



**ASEAN+3 or ASEAN+6:  
Which Way Forward?**

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**September 2007**

**ADB Institute Discussion Paper No. 77**

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Suggested citation:

Kawai, Masahiro and Ganeshan Wignaraja. 2007. ASEAN+3 or ASEAN+6: Which Way Forward? ADBI Discussion Paper 77. Tokyo: Asian Development Bank Institute. Available: <http://www.adbi.org/discussion-paper/2007/09/13/2359.asean.3.asean.6/>

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**Abstract**

The surge in free trade agreements (FTAs) in East Asia since the Asian financial crisis has prompted a lively debate on the characteristics, impact, and future path of FTAs in the region. To inform the ongoing debate, this paper maps the salient characteristics of East Asian FTAs using a new FTA database, identifies several key issues to be addressed, and explores economic effects using computable general equilibrium (CGE) analysis. The paper suggests that WTO-plus elements need to be further expanded and the negative aspects of FTAs be minimized. The paper argues that consolidation of multiple and overlapping FTAs into a single East Asian FTA can help mitigate the harmful “noodle bowl” effects of different rules of origin (ROOs) and standards and that the consolidation at the ASEAN+6 level would yield the largest gains to East Asia among plausible regional trade arrangements—while the losses to non-members would be relatively small. For such consolidation to occur, ASEAN must act as the regional “hub” by further deepening ASEAN economic integration, the plus-three countries (PRC, Japan, and Korea) need to collaborate more closely, and India needs to pursue further structural reforms. Furthermore, substantial international support is required to strengthen the supply-side capacity of poorer ASEAN countries—including the building of trade-supporting infrastructure (transport, energy, and telecommunications)—so that they can take advantage of integrated regional markets and narrow development gaps within ASEAN. Over time, it would be desirable for East Asia to strengthen economic ties with North America and Europe by connecting an ASEAN+6 FTA with NAFTA and the EU.

**JEL Classification:** F15, F17, O24

**Table of Contents**

1. Introduction: Key Issues	1
2. Economic Integration and FTA Initiatives in East Asia	1
3. Salient Characteristics of East Asian FTAs	8
4. CGE Analysis of East Asian FTA Scenarios	13
5. Policy Issues and Implications	17
6. Conclusion: Challenges Ahead	19
References	21
Tables 1-13	25–39
Figure 1	40
Appendix Tables 1-13	41–48

## 1. INTRODUCTION: KEY ISSUES

East Asian economies have grown rapidly over the last four decades, driven by the expansion of international trade and foreign direct investment (FDI). Production networks and supply chains—formed initially by global multinational corporations (MNCs) and later by emerging East Asian business firms—are the basis for trade and FDI expansion. More recently, East Asian governments have embarked on policy initiatives for formal economic integration through bilateral and plurilateral free trade agreements (FTAs). The Association of Southeast Asian Nations (ASEAN) is emerging as the integration hub for FTA activity in East Asia, while the People's Republic of China (PRC), Japan, and Korea are also making formal economic ties with ASEAN. More recently, India and Australia are joining in this bandwagon move towards FTAs with East Asia.

There is a view, however, that FTAs—particularly the proliferation of multiple, overlapping ones—carry the risks of going against the World Trade Organization (WTO) Doha round and creating negative “noodle bowl” effects. If such risks are significant, many questions arise: What should be done to minimize such risks? How can East Asia ensure that the region's FTAs can become a stepping stone toward global integration? If the benefits of consolidating Asian “noodle bowls” into a single East Asian FTA are large, how should this be achieved? Should East Asia aim for a single FTA based on ASEAN+3 (comprising the ten ASEAN members plus PRC, Japan, and Korea) or ASEAN+6 (or the East Asia Summit group comprising ASEAN+3, Australia, New Zealand, and India)? What about East Asia's relationship with North America and Europe?

This paper attempts to answer some of these questions. Section 2 highlights the progress of market-driven regional economic integration of East Asian economies through trade and FDI and the recent emergence of policy-driven FTA initiatives. Section 3 summarizes some salient characteristics of East Asian FTAs including geographical orientation, WTO-plus provisions, rules of origin, and other standards. Section 4 examines the economic impact of forming various types of FTAs in East Asia (among such groups as ASEAN+1's, ASEAN+3, and ASEAN+6) using a computable general equilibrium (CGE) model. Section 5 tackles policy issues for helping to make East Asian FTAs a stepping stone, rather than a stumbling block, to global economic integration. Section 6 concludes by focusing on how East Asia should strengthen trade and FDI ties with North America and Europe.

## 2. ECONOMIC INTEGRATION AND FTA INITIATIVES IN EAST ASIA

### 2-1 Market-Driven Economic Integration in East Asia

***Economic integration through trade and FDI.*** East Asia has long enjoyed a market-driven expansion of trade and FDI. Over the past two decades, the region's trade and FDI have expanded rapidly. East Asia's exports rose from 14% of world total exports in 1980 to 27% in 2006, while its imports expanded from 15% to 24% during 1980-2006.<sup>1</sup> FDI inflows into East Asia (including Japan) more than tripled from 5% of world total FDI inflows in 1980 to 16% in 2005, while East Asian FDI outflows increased from 5% to 11% of world total outflows over the

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<sup>1</sup> Here, East Asia includes ten ASEAN members (Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam); Hong Kong; Taipei, China; PRC; Japan; and Korea.

same period. East Asia's global expansion of trade and FDI has been accompanied by rising intra-regional concentration of trade and FDI activities.

Table 1 summarizes changes in the share of intra-regional trade for various groupings in the world over the period 1980 to 2006. The table demonstrates that intra-regional trade as a share of East Asia's total trade has risen from 37% in 1980 to 55% in 2006 (including Japan) or from 23% to 46% over the same period (excluding Japan). Now 55% of East Asia's trade is with itself. The recent share of intra-regional trade within East Asia is still lower than that in the old European Union-15 (which peaked at 66% in 1990), but exceeds that of the North American Free Trade Area (which peaked at 49% in 2001).

FDI inflows into emerging East Asia have contributed to regional economic integration. Table 2 indicates summarizes the source regions/countries of emerging East Asian economies' FDI inflows (cumulative figures) for the period 1995-2005. It shows that firms from the major industrialized countries as well as those from within emerging East Asia, are the main investors in emerging East Asia. Indeed multinational corporations from the European Union (EU), the United States (US) and Japan account for 15%, 14% and 11%, respectively, of emerging East Asia's cumulative FDI inflows over the period 1995-2005. More specifically, the largest investors in the Asian newly industrializing economies (NIEs), particularly in Singapore and Taipei,China, come from the US. In contrast, the EU is the largest developed country investor in ASEAN-9 (which excludes Singapore), particularly in Indonesia and Viet Nam, though Japan is the largest developed country investor in Thailand. However, in Thailand and Viet Nam, the Asian NIEs' firms are the most dominant investors. In the case of the PRC, Hong Kong is by far the largest investor and no major industrialized country dominates FDI.<sup>2</sup> Notable is the rising importance of FDI by the Asian NIEs' firms, which account for 29% of total FDI inflows to ASEAN9 and 54% of total inflows to the PRC. More recently firms from the middle-income ASEAN countries, such as Malaysia and Thailand, have also begun to invest in other ASEAN countries and in the PRC. All in all, emerging East Asia, the EU, the US, and Japan are important foreign direct investors in emerging East Asia.<sup>3</sup>

**Factors behind trade and FDI integration.** There are several factors behind the expansion of trade and FDI and the resulting economic integration of East Asian economies. First, East Asian economies have pursued trade and investment liberalization as part of their outward-oriented trade and FDI policies within the multilateral framework under the General Agreement on Tariffs and Trade (GATT)/World Trade Organization (WTO) and open regionalism through Asia-Pacific Economic Cooperation (APEC). Several GATT liberalization rounds have reduced tariffs and non-tariff barriers to trade on a sustained basis. A key feature is that the region has avoided discriminatory trade practices. The APEC process was successful in encouraging the PRC—as well as Taipei,China—to pursue trade and FDI liberalization outside of the WTO framework. To support these liberalization measures and to cope with the competitive pressure coming from abroad, the economies have adopted complementary domestic reforms.

Second, through FDI, global MNCs and later other East Asian firms have formed production networks and supply chains throughout East Asia. They have divided their production processes into multiple sub-processes and located these sub-processes in different countries based on comparative advantage—i.e., relative factor proportions and technological capabilities. This has promoted dynamic evolution of intra-regional division of labor and led to the rise of vertical intra-

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<sup>2</sup> The large volume of Hong Kong FDI flows to the PRC, however, may contain “round tripping” from the PRC, which aims to take tax and other favorable advantages provided to “foreign” direct investment by the PRC authorities.

<sup>3</sup> If data for the early 1990s and 1980s are included, Japan is seen as a major investor in ASEAN.

industry trade in parts, components, and semi-finished and finished manufactured products.<sup>4</sup> An important implication of this evolution is that large inflows of FDI to emerging East Asia have stimulated the region's engagement with trade in a way that reflects the individual economies' stages of industrial development. Asian NIEs were the first to be part of such networks, followed by middle-income ASEAN countries, and then by the PRC and Viet Nam.

Third, improved physical and digital connectivity and development of logistics support services—due to infrastructure investment (in transport, telecommunications, etc.) and ICT technical progress—have reduced trade costs of conducting cross-border business and thus encouraged trade and investment activities. This has helped the emergence of spatially concentrated clusters of manufacturing firms and supplier networks within East Asia.

Fourth, rapid growth of a very large emerging market economy, the PRC, has also been contributing to closer economic linkages among the East Asian economies. The PRC now plays a major role in these production networks and supply chains as its expanding export requires imports of industrial materials, parts, components, and other intermediate products from the neighboring economies. The PRC has thus become a manufacturing assembly for the East Asian economies, particularly for Japan and the Asian NIEs. More recently, the rise of India is expected to further strengthen regional economic linkages.

All of these factors have led to East Asia's greater economic openness and globalization, which in turn has created natural (*de facto*) regional concentration of trade and FDI activities in East Asia. North America and Europe remain important markets for East Asia's finished manufactured products but, with the growth of regional markets, the relative importance of these outside markets has been declining over time.

## 2-2. FTA Initiatives in East Asia

***Proliferation of FTAs in East Asia.*** East Asia is a latecomer in the move towards FTAs compared to the Americas, Europe, and Africa but has seen an unprecedented increase in total FTA activity since the 1990s. Multilateralism through the WTO framework and open regionalism centered on APEC were the bedrock of the region's approach to international trade for several decades. Recently, many governments in East Asia have embarked on bilateral and plurilateral trade arrangements. Notably, Japan implemented bilateral economic partnership agreements (EPAs) with Singapore, Mexico, and Malaysia; signed EPAs with Chile, the Philippines, Thailand, Brunei, and Indonesia; has reached an agreement in principle with ASEAN; and is negotiating on agreements with Korea, Viet Nam, India and Australia.<sup>5</sup> The PRC implemented an FTA on goods trade with ASEAN and is now negotiating on agreements on services trade and investment. Korea has also implemented an FTA with Chile and an FTA on goods trade with ASEAN and has reached an agreement on an FTA with the US. ASEAN is even more aggressive in pursuing FTAs. While enacting FTAs with the PRC and Korea, ASEAN is

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<sup>4</sup> See Kawai (1997, 2005b), Kawai and Urata (1998, 2004), Urata (2001), Athukorala (2003), and Fukao, Ishido, and Ito (2003).

<sup>5</sup> The Japanese government promotes EPAs which include, but go beyond, elements of free trade agreements (elimination/reduction of tariffs and liberalization of services trade). Essentially EPAs target (i) ensuring free movements of goods, services, and people (mutual abolition of tariffs; development of logistics systems, infrastructure, and simpler customs clearance; services deregulation; and movement of skilled temporary workers and provision of training programs); (ii) facilitation of intraregional economic activities (standardization of investment rules and dispute settlements; and harmonization of intellectual property systems, certification systems, and competition laws); and (iii) economic cooperation (economic/social infrastructure and cooperation in human resource development, industrial policy, environment, and energy conservation).

negotiating FTAs with Australia-New Zealand and India, and considering to negotiate with the EU. Some ASEAN members like Singapore and Thailand are actively pursuing bilateral FTAs. In this sense, there have been bandwagon effects among the East Asian economies in their drive for FTAs/EPAs. Recently, Australia, New Zealand, and India have joined this wave. The time frame of liberalization schedules of East Asian economies indicates that most of the liberalization measures will have been fully implemented by 2020 (Table 3).

The PRC has proposed a Northeast Asian FTA among the three nations in Northeast Asia (PRC, Japan, and Korea),<sup>6</sup> as well as an East Asia-wide FTA for ASEAN+3 countries (the ten ASEAN members, PRC, Japan, and Korea). Japan has also proposed an even bigger regional EPA for ASEAN+6 countries (the thirteen ASEAN+3 countries, Australia, New Zealand, and India). However, no time frame has been proposed for negotiations of such wider FTAs/EPAs.

Japan's conclusion of a bilateral EPA with Singapore—called the Agreement between Japan and the Republic of Singapore for a New-Age Economic Partnership (JSEPA)—symbolized a change in its long-standing policy of pursuing trade liberalization only in a multilateral framework based on the WTO and APEC. Japan decided to shift its trade policy to a three-track approach based on global (WTO-based) cum trans-regional (APEC-based), regional (ASEAN+6), and bilateral liberalization. For Japan, regional and bilateral liberalization is an attempt to achieve deeper integration with its trading partners on a formal basis, going beyond reductions in border restrictions—pursuing investment liberalization, promoting greater competition in the domestic market, and harmonizing standards and procedures. Its challenge is to maintain an appropriate balance between the regional and bilateral approach and the WTO liberalization framework, which remains an important element of Japanese trade policy.

Table 4 identifies three types of FTA activity in East Asia by status, during 1976–2007: (i) concluded FTAs (those signed or under implementation); (ii) FTAs under negotiation (those being officially negotiated with or without a framework agreement being signed); and (iii) proposed FTAs (where parties issued joint statements with intention to negotiate an FTA, established a joint study group, or conducted a joint feasibility study to determine the desirability of establishing an FTA). As of 2000, only three FTAs had been concluded, one was under negotiation, and another three had been proposed.<sup>7</sup> Within seven years, there was a ten-fold increase in FTAs concluded in East Asia and a larger increase in those under negotiation. By the end of June 2007, there were 36 FTAs concluded, 41 under negotiation, and 25 proposed. Today East Asia is at the forefront of FTA activity in Asia, with a total of 102 FTA initiatives at various stages—equivalent to about half of Asia's total FTA initiatives.<sup>8</sup> East Asia makes up two-thirds of FTAs under negotiation in Asia.

**Factors underlying FTA initiatives.** There are basically three factors behind recent FTA initiatives in East Asia: (i) the deepening of market-driven economic integration; (ii) the progress of European and North American economic integration; and (iii) the Asian financial crisis.<sup>9</sup>

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<sup>6</sup> Japan is cautious about such an arrangement with the PRC at this point. Its official view is that before negotiating an FTA/EPA the PRC must clearly demonstrate its compliance with all the commitments made in WTO accession negotiations.

<sup>7</sup> Prior to 2000, the concluded FTAs had been the Bangkok Treaty (1976) which is now known as the Asia-Pacific Trade Agreement (APTA), the Laos-Thailand PTA (1991), and the ASEAN FTA (1992).

<sup>8</sup> As of June 2007, there were 198 FTAs at various stages in Asia. Of these, 90 were concluded, 61 under negotiation, and 47 were proposed.

<sup>9</sup> More complete explanations can be found in Kawai (2005a).

First, the most fundamental factor behind the emergence of recent initiatives for FTAs is the progress of regional economic linkages and interdependence. Market-driven economic integration eventually requires policy measures to support and further it—i.e., harmonization of policies, rules, and standards governing trade and FDI. Policymakers in East Asia are increasingly of the view that FTAs, if designed widely in terms of scope, can support expanding trade and FDI activities through further elimination of cross-border impediments, facilitation of trade and FDI, and harmonization of various rules, standards, and procedures. In this way, FTAs can be regarded as part of a supporting policy framework for the deepening production networks and supply chains formed by global MNCs and emerging East Asian firms.

Second, economic regionalism in Europe and North America—including the successful launch of an economic and monetary union by the euro area countries and the expansion of the EU to the east, as well as the success of NAFTA and its incipient move to the Free Trade Area of the Americas (FTAA) in North, Central, and South America—has motivated the East Asian economies to pursue regional trade arrangements. Governments in East Asia fear that the two giant blocs—the European Union and the United States—might dominate the rule-setting in the global trading system while marginalizing the role and weight of Asia in global competition and multilateral negotiations. They have increasingly realized the importance of stepping up their own process of integration and uniting themselves to strengthen bargaining power in the global arena, and raise the region's voice in, and for, global trade issues. In addition, facing the slow progress of the WTO/Doha negotiation process and the perceived loss of steam in the APEC process, FTAs can be considered as an insurance policy against the periodic difficulties with multilateral trade liberalization.

Third, the Asian financial crisis of 1997–1998 has taught the important lesson that East Asia needs to strengthen economic cooperation in order to sustain economic growth and stability. The global initiative to strengthen the international economic system in this regard has been unsatisfactory, while the national efforts to strengthen individual economic fundamentals take time to bear fruit. Hence, the general sentiment in Asia has been that the region must establish its own “self-help” mechanism for economic management. The 1997–1998 Asian financial crisis nurtured the sense of a “region” with a common set of challenges.

### **2-3. Evolving Economic Architecture in East Asia**

East Asia has seen the development of several key groupings over the last fifteen years, including ASEAN, ASEAN+3, East Asia Summit (ASEAN+6), APEC, and Asia-Europe Meeting (ASEM).

**ASEAN.** Until recently, the Association of South East Asian Nations (ASEAN), established in August 1967, had been the only formal organization that pursued regional economic integration in East Asia. The ASEAN Declaration stated that it aimed to accelerate economic growth, social progress, and cultural development in the region and promote regional peace and stability. The association has embarked on several economic integration initiatives, including the ASEAN Free Trade Agreement (AFTA), the ASEAN Framework Agreement on Services (AFAS), and the ASEAN Investment Area (AIA). In December 1997, the ASEAN leaders adopted the ASEAN Vision 2020, which envisioned ASEAN as outward looking, living in peace, stability, and prosperity, bonded together in partnership in dynamic development and in a community of caring societies. In October 2003, the ASEAN leaders adopted the Declaration of ASEAN Concord II (Bali Concord II), whereby they agreed on the establishment by 2020 of an ASEAN Community comprising three pillars, namely, ASEAN Security Community, ASEAN Economic Community, and ASEAN Socio-Cultural Community.

The lynchpin of the ASEAN economic integration initiative is AFTA, introduced in January 1992, which aims to establish an ASEAN Free Trade Area within 15 years. The Common Effective Preferential Tariff (CEPT) Scheme was introduced as the main mechanism for lowering intra-ASEAN tariffs to the 0–5% range.<sup>10</sup> Despite the slow pace of trade liberalization, AFTA has been in effect among the first six signatories—Brunei, Indonesia, Malaysia, Singapore, Thailand and the Philippines—since January 2002 by reducing tariffs on almost all products in the Inclusion List to the 0–5% range. Implementations have been delayed for newer members—for Viet Nam in 2006, Lao People’s Democratic Republic (Lao PDR) and Myanmar in 2008, and Cambodia in 2010. The six original signatories are expected to eliminate tariffs altogether by 2010 and the four latecomers by 2015. By then ASEAN as a whole will become a tariff-free FTA.

The AFAS, signed in December 1995, aims to substantially eliminate restrictions to trade in services among ASEAN members—by progressively improving market access and ensuring equal national treatment—and improve the efficiency and competitiveness of ASEAN services suppliers. The AFAS was amended in September 2003 to allow for the application of “ASEAN minus x” formula in the implementation of services commitments. Under this formula, member countries that are ready to liberalize a certain service sector may proceed to do so without having to extend the concessions to non-participating countries. The AIA, adopted in October 1998, aims to make ASEAN a competitive, conducive and freer investment area through liberalizing investment rules and policies in protected sectors and promote greater flows of capital, skilled labor, professional expertise and technology within the region. The AIA agreement has expanded to cover manufacturing, agriculture, mining, forestry and fishery sectors, and services incidental to these sectors.

The ASEAN Economic Community (AEC), one of the three pillars of the ASEAN Community, is considered as the realization of the end-goal of economic integration as outlined in the ASEAN Vision 2020. ASEAN is expected to become a single market and production base by 2020, with a free flow of goods, services, investment, a freer flow of capital, equitable economic development, and reduced poverty and socio-economic disparities.<sup>11</sup> In moving in this direction, new mechanisms and measures are expected to be introduced to: strengthen the implementation of its existing economic initiatives including the AFTA, AFAS and AIA; accelerate regional integration in the priority sectors; facilitate movement of business persons, skilled labor and talents; and improve the existing ASEAN Dispute Settlement Mechanism. In the Cebu Summit in January 2007, ASEAN Leaders decided to advance the time frame of the ASEAN Community, including AEC, forward to 2015.

**ASEAN+3.** The leaders of Japan, China and Korea were invited to the informal ASEAN Leaders’ Meeting in December 1997, in the midst of the Asian financial crisis, which *de facto* initiated the ASEAN+3 process. There are many ministerial processes within the ASEAN+3 framework, for foreign affairs, economy and trade, macroeconomic and finance, environment, energy, health, labor, science and technology and social welfare among others. In addition to economic ministers, finance ministers have been particularly active for regional financial cooperation, including the launch of the regional liquidity support arrangement (Chiang Mai Initiative), the regional economic surveillance process and Asian bond market development. The PRC regards ASEAN+3 as a natural grouping for East Asia’s trade and investment cooperation.

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<sup>10</sup> For products not covered by the CEPT Scheme, the ASEAN Preferential Trading Arrangements could be used. The ASEAN Industrial Cooperation Scheme (AICO), introduced in April 1996, applies the CEPT rate of tariffs (0 to 5%) on approved AICO products to strengthen industrial cooperation among ASEAN-based companies.

<sup>11</sup> See Hew and Soesastro (2003) for a number of ideas on deepening ASEAN economic integration.

The ASEAN+3 Leaders in November 2004 agreed that the establishment of an “East Asian Community” is a long-term objective and affirmed the role of ASEAN+3 as the main vehicle for this eventual establishment. The idea of creating an “East Asian Community” had been proposed by the East Asia Vision Group (2001).<sup>12</sup> Its principal aims, relating to economic, trade and investment integration, can be summarized as:

- Establishment of an East Asian Free Trade Area (EAFTA) and liberalization of trade well ahead of the APEC Bogor Goal;
- Expansion of the Framework Agreement on an ASEAN Investment Area (AIA) to all of East Asia;
- Promotion of development and technological cooperation among regional countries, to provide assistance to less developed countries; and
- Realization of a knowledge-based economy and establishment of a future-oriented economic structure.

The Group had envisioned the progressive integration of the East Asian economies, ultimately leading to an “East Asian economic community.” Once a region-wide FTA is formed, covering both trade and investment, and institutions for other types of regional cooperation are established, the basic foundation for an East Asian economic community will have been prepared. The ASEAN+3 leaders in 2002 received the final report of the East Asia Study Group (EASG), which was essentially government officials’ responses to the Vision Group’s recommendations, and identified 17 concrete short-term measures and 9 medium- to long-term measures to move East Asian cooperation forward. The Leaders endorsed in 2003 the implementation strategy of the short-term measures—to be implemented by 2007—and in 2004 encouraged a speedy implementation of the short and long-term measures of the EASG.

**East Asia Summit (ASEAN+6).** One recent, significant development is the November 2004 agreement by ASEAN leaders in Vientiane to convene an East Asian Summit (EAS). Creation of this new forum had been suggested by the East Asia Vision Group, but without a clear view of which countries should be its members. The first EAS meeting was held in Kuala Lumpur in December 2005 and the second one in Cebu in January 2007, with the participation of ten ASEAN members as well as six countries including PRC, Japan, Korea, India, Australia, and New Zealand. This wider group focuses on issues common to the wider participants, such as energy and environmental issues. Japan regards ASEAN+6 as an appropriate group for East Asia’s trade and investment cooperation.

Future economic cooperation in East Asia, leading to an East Asian economic community, is likely to evolve around the multiple agreements under the ASEAN, ASEAN+1, ASEAN+3 and East Asia Summit (EAS, or ASEAN+6) processes.<sup>13</sup> It is likely that the “ASEAN Economic Community,” to be created by 2015, will be the center of East Asian economic cooperation. It is now understood that the core of East Asian cooperation lies in ASEAN as the “driving force,” with ASEAN+3 as the “main vehicle” for the realization of an eventual East Asian economic community, with the EAS as “an integral part of the overall evolving regional architecture.”

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<sup>12</sup> The East Asia Vision Group was established in 1999 under the leadership of Korean President Kim Dae Jung, and the Group recommended: (a) economic cooperation, b) financial cooperation, (c) political and security cooperation, (d) environmental cooperation, (e) social and cultural cooperation, and (f) institutional cooperation.

<sup>13</sup> The ASEAN+1 processes include ASEAN+China, ASEAN+Japan, ASEAN+Korea, ASEAN+India, and ASEAN+CER mainly in the form of free trade agreements (FTAs) or comprehensive economic partnership agreements (EPAs).

***APEC and ASEM as trans-regional forums.*** APEC, established in 1989, has played a useful role in encouraging trade and investment liberalization on a voluntary and unilateral fashion within an Asia-Pacific context, including the United States, Canada, and Australia as members. Australia played a major role in promoting APEC as a trans-regional forum with the basic principle of “open regionalism.” One of its most important achievements was to induce unilateral, voluntary trade liberalization of non-WTO members such as PRC and Taipei, China. In addition, the Bogor Declaration of 1994 set the goal of zero tariffs by 2010 for developed countries and by 2020 for developing countries. The modality of achieving the Bogor goals was clarified in the so-called Osaka Action Agenda. Nonetheless, APEC’s prominence appears to have declined since the Asian financial crisis because of its inability to effectively respond to the crisis and the recent proliferation of bilateral and sub-regional FTAs pursued by the member economies. But the basic principle of “open regionalism,” set out by APEC, may remain important if APEC members take APEC—and WTO—principles as a liberalization infrastructure for their FTAs and attempt to go beyond such basic principles.<sup>14</sup>

The Asia-Europe Meeting (ASEM) was created in 1996 as a forum for Asia-European Union economic cooperation. Its membership covered initially five original ASEAN members, PRC, Japan, Korea and EU members, but was later expanded to include all ASEAN members, and more recently key South Asian countries, like India and Pakistan. ASEM has not been active as a forum for trade and investment liberalization as in the case of APEC.

### 3. SALIENT CHARACTERISTICS OF EAST ASIAN FTAS

There is a dearth of studies which have tried to systematically map trends and characteristics of East Asian FTAs.<sup>15</sup> This gap in the literature may be due to the recent origin of many East Asian agreements and the lack of comprehensive regional databases.<sup>16</sup> As a part of the international effort to promote transparency of FTAs in the Asia-Pacific region, the Asian Development Bank (ADB) recently launched the Asia Regional Integration Center (ARIC) FTA Database.<sup>17</sup> This section provides an analysis of trends and characteristics of East Asian FTAs, drawing on information from the ARIC FTA Database. The following are mapped below: including coverage of trade, configuration, geographical orientation, WTO notification, scope (in terms of “WTO-plus” issues), and rules of origin.

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<sup>14</sup> In response to the proliferation of various FTAs in the Asia-Pacific region, APEC agreed to encourage its members to pursue a best-practice model of an FTA.

<sup>15</sup> Some recent studies which have attempted to analyze trends in East Asian FTAs include: Bonapace (2005), Feridhanusetyawan (2005).

<sup>16</sup> FTA databases which cover East Asian economies include the WTO RTA Gateway ([www.wto.org](http://www.wto.org)) and UNESCAP Asia-Pacific Trade and Investment Agreements Database ([www.unescap.org/tid/aptiad](http://www.unescap.org/tid/aptiad)). Although covering FTA activity in the world, the WTO database only provides information on East Asian FTAs notified to the WTO. Concluded agreements not notified to the WTO and those under negotiation and proposed are excluded. The UNESCAP database provides summaries of FTAs undertaken by UNESCAP members including some in East Asia.

<sup>17</sup> Launched in October 2006 by ADB, the ARIC FTA database ([www.aric.adb.org](http://www.aric.adb.org)) provides three types of information: (i) statistical tables on the status of FTAs in Asia; (ii) available information on each FTA (i.e. legal documents, official summaries, studies, news, opinions, FTA membership and an external link to the UNESCAP database); and (iii) a comparative FTA toolkit which enables comparison of chapters/provisions of concluded Asian FTAs. The information is gathered from official sources, research sites, and online news items.

### 3-1. FTA Coverage of Trade

**Role of richer, larger economies.** The recent increase in FTAs has been driven by five of the region's richer and larger economies—Singapore, Japan, Korea, PRC and Thailand—suggesting a link between FTA growth and economic prosperity. For instance, these five economies are parties to 86% of the concluded FTAs in East Asia by the end of June 2007 (see Appendix Table 1 and Appendix Table 2).

Singapore is the most active East Asian economy and has the broadest geographical coverage of agreements. It is a member of AFTA and has implemented or concluded agreements with the largest economies in East Asia (PRC [through ASEAN], Japan and Korea) as well as outside (including the US, India and Australia). Japan has implemented or concluded agreements with five East Asian countries (Brunei, Malaysia, Singapore, the Philippines and Thailand) and two outside (Mexico and Chile). Korea has agreements with APTA, ASEAN and Singapore within East Asia and outside with Chile and European Free Trade Agreement (EFTA) countries. It has also recently signed the region's biggest agreement with the US.<sup>18</sup> Within East Asia, the PRC has agreements with ASEAN, Hong Kong, Thailand, APTA, Macao and outside with Chile and Pakistan. Thailand is also a member of AFTA and has agreements with PRC (through ASEAN), Lao PDR, Australia and New Zealand.

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

**FTA coverage of trade.** It is informative to get an idea of how much of a country's trade is covered by FTA provisions.<sup>19</sup> This is difficult to measure accurately because of exceptions and exclusions contained in many agreements. Furthermore, data on direction of services trade do not exist. Nevertheless, by making the bold assumption that all goods trade is covered by concluded FTAs, estimates can be obtained. Figure 1 shows the ratio of a country's bilateral trade with its FTA partners to the country's total trade with the world for 2005. In general, ASEAN members have higher shares than the region's larger economies indicating a greater reliance on FTAs. Within ASEAN, three countries (Lao PDR, Singapore and Myanmar) have shares in excess of 70% while the others have shares in the range of 52% to 35%. Cambodia is an exception within ASEAN with a relatively low share of 26%. The shares of the region's large economies are: Korea (33%), PRC (31%) and Japan (7%). Meanwhile, the share of Hong Kong is 45% while that of Taipei, China is only 0.1%.

### 3-2. Configuration, Geographical Orientation, WTO Notification and Scope

**Configuration: bilateral vs. plurilateral FTAs.** The configuration of FTAs in East Asia can be divided into bilateral and plurilateral as in Table 5 for 2007. Bilateral FTAs refer to agreements between two countries. Plurilateral FTAs include several forms—agreements involving more than two countries, one country (or countries) and a trading bloc (like ASEAN), or two trading blocs (e.g. ASEAN-EU).<sup>20</sup> On the whole, countries are opting for simple bilateral FTA

<sup>18</sup> The Korea-US FTA negotiations were concluded in April 2007 and the FTA signed in June 2007.

<sup>19</sup> See Fiorentino, Verdeja and Toqueboeuf (2007) on this point.

<sup>20</sup> An issue may arise when a trading bloc with a single authority (like the EU) forms an FTA with a country. Though such an FTA may be considered as bilateral, it is plurilateral in our definition as in the case of the Korea-EU FTA.

configurations rather than the more complex plurilateral ones as they may be easier to negotiate. There were 27 bilateral FTAs among 36 concluded FTAs as of June 2007 (i.e. 75% of total). Bilateral FTAs also dominate FTAs that are yet to be concluded, making up 76% of those under negotiation and 68% of those proposed.

There are 9 plurilateral agreements among the concluded FTAs (see Appendix Table 3).<sup>21</sup> Among these, AFTA stands out for its economic importance in the region and as a natural hub for East Asia's FTA activities. ASEAN has also become a focal point for the emergence of a new category of trading-bloc to trading-bloc agreement (e.g. the ASEAN-EU Free Trade Agreement and the ASEAN-Australia and New Zealand Free Trade Agreement). The other concluded plurilateral agreements connect various East Asian countries with others outside the region. For instance, APTA covers East Asia (PRC, Korea, Lao PDR) and South Asia (Bangladesh, India and Sri Lanka). There are also 10 plurilateral agreements under negotiation and another 8 under proposal.

**Geographical orientation: intra-regional vs. extra-regional FTAs.** Table 5 also shows the geographical orientation of East Asian FTAs with countries/groups within the region and those outside. The high degree of extra-regional orientation of East Asian FTAs is striking—24 concluded FTAs out of 36 in June 2007 (67% of total) are with countries or groups outside East Asia. The extra-regional orientation of East Asian FTAs under negotiation and proposed is even higher at 88% and 84%, respectively.

Both bilateral and plurilateral FTAs exhibit high degrees of extra-regionalism in a sample of 102 FTAs (including both concluded and non-concluded)—21 of the plurilateral agreements and 60 of the bilateral agreements are with countries/groups outside East Asia. ASEAN as a group is considering negotiations with the European Union and has commenced negotiations with India, Australia and New Zealand. Singapore has concluded 8 extra-regional agreements with a wide geographical spread from Latin America to the Pacific. Korea, Thailand, PRC and Japan have concluded FTAs with Latin American countries. The PRC has concluded an FTA with Pakistan and is negotiating FTAs with Australia, New Zealand the Gulf Cooperation Council and Iceland. Thus, East Asian economies have a strong preference to maintain open trading relations with the rest of the world rather than becoming inward-looking (Kawai, 2005a).

**WTO notification.** The WTO notification status of concluded East Asian FTAs and the type of notification (by the Enabling Clause and the GATT/GATS provisions) is shown in Table 6.<sup>22</sup> The WTO notification rate for East Asian FTAs has been rising since 2000 and was relatively high at 53% of concluded FTAs as of June 2007 (19 FTAs). This rate is set to rise as 10 of the 17 FTAs not yet notified to the WTO were only concluded in 2006-2007. These trends indicate significant adherence in East Asia to WTO rules and procedures on FTAs. Additionally, there is a growing

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Other definitions of bilateral and plurilateral FTAs exist in the literature. For instance, Crawford and Fiorentino (2005) define a bilateral agreement as one which may include more than two countries where one of them is a trading bloc itself (e.g. the ASEAN-PRC FTA) while a plurilateral agreement refers to an FTA in which the number of FTA partners exceeds two. If we reclassify our data according to this definition, there would be more bilateral FTAs in East Asia (91 bilateral agreements and 10 plurilateral agreements).

<sup>21</sup> They are: the APTA; AFTA; the Preferential Trade Agreement-Group of Eight Developing Countries; Trans-Pacific Strategic Economic Partnership Agreement; ASEAN-PRC FTA; ASEAN-Korea FTA; Korea-EFTA FTA; Singapore-EFTA FTA; and the Taipei,China-El Salvador-Honduras FTA.

<sup>22</sup> The 1979 Enabling Clause provides for the mutual reduction in tariffs on trade in goods among developing countries. It also allows for developed countries to give a reduction in tariffs to developing countries but not necessarily on a reciprocal basis. Meanwhile, Article XXIV of GATT sets rules for FTAs in the area of goods and Article V of the GATS for services.

tendency for notification of East Asian FTAs under the GATT/GATS framework (15 concluded FTAs) while notifications under the Enabling Clause have remained static (4 concluded FTAs). All the 15 concluded FTAs notified under GATT Article XXIV are also notified under GATS Article V. One interpretation of these trends is that East Asian FTAs are getting more comprehensive in scope over time and extending beyond tariff preferences for some goods into services and regulatory issues.

**Scope: “WTO-plus” elements.** Studies of FTAs outside East Asia report two interesting findings on their scope (e.g. Crawford and Fiorentino, 2005 and World Bank, 2005): (i) many recent agreements frequently go beyond the WTO regulatory framework to include provisions on a host of issues (trade facilitation, investment, government procurement, competition, intellectual property, environment and labor among others); and (ii) the inclusion of such provisions often occurs in FTAs between developed and developing countries which may reflect the emphasis that developed economies give to these issues. The four “Singapore issues” (trade facilitation, investment, government procurement and competition policy) were conditionally included in the work program for the Doha Round in November 2001 but were subsequently dropped at the WTO Ministerial Conference in Cancun in 2004. Accordingly, agreements containing such provisions are sometimes referred to in the literature as “WTO-plus” agreements. How prevalent are “WTO-plus” FTAs in East Asia?

Table 7 breaks down 34 concluded FTAs in East Asia into four types according to increasing scope: (i) goods only; (ii) goods and services; (iii) goods, services and Singapore issues; and (iv) goods, services, Singapore issues and cooperation enhancement.<sup>23</sup> Cooperation enhancement refers to additional WTO-plus provisions (such as labor standards, IT cooperation, SMEs and the environment) which are included in some agreements along with the Singapore issues. It is noteworthy that the majority of concluded East Asian FTAs in 2007—23 (or 68% of the total)—had “WTO-plus” provisions in addition to goods and services provisions. Of these, 9 had the Singapore issues only while another 14 were even more comprehensive in scope (with both the Singapore issues and cooperation enhancement provisions). This indicates that East Asian economies typically favor comprehensive, “WTO-plus” agreements rather than agreements in trade in goods and services only.<sup>24</sup>

Furthermore, “WTO-plus” provisions are common in FTAs between developed and developing countries in the region. As Table 8 shows, 15 (of the 23) “WTO-plus” agreements in East Asia are between developed and developing countries. Interestingly, Japan, the US, Australia and New Zealand seem to prefer this format of agreement with developing countries in the region. However, the 8 FTAs that contain provisions of only trade in goods and services are basically between developing countries (and Korea and Singapore behave much like a developing country when they act together with ASEAN members). Otherwise, Korea and Singapore tend to form an FTA with WTO-plus elements even when their partner is a developing country. Thus, international trends toward the expanding scope of FTAs are confirmed in East Asia.

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<sup>23</sup> As of June 2007, there were 36 concluded FTAs in East Asia. However, the Taipei,China and Nicaragua FTA and Taipei,China-El Salvador-Honduras FTA could not be included in Table 7 as the texts were not available.

<sup>24</sup> Our findings on the comprehensive WTO-plus scope of East Asian FTAs thus confirm those of Banda and Whalley (2005) for FTAs involving more developed ASEAN members (e.g. Singapore, Thailand and Malaysia). They conclude that FTAs concluded by these countries go beyond WTO disciplines and deal with competition policy, mutual recognition, movement of persons, investment and cooperation in specific areas.

### 3-3. Multiple Rules of Origin

Rules of origin (ROO)—which exist to determine which goods will enjoy preferential bilateral tariffs and thus prevent trade deflection among FTA members—are a particularly interesting aspect of East Asian FTAs. For manufactured goods, ROOs may be of three types: (i) a change in tariff classification (CTC) rule defined at a detailed Harmonized System (HS) level; (ii) a regional (or local) value content (VC) rule which means that a product must satisfy a minimum regional (or local) value in the exporting country or region of an FTA; and (iii) a specific process (SP) rule which requires a specific production process for an item.

Table 9 provides an overview of the main ROOs adopted by 30 concluded FTAs in East Asia.<sup>25</sup> Strikingly, the majority of FTAs in East Asia (20) have adopted a combination of the three ROOs rather than applying a single rule. Of the remaining FTAs, 3 use the value added rule only, another 3 use value added and/or CTC rule, and another 4 use value added and/or SP rule. The simplest ROO can be found in the AFTA and the ASEAN-PRC FTA, which specifies a 40 % regional value content across all tariffs. Meanwhile many agreements involving Japan, Korea and Singapore tend to use a combination of ROOs. The latter introduces complexity and additional costs for business.

Additional insights are provided by a look at the ROOs applied to the major auto and auto parts products in 11 major concluded FTAs (see Table 10). ASEAN's FTAs vary somewhat in their ROOs. For instance, the 40% value content rules applies for AFTA and for the ASEAN-PRC FTA but more stringent ROOs for some products (e.g. 45% value content applies for HS 8703, 8704 and 8708) are found in the ASEAN-Korea FTA. Furthermore, the ROOs for the same products are different in bilateral FTAs involving the same major economy. In the Japan-Malaysia FTA, the value content requirement for HS8703 and 8711 is 60% while in the Japan-Thailand FTA, it is 40% for the same two products. Similarly instances can be found in the case of Singapore-Australia FTA and Thailand-Australia FTA.

Recent studies of ROOs in East Asia indicate that complex ROOs are associated with increased transactions costs to business firms and that multiple ROOs in overlapping FTAs are particularly burdensome, giving rise to the famous “noodle bowl” effect.<sup>26</sup> The textile and garment sector is particularly affected by stringent and restrictive ROOs. Precise quantitative estimates of the magnitude of the costs of multiple ROOs (e.g. as a percentage of export sales) are hard to come by. Using a gravity model, Manchin and Pelkmans-Balaoing (2007) obtain results that suggest that the administrative costs of obtaining CEPT status within AFTA might be in the range of 10-25% and that such costs are not much reduced even when an alternative rule for origin determination is provided. One of the implications is that the presence of multiple ROOs may further increase administrative costs.

Firm surveys have begun to provide qualitative business perceptions on the effects of ROOs in East Asia. The 2006 *JETRO Survey of Japanese Firm's International Operations* is a useful source of such data (JETRO, 2007). Of 97 Japanese MNCs using or planning to use FTA preferences in East Asia, about 30% felt that the existence of different rules of origin complicates their trade businesses and leads to increased costs—either through dealing with complicated procedures to prove country of origin or changes to productions processes—while another 33% expected to see increases costs in the future. Furthermore, 64% of firms thought that rules of origin should be harmonized, with the largest number (24.7%) wanting to be able to

<sup>25</sup> For 6 of the 36 concluded FTAs, we cannot get information on ROOs due to the lack of relevant texts.

<sup>26</sup> See, for instance, Cheong and Cho (2006), James (2006) and Lee, Jeong, Kim and Bang (2006).

choose either the value content (VC) rule or the change in tariff classification (CTC) as the common rule. Thus, it seems that multiple ROOs are beginning to manifest themselves as a problem in East Asia.

#### 4. CGE ANALYSIS OF EAST ASIAN FTA SCENARIOS

A growing body of empirical literature has been developed on the impact of prospective FTAs on East Asian economies using computable general equilibrium (CGE) models. This interest can be traced to the rapid spread of FTAs in East Asia in recent years, concerns over costs of multiple and overlapping FTAs, active discussions on the formation of an ASEAN+3 or ASEAN+6 FTA, advances in CGE models and computing power, and improvements in modeling capacity especially in the region. A brief overview of recent CGE studies and a set of CGE estimates of the impact of various FTA scenarios involving ASEAN (e.g., ASEAN+1 FTAs, an ASEAN+3 and an ASEAN+6 FTA) are provided in this section.

##### 4-1. Recent CGE Studies

CGE models are a powerful tool for analyzing the economic effects of FTAs. These models are based on a clear economy-wide theoretical structure embodying a general equilibrium condition. East Asian FTA studies commonly use the Global Trade Analysis Project (GTAP) database but vary in the underlying model and behavior of agents, the policy scenarios analyzed and the version of the database used. The most widely used model is the standard GTAP model (or some variant of GTAP) characterized by constant returns to scale in production, perfect competition, and the Armington assumption.<sup>27</sup> More recently, a few studies have used more complex CGE models with firm-level imperfect competition such as the Paris-based Centre d'Etudes Prospectives et d'Informations Internationales (CEPII) Mirage Model or the Asian Development Bank's General Equilibrium Model for Asia's Trade (GEMAT).

The simulation approach embodied in CGE models sheds light on the effects of alternative FTA policy scenarios (e.g., an ASEAN+3 FTA scenario or a PRC-Japan-Korea FTA scenario). Such scenarios tend to focus on the removal of price distortions against imports that arise from existing trade barriers and other sources. The results of CGE studies provide insights into the numerical magnitude of gains and losses from trade liberalization and the distribution across regions, countries and sectors. Accordingly, CGE studies can help in framing negotiation positions with FTA partners, indicate implementation schedules for trade liberalization and suggest the need for appropriate structural reforms to mitigate adverse impacts.

Some interesting findings from recent CGE-based East Asian FTA studies can be mentioned. One strand of literature has exclusively focused on the formation of an ASEAN+3 FTA (or a variant like ASEAN+4). Influential examples include Urata and Kiyota (2003) and Zhang *et al.* (2006). Urata and Kiyota's (2003) GTAP simulations indicate that an ASEAN+3 FTA will generate welfare gains for all members from the highest of 12.5% of GDP for Thailand and 6.6% for Viet Nam to the lowest of 0.19% for Japan and 0.64% for the PRC. They also report modest welfare losses for non-members such as the EU (-0.02%) and the USA (-0.09%). GTAP simulations by Zhang *et al.* (2006) confirm these initial findings—an ASEAN+3 FTA is estimated to increase the overall GDP of East Asian countries by 1.2% and economic welfare by \$105 billion and raise every member's GDP in excess of 1.7%, with the exception of Japan. In a similar vein and based on GTAP, Mohanty, Pohit and Roy (2004) find that an ASEAN+3 and

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<sup>27</sup> See Hertel (1997). For more details about the current standard GTAP model see [www.gtap.agecon.purdue.edu](http://www.gtap.agecon.purdue.edu)

India FTA will bring gains to members of between \$147 billion (liberalization of trade barriers only scenario) to \$210 billion (liberalization of barriers to trade, investment and labor).

Another strand of literature compares alternative FTA scenarios in East Asia and provide additional insights on the costs and benefits of possible FTAs. Using GTAP, Gilbert *et al.* (2004) find that an ASEAN+3 FTA will produce higher welfare gains for members than a narrower PRC-Japan-Korea FTA indicating that broadening FTAs in East Asia brings more benefits. Based on a GTAP model which includes capital accumulation, Cheong (2005) reports that all members reap larger gains from an ASEAN+3 FTA compared to a series of bilateral arrangements between East Asian economies and that ASEAN and Japan are expected to benefit the most. Bchir and Fouquin (2006) use the CEPII Mirage Model to create several scenarios of economic integration based on a hub and spoke approach (ASEAN+1) and an ASEAN+4 (including India) regional approach. They find that ASEAN would be better off with a series of bilateral agreements than with an ASEAN+4 approach as this would allow them better to exploit their comparative advantage in agriculture, which is characterized by much higher levels of protection in the region than manufactures. Drawing on GEMAT simulations for an FTA involving goods only, Plummer and Wignaraja (2006) report that the current wave of bilateral FTAs is inferior to any of the major FTA proposals in East Asia (including an ASEAN+3, an ASEAN+6, or an APEC FTA). They find that an ASEAN+6 FTA will bring larger global welfare gains than an ASEAN+3 FTA. Their study provides preliminary assessment of the economic effects of an ASEAN+3 and ASEAN+6 FTA even though services trade, trade facilitation, and other aspects of FTAs are excluded from the exercise.

While there has been some CGE work on an ASEAN+3 FTA and other alternatives, only limited work is available on the effects of an ASEAN+6 FTA or a comparison between an ASEAN+3 and an ASEAN+6 FTA. Furthermore, such work tends to narrowly focus on an FTA involving goods only while other aspects of the coverage of East Asian FTAs (e.g. services and trade costs) are excluded. There is a need for a more comprehensive set of CGE estimates on East Asian FTAs to fill these gaps in the literature and to respond to the widespread interest on alternative FTA scenarios among the regional policy circles.

#### 4-2. FTA Scenarios and Results

Accordingly, a CGE exercise was undertaken by ADB using a variant of the GTAP model.<sup>28</sup> Some features of the model, dataset and coverage of FTA provisions should be noted. The model is characterized by an input-output structure (based on regional and national input-output tables) that explicitly links industries in a value added chain from primary goods, over continuously higher stages of intermediate processing, to the final assembling of goods and services for consumption. Inter-sectoral linkages are both direct, like the input of steel in the production of transport equipment, and indirect, via intermediate use in other sectors. The model captures these linkages by modeling firms' use of factors and intermediate inputs. The key aspects of the model are as follows: (i) it covers world trade and production; (ii) it includes intermediate linkages between sectors; (iii) and it allows for trade to affect capital stocks through investment activities. The final point means that medium- to long-run investment effects are captured in the model.

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<sup>28</sup> The CGE estimates for the ASEAN+3 FTA scenario reported in this paper draw on a modeling exercise for an ADB project "Study on Economic Cooperation between East Asia and South Asia." The ASEAN+6 scenario was specifically computed for this paper. For more details of the CGE model used, see Francois and Wignaraja (2007).

The main database used is the GTAP dataset version 6.3 which included detailed national input-output, trade and final demand structures. This database was projected through to 2017 trade and production patterns to represent a post-Uruguay Round world.<sup>29</sup> The coverage of FTA provisions is a stylized FTA that includes goods, services and some aspects of trade cost reduction. Hence, the analysis includes the impact of regional tariff elimination for goods, liberalization of services trade, and trade facilitation including improved trade-related infrastructure.<sup>30</sup> Projection of the database to take into account implementation schedules for trade agreements and extending the coverage of the stylized FTA beyond goods are relatively recent developments in the CGE literature on FTAs.

Based on the above CGE framework, five East Asian FTA scenarios are considered:

1. An ASEAN+PRC FTA: free trade among the 10 ASEAN members, and PRC.
2. An ASEAN+Korea FTA: free trade among the 10 ASEAN members, and Korea.
3. An ASEAN+Japan FTA: free trade among the 10 ASEAN members, and Japan.
4. An ASEAN+3 FTA scenario: free trade among the 10 ASEAN members, PRC, Japan and Korea;
5. An ASEAN+6 FTA scenario: free trade among the 10 ASEAN members, PRC, Japan, Korea, India, Australia and New Zealand.

The five scenarios selected represent an illustrative range of FTA possibilities in East Asia. Scenarios 1-3 are FTAs between ASEAN and each of Northeast Asian countries. Scenarios 1 and 2 have been concluded while Scenario 3 is under negotiation (see Appendix Table 2). Scenarios 4 and 5 represent on-going discussions among policymakers on region-wide FTAs. Based on bridging ASEAN and the region's Northeast Asian neighbors, scenario 4 was an early attempt at an East Asia-wide FTA. Scenario 5 has emerged with the realization that the synergies could be gained by linking Australia-New Zealand and India with ASEAN+3.

Table 11 shows the estimated impacts on national income of the FTA scenarios. The two East Asia-wide FTA scenarios—ASEAN+3 FTA and ASEAN+6 FTA—offer larger gains to world income than any of the three ASEAN+1 FTA scenarios. The ASEAN+6 FTA scenario—which is broader in terms of country coverage—offers the larger gains to world income (\$260 billion, measured in constant 2001 prices) than the ASEAN+3 FTA scenario (\$214 billion). Looking separately at the ASEAN+1 scenarios, the ASEAN+PRC FTA scenario indicates larger gains (\$82 billion) to world income than the other two ASEAN+1 scenarios.

A breakdown of the world income figure for the ASEAN+6 FTA scenario indicates that the gains to members of the FTAs are significant (\$285 billion) while the losses to non-members are relatively small (\$25 billion). Similarly, in the ASEAN+3 scenario, the gains for members are large at \$228 billion while losses to non-members are only \$14 billion. Hence, insiders gain and outsiders lose relatively little from the formation of an ASEAN+3 or an ASEAN+6 FTA.

The ASEAN+3 and ASEAN+6 FTA scenarios have different impacts on regions and countries. The three Northeast Asian economies (members of all proposed FTAs) are expected to see the

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<sup>29</sup> This attempts to capture important developments such as the phase out of the Agreement of Textiles and Clothing quotas, implementation of remaining WTO commitments under the Doha Round and enlargement of the EU from 15 to 27 members.

<sup>30</sup> Services trade barriers were estimated using a gravity model which involves the estimation of an equation where import demand is a function of GDP, per capita income and sector and country dummy variables. For trade cost estimates, it is assumed that a 5% improvement in the general quality of trade-related infrastructure in our scenarios would yield a 2.5% trade cost savings on average.

largest gains under the ASEAN+3 FTA (\$166 billion) and the ASEAN+6 FTA (\$172 billion).<sup>31</sup> The ASEAN economies (also members of the proposed FTAs) experience the largest gains from the ASEAN+PRC FTA (\$44 billion) among the three ASEAN+1 FTAs and obtain further gains from the ASEAN+3 FTA (\$62 billion) and the ASEAN+6 FTA (\$67 billion). The projected gains for ASEAN members as a percent change from 2017 baseline income are substantial under the ASEAN+6 scenario—Thailand (12.8%), Viet Nam (7.6%), Malaysia (6.3%) and Singapore (5.4%). Among the Northeast Asian countries, Korea (6.4 %) experiences larger gains than Japan or PRC.

India, Australia and New Zealand either experience gains or losses depending on whether an ASEAN+3 FTA or an ASEAN+6 FTA is formed. They experience losses in the ASEAN+3 scenario and gains in the ASEAN+6 scenario. Under the ASEAN+6 scenario, the projected gains as a percent change from 2017 baseline income are 2.4% for India, 3.9% for Australia and 5.2% for New Zealand.

The impact of the ASEAN+3 or ASEAN+6 FTA on third parties is limited with a few exceptions (like Taipei,China). There are small losses (typically less than 1 % change from 2017 baseline income) for the rest of South Asia, the rest of Oceania, Central Asia as well as the US and Russia. Meanwhile, there are small gains for the EU, Canada, Mexico and Sub-Saharan Africa.

The estimated wage effects for unskilled workers (see Table 12) can be taken as a rough measure of the distributional impact of the ASEAN+3 and ASEAN+6 scenarios. These are somewhat related to the income gains for members under the alternative scenarios. In the ASEAN+6 scenario, Thailand, Korea, Viet Nam, Singapore and Malaysia—with relatively large income effects—experience relatively large unskilled wage increases (between 5 % to 12%). Several other countries (such as Japan, PRC, Indonesia, Philippines and India)—with relatively smaller income effects—witness unskilled wage increases of under 2%. Unexpectedly, however, Cambodia, Australia and New Zealand see small declines in unskilled wages. Third parties to the agreements such as the rest of South Asia; other Oceania; Hong Kong; and Taipei,China experience small declines in unskilled wages.

CGE simulation studies are useful in quantifying income effects of eliminating import tariffs on goods trade and liberalizing cross-border trade in services through the formation of an FTA. A shortcoming of such studies, however, is their inability to incorporate rules of origin and non-tariff measures (e.g., SPS and TBT) which are likely to afford more protection for domestic industries than tariffs. Thus, CGE studies are best when used in conjunction with other empirical tools – notably analysis of the complex structure of FTAs and enterprise perception studies of the benefits of FTAs.<sup>32</sup>

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<sup>31</sup> Our findings confirm those of previous CGE studies that under an ASEAN+3 scenario, Northeast Asian economies and ASEAN gain significantly. For instance, Zhang *et.al.* (2006) report gains of \$67 billion for Japan, Korea and PRC and \$38 billion for ASEAN economies. Cheong (2005) finds gains of \$42 billion for the three Northeast Asian economies and \$20 billion for ASEAN.

<sup>32</sup> See Francois, McQueen and Wignaraja (2005) and Piermartini and Teh (2005).

## 5. POLICY ISSUES AND IMPLICATIONS

### 5-1. Maximizing the Benefits, and Minimizing the Costs, of FTAs

There are both benefits and costs associated with the formation of FTAs. Given that almost all East Asian economies are currently pursuing FTAs, a realistic approach would be to encourage them to design FTAs in a way to maximize benefits and minimize potential costs. This requires that FTAs induce domestic structural reforms and be made consistent with WTO rules.

*Benefits and costs of FTAs.* FTAs, if designed properly, can achieve dynamic gains by generating greater trade and FDI among the members, through liberalization of trade in goods and services and facilitation of trade and FDI market access. FTAs can help achieve deeper economic integration through the “WTO-plus” agreements, including many areas not covered by the WTO negotiations and areas in which it is difficult to make substantial progress in a multilateral framework (OECD, 2003)—investment provisions, intellectual property rights, labor mobility, environmental issues, and regulatory harmonization. FTAs between FDI source and recipient economies would allow the latter to obtain advanced technologies, realize external economies, promote trade, industrialization, employment and economic growth. These dynamic gains can generate trade and FDI with non-members as the members grow faster as a result of FTAs. These benefits are large if FTAs can induce difficult domestic structural reforms. Once such structural reforms are pursued, it is much easier for the country to provide greater market access to non-members through WTO or other FTAs.

One of the most serious costs of FTAs is that they discriminate against non-members, particularly small, poor, developing economies which cannot join FTAs as they do not have much to offer and hence cannot attract interest of others. The costs of FTA negotiations could also be large for small, poor economies with limited negotiations capacity—such as the CLMV countries—particularly when gains from FTAs are unevenly distributed across various participating countries. The proliferation of many overlapping FTAs with different rules of origin and standards can create the risk of Asian “noodle bowls,” thereby reducing incentives for businesses to utilize the intended freer trade arrangements. This may particularly be the case for SMEs which may face higher administrative and business costs as their capacity to deal with them is limited.

With or without the success of the WTO Doha Round, trends for more FTAs will continue. This is a reality. Hence, there is an even more urgent need to make FTAs a stepping stone toward greater liberalization of trade and FDI and toward further regional and ultimately global integration. For this purpose, East Asia needs to design best practice FTAs so that their benefits can be maximized and costs minimized. The region must also manage the proliferation of FTAs so that they function as a means for reducing domestic protection and expanding trade and FDI. For this purpose, FTAs must enforce substantial domestic structural reforms so that the domestic industries can cope with greater competition from abroad.

**WTO consistency, breadth and depth.** In addition to domestic structural reforms, each FTA must be made consistent with GATT Article XXIV and GATS Article V through adopting: lowest tariff rates among members; large membership; comprehensive coverage of liberalization measures (goods, services and investment); simple and non-restrictive rules of origin; and harmonized regulatory and institutional frameworks.

The larger the number of participating countries in an FTA and the wider the coverage of liberalization measures and policy issues addressed, the more benefits there are for an FTA.

Hence, there is a need to broaden FTAs in terms of country coverage and, from this perspective, aiming for an ASEAN+3 or an ASEAN+6 FTA is proposed. There is also a need to deepen FTAs in terms of liberalization measures and policy issues and, from this perspective, inclusion of a wide range of trade in goods (both manufactured and agricultural) and services as well as “WTO-plus” issues—i.e., investment, labor migration, intellectual property rights, competition policy, non-restrictive rules of origin, and dispute settlements—would be preferable.

There usually exists a trade-off between the breadth and depth of an FTA, that is, as the number of countries participating in an FTA rises, the scope of measures and issues to be addressed in the FTA may be limited. In other words, an FTA with a limited number of countries can relatively easily achieve deep economic integration, while an FTA with a large number of countries may have to compromise on depth. Therefore a good balance must be sought between breadth (number of participating countries) and depth (measures to be addressed) in an FTA.

**Consolidating East Asian FTAs: ASEAN+3 FTA or ASEAN+6 FTA?** The presence of multiple, overlapping FTAs can create the risk of Asian “noodle bowls” as the multiple rules of origin and various standards increase the administrative and business costs of utilizing freer trade arrangements. This suggests that coordination of rules of origin and harmonization of standards at the global level would be most desirable. Hence, multiple FTAs need to be consolidated into a single world-wide FTA to reduce the business costs. But given the politically difficult task of global (WTO) trade liberalization, consolidation into a single East Asia-wide FTA can make a significant positive contribution. Then the question is: what is the natural group for East Asian FTA consolidation?

ASEAN is clearly a natural “hub” for the creation of an East Asian FTA as key production networks are rooted in ASEAN and major economies are linking to ASEAN via ASEAN+1 FTAs. The timeline for the ASEAN Economic Community has also been brought forward to 2015 from 2020. An East Asian FTA may be built upon ASEAN+1 FTAs as a building block, and FTAs among subsets of non-ASEAN countries (i.e., the PRC, Japan, Korea, Australia, New Zealand and India) will also be useful in forming a single East Asian FTA with ASEAN as its core.

Our CGE results indicate a large income gain from an ASEAN+3 FTA and an even larger gain from an ASEAN+6 (East Asia Summit) FTA. Hence, East Asia is recommended to aim for an ASEAN+6 FTA as the region’s goal. However, one of the challenges of this approach is likely to be the differing levels of openness and market-orientation of the broader membership. Table 13 provides three proxy indicators (average import tariffs, time for import and time to start a business) to represent openness and market-orientation of the member countries. India is a relative latecomer to economic reforms, which began in the 1990s (see WTO, 2007) and, as a result, has relatively high import tariffs (15.7%) and longer time required for import to take place (41 days) than the averages for ASEAN (9.5% and 32 days, respectively) and for Northeast Asian economies and Australia-New Zealand. The time taken to start a business in India (35 days) is also higher than for more developed economies in the region (e.g. Singapore, Japan, Korea, Australia, New Zealand). Accordingly, differences in openness and market-orientation between India and other ASEAN+6 FTA partners may prolong negotiations and reduce the scope of FTA coverage/liberalization. Further structural reforms in India will be required before it initiates formal ASEAN+6 FTA negotiations. Hence, the appropriate sequencing could be to start with an ASEAN+3 FTA and then move to an ASEAN+6 FTA as conditions are created for ensuring sufficient depth of integration within ASEAN+6 countries.

The CGE computation also indicates a negative impact of an ASEAN+3 or ASEAN+6 FTA on the US which, though small, need to be addressed by maintaining openness. After the completion of an ASEAN+3 or ASEAN+6 FTA, East Asia may be ready to connect itself with North America (as well as with Europe).

### **5-3. Providing Complementary Support**

The ambitious economic integration initiative among ASEAN nations—through acceleration of the AFTA process and creation of the ASEAN Economic Community—and the formation of various ASEAN+1 FTAs and a future ASEAN+3 or an ASEAN+6 FTA would increase the efficiency and competitiveness of ASEAN as a whole, because these arrangements provide the benefit of scale economies and dynamic efficiency. To be successful, individual ASEAN members need to create favorable climates for competitive, private firms to prosper, while allowing weak, inefficient firms to exit through pro-competition policies, effective insolvency procedures, and a reduction in structural rigidities in their economies. Domestic industrial restructuring is surely needed to enable them to climb up the value-added product ladder. A shift to a knowledge-based economy is crucial for Malaysia and Thailand, and institutional and governance reforms and restoration of a good investment climate should be priorities for Indonesia and the Philippines.

Low-income ASEAN countries (CLMV; Cambodia, Lao PDR, Myanmar and Viet Nam) must strengthen the structural, institutional foundations of their economic systems—through building both hard infrastructure such as transportation and telecommunications facilities and soft infrastructure such as legal, judicial and governance systems—and develop skilled human resources. With its open FDI-trade regime, Viet Nam has been following China's development path while still in need of improved governance, rule of law and institutions for a well-functioning market economy. Though Cambodia is beginning to participate in the regional and global production networks—particularly in textiles and apparel—it must strengthen the fundamental underpinnings of the economy, particularly its legal institutions and public sector, to benefit from WTO entry. Lao PDR faces similar, perhaps more demanding, challenges. Myanmar clearly needs to improve its governance regime.

The international community is encouraged to provide various types of financial and technical support to enable ASEAN countries to cope with such demanding challenges. Many economies need: trade-related infrastructure (national or cross-border transport, logistics, etc., for trade expansion); support for trade facilitation and customs modernization and for enhancing SME trade and finance; and support for capacity building on trade policymaking, reform, and negotiation. They also need technical support for improving information transparency and educating businesses and the public about the potential benefits of FTAs. The greatest challenge is to narrow the development gaps within ASEAN between its advanced members and less advanced members (CLMV), so that ASEAN can accelerate its own economic integration process—to forge the ASEAN economic community and deepen its economic relationships with the plus-three or plus-six countries.

## **6. CONCLUSION: CHALLENGES AHEAD**

Economic regionalism is taking root in East Asia. The region is becoming highly integrated through market-driven trade and FDI activities and, at the same time, FTAs are proliferating. The paper has argued that consolidation of multiple and overlapping FTAs into a single East Asian FTA can help mitigate the harmful “noodle bowl” effects of different ROOs and standards.

This move will encourage the participation of low-income countries in freer trade arrangements, reduce trade-related business costs particularly for SMEs, and promote trade and investment.

The paper has also suggested that WTO-plus elements need to be further expanded and that the consolidation at the ASEAN+6 level would yield the largest gains to East Asia among plausible regional trade arrangements—while the losses to non-members are relatively small. For such consolidation to occur, ASEAN must act as the regional “hub” by further deepening ASEAN economic integration, the plus-three countries (PRC, Japan and Korea) need to collaborate more closely, and India needs to pursue further structural reforms. Furthermore, substantial international support is required to strengthen the supply-side capacity of poorer ASEAN countries—including the building of trade-supporting infrastructure (transport, energy, and telecommunications)—so that they can take advantage of integrated regional markets and narrow development gaps within ASEAN.

Relationships with the US (and the EU) are important for the region. For many East Asian economies, the US is the crucial ally from a security perspective, particularly given the geopolitical concerns in the Korean Peninsula. APEC remains important for East Asia and the US because it is the only multilateral economic forum that connects the US with East Asia. A natural approach for East Asia is to strengthen economic ties with the US through the formation of an East Asia-North America Free Trade Area FTA (or an APEC FTA). While several East Asian countries have agreed on bilateral FTAs with the US, some have reservations about a comprehensive agreement with the US. Deeper questions also remain as to whether the US is ready to agree an FTA with East Asia—that includes the PRC—and whether the US trade promotion authority (which expired in June 2007) will be extended.

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**Table 1. Intra-Regional Trade Share, 1980-2006 (%)<sup>/a</sup>**

Region	1980	1985	1990	1995	2000	2001	2002	2003	2004	2005	2006
<b>NIEs (4)<sup>/b</sup></b>	8.6	9.2	11.9	15.5	15.5	15.3	15.8	15.2	14.6	13.9	13.6
<b>ASEAN (10)<sup>/c</sup></b>	17.9	20.3	18.8	24.0	24.7	24.1	24.4	26.6	26.7	27.2	27.2
<b>ASEAN+PRC+Korea+Hong Kong+Taipei,China (14)</b>	22.7	27.2	33.0	39.1	40.6	41.1	43.4	44.7	45.2	45.5	45.8
<b>ASEAN+3 (13)<sup>/d</sup></b>	30.2	30.2	29.4	37.6	37.3	37.1	37.9	39.0	39.2	38.9	38.3
<b>ASEAN+3+HK+Taipei,China (15)</b>	36.8	39.0	43.1	51.9	52.1	51.9	53.8	55.4	55.9	55.4	54.5
<b>ASEAN+6 (16)<sup>/e</sup></b>	34.6	34.8	33.7	40.8	40.5	40.6	41.3	42.4	43.0	43.1	42.6
<b>ASEAN+6+HK+Taipei,China (18)</b>	40.5	42.7	46.3	54.5	54.6	54.5	56.3	57.7	58.5	58.4	57.6
<b>NAFTA (3)</b>	33.8	38.7	37.9	43.1	48.8	49.1	48.4	47.4	46.4	46.1	44.3
<b>MERCOSUR</b>	11.1	7.2	10.9	19.2	20.3	17.9	13.6	14.7	15.2	15.5	15.7
<b>Old EU (15)</b>	60.7	59.8	66.2	64.2	62.3	62.2	62.5	63.0	62.2	60.4	59.5
<b>New EU (27)</b>	61.5	60.0	66.8	66.9	66.3	66.7	67.4	68.1	67.6	66.2	65.8

Notes:

/a Intra-regional trade share is computed as  $X_{ii} / [(X_{iw} + X_{wi}) / 2]$ , where  $X_{ii}$  is the value of intraregional exports,  $X_{iw}$  is the value of total exports of the region to the world, and  $X_{wi}$  is the value of total exports of the world to the region.

/b NIEs = Hong Kong, China; Republic of Korea; Singapore; and Taipei,China.

/c ASEAN = Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam.

/d ASEAN+3 = 10 ASEAN countries, PRC, Japan, and Korea.

/e ASEAN+6 = 13 ASEAN+3 countries, Australia, New Zealand, and India.

Sources: IMF Direction of Trade Statistics CD-ROM (June 2007). Data for Taipei,China from 1989-2006 sourced from the Bureau of Foreign Trade website, and 1980-1988 from the Statistical Yearbook published by the Directorate-General of Budget, Accounting and Statistics.

**Table 2. Emerging East Asia's FDI Inflows, 1995-2005 (%)**

FDI Inflows to:	Source Regions/Countries of FDI Inflows to Emerging East Asia						Total (US\$Mill)
	United States %	European Union %	Japan %	Asian NIEs %	ASEAN9 %	%	
<b>Asian NIEs</b>	16.8	15.8	8.1	5.2	3.9	100.0	(437,999)
<b>Hong Kong</b>	5.1	7.4	5.7	5.3	1.8	100.0	(215,999)
<b>Korea</b>	22.4	40.1	13.3	4.1	7.4	100.0	( 55,975)
<b>Singapore</b>	31.7	19.3	8.5	4.0	5.8	100.0	(142,748)
<b>Taipei,China</b>	19.9	13.1	15.5	14.2	2.5	100.0	( 23,277)
<b>ASEAN9</b>	18.4	29.1	19.1	29.2	4.2	100.0	(116,413)
<b>Indonesia</b>	5.7	50.9	3.3	15.0	9.3	100.0	( 11,839)
<b>Malaysia</b>	27.4	23.4	13.6	22.0	2.1	100.0	( 44,651)
<b>Philippines</b>	23.4	10.3	23.1	16.9	1.1	100.0	( 13,709)
<b>Thailand</b>	10.5	10.5	25.1	27.6	0.9	100.0	( 37,428)
<b>Viet Nam</b>	4.8	19.1	14.4	39.2	6.6	100.0	( 18,225)
<b>PRC</b>	8.1	8.1	8.6	54.0	1.6	100.0	(537,163)
<b>Total</b>	13.9	14.7	10.5	34.9	3.1	100.0	(992,516)

Note: FDI recipient data compiled by IITI are adjusted so that they are consistent with BOP figures.

Sources: UNCTAD, World Investment Report 2006; IMF, International Financial Statistics; ASEAN Secretariat for Singapore and ASEAN9 data; China Statistical Yearbook for PRC data; OECD data for Korea data; Institute for International Trade and Investment (IITI) for Hong Kong and Taipei,China data.

**Table 3. Liberalization Timeframe for Major Economic Groups in East Asia**

Group/FTA (Year of full negotiation completed)	For Developed Countries	For Developing Countries	
		For advanced six ASEAN members	For other four ASEAN members
APEC (voluntary & unilateral)	by 2010	by 2020	by 2020
ASEAN (1992)	--	by 2002 (0% tariff by 2010) ASEAN Economic Community to be launched by 2015	by 2007 (0% tariff by 2015); by 2015
ASEAN+PRC (2010)	--	by 2010	by 2015
ASEAN+Korea (2008)	--	by 2009 (excl. Thailand)	by 2015 (flexibility allowed)
ASEAN+Japan (2007)	by 2010	by 2012	by 2017
ASEAN+India (2011)	--	by 2011 (excl. Philippines)	by 2016 (incl. Philippines)
ASEAN+CER (Australia and New Zealand) (2009)	by 2010	by 2017	by 2017

Source: authors' compilation.

**Table 4. Growth of FTAs in East Asia, 1976–2007**  
Cumulative number of FTAs

Year	No. of FTAs	Status of FTAs <sup>/a</sup>		
		Concluded	Under Negotiation	Proposed
1976	1	1	0	0
1986	1	1	0	0
1996	4	3	0	1
2000	7	3	1	3
2001	10	5	2	3
2002	14	6	4	4
2003	23	9	5	9
2004	42	14	16	12
2005	67	21	30	16
2006	96	31	42	23
2007 <sup>/b</sup>	102	36	41	25

Notes:

/a Concluded FTAs include those signed and/or under implementation; FTAs under negotiation cover those with or without a signed Framework Agreement; and proposed FTAs include official pronouncements of parties to negotiate an FTA or actually conduct a feasibility study.

/b Data as of June 2007.

Source: ADB FTA Database, Asia Regional Integration Center ([www.aric.adb.org](http://www.aric.adb.org))

**Table 5. Number of FTAs in East Asia, 2007**  
By Status, Configuration, and Geographical Dispersion

FTAs by Status <sup>/a</sup>	No. of FTAs	By Configuration <sup>/b</sup>		By Geographical Orientation <sup>/c</sup>	
		Bilateral	Plurilateral	Intra-East Asia	Extra-East Asia
<b>Concluded</b>	<b>36</b>	27	9	12	24
<b>Under Negotiation</b>	<b>41</b>	31	10	5	36
<b>Proposed</b>	<b>25</b>	17	8	4	21
<b>Total</b>	<b>102</b>	<b>75</b>	<b>26</b>	<b>21</b>	<b>80</b>

Notes:

/a Concluded FTAs include those signed and/or under implementation; FTAs under negotiation cover those with or without a signed Framework Agreement; and proposed FTAs include official pronouncements of parties to negotiate an FTA or actually conduct a feasibility study.

/b Bilateral FTAs involve only 2 parties, while plurilateral FTAs involve more than 2 parties (e.g., ASEAN).

/c Intra-East Asia FTAs are those among East Asian economies only, while extra-East Asian FTAs are those between at least one East Asian economy and a partner (or partners) from outside East Asia.

Source: ADB FTA Database; as of June 2007.

**Table 6. Concluded FTAs in East Asia by WTO Notification Status, 1976–2007**  
Cumulative number of FTAs

Year	No. of Concluded FTAs <sup>/a</sup> (1)	FTAs Notified to WTO by Type of Notification <sup>/b</sup>			FTAs Not Notified to WTO (5)
		GATT Art. XXIV (2)	GATS Art. V (3)	Enabling Clause (4)	
1976	1	0	0	1	0
1986	1	0	0	1	0
1991	2	0	0	2	0
1996	3	0	0	3	0
2000	3	0	0	3	0
2001	5	1	1	3	1
2002	6	2	2	3	1
2003	9	5	5	3	1
2004	14	8	8	4	2
2005	21	11	11	4	6
2006	31	15	15	4	12
2007 <sup>/c</sup>	36	15	15	4	17

Notes:

/a is the sum of (2)+(4)+(5).

/b General Agreement on Tariffs and Trade (GATT) Article XXIV covers the formation of customs unions and free trade areas

in merchandise trade; the General Agreement on Trade in Services (GATS) Article V covers agreements in services; and the Enabling Clause deals with trade in goods between developing countries.

/c Data as of June 2007.

Sources: ADB FTA Database and WTO.

**Table 7. Scope of Concluded FTAs in East Asia, 2001 and 2007**  
Cumulative number of FTAs

Scope of FTAs <sup>/a</sup>	No. of Concluded FTAs		By Configuration <sup>/b</sup> (June 2007)	
	Dec. 2001	June 2007	Bilateral	Plurilateral
Goods	3	8	4	4
Goods + Services	0	3	2	1
Goods + Services + Singapore Issues <sup>/c</sup>	2	9	7	2
Goods + Services + Singapore Issues + Cooperation Enhancement <sup>/d</sup>	0	14	13	1
<b>Total</b>	<b>5</b>	<b>34<sup>/e</sup></b>	<b>26<sup>/e</sup></b>	<b>8</b>

## Notes:

/a Refers to FTA provisions

/b Bilateral FTAs involve only 2 parties, while plurilateral FTAs involve more than 2 parties (e.g., ASEAN).

/c Singapore issues include trade facilitation, investment, government procurement, and competition policy.

/d Cooperation enhancement includes provisions on environment, e-commerce, information exchange, SMEs, and labor standards.

/e Does not include Taipei,China-Nicaragua FTA and Taipei-El Salvador-Honduras FTA due to difficulty in accessing the official text of agreements.

**Table 8. Concluded East Asian FTAs by Scope<sup>/a</sup>, 2007**

Agreement	Notes
<b>Goods (8 FTAs)</b>	
Asia-Pacific Trade Agreement (1976) <sup>/b</sup> Laos-Thailand Preferential Trading Arrangement (1991) ASEAN Free Trade Agreement (1993) <sup>/b</sup>	Limited liberalization of goods. Limited liberalization of goods. AFTA members signed framework agreements on services (including mutual recognition arrangements for nursing and engineering services) and ASEAN Investment Area (AIA).
PRC-Thailand Free Trade Agreement (2003) ASEAN-Korea Free Trade Agreement (2006) <sup>/b</sup>	Limited liberalization of goods. Agreement in trade in goods took effect on 1 June 2007. Negotiations on investments and services are on-going and expected to be concluded by end of 2007.
PRC-Chile Free Trade Agreement (2006)	Agreement has 4 <b>cooperation</b> provisions on environment, e-commerce, information exchange, and SMEs. Ongoing negotiations on agreement on services and investment.
PRC-Pakistan Free Trade Agreement (2006) Preferential Tariff Arrangement-Group of Eight Developing Countries (2006) <sup>/b</sup>	Agreement has 1 <b>Singapore issues</b> provision on investment.
<b>Goods + Services (3 FTAs)</b>	
PRC-Hong Kong, China Closer Economic Partnership Arrangement (2004)	Arrangement has 1 <b>Singapore issues</b> provision on trade and investment facilitation and 1 cooperation provision on SMEs. Supplement agreement includes cooperation on IPR issues.
PRC-Macao Closer Economic Partnership Arrangement (2004)	Arrangement has 1 <b>Singapore issues</b> provision on trade facilitation and 1 cooperation provision on SMEs. Supplement agreement includes cooperation on IPR issues.
ASEAN-PRC Free Trade Agreement (2005) <sup>/b</sup>	Agreement on services signed on 14 January 2007 and in effect by July 2007. Discussions on detailed elements of the investment agreement still ongoing.
<b>WTO-PLUS PROVISIONS</b>	

**Goods + Services + Singapore Issues (9 FTAs)**

Singapore-European Free Trade Association (EFTA) Free Trade Agreement (2001) <sup>/b</sup>	
Singapore-New Zealand Closer Economic Partnership Agreement (2001)	
Korea-Chile Free Trade Agreement (2004)	
Taipei,China-Panama Free Trade Agreement (2004)	Agreement has 2 <b>Singapore issues</b> provisions on investment and competition policy.
Korea-European Free Trade Association (EFTA) Free Trade Agreement (2005) <sup>/b</sup>	Agreement has 2 <b>Singapore issues</b> provisions on government procurement and competition policy and 1 cooperation provision on IPR.
Singapore-India Comprehensive Economic Cooperation Agreement (2005)	Agreement has 1 <b>Singapore issues</b> provision on investment.
Japan-Malaysia Economic Partnership Agreement (2006)	Agreement has 1 <b>Singapore issues</b> provision on investment and economic cooperation provisions.
Taipei,China-Guatemala Free Trade Agreement (2006)	Agreement has 1 <b>Singapore issues</b> provision on investment.
Japan-Chile Strategic Economic Partnership Agreement (2007)	Agreement has 1 <b>cooperation</b> provision on IPR issues.

**Goods + Services + Singapore Issues + Cooperation Enhancement (14 FTAs)**

Japan-Singapore Economic Agreement for a New-Age Partnership (2002)	
Singapore-Australia Free Trade Agreement (2003)	
Singapore-United States Free Trade Agreement (2004)	
Japan-Mexico Economic Partnership Agreement (2005)	
Singapore-Jordan Free Trade Agreement (2005)	Agreement does not have any <b>Singapore issue</b> provision.
Thailand-Australia Free Trade Agreement (2005)	
Thailand-New Zealand Closer Economic Partnership Agreement (2005)	Agreement has 2 separate provisions on environment and labor standards.
Japan-Philippines Economic Partnership Agreement (2006)	
Korea-Singapore Free Trade Agreement (2006)	
Singapore-Panama Free Trade Agreement (2006)	
Trans-Pacific Strategic Economic Partnership Agreement (2006) <sup>/b</sup>	
Japan-Thailand Economic Partnership Agreement (2007)	
Japan-Brunei Economic Partnership Agreement (2007)	Agreement does not have a <b>Singapore issues</b> provision on competition policy.
Korea-United States Free Trade Agreement (2007)	

Notes:

/a Refer to FTA provisions. The list does not include Taipei,China-Nicaragua FTA and Taipei,China-El Salvador-Honduras FTA due to difficulty in accessing the official text of agreements.

b/ Plurilateral agreement, i.e., agreement among more than 2 parties.

Sources: ADB FTA Database and official documents; data as of June 2007.

**Table 9. Rules of Origin of Concluded FTAs<sup>a</sup> in East Asia, 2007**

	<b>Agreement</b>	<b>Notes</b>	<b>Compared with AFTA (40%) VA rule</b>
<b>Value-Added Rule (VA) only (3 FTAs)</b>			
1	Singapore-New Zealand Closer Economic Partnership Agreement (2001)	At least <b>40%</b> of the cost is of New Zealand or Singapore origin, and the last place of manufacture is in New Zealand or Singapore.	consistent
2	Singapore-Australia Free Trade Agreement (2003)	For manufactured products: (a) Local value-added (VA) content of <b>50%</b> or (b) VA content of <b>30%</b> for 114 tariff subheadings. These include electrical & electronic equipment and precision instruments.	some products more/less restrictive
3	Singapore-Jordan Free Trade Agreement (2005)	All products, <u>with the exception of textile and apparel goods</u> , need only fulfill a general rule of origin of a relatively low threshold of <b>35%</b> local VA content. For textile and apparel goods, specific process rules apply.	less restrictive
<b>VA and/or Change of Tariff Classification (CTC) Rules (3 FTAs)</b>			
1	Taipei,China-Panama Free Trade Agreement (2004)	Regional VA content requirement: <b>35%, 40%, 45%</b>	some products more/less restrictive
2	Thailand-New Zealand Closer Economic Partnership Agreement (2005)	Regional VA content requirement: <b>50%</b>	more restrictive
3	PRC-Chile Free Trade Agreement (2006)	Regional VA content requirement: <b>40%</b> or <b>50%</b>	some products more restrictive
<b>VA and/or Specific Product Rules (4 FTAs)</b>			
1	Asia-Pacific Trade Agreement (1976)	Regional VA content requirement: <b>45%</b> for most products. <u>Special Criteria Percentage</u> : Products originating in Least Developed Participating States can be allowed a favorable 10 percentage points applied to the percentages established in Rules 3 and 4 of APTA.	more restrictive

2	ASEAN Free Trade Agreement (1993)	Local or regional VA content of <b>40%</b> or product specific rule for the following sectors: (a) Process criterion for textiles and textile products; (b) Change in chapter rule for wheat flour; (c) CTC for wood-based products; (d) CTC for certain aluminum and articles thereof.	consistent
3	ASEAN-PRC Free Trade Agreement (2005)	Regional or local VA content of <b>40%</b> or product specific rule. Process criterion required for textiles and textile products.	consistent
4	PRC-Pakistan Free Trade Agreement (2006)	Regional VA content requirement: <b>40%</b>	consistent

#### Combination of all Rules (VA, CTC, SP, others) (20 FTAs)

1	Singapore-European Free Trade Association (EFTA) Free Trade Agreement (2001)	Regional VA content requirement: <b>40%</b> or <b>50%</b>	some products more restrictive
2	Japan-Singapore Economic Agreement for a New-Age Partnership (2002)	For manufactured products, change in tariff heading (CTH) for all imported inputs used in the manufacture of the product; Singapore must be the place where the last substantial manufacture takes place. Additional flexibility for 264 products; CTH or local value-added content (VA*) of <b>60%</b> .	more restrictive
3	Korea-Chile Free Trade Agreement (2004)	Regional or local VA content requirement: <b>30%</b> or <b>45%</b>	some products more/less restrictive
4	PRC-Hong Kong, China Closer Economic Partnership Arrangement (2004)	Local VA content requirement: <b>30%</b>	less restrictive
5	PRC-Macao Closer Economic Partnership Arrangement (2004)	Local VA content requirement: <b>30%</b>	less restrictive

6	Singapore-United States Free Trade Agreement (2004)	For manufactured products, (a) CTC for all imported inputs used in the manufacture of the product; Singapore must be the place where the last substantial manufacture takes place; (b) Regional value-added content (VA*) of <b>35-60%</b> (applies mainly to electronic products); (c) Process rule (applies mainly to chemicals and petrochemicals).	some products more/less restrictive
7	Korea-European Free Trade Association (EFTA) Free Trade Agreement (2005)	Regional VA content requirement: <b>25%, 30%, 45%, 50%, or 60%</b>	some products more/less restrictive
8	Singapore-India Comprehensive Economic Cooperation Agreement (2005)	Local VA content requirement: <b>40%</b>	consistent
9	Japan-Mexico Economic Partnership Agreement (2005)	Regional or local VA content requirement: <b>50%, 65%, or 70%</b>	more restrictive
10	Thailand-Australia Free Trade Agreement (2005)	Regional VA content requirement: <b>40-45 or 55%</b>	some products more restrictive
11	ASEAN-Korea Free Trade Agreement (2006)	Regional VA content requirement: <b>40%, 50%, or 60%</b> . Specific manufacturing process for textiles and garments.	some products more restrictive
12	Japan-Malaysia Economic Partnership Agreement (2006)	Regional VA content requirement: <b>40%</b>	consistent
13	Japan-Philippines Economic Partnership Agreement (2006)	Regional VA content requirement: <b>40%</b>	consistent
14	Trans-Pacific Strategic Economic Partnership Agreement (2006)	A product will qualify for preferential treatment if (a) it meets the specific rule of origin applicable to it (in many cases, this is a liberal CTH rule) or (b) where so stipulated, if at least <b>45%</b> of the cost originates from the party.	more restrictive
15	Singapore-Panama Free Trade Agreement (2006)	Local VA content requirement: <b>35%</b>	less restrictive

16	Korea-Singapore Free Trade Agreement (2006)	Regional VA content requirement: <b>55%</b>	more restrictive
17	Japan-Thailand Economic Partnership Agreement (2007)	Regional VA content requirement: <b>40%</b>	consistent
18	Japan-Chile Strategic Economic Partnership Agreement (2007)	Local VA content requirement: <b>30% or 45%</b>	some products more/less restrictive
19	Japan-Brunei Economic Partnership Agreement (2007)	Regional VA content requirement: <b>40%</b>	consistent
20	Korea-United States Free Trade Agreement (2007)	Regional VA content requirement: <b>35/45%; 40/50%; 55%</b> (build-up/build-down method)	some products more/less restrictive

*Notes:*

/a The list does not include Taipei,China-Nicaragua FTA; Laos-Thailand PTA; PTA of Group of Eight Developing Countries (PTA-D-8); Taipei,China-Guatemala FTA; PRC-Thailand PTA; and Taipei-China-El Salvador-Honduras FTA.

Sources: ADB FTA Database; James (2006); Cheong and Cho (2006); and authors' compilations.

**Table 10. Rules of Origin for Major Auto and Auto Parts Products in Selected East Asian FTAs**

FTA		JAPAN			KOREA	PRC	ASEAN			SINGAPORE		THAILAND
		Japan-Malaysia EPA (2006)	Japan-Singapore EPA (2002)	Japan-Thailand EPA (2007)	Korea-Singapore FTA (2006)	PRC-Pakistan FTA (2006)	ASEAN Free Trade Area (1993)	ASEAN-PRC FTA (2005)	ASEAN-Korea FTA (2006)	Singapore-Australia FTA (2003)	United States-Singapore FTA (2004)	Thailand-Australia FTA (2005)
HS Code	Product Description											
87.01	Tractors (other than works, warehouse equipment)	CTH (6 digit) or RVC of 40%	CTH; last substantial manufacture*	CTH or RVC of 40%	CTH plus RVC of 55%	RVC of not less than 40%*	RVC of not less than 40%*	RVC of not less than 40%*	RVC of not less than 40% or a CTH (4 digits)*	VC of not less than 50%*	CTH plus RVC of at least 30% (build up)	CTH plus RVC of 40%
87.03	Motor vehicles for transport of persons (except buses)	CTH or RVC of 60%	CTH; last substantial manufacture*	CTH or RVC of 40%	CTH plus RVC of 55%	RVC of not less than 40%*	RVC of not less than 40%*	RVC of not less than 40%*	RVC of 45%	Last process of manufacture within territory of the party	CTH plus RVC of at least 30% (build up)	CTH plus RVC of 40%
87.04	Motor vehicles for the transport of goods	CTH or RVC of 50%	CTH; last substantial manufacture*	CTH or RVC of 40%	CTH plus RVC of 55%	RVC of not less than 40%*	RVC of not less than 40%*	RVC of not less than 40%*	RVC of 45%	VC of not less than 50%*	CTH plus RVC of at least 30% (build up)	CTH plus RVC of 40%
87.08	Parts and accessories for motor vehicles		CTH; last substantial manufacture*	CTH or RVC of 40%	CTH plus RVC of 50%/55%	RVC of not less than 40%*	RVC of not less than 40%*	RVC of not less than 40%*	RVC of 45%	Last process of manufacture within territory of the party	CTH (6 digit) or CTH plus RVC of at least 30% (build up)	CTH (6 digit) plus RVC of 40%
87.11	Motorcycles, bicycles, etc. with auxiliary motor	CTH or RVC of 60%	CTH; last substantial manufacture*	CTH or RVC of 40%	CTH plus RVC of 55%	RVC of not less than 40%*	RVC of not less than 40%*	RVC of not less than 40%*	RVC of not less than 40% or a CTH (4 digits)*	VC of not less than 50%*	CTH (4 digit) or CTH plus RVC of at least 30% (build up)	CTH (6 digit) and/or RVC of 40%
87.14	Parts and accessories of bicycles, motorcycles, etc.	CTH or RVC of 40%	CTH; last substantial manufacture*	CTH or RVC of 40%	CTC (4 digit)	RVC of not less than 40%*	RVC of not less than 40%*	RVC of not less than 40%*	RVC of not less than 40% or a CTH (4 digits)*	VC of not less than 50%*	CTH (6 digit) or CTH plus RVC of at least 30% (build up)	CTH (6 digit)

Notes: The general rules of origin of the FTA are adopted when there is no Specific Product (SP) rule provided. CTH=Change of Tariff Headings; RVC=Regional Value Content; VC= Value Content.

Source: authors' compilation.

**Table 11. Income Effects of Alternative Scenarios**

Compared to 2017 baseline (at constant 2001 dollars)

	ASEAN+PRC FTA		ASEAN+Japan FTA		ASEAN+Korea FTA		ASEAN+3 FTA <sup>/a</sup>		ASEAN+6 FTA <sup>/b</sup>	
	Value (\$ Mn)	% change	Value (\$ Mn)	% change	Value (\$ Mn)	% change	Value (\$ Mn)	% change	Value (\$ Mn)	% change
<b>Northeast Asia</b>	<b>9,756</b>	<b>0.11</b>	<b>18,624</b>	<b>0.21</b>	<b>7,256</b>	<b>0.08</b>	<b>165,720</b>	<b>1.85</b>	<b>172,087</b>	<b>1.93</b>
Japan	-3,965	-0.08	24,943	0.51	-1,308	-0.03	74,825	1.54	77,137	1.59
Korea	-5,382	-0.67	-1,844	-0.23	10,916	1.37	49,393	6.19	51,351	6.43
PRC	19,103	0.58	-4,475	-0.14	-2,351	-0.07	41,502	1.26	43,598	1.33
<b>ASEAN</b>	<b>44,211</b>	<b>3.72</b>	<b>28,831</b>	<b>2.43</b>	<b>8,088</b>	<b>0.68</b>	<b>62,186</b>	<b>5.23</b>	<b>67,206</b>	<b>5.66</b>
Cambodia	68	0.75	30	0.33	15	0.16	107	1.20	109	1.21
Indonesia	6,924	2.30	2,834	0.94	1,475	0.49	7,884	2.62	8,588	2.86
Malaysia	7,551	4.02	4,453	2.37	1,339	0.71	10,391	5.54	11,869	6.33
Philippines	2,556	2.13	1,915	1.59	630	0.52	3,177	2.64	3,431	2.85
Singapore	6,854	4.13	3,171	1.91	793	0.48	7,943	4.79	9,002	5.43
Thailand	16,324	7.39	14,107	6.39	2,640	1.20	26,728	12.10	28,346	12.84
Viet Nam	3,371	4.68	2,119	2.94	1,136	1.58	5,293	7.35	5,490	7.63
Others	563	0.50	203	0.18	60	0.05	661	0.59	370	0.33
<b>Other East Asia</b>	<b>-2,676</b>	<b>-0.30</b>	<b>-1,124</b>	<b>-0.13</b>	<b>-528</b>	<b>-0.06</b>	<b>-11,649</b>	<b>-1.32</b>	<b>-13,530</b>	<b>-1.54</b>
Hong Kong, China	-112	-0.03	-68	-0.02	-73	-0.02	-1,051	-0.33	-1,900	-0.59
Taipei, China	-2,519	-0.49	-1,093	-0.21	-443	-0.09	-10,493	-2.03	-11,527	-2.23
Others	-44	-0.11	38	0.09	-12	-0.03	-105	-0.25	-102	-0.24
<b>South Asia</b>	<b>-1,059</b>	<b>-0.09</b>	<b>-823</b>	<b>-0.07</b>	<b>-530</b>	<b>-0.05</b>	<b>-3,620</b>	<b>-0.32</b>	<b>17,193</b>	<b>1.52</b>
Bangladesh	-85	-0.08	-62	-0.06	-47	-0.04	-297	-0.26	-418	-0.37
India	-809	-0.10	-658	-0.08	-370	-0.05	-2,371	-0.30	19,270	2.42
Pakistan	-162	-0.11	-83	-0.06	-86	-0.06	-824	-0.55	-1,179	-0.79
Sri Lanka	-21	-0.07	-15	-0.05	-22	-0.07	-117	-0.38	-209	-0.67
Others	19	0.05	-4	-0.01	-5	-0.01	-12	-0.03	-271	-0.73

<b>Oceania</b>	<b>1,326</b>	<b>0.20</b>	<b>-1,272</b>	<b>-0.19</b>	<b>-26</b>	<b>0.00</b>	<b>-2,600</b>	<b>-0.38</b>	<b>26,385</b>	<b>3.88</b>
Australia	1,046	0.18	-1,204	-0.21	-9	0.00	-2,376	-0.41	22,546	3.91
New Zealand	166	0.21	-73	-0.09	12	0.02	-216	-0.27	4,136	5.24
Others	114	0.48	5	0.02	-28	-0.12	-8	-0.03	-296	-1.25
<b>Central Asia</b>	<b>70</b>	<b>0.04</b>	<b>-41</b>	<b>-0.02</b>	<b>-26</b>	<b>-0.01</b>	<b>-159</b>	<b>-0.09</b>	<b>-205</b>	<b>-0.11</b>
<b>NAFTA</b>	<b>9,985</b>	<b>0.06</b>	<b>-214</b>	<b>0.00</b>	<b>273</b>	<b>0.00</b>	<b>-235</b>	<b>0.00</b>	<b>-4,474</b>	<b>-0.03</b>
Canada	1,211	0.12	363	0.04	155	0.02	1,796	0.18	1,546	0.15
United States	7,713	0.05	-782	-0.01	287	0.00	-4,966	-0.03	-8,917	-0.06
Mexico	1,062	0.11	205	0.02	-169	-0.02	2,935	0.31	2,897	0.30
<b>Latin America</b>	<b>2,667</b>	<b>0.13</b>	<b>-109</b>	<b>-0.01</b>	<b>-303</b>	<b>-0.01</b>	<b>-2,082</b>	<b>-0.10</b>	<b>-2,958</b>	<b>-0.14</b>
<b>EU27</b>	<b>12,921</b>	<b>0.11</b>	<b>867</b>	<b>0.01</b>	<b>253</b>	<b>0.00</b>	<b>6,786</b>	<b>0.06</b>	<b>1,806</b>	<b>0.02</b>
<b>Sub-Saharan Africa</b>	<b>604</b>	<b>0.15</b>	<b>68</b>	<b>0.02</b>	<b>8</b>	<b>0.00</b>	<b>396</b>	<b>0.10</b>	<b>457</b>	<b>0.12</b>
<b>Rest of the World</b>	<b>4,193</b>	<b>0.13</b>	<b>326</b>	<b>0.01</b>	<b>-292</b>	<b>-0.01</b>	<b>-824</b>	<b>-0.03</b>	<b>-4,130</b>	<b>-0.13</b>
EFTA	874	0.17	193	0.04	94	0.02	1,089	0.21	1,074	0.21
Turkey	-17	-0.01	-90	-0.03	-143	-0.05	-538	-0.19	-713	-0.25
Russia	438	0.09	135	0.03	75	0.01	-197	-0.04	-333	-0.07
Other Europe	-36	-0.04	-19	-0.02	-21	-0.02	-52	-0.06	-85	-0.10
North Africa & Middle East	2,761	0.17	119	0.01	-299	-0.02	-1,083	-0.07	-3,549	-0.22
South Africa	172	0.10	-13	-0.01	1	0.00	-44	-0.03	-524	-0.32
<b>World</b>	<b>81,998</b>	<b>0.17</b>	<b>45,134</b>	<b>0.09</b>	<b>14,173</b>	<b>0.03</b>	<b>213,919</b>	<b>0.45</b>	<b>259,837</b>	<b>0.54</b>

Notes:

/a ASEAN+3 includes the 10 ASEAN members (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam) and PRC, Japan, and Korea.

/b ASEAN+6 includes ASEAN+3 countries, Australia, India, and New Zealand.

Source: ADB estimates

**Table 12. Unskilled Workers' Wage Effects of FTA Scenarios**  
 % change compared to 2017 baseline (at constant 2001 dollars)

	ASEAN+3 FTA <sup>a</sup>	ASEAN+6 FTA <sup>b</sup>
<b>Northeast Asia</b>		
Japan	1.79	1.77
Korea	9.33	9.26
PRC	1.83	1.80
<b>ASEAN</b>		
Cambodia	-1.07	-1.14
Indonesia	1.67	1.53
Malaysia	4.91	5.00
Philippines	0.65	0.69
Singapore	4.64	5.58
Thailand	11.07	11.95
Viet Nam	7.96	8.24
Others	-0.53	-1.41
<b>Other East Asia</b>		
Hong Kong, China	-0.62	-0.64
Taipei, China	-1.97	-2.02
Others	-0.44	-0.46
<b>South Asia</b>		
Bangladesh	0.44	0.97
India	-0.19	1.66
Pakistan	-0.15	-0.25
Sri Lanka	-0.26	0.52
Others	0.00	-2.47
<b>Oceania</b>		
Australia	-0.69	-0.74
New Zealand	-0.60	-0.60
Others	-0.49	-0.50

Notes:

/a ASEAN+3 includes ASEAN members, PRC, Japan, and Korea.

/b ASEAN+6 includes ASEAN+3 countries, Australia, India, and New Zealand.

Source: ADB estimates

**Table 13. Indicators of Openness and Market Orientation of ASEAN+6 Countries, 2005**

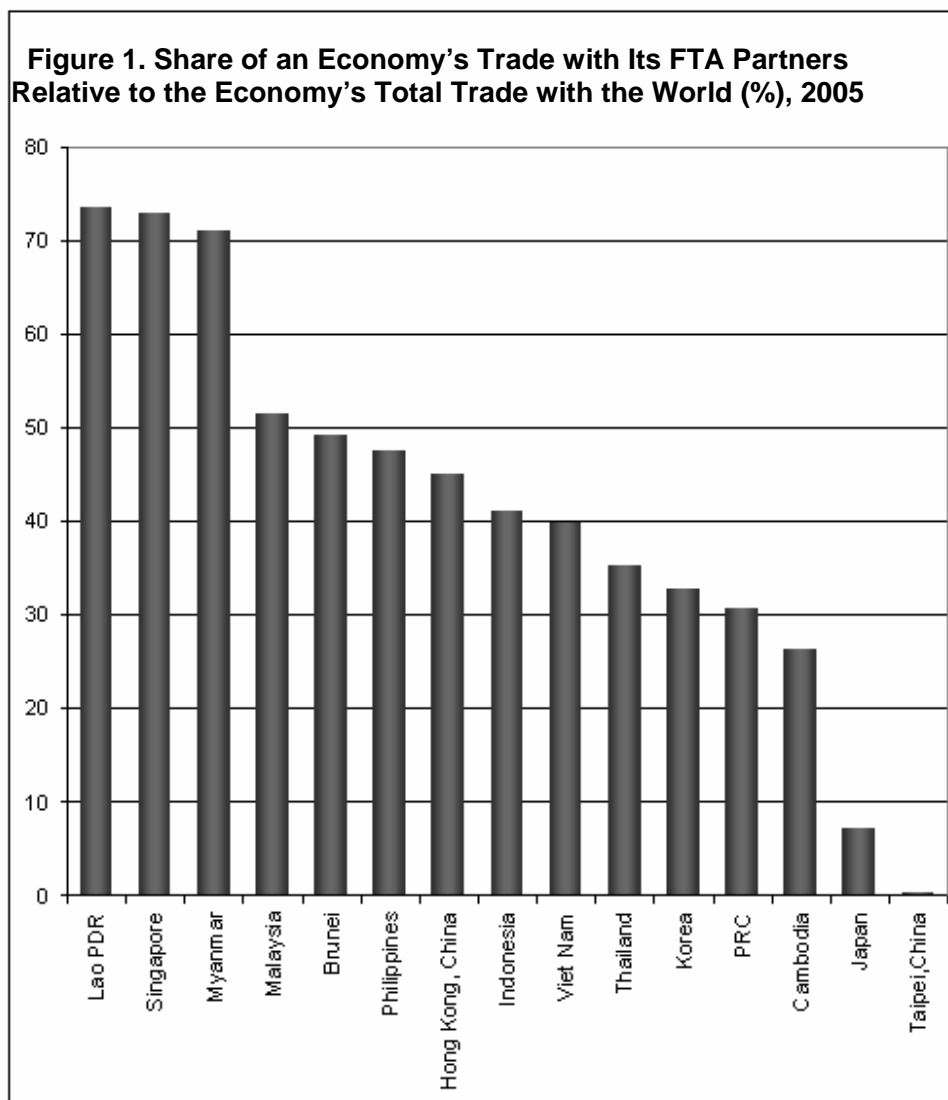
<b>Country</b>	<b>Ave. Import Tariff Rates</b> (Manufactures, in %)	<b>Time for Import</b> (No. of days)	<b>Time to Start a Business</b> (No. of days)
Japan	3.49	11	23
Korea	7.23	12	22
PRC	10.36	22	35
India	15.67	41	35
Australia	4.20	12	2
New Zealand	4.22	13	12
Brunei	5.42	...	...
Cambodia	17.11	45	86
Indonesia	10.10	30	97
Lao PDR	9.88	78	163
Malaysia	11.53	22	30
Myanmar	5.64	...	...
Philippines	7.10	20	48
Singapore	0.00	3	6
Thailand	10.59	22	33
Viet Nam	17.92	36	50
Average for ASEAN	9.53	32	64 <sup>b</sup>

Notes:

/a MFN rate; data as of 2005 except for Korea (2004) and Cambodia (2003).

/b Average for ASEAN excluding Lao PDR is 50.

Sources: UNCTAD, World Bank



Source: IMF Direction of Trade Statistics.

**Appendix Table 1. 102 FTAs in East Asia by Country and by Status, 2007**


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<b>JAPAN</b>	
<i>Concluded</i>	
1	Japan-Singapore Economic Agreement for a New-Age Partnership (2002)
2	Japan-Mexico Economic Partnership Agreement (2005)
3	Japan-Malaysia Economic Partnership Agreement (2006)
4	Japan-Philippines Economic Partnership Agreement (2006)
5	Japan-Chile Economic Partnership Agreement (2007)
6	Japan-Thailand Economic Partnership Agreement (2007)
7	Japan-Brunei Economic Partnership Agreement (2007)
<i>Under Negotiation</i>	
8	Japan-Korea Economic Partnership Agreement (2003)
9	Japan-Indonesia Economic Partnership Agreement (2005)
10	Japan-ASEAN Comprehensive Economic Partnership Agreement (2005)
11	Japan-Gulf Cooperation Council Free Trade Agreement (2006)
12	Japan-Vietnam Economic Partnership Agreement (2006)
13	Japan-India Economic Partnership Agreement (2007)
14	Japan-Australia Economic Partnership Agreement (2007)
15	Japan-Switzerland Economic Partnership Agreement (2007)
<i>Proposed</i>	
16	Japan-PRC-Korea Economic Partnership Agreement (2003)
17	East Asian (ASEAN+3) Free Trade Agreement (2004)
18	Japan-Canada Economic Partnership Agreement (2005)
19	East Asian (ASEAN+6) Free Trade Agreement (2007)

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<b>KOREA</b>	
<i>Concluded</i>	
20	Asia-Pacific Trade Agreement (1976)
21	Korea -Chile Free Trade Agreement (2004)
22	Korea-European Free Trade Association (EFTA) Free Trade Agreement (2005)
23	Korea-Singapore Free Trade Agreement (2006)
24	Korea-ASEAN Free Trade Agreement (2006)
25	Korea-United States Free Trade Agreement (2007)
<i>Under Negotiation</i>	
26	Korea-Canada Free Trade Agreement (2005)
27	Korea-India Comprehensive Economic Partnership Agreement (2006)
28	Korea-Mexico Strategic Economic Complementmentation Agreement (2006)
29	Korea-European Union (EU) Free Trade Agreement (2007)
<i>Proposed</i>	
30	Korea-New Zealand Closer Economic Partnership (1999)
31	Korea-Malaysia Free Trade Agreement (2004)
32	Korea-MERCOSUR Preferential Trading Agreement (2004)
33	Korea-South Africa Free Trade Agreement (2005)
34	Korea-PRC Free Trade Agreement (2005)
35	Korea-Australia Free Trade Agreement (2006)

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<b>People's Republic of China (PRC)</b>	
<i>Concluded</i>	
36	PRC-Thailand Free Trade Agreement (2003)
37	PRC-Hong Kong Closer Economic Partnership Arrangement (2004)
38	PRC-Macao Closer Economic Partnership Arrangement (2004)
39	PRC-ASEAN Free Trade Agreement (2005)
40	PRC-Chile Free Trade Agreement (2006)
41	PRC-Pakistan Free Trade Agreement (2006)
<i>Under Negotiation</i>	
42	PRC-New Zealand Free Trade Agreement (2004)
43	PRC-Gulf Cooperation Council Free Trade Agreement (2005)
44	PRC-Australia Free Trade Agreement (2005)
45	PRC-Singapore Free Trade Agreement (2006)
46	PRC-Iceland Free Trade Agreement (2006)
<i>Proposed</i>	

- 47 PRC-India Regional Trading Arrangement (2003)
- 48 PRC-South African Customs Union Free Trade Agreement (2004)
- 49 PRC-Peru Free Trade Agreement (2006)

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**TAIPEI, China**
**Concluded**

- 50 Taipei, China-Panama Free Trade Agreement (2004)
- 51 Taipei, China-Guatemala Free Trade Agreement (2006)
- 52 Taipei, China-Nicaragua Free Trade Agreement (2006)
- 53 Taipei, China-El Salvador-Honduras Free Trade Agreement (2007)

**Under Negotiation**

- 54 Taipei, China-Paraguay Free Trade Agreement (2004)
- 55 Taipei, China-Dominican Republic Free Trade Agreement (2006)

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**HONG KONG, China**
**Under Negotiation**

- 56 Hong Kong-New Zealand Closer Economic Partnership Agreement (2001)

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**SINGAPORE**
**Concluded**

- 57 ASEAN Free Trade Agreement (1993)
- 58 Singapore-European Free Trade Association (EFTA) Free Trade Agreement (2001)
- 59 Singapore-New Zealand Closer Economic Partnership Agreement (2001)
- 60 Singapore-Australia Free Trade Agreement (2003)
- 61 Singapore-United States Free Trade Agreement (2004)
- 62 Singapore-India Comprehensive Economic Cooperation Agreement (2005)
- 63 Singapore-Jordan Free Trade Agreement (2005)
- 64 Singapore-Panama Free Trade Agreement (2006)
- 65 Trans-Pacific Strategic Economic Partnership Agreement (2006)

**Under Negotiation**

- 66 Singapore-Mexico Free Trade Agreement (2000)
- 67 Singapore-Canada Free Trade Agreement (2002)
- 68 ASEAN-India Regional Trade and Investment Agreement (2004)
- 69 Singapore-Pakistan Free Trade Agreement (2005)
- 70 ASEAN-Australia and New Zealand Free Trade Agreement (2005)
- 71 Singapore-Peru Free Trade Agreement (2006)
- 72 Singapore-Gulf Cooperation Council (GCC) Free Trade Agreement (2006) [*supersedes other FTAs with GCC countries being negotiated*]
- 73 Singapore-Ukraine Free Trade Agreement (2007)

**Proposed**

- 74 Singapore-Sri Lanka Comprehensive Economic Partnership Agreement (2003)
- 75 ASEAN-EU Free Trade Agreement (2003) [*negotiations launched in May 2007*]
- 76 Singapore-Egypt Free Trade Agreement (2004) [*Intent to Negotiate signed in November 2006*]

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**THAILAND**
**Concluded**

- 77 Thailand-Laos Preferential Trading Arrangement (1991)
- 78 Thailand-Australia Free Trade Agreement (2005)
- 79 Thailand-New Zealand Closer Economic Partnership Agreement (2005)

**Under Negotiation**

- 80 Thailand-Bahrain Free Trade Agreement (2002)
- 81 Thailand-United States Free Trade Agreement (2004)
- 82 Thailand-India Free Trade Agreement (2004)
- 83 Thailand-Peru Free Trade Agreement (2004)
- 84 Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) Free Trade Area (2004)
- 85 Thailand-European Free Trade Association (EFTA) Free Trade Agreement (2005)

**Proposed**

- 86 Thailand-Pakistan Free Trade Agreement (2004)
- 87 Thailand-Chile Free Trade Agreement (2006)
- 88 Thailand-MERCOSUR Free Trade Agreement (2006)

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**MALAYSIA****Concluded**

- 89 Preferential Tariff Arrangement-Group of Eight Developing Countries (2006)

**Under Negotiation**

- 90 Trade Preferential System of the Organization of the Islamic Conference (2004)  
91 Malaysia-Australia Free Trade Agreement (2005)  
92 Malaysia-New Zealand Free Trade Agreement (2005)  
93 Malaysia-Pakistan Free Trade Agreement (2005)  
94 Malaysia-United States Free Trade Agreement (2006)  
95 Malaysia-Chile Free Trade Agreement (2007)

**Proposed**

- 96 Malaysia-India Comprehensive Economic Cooperation Agreement (2005)
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**INDONESIA, PHILIPPINES, BRUNEI****Under Negotiation**

- 97 Indonesia-Pakistan Free Trade Agreement (2005)

**Proposed**

- 98 Philippines-United States Free Trade Agreement (1989)  
99 Indonesia-United States Free Trade Agreement (1997)  
100 Brunei-United States Free Trade Agreement (2002)  
101 Indonesia-India Comprehensive Economic Cooperation Arrangement (2004)  
102 Indonesia-European Free Trade Association (EFTA) Free Trade Agreement (2005)
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Note: As of June 2007.

Source: ARIC FTA database.

**Appendix Table 2. Number of FTAs, Classified by ASEAN+3 Countries, 2007**

<b>Concluded FTAs</b>						
Country	(1) ASEAN+3 Countries	(2) India/ Australia/ New Zealand	(3) = [(1)+(2)] ASEAN+6 Countries	(4) Hong Kong, China/ Taipei,China	(5) Outside	(6) = [(3)+(4)+(5)] <b>Total</b>
Japan	5	0	5	0	2	7
PRC	3	0	3	1	3	7
Korea	3	0	3	0	3	6
Singapore	6	3	9	0	4	13
Thailand	6	2	8	0	0	8
Malaysia	5	0	5	0	0	5
Indonesia	4	0	4	0	0	4
Philippines	4	0	4	0	0	4
Brunei	5	0	5	0	0	5
Viet Nam	3	0	3	0	0	3
Myanmar	3	0	3	0	0	3
Lao PDR	5	0	5	0	0	5
Cambodia	3	0	3	0	0	3

<b>FTAs Under Negotiation</b>						
Country	ASEAN+3 Countries	India/ Australia/ New Zealand	ASEAN+6 Countries	Hong Kong, China/ Taipei,China	Outside	<b>Total</b>
Japan	4	2	6	0	2	8
PRC	1	2	3	0	2	5
Korea	1	1	2	0	3	5
Singapore	2	2	4	0	6	10
Thailand	2	3	5	0	4	9
Malaysia	1	4	5	0	4	9
Indonesia	2	2	4	0	1	5
Philippines	2	2	4	0	0	4
Brunei	1	2	3	0	0	3
Viet Nam	2	2	4	0	0	4
Myanmar	1	2	3	0	0	3
Lao PDR	1	2	3	0	0	3
Cambodia	1	2	3	0	0	3

<b>Proposed FTAs</b>						
Country	ASEAN+3 Countries	India/ Australia/ New Zealand	ASEAN+6 Countries	Hong Kong, China/ Taipei,China	Outside	<b>Total</b>
Japan	2	1	3	0	1	4
PRC	3	2	5	0	2	7
Korea	4	3	7	0	2	9
Singapore	2	1	3	0	2	5
Thailand	2	1	3	0	3	6

Malaysia	2	2	4	0	0	4
Indonesia	2	2	4	0	2	6
Philippines	2	1	3	0	1	4
Brunei	2	1	3	0	1	4
Viet Nam	1	1	2	0	0	2
Myanmar	1	1	2	0	0	2
Lao PDR	1	1	2	0	0	2
Cambodia	1	1	2	0	0	2

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Note: As of June 2007.

Source: ARIC FTA database.

**Appendix Table 3. Some Features of Plurilateral FTAs in East Asia, by Status, 2007**

Name of Agreement		East Asian Economies	Non-East Asian Party	Specific Status	Implementation Schedule
<b>Concluded (9)</b>					
1	Asia-Pacific Trade Agreement (1976)	Korea, PRC, Lao PDR	Bangladesh, India, Sri Lanka	Under Implementation	
2	ASEAN Free Trade Agreement (1993)	ASEAN 10		Under Implementation	2010 for ASEAN-6 and 2015 for CMLV
3	Singapore-European Free Trade Association (EFTA) Free Trade Agreement (2001)	Singapore	Iceland, Liechtenstein, Norway, Switzerland	Under Implementation	
4	Korea-European Free Trade Association (EFTA) Free Trade Agreement (2005)	Korea	Iceland, Liechtenstein, Norway, Switzerland	Under Implementation	
5	ASEAN-PRC Free Trade Agreement (2005)	PRC, ASEAN 10		Under Implementation	2007 (60% coverage) for ASEAN-6 and PRC. Flexibility for CMLV up to 2010. Agreement in goods in effect as of July 2005. Agreement in services in effect as of July 2007.
6	Trans-Pacific Strategic Economic Partnership Agreement (2006)	Brunei, Singapore	New Zealand, Chile	Under Implementation	2006 for Singapore; 2015 Brunei, New Zealand, and Chile.
7	Preferential Tariff Arrangement-Group of Eight Developing Countries (2006)	Indonesia, Malaysia	Bangladesh, Pakistan, Egypt, Iran, Nigeria, Turkey	Signed	
8	ASEAN-Korea Free Trade Agreement (2006)	Korea, ASEAN 9 (excluding Thailand)		Under Implementation (for Agreement in Trade in Goods)	2010 for ASEAN-6, 2016 for Viet Nam and 2018 for CML. 2008 for Korea (90% of products).
9	Taipei,China-El Salvador-Honduras Free Trade Agreement (2007)	Taipei,China	El Salvador, Honduras	Under Implementation	
<b>Under Negotiation (10)</b>					
10	Trade Preferential System of the Organization of the Islamic Conference (2004)	Malaysia	Bahrain, Cameroon, Guinea, Jordan, Libyan Arab Jamahiriya, Pakistan, Syrian Arab Republic, Turkey, UAE,	Framework Agreement signed/ FTA Under Negotiation	

			Bangladesh, Egypt, Iran, Lebanon, Senegal, Tunisia, Uganda		
11	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) Free Trade Area (2004)	Thailand	Bangladesh, India, Nepal, Bhutan, Myanmar, Sri Lanka	Framework Agreement signed/ FTA Under Negotiation	
12	ASEAN-India Regional Trade and Investment Area (2004)	ASEAN 10	India	Under Negotiation	2011 for ASEAN-5 and India; 2016 for Philippines and CMLV. (proposed)
13	ASEAN-Australia and New Zealand Free Trade Agreement (2005)	ASEAN 10	Australia, New Zealand	Framework Agreement signed/ FTA Under Negotiation	
14	ASEAN-Japan Comprehensive Economic Partnership Agreement (2005)	Japan; ASEAN 10		Under Negotiation	2012 liberalization of trade in goods, services and investments. (proposed)
15	PRC-Gulf Cooperation Council (GCC) Free Trade Agreement (2005)	PRC	Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates	Under Negotiation	
16	Thailand-European Free Trade Association Free Trade Agreement (2005)	Thailand	Iceland, Liechtenstein, Norway, Switzerland	Under Negotiation	
17	Japan-Gulf Cooperation Council Free Trade Agreement (2006)	Japan	Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates	Framework Agreement signed/ FTA Under Negotiation	
18	Singapore-Gulf Cooperation Council (GCC) Free Trade Agreement (2006)	Singapore	Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates	Under Negotiation	
19	Korea-European Union (EU) Free Trade Agreement (2007)	Korea	EU	Under Negotiation	
<b>Proposed (8)</b>					
20	ASEAN-European Union (EU) Free Trade Agreement (2003)	ASEAN 10	EU	Proposed	
21	Japan-PRC-Korea Free Trade Agreement (2003)	Japan, PRC, Korea		Proposed	
22	East Asian (ASEAN+3) Free Trade Area (2004)	ASEAN 10 + 3 (Japan, PRC, Korea)		Proposed	
23	East Asian (ASEAN+6) Free Trade Area (2007)	ASEAN 10 + 3 (Japan, PRC, Korea)	Australia, New Zealand, India	Proposed	

24	Korea-MERCOSUR Preferential Trading Agreement (2004)	Korea	Argentina, Brazil, Paraguay, Uruguay, Venezuela	Proposed	
25	PRC-South African Customs Union Free Trade Agreement (2004)	PRC	South Africa, Botswana, Lesotho, Namibia, Swaziland	Proposed	
26	Indonesia-European Free Trade Association (EFTA) Free Trade Agreement (2005)	Indonesia	Iceland, Liechtenstein, Norway, Switzerland	Proposed	
27	Thailand-MERCOSUR Free Trade Agreement (2006)	Thailand	Argentina, Brazil, Paraguay, Uruguay, Venezuela	Proposed	

*Notes:*

As of June 2007.

ASEAN-6 includes Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand.

ASEAN-10 includes ASEAN-6 plus CMLV countries (Cambodia, Lao PDR, Myanmar, and Viet Nam).

ASEAN+3 includes 10 ASEAN members, PRC, Japan, and Korea.

ASEAN+6 includes ASEAN+3 countries, Australia, India, and New Zealand.

*Source:* authors' compilation from various sources.