Challenges for Constructing an FTAAP: Lessons Learnt from the Results of ERIA's ASEAN+1 FTAs Mapping Study

September 8

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Objectives

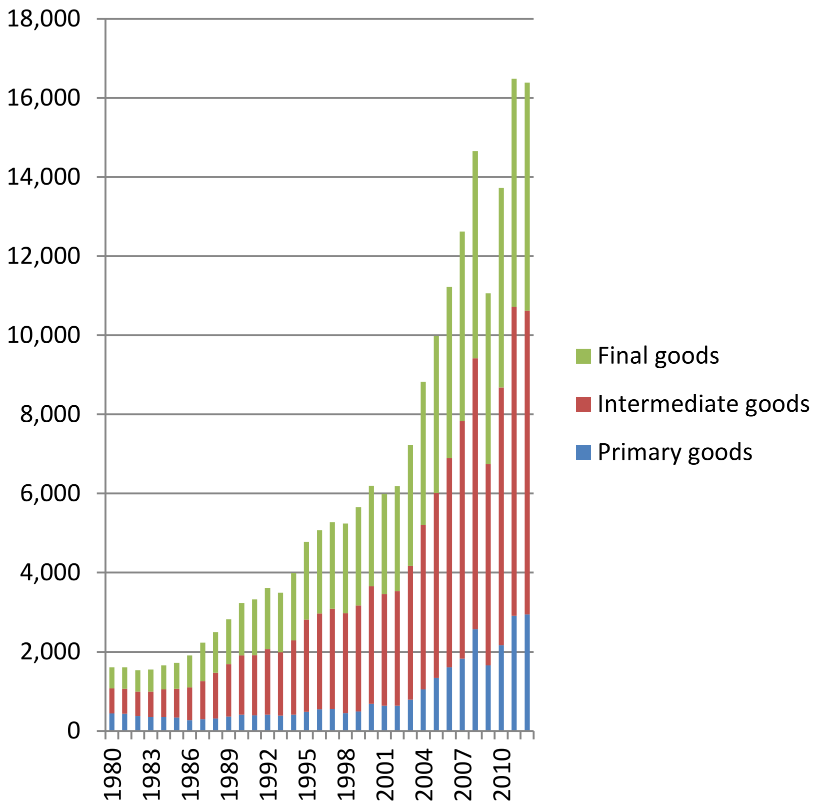
- Identify challenges/obstacles in constructing a mega FTA like an FTAAP by examining trade liberalization commitments under five ASEAN+1 FTAs (China, Korea, Japan, Australia-New Zealand, and India)
- Trade in goods: tariff elimination, rules of origin
- Trade in services: liberalization commitments

Contents

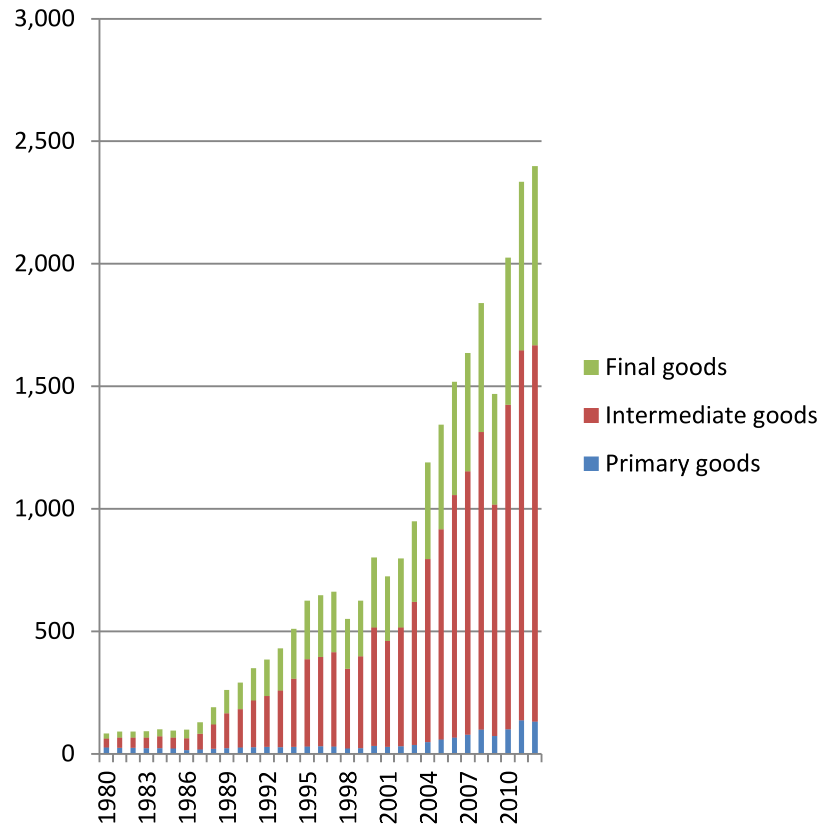
- Recent developments in foreign trade in East Asia: Rapid Expansion of Trade in Intermediate goods---Expansion of Production Networks
- Tariff Protection in East Asia
- Comparison of 5 ASEAN+1 FTAs in the areas of trade in goods and trade in services
- Concluding remarks

Rapid Expansion of Trade in Intermediate Goods (US$ billion)

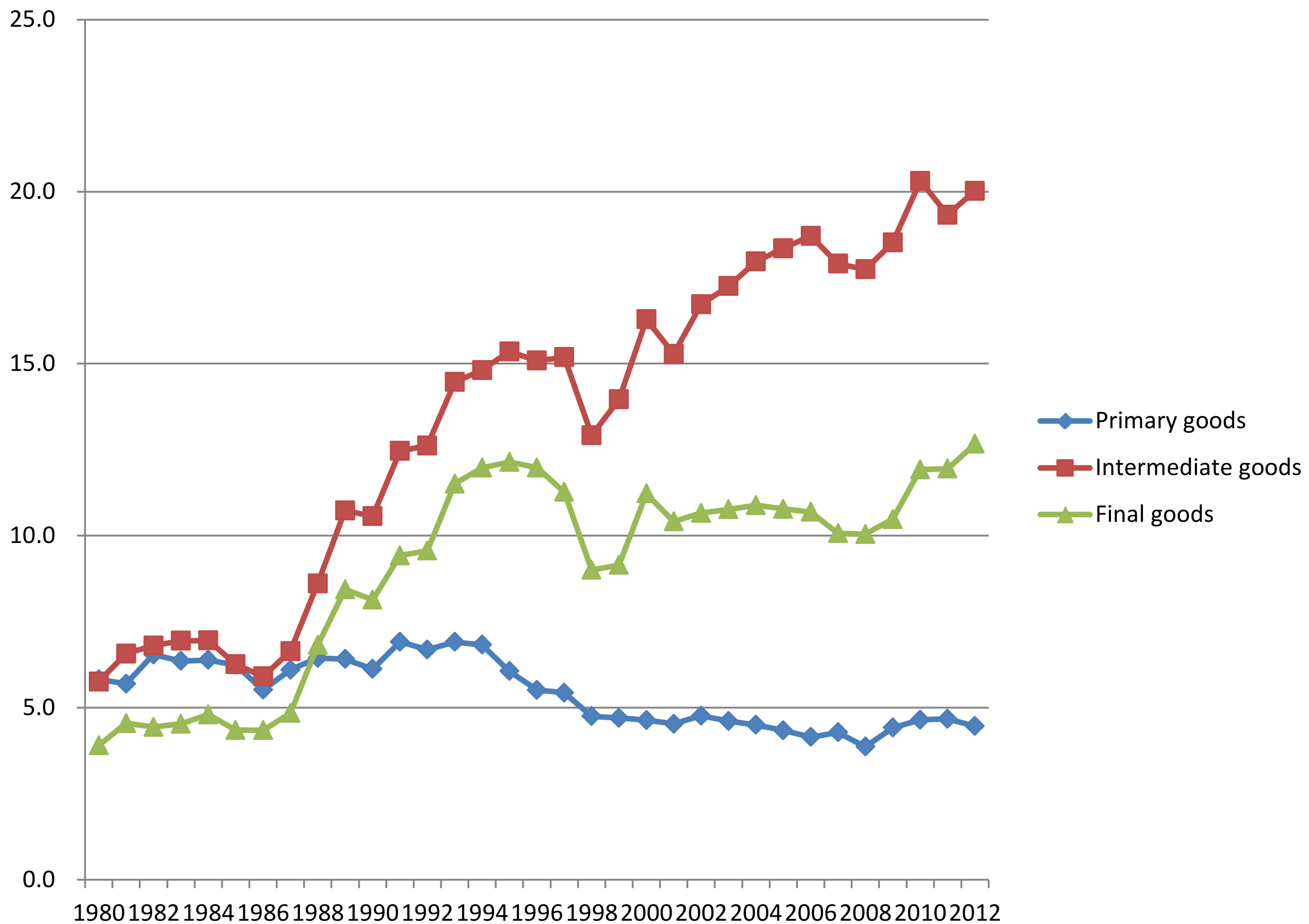
World Trade



Intra-East Asia Trade



Increase in the share of intra-East Asia trade in world trade in intermediate goods: Expansion of Production Networks



Tariff Rates (simple average, %)

WTO, Tariff Profiles 2013

	MFN Applied Tariff Rates			Bound Tariff Rates		
	Total	Ag	Non-Ag	Total	Ag	Non-Ag
Brunei	2.5	0.1	2.9	25.3	30.7	24.5
Cambodia	10.9	15.2	10.3	19.1	28.1	17.7
Indonesia	7.0	8.1	6.9	37.1	47.0	35.6
Lao PDR						
Malaysia	6.5	10.8	5.8	23.0	66.8	14.9
Myanmar				83.4	103.4	23.0
Philippines	6.1	8.7	5.7	25.7	35.1	23.4
Singapore	0.0	0.2	0.0	10.3	26.9	6.4
Thailand	9.8	22.0	8.0	28.0	39.9	25.5
Vietnam	9.8	17.0	8.7	11.5	18.5	10.4
China	9.6	15.6	8.7	10.0	15.7	9.2
Japan	5.3	22.3	2.6	5.3	22.8	2.6
Korea	12.1	48.6	6.6	16.6	56.1	10.2
India	12.6	31.4	9.8	48.7	113.1	34.6
Australia	2.8	1.4	3.1	10.0	3.5	11.0
New Zealand	2.0	1.4	2.1	10.1	6.0	10.7

Trade in Goods

- Variations in the levels of tariff elimination among 5 ASEAN+1 FTAs
- Variations in transition periods
- Variations in sectoral tariff elimination commitments
- Rules of origin: variations

  ATIGA, AANZFTA, AJCEP, AKFTA (RVC40 or CTH)

  ACFTA (RVC40)

  AIFTA (RVC35+CTSH)

Tariff Elimination in ASEAN+1 FTAs (1)
(HS 6 digit base)

	ASEAN-ANZ	ASEAN-China	ASEAN-India	ASEAN-Japan	ASEAN-Korea	Average	
						All ASEAN+1s	Excluding AIFTA
Brunei	99.2%	98.3%	85.3%	97.5%	99.1%	95.9%	98.5%
Cambodia	89.1%	89.9%	88.4%	85.1%	90.8%	88.7%	88.7%
Indonesia	93.1%	92.3%	48.6%	91.2%	91.1%	83.3%	91.9%
Lao PDR	91.8%	97.4%	80.1%	86.3%	90.0%	89.1%	91.4%
Malaysia	97.3%	92.6%	79.7%	93.9%	92.4%	91.2%	94.1%
Myanmar	88.1%	93.6%	76.6%	84.9%	91.6%	86.9%	89.5%
Philippines	95.1%	92.5%	80.9%	97.1%	89.6%	91.1%	93.6%
Singapore	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Thailand	98.9%	93.5%	78.1%	96.4%	95.1%	92.4%	96.0%
Vietnam	94.8%	92.2%	79.5%	94.2%	89.3%	90.0%	92.6%
Australia	100.0%						
China		94.7%					
India			78.8%				
Japan				91.9%			
Korea					90.4%		
New Zealand	100.0%						
Average	95.6%	94.3%	79.6%	92.6%	92.7%	90.9%	93.6%

Tariff Elimination in ASEAN+1 FTAs (2)

(HS 8-10 digit base)

	ASEAN-ANZ	ASEAN-China	ASEAN-India	ASEAN-Japan	ASEAN-Korea	Average	
						All ASEAN+1s	Excluding AIFTA
Brunei	98.5%	97.8%	82.6%	96.4%	97.9%	94.6%	97.7%
Cambodia	86.2%	86.7%	84.1%	76.0%	85.5%	83.7%	83.6%
Indonesia	93.4%	89.0%	50.4%	88.7%	90.3%	82.3%	90.3%
Lao PDR	90.7%	96.4%	77.5%	84.2%	85.4%	86.8%	89.2%
Malaysia	95.5%	93.7%	79.6%	92.1%	93.5%	90.9%	93.7%
Myanmar	86.1%	91.3%	73.6%	79.4%	87.5%	83.6%	86.1%
Philippines	94.8%	86.5%	75.8%	96.0%	97.7%	90.2%	93.8%
Singapore	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Thailand	98.8%	88.3%	74.3%	96.9%	93.7%	90.4%	94.4%
Vietnam	90.9%	90.4%	69.7%	84.7%	84.3%	84.0%	87.6%
Australia	100.0%						
China		94.6%					
India			74.3%				
Japan				86.2%			
Korea					92.2%		
New Zealand	100.0%						
Average	94.6%	92.3%	76.5%	89.1%	91.6%	88.7%	91.6%

Differences in tariff elimination rates between HS-6 and HS-8, HS-10 digits

	Six-digit (a)	8-10 digit (b)	Diff. [(b) - (a)]
Brunei	95.9%	94.6%	-1.3%
Cambodia	88.7%	83.7%	-5.0%
Indonesia	83.3%	82.3%	-0.9%
Lao PDR	89.1%	86.8%	-2.3%
Malaysia	91.2%	90.9%	-0.3%
Myanmar	86.9%	83.6%	-3.4%
Philippines	91.1%	90.2%	-0.9%
Singapore	100.0%	100.0%	0.0%
Thailand	92.4%	90.4%	-2.0%
Vietnam	90.0%	84.0%	-6.0%
Australia	100.0%	100.0%	0.0%
China	94.7%	94.6%	-0.1%
India	78.8%	74.3%	-4.5%
Japan	91.9%	86.2%	-5.7%
Korea	90.4%	92.2%	1.7%
New Zealand	100.0%	100.0%	0.0%
Average	91.5%	89.6%	-1.9%

Tariff: Transition Periods

Tariff Elimination Target Years under the ASEAN+1 FTAs

	ASEAN6		CLMV countries		FTA Partners	
	Elimination (Normal Track or SL)	**Other reduction (SL or HSL)**	**Elimination (Normal Track or SL)**	**Other reduction (SL or HSL)**	**Elimination (Normal Track or SL)**	**Other reduction (SL or HSL)**
AANZFTA	2020-2025	2020-2025	2020-2024	2025	2020	-
ACFTA	2012*1	2018	2018*1	2018	2012*1	2018
AIFTA*2	2017-2020*3	2017-2020	2022*3	2022	2017*3 (2020*4)	2020
AJCEP	2018	2018-2024	2023-2026	2026	2018	2018
AKFTA	2012*5 (2017*6)	2016	2018-2020*5	2021-2024	2010	2016

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

Consistency of ASEAN’s Tariff Commitments (1)

Figure. Examples of “eliminated to all”. “protected to all”, and “depends on FTAs”

Consistency of ASEAN’s Tariff Commitments (2)

	Share of ‘eliminated to all’	Share of ‘depends on FTA’	Share of ‘protected to all’
Brunei	84.1%	15.9%	0.0%
Cambodia	64.2%	35.4%	0.5%
Indonesia	45.9%	52.8%	1.3%
Lao PDR	67.7%	31.8%	0.4%
Malaysia	75.8%	23.1%	1.1%
Myanmar	66.4%	32.0%	1.6%
Philippines	73.7%	25.3%	1.0%
Singapore	100.0%	0.0%	0.0%
Thailand	75.5%	24.4%	0.1%
Vietnam	78.1%	19.8%	2.1%
ASEAN's average	73.1%	26.0%	0.8%

Consistency of ASEAN's Tariff Commitments (3) : Agriculture vs Manufacturing

	Agricultural products (HS01-HS24)			Manufacturing products (HS25-HS97)		
	% of ETA	% of DOF	% of PTA	% of ETA	% of DOF	% of PTA
Brunei	95.0%	5.0%	0.0%	82.3%	17.7%	0.0%
Cambodia	69.0%	30.1%	1.0%	63.4%	36.3%	0.4%
Indonesia	50.4%	46.0%	3.6%	45.2%	53.9%	0.9%
Lao PDR	24.9%	74.2%	0.8%	74.9%	24.7%	0.4%
Malaysia	89.3%	6.5%	4.2%	73.5%	25.8%	0.6%
Myanmar	57.1%	38.8%	4.2%	68.0%	30.8%	1.2%
Philippines	47.6%	50.0%	2.4%	78.1%	21.2%	0.7%
Singapore	99.7%	0.3%	0.0%	100.0%	0.0%	0.0%
Thailand	52.9%	46.7%	0.4%	79.3%	20.7%	0.0%
Vietnam	80.2%	17.3%	2.5%	77.7%	20.2%	2.1%
ASEAN's average	66.6%	31.5%	1.9%	74.2%	25.1%	0.6%

ETA: eiminated to all, DOF: depends on FTA, PTA: protected to all

Frequency by type of ROOs Used in ASEAN+1 FTAs

ROO type	ATIGA	AANZFTA	ACFTA	AIFTA	AJCEP	AKFTA
Single Rule or stricter						
WO	185	294	8		3	458
CC		248	1		735	61
CTH		107			137	4
CTSH					8	
RVC(<40)						36
RVC(40)	149	68	4659		219	22
RVC(>40)						6
RVC(35)+CTSH				5224		
CC with exception*		3			258	
CTH with exception*		10			20	
Various**		43				3
Sub-total	334	773	4668	5224	1380	590
% share in total	6.4%	14.8%	89.4%	100.0%	26.4%	11.3%
"RVC(40) or CTH" or more flexible						
RVC(40) or CTH	2679	2204	122		3057	4076
RVC(40) or CTH or Specific Process Rule		24				
RCV(40) or CTSH	756	1072			33	61
RVC(40) or CTH or [RVC(35)+CTSH]	136	195				
RVC(40) or CTH or Textile Rule	347	6				
Sub-total	3918	3501	122	0	3090	4137
% share in total	75.0%	67.0%	2.3%	0.0%	59.2%	79.2%
Other "or" rules						
RVC(40) or CC or Textile Rule	463					
RVC(40) or CC	453	583	7		126	487
Various***	56	367	427		628	10
Sub-total	972	950	434	0	754	487
% share in total	18.6%	18.2%	8.3%	0.0%	14.4%	9.3%
Total # of 6-digit HS(2002) Lines	5224	5224	5224	5224	5224	5224

Note: HS 2002 base.
WO- wholly obtained; CC- change in chapter; CTH- change in tariff heading; CTSH- change in tariff subheading; RVC- regional value content.
*Exception varies, from sourcing of materials to process.
**e.g. CTH + RVC(40), CC + RVC(40), CC + Textile Rule.
***e.g. [RVC(40)+Textile Rule] or CC, RVC(>40) or CTH.

Source: ERIA FTA Mapping Study

ROOs: Commonality among ATIGA, AANZ, AJ and AK

Note: HS 2002 base.
Source: ERIA FTA Mapping Study

Trade in Services

- ASEAN, Australia-New Zealand, China, Korea FTAs have services agreement. ASEAN-India service agreement signed not implemented(?), ASEAN-Japan service agreement is under negotiation.
- The current ASEAN+1 FTAs do not provide much “WTO Plus” (= GATS Plus).
- AFAS7, ACFTA and AKFTA show similar patterns of market access limitations.

Services: Level of commitments

Table. WTO Plus in AFAS and ASEAN+1 FTAs (in terms of the Hoekman Index)

Notes: The higher the figure, the more liberal commitments are (min. 0; max. 1).
AFAS is based on the 8th package. ACFTA is based on the 2nd Package.

Source: ERIA FTA Mapping Study

Services: Contents of Market Access Limitations (Frequency)

FTA	A	B	C	D	E	F	Total
AFAS (7th Package)	1	0	1	345	477	359	1,446
ACFTA (1st Package)	0	0	0	32	123	71	256
AANZFTA	0	0	0	3,587	364	163	4,217
AKFTA	14	0	1	154	406	169	914
Total	41	0	4	4,381	1,748	1,030	8,233

Notes: (a) Symbols A-F denote the limitations indicated in GATS Art. XVI.
(b) Larger number does not necessarily mean lower liberalization, because "no commitment" is less liberal than "commitment."
Source: ERIA's FTA Mapping Study.

Services: Types of Market Access Limitations

- A: limitations on the number of service suppliers whether in the form of numerical quotas, monopolies, exclusive service suppliers or the requirements of an economic needs test;
- B: limitations on the total value of service transactions or assets in the form of numerical quotas or the requirement of an economic needs test;
- C: limitations on the total number of service operations or on the total quantity of service output expressed in terms of designated numerical units in the form of quotas or the requirement of an economic needs test;
- D: limitations on the total number of natural persons that may be employed in a particular services sector or that a service supplier may employ and who are necessary for, and directly related to, the supply of a specific service in the form of numerical quotas or the requirement of an economic needs test;
- E: measures which restrict or require specific types of legal entity or joint venture through which a service supplier may supply a service; and,
- F: limitations on the participation of foreign capital in terms of maximum percentage limit on foreign shareholding or the total value of individual or aggregate foreign investment.

Concluding Remarks

- Need strong leadership to establish mega-FTAs such as an FTAAP, TPP, RCEP
- Gradual approach rather than single undertaking may be more feasible to conclude negotiations
- To gain benefits from further expansion of regional production networks/supply chains, trade facilitation such as standard and conformance should be given high priority