all FTAs where all partners are in integrating Asia. (ii) Americas include North and Latin American countries.

Source: ADB’s Asia Regional Integration Center (ARIC) FTA Database ([www.aric.adb.org](http://www.aric.adb.org)); data as of June 2009.

**Appendix Table 4: Examples of FTAs with Substantial Coverage of Agricultural Products**

Name of Agreement	Notes
AFTA	Excluding Brunei Darussalam and Singapore, which eliminated tariffs on all agricultural products, the average number of exclusions is 20 items (at 8-digit AHTN) for the rest of the ASEAN members (e.g., 5 items for Lao PDR; 39 items for Cambodia and Myanmar).
ASEAN–Australia and New Zealand CER	Australia eliminates tariffs by 2020 on all goods and most goods already enjoy zero base tariff. ASEAN countries have flexibility on some products.
ASEAN–Rep. of Korea FTA	Rep. of Korea excludes rice, beef, pork, chicken meat, and garlic. ASEAN countries exclude rice, beer, and plastic products.
Japan–Philippines EPA	Japan has less than 150 excluded items and the Philippines excludes 4 agricultural products.
Japan–Viet Nam EPA	Japan excludes less than 150 products on meat, dairy, cereals, seeds, oils, sugar, coffee, and beverage products, including sake. Viet Nam excludes 60 items, mostly tobacco and spirits.
Rep. of Korea–Chile FTA	Chile excludes around 61 items on fats, oils, and sugar products; Rep. of Korea excludes 21 items—cereals and cocoa.
Rep. of Korea–Singapore FTA	Rep. of Korea excludes only rice, apples, pears, onions, and garlic.
Rep. of Korea–United States FTA	Special safeguards are provided for Rep. of Korea’s most sensitive items, including oranges, soybeans, potatoes, powdered milk, and natural honey. Rice is exempt from any tariff obligation.
PRC–Chile FTA	Chile has 25 items excluded that remain dutiable: 8 vegetable products and 17 food preparations. The PRC has 50 items that remain dutiable: vegetable products, animal or vegetable oil, and food preparations.
PRC–Peru FTA	Covers at least 1,000 agricultural tariff lines.
Singapore–GCC FTA	GCC countries exclude from liberalization not more than 50 pig/swine products, and some milk, wheat, flour, and seeds.
Transpacific SEPA	Brunei Darussalam excludes 80 prepared foodstuffs and beverage product lines. Chile excludes 7 prepared foodstuffs and beverage product lines.

AFTA = ASEAN Free Trade Area; AHTN = ASEAN Harmonized Tariff Nomenclature; ASEAN = Association of Southeast Asian Nations; CER = Closer Economic Relations; EPA = economic partnership agreement; FTA = free trade agreement; GCC = Gulf Cooperation Council; Lao PDR = Lao People’s Democratic Republic; PRC = People’s Republic of China; SEPA = Strategic Economic Partnership Agreement; WTO = World Trade Organization

Notes: (i) Agricultural products as classified in WTO Tariff Profiles Report 2007.

(ii) Number of product lines could be at 6, 8, 9, or 10-digit levels.

(iii) Regional FTAs may have separate exclusions for individual partner countries.

(iv) Product exclusions may be for reasons of protection, security, policy, religion, or non-traded goods.

Source: Authors’ estimates from FTA annexes, FTA factual presentation to the WTO, trade policy reviews, and other reports

**Appendix Table 5: Scope of Concluded FTAs in Integrating Asia**

Country	Goods	Goods + Services	Goods + Services + Singapore Issues*	Goods + Services + Singapore Issues + Cooperation Enhancement**
<b>ASEAN</b>	ASEAN–Rep. of Korea FTA (1)	ASEAN–PRC FTA (1)	AFTA (1)	ASEAN–Japan FTA ASEAN–Australia and New Zealand CER (2)
Brunei Darussalam	ASEAN–Rep. of Korea FTA (1)	ASEAN–PRC FTA (1)	AFTA (1)	ASEAN–Japan FTA; Transpacific SEPA; ASEAN–Australia and New Zealand CER (3)
Cambodia	ASEAN–Rep. of Korea FTA (1)	ASEAN–PRC FTA (1)	AFTA (1)	ASEAN–Japan FTA; ASEAN–Australia and New Zealand CER (2)
China, People's Republic of	APTA; PRC–Thailand PTA; PRC–Chile FTA; PRC–Pakistan FTA (4)	ASEAN–PRC FTA; PRC–Hong Kong, China CECA; PRC–Macau Special Administrative Region of the PRC CECA (3)	PRC–Singapore FTA (1)	PRC–New Zealand FTA; PRC–Peru FTA (2)
Hong Kong, China		PRC–Hong Kong, China CECA (1)		
India	SAFTA; APTA; India–Mercosur PTA; India–Chile PTA; India–Sri Lanka FTA; India–Nepal Trade Treaty; India–Afghanistan PTA; India–Bhutan PTA (8)		Singapore–India CECA (1)	
Indonesia	ASEAN–Rep. of Korea FTA (1)	ASEAN–PRC FTA (1)	AFTA (1)	ASEAN–Japan FTA; Japan–Indonesia EPA; ASEAN–Australia and New Zealand CER (3)
Japan			Japan–Chile FTA; Japan–Mexico FTA (2)	ASEAN–Japan FTA; Japan–Singapore EPA; Japan–Mexico FTA; Japan–Philippines EPA; Japan–Thailand EPA; Japan–Brunei Darussalam FTA; Japan–Indonesia EPA; ASEAN–Australia and New Zealand CER (9)
Korea, Republic of	APTA; ASEAN–Rep. of Korea FTA (2)		Rep. of Korea–Chile FTA; Rep. of Korea–EFTA FTA (2)	Rep. of Korea–US FTA; Rep. of Korea–Singapore FTA (2)
Lao People's Dem. Republic	ASEAN–Rep. of Korea FTA; Lao PDR–Thailand PTA (2)	ASEAN–PRC FTA (1)	AFTA (1)	ASEAN–Japan FTA; ASEAN–Australia and New Zealand CER (2)

Malaysia	ASEAN–Rep. of Korea FTA; PTA Group of 8 Developing Countries (2)	ASEAN–PRC FTA (1)	AFTA; Japan–Malaysia FTA (2)	ASEAN–Japan FTA; Malaysia–Pakistan FTA; ASEAN–Australia and New Zealand CER (3)
Myanmar	ASEAN–Rep. of Korea FTA (1)	ASEAN–PRC FTA (1)	AFTA (1)	ASEAN–Japan FTA ; ASEAN–Australia and New Zealand CER (2)
Philippines	ASEAN–Rep. of Korea FTA (1)	ASEAN–PRC FTA (1)	AFTA (1)	ASEAN–Japan FTA; Japan–Philippines EPA; ASEAN–Australia and New Zealand CER (3)
Singapore	ASEAN–Rep. of Korea FTA (1)	ASEAN–PRC FTA (1)	AFTA; Singapore–EFTA FTA; New Zealand–Singapore FTA; India–Singapore CECA; Singapore–GCC FTA (5)	ASEAN–Japan FTA; US–Singapore FTA; Rep. of Korea–Singapore FTA; Singapore–Australia FTA; Singapore–Jordan FTA; Singapore–Panama FTA; Transpacific SEPA; PRC–Singapore FTA; Singapore–Peru FTA; ASEAN–Australia and New Zealand CER (10)
Taipei,China			Taipei,China–Panama FTA, Taipei,China–Guatemala FTA (2)	
Thailand	PRC–Thailand PTA; Lao PDR–Thailand PTA (2)	ASEAN–PRC FTA (1)	AFTA (1)	ASEAN–Japan FTA; Japan–Thailand EPA; Thailand–Australia FTA; Thailand–New Zealand FTA; ASEAN–Australia and New Zealand CER (5)
Viet Nam	ASEAN–Rep. of Korea FTA (1)	ASEAN–PRC FTA (1)	AFTA (1)	ASEAN–Japan FTA; ASEAN–Australia and New Zealand CER; Japan–Viet Nam EPA (3)

ADB = Asian Development Bank; AFTA = ASEAN Free Trade Area; APTA = Asia–Pacific Trade Agreement; ASEAN = Association of Southeast Asian Nations; CECA = Comprehensive Economic Cooperation Agreement; CER = Closer Economic Relations; EFTA = European Free Trade Area; FTA = free trade agreement; Lao PDR = Lao People’s Democratic Republic; Mercosur = Common Market of the South; PRC = People’s Republic of China; PTA = preferential trade agreement; SAFTA = South Asian Free Trade Area; US = United States.

Note: Data do not include Taipei,China–Nicaragua and Taipei,China–El Salvador–Honduras FTAs due to difficulty in accessing official English translation of the agreements.

\* Singapore issues include trade facilitation, investment, government procurement, and competition policy.

\*\* Cooperation enhancement includes such provisions as intellectual property, ICT and e-commerce, labor standards and mobility, environment, and SMEs.

Source: ADB’s Asia Regional Integration Center (ARIC) FTA Database ([www.aric.adb.org](http://www.aric.adb.org)); data as of June 2009.

Appendix Table 6: Coverage of Selected FTAs in Integrating Asia

Provisions	ASEAN FTA (1992)	CHINA, PEOPLE'S REPUBLIC OF			INDIA			JAPAN					KOREA, REPUBLIC OF			SINGAPORE									
		ASEAN-PRC CECA (2005)	PRC-Chile FTA (2006)	PRC-New Zealand FTA (2008)	PRC-Pakistan FTA (2007)	India-Sri Lanka FTA(2000)	India-Singapore CECA (2005)	South Asian FTA (2006)	India-Mercosur FTA (2004)	ASEAN-Japan CEPA (2008)	Japan-Singapore EPA (2002)	Japan-Mexico EPA (2005)	Japan-Philippines EPA (2008)	Japan-Chile FTA (2007)	Japan-Thailand EPA (2007)	ASEAN-Rep. of Korea CECA (2007)	Rep. of Korea-Chile FTA (2004)	Rep. of Korea-Singapore FTA (2006)	Rep. of Korea-US FTA (2007)	New Zealand-Singapore CEP (2001)	EFTA-Singapore FTA (2003)	US-Singapore FTA (2004)	Transpacific Strategic EPA (2006)		
<b>A. GOODS</b>																									
Tariff Elimination																									
ROOs																									
Trade Remedies-Anti Dumping																									
Trade Remedies-Subsidies and Countervailing																									
Trade Remedies-Bilateral Safeguards																									
Agriculture																									
Textiles and Apparel																									
Quarantine and SPS Measures																									
Other Non-Tariff Measures																									
Technical Barriers to Trade																									
Standards and Conformance, MRAs																									
Customs Administration and Procedures																									

<b>B. SERVICES</b>																					
Telecommunications		■		■			■			■	■	■	■	■		■	■	■		■	■
Financial Services		■		■			■			■	■	■	■	■		■	■	■		■	■
Professional Services		■		■			■			■	■	■	■	■		■	■	■		■	■
Labor Mobility/Entry of Business Persons				■						■	■	■	■	■		■	■	■		■	■
<b>C. SINGAPORE ISSUES</b>																					
Trade Facilitation (Paperless Trading/Transit)				■			■			■	■	■	■	■		■	■	■		■	■
Investment	■			■	■		■			■	■	■	■	■		■	■	■		■	■
Government Procurement										■	■	■	■	■		■	■	■		■	■
Competition Policy										■	■	■	■	■		■	■	■		■	■
<b>D. COOPERATION ENHANCEMENT</b>																					
Intellectual Property			■	■			■			■	■	■	■	■		■	■	■		■	■
ICT and E-Commerce							■			■	■	■	■	■		■	■	■		■	■
Labor Standards/Movement of Natural Persons				■			■			■	■	■	■	■		■	■	■		■	■
Environment			■							■	■	■	■	■		■	■	■		■	■
ECOTECH			■							■	■	■	■	■		■	■	■		■	■
Capacity Building																					
Information Exchange			■	■										■							
Energy										■	■	■	■	■		■	■	■		■	■
Transport and Communications										■	■	■	■	■		■	■	■		■	■
Construction										■	■	■	■	■		■	■	■		■	■
SMEs			■	■						■	■	■	■	■		■	■	■		■	■
Trade and Investment Promotion			■	■						■	■	■	■	■		■	■	■		■	■
State Trading Enterprises						■			■	■				■						■	■
Education							■							■							
Transparency		■	■	■	■									■	■	■	■	■	■	■	■

Dispute Settlement																								
Notes:																								
% of Goods and Services provisions covered (A+B)	44	81	56	94	63	31	81	50	63	69	75	56	69	88	88	56	75	81	100	63	81	56	75	
% of WTO-plus provisions covered (C+D)	5	5	37	42	11	5	26	5	5	58	53	47	58	32	79	5	26	63	58	37	26	47	47	

ADB = Asian Development Bank; ASEAN = Association of Southeast Asian Nations; CECA = Comprehensive Economic Cooperation Agreement; CEP = comprehensive economic partnership; CEPA = comprehensive economic partnership agreement; ECOTECH = economic and technical cooperation; EFTA = European Free Trade Area; EPA = economic partnership agreement; FTA = free trade agreement; ICT = information and communications technology; Mercosur = Common Market of the South; MRA = mutual recognition agreement; PRC = People's Republic of China; ROOs = rules of origin; SME = small- and medium-sized enterprise; SPS = sanitary and phytosanitary standards; US = United States; WTO = World Trade Organization.

Source: FTA legal texts available at ADB'S Asia Regional Integration Center (ARIC) FTA Database ([www.aric.adb.org](http://www.aric.adb.org)).

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