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# UNU-CRIS Working Papers

## W-2010/3

### NORTH-SOUTH VS. SOUTH-SOUTH ASIAN FTAs: TRENDS, COMPATIBILITIES, AND WAYS FORWARD

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## Abstract<sup>1</sup>

The last decade has seen an unprecedented surge in free trade agreements (FTAs) in economically important Asia as a part of efforts to deepen Asian regionalism by centering on sophisticated regional production networks. South–South (S–S) agreements driven by economic giants—the People’s Republic of China (PRC) and India—are dominating Asian FTAs, amidst a recent flurry of Japan-led North–South (N–S) agreements. However, little attention has been devoted in Asian FTA literature to studying the evolution and anatomy of N–S and S–S FTAs. Furthermore, the extent to which N–S and S–S Asian FTAs are compatible with global rules and with each other remains unexplored. This paper offers some simple legal and economic criteria to facilitate empirical research. The empirical analysis of the criteria against actual practice in 61 concluded Asian FTAs shows that several incompatibilities exist between N–S and S–S FTAs in core areas including tariff liberalization, rules of origin, liberalization of services trade, compliance with World Trade Organization (WTO) notification requirements, and deep integration. Accordingly, some proposals—adopting voluntary good practice guidelines to improve FTA quality and consistency, consolidating bilateral FTAs into a region-wide FTA, and establishing a regional FTA advisory center to assist least developed countries—are offered to facilitate greater compatibility between N–S and S–S Asian FTAs.

**Keywords:** North–South, South–South, Asian FTAs, Asian regionalism

**JEL Classification:** F1, F15, K33, O24

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<sup>1</sup> The views expressed in this paper are solely the ones of the authors and should not be taken as official ADB views. The paper has benefited from comments made by Philippe De Lombaerde, Alisa DiCaprio, Oliver Morrissey, and Robert Scollay during the UNU-CRIS/UNU-WIDER International Workshop on South-South and North-South Trade Agreements: Compatibility Issues, held in Bruges, Belgium in November 2009. Thanks are also due to Genevieve DeGuzman for her inputs and comments.

## Introduction

The last decade has seen an unprecedented surge in free trade agreements (FTAs) in economically important Asia. South–South (S–S) agreements driven by economic giants—the People’s Republic of China (PRC) and India—are dominating Asian FTAs amidst the recent flurry of Japan-led North–South (N–S) agreements. Many of these FTAs are bilateral agreements, while some are regional. Several are cross-regional and go beyond Asia, while others are between or among Asian partners. Some are "new age" FTAs that go beyond World Trade Organization (WTO) agreements, while others only involve goods. About 61 concluded Asian FTAs exist today and more N–S and S–S agreements are in the pipeline, placing the region at the forefront of world FTA activity.

The surge in Asian FTAs has sparked an expanding and empirically grounded literature that is making valuable contributions, including studies of the determinants of the spread of FTAs, computable general equilibrium (CGE) analyses of the economic effects of various FTA scenarios, industry and firm studies of the "Asian noodle bowl" phenomenon<sup>2</sup>, and approaches to the multilateralization of Asian regionalism (Baldwin, 2006 and Chia, 2009). However, little attention has been devoted in Asian FTA literature to studying the evolution and anatomy of N–S and S–S FTAs. Perhaps the most important unexplored issue is the extent to which N–S and S–S Asian FTAs are compatible with global rules and with each other. The content of S–S FTAs in South Asia<sup>3</sup> also remains scantily understood.

This paper seeks to (i) fill gaps in understanding the compatibilities of N–S and S–S Asian FTAs, and (ii) explore policy choices at the regional and global levels. It undertakes three related tasks: (i) a brief review of Asia's global and regional integration experience, including trends in N–S and S–S Asian FTAs; (ii) an examination of selected areas of compatibility in N–S and S–S Asian FTAs; and (iii) a discussion of ways to ensure better compatibility between regional and global rules. Compatibilities between regional and global rules are studied in relation to five core areas—tariff liberalization, rules of origin (ROOs), liberalization of services trade, compliance with WTO notification requirements, and deep integration.

Assessing compatibilities in N–S and S–S Asian FTAs is a difficult exercise for at least two reasons. It requires detailed and often painstaking examination of legal texts of 61 Asian FTAs. Furthermore, an

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<sup>2</sup> The spread of FTAs in East Asia and elsewhere has sparked “systemic” concerns about crisscrossing FTAs (where the same commodity being subject to different tariffs, tariff reduction trajectories, and ROOs for obtaining preferences)—which Jagdish Bhagwati famously called a “spaghetti bowl” of trade deals (Bhagwati, 2008). ADB president Haruhiko Kuroda referred to this phenomenon as the Asian noodle bowl effect of FTAs and cautioned that it could present future challenges for broader regional and global integration (Kuroda 2006).

<sup>3</sup> UNCTAD–JETRO (2008) and Shafaeddin (2008) are recent exceptions to the dearth of literature on S–S trade and FTAs in Asia.

internationally accepted methodology for assessing compatibilities in FTA texts is absent. An interdisciplinary analysis blending international law with international economics seems to offer fruitful insights into assessing compatibilities between regional and global rules. From this viewpoint, the paper developed some simple legal and economic criteria for assessing compatibilities between regional and global rules. For instance, the criteria for tariff elimination used a stricter version of Article XXIV of the General Agreement on Tariffs and Trade (GATT), while that for deep integration was based on coverage of the four Singapore issues (in the context of World Trade Organization [WTO] negotiations) and cooperation enhancement. The criteria for ROOs drew on Asia-Pacific Economic Cooperation (APEC) best practices and businesses' perceptions of ROOs. The empirical application of these criteria relied on various information sources including the Asian Development Bank's (ADB) FTA database for legal texts, surveys of East Asian firms, and other studies of FTAs.

Asian FTAs in this paper refer to trade agreements involving at least one East or South Asian economy.<sup>4</sup> The 61 Asian FTAs are classified as either N-S or S-S. N-S Asian FTAs have at least one developed country member such as Japan, Australia, New Zealand, United States (US), or the European Union (EU) and members of the European Free Trade Association (EFTA). S-S Asian FTAs are those involving only developing countries, including least developed countries (LDCs).

The paper is organized as follows. Section 2 briefly reviews trends in global and regional integration in Asia as well as N-S and S-S FTAs. Section 3 examines compatibilities in N-S and S-S Asian FTAs in the five core areas mentioned above. Section 4 explores proposals for FTAs and the region's authorities to help achieve better alignment of compatibilities in N-S and S-S FTAs. Section 5 concludes. A list of N-S and S-S FTAs, and a preliminary analysis of Association of Southeast Asian Nations (ASEAN) and ASEAN-plus FTAs are provided in the appendices.

## **Trends in North-South and South-South Asian FTAs**

By way of background, this section briefly discusses the dynamic process of global and regional integration in Asia, with an emphasis on S-S trade, regionalism through FTAs and the dominance of S-S FTAs, and the key players in N-S and S-S FTAs.

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<sup>4</sup> East Asia includes the PRC; Hong Kong, China; Japan; the Republic of Korea; Taipei, China; and ASEAN member countries which comprise Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, and Thailand (known as the ASEAN-6) and Cambodia, Lao People's Democratic Republic (PDR), Myanmar, and Viet Nam (known as CMLV countries). South Asia consists of Afghanistan, Bangladesh, Bhutan, India, Maldives, Pakistan, Nepal, and Sri Lanka.

## Production Networks and South–South Trade

N–S and S–S FTAs are spreading in Asia against a backdrop of the axis of the world economy shifting towards an increasingly integrated Asia. The region has consistently shown rapid growth over many decades and revived relatively quickly following the 2007–2008 global financial crisis. Home to half of the world's population, the region's economy is similar in size to the economies of North America and Europe. In 2008, Asia accounted for 28% of world trade (Table 1) and over 10% of world foreign direct investment (FDI) flows. Predictable and outward-oriented development strategies over the past half century have miraculously transformed Asia from a poor and industrially backward region into the global factory (Nelson and Pack, 1999). Other essential policy ingredients have included modernization of agriculture, a market-friendly business environment, investment in infrastructure, the upgrading of technical skills, and the acquisition of firm-level technological capabilities.

The idea of Asia as the global factory is linked to the expansion of sophisticated production networks in which manufacturing activities are split into small steps, with each step assigned to the most cost-effective location across the region. Indeed, Asia seems unique among other developing regions for its regionally rooted and technologically sophisticated production networks (Baldwin, 2006; Kuroiwa and Heng, 2006). Following the establishment of ASEAN in the 1980s, production networks have gravitated toward the PRC and dominate the region's electronics and automobiles exports. The region's economies are increasingly connected through trade, direct investment, and technology. With falling logistics costs and the increased efficiency of local suppliers, production networks have taken deep roots in Asia. More parts and components are sourced in the region than ever before and final assembly has expanded. Intra-regional trade has correspondingly grown. As Table 1 shows, more than 52% of East Asia's trade in 2008 was intra-regional trade (up from 41% in 1990).

**Table 1: Trade Patterns in Asia\* 1990–2008 (%)**

	1990	2000	2008
1. Asia's share of world trade <sup>/a</sup>	20.9	25.5	27.5
2. Asia's intra-regional trade share <sup>/b</sup>	40.9	51.2	51.6
3. Direction of Asia's trade with the world:			
Share of North–North trade <sup>/c</sup>	18.6	11.4	5.5
Share of South–South trade <sup>/c</sup>	30.3	38.6	52.1
Share of North–South trade <sup>/c</sup>	51.1	49.9	42.4

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Note: \*Refers to East and South Asia.

a/ Value of total trade (exports and imports) as a share of total world trade.

b/ Share of world trade that is intra-regional. It 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.

c/ As share of total trade (exports and imports). North comprises the EU27, Australia, Canada, Iceland, Japan, Liechtenstein, New Zealand, Norway, Switzerland, and the US; South comprises all other economies.

Sources: ADB estimates based on Direction of Trade Statistics (International Monetary Fund (IMF) data as of July 2009) and ADB Asia Regional Integration Center (ARIC) Integration Indicators database <http://www.aric.adb.org/>, accessed October 2009.

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A structural shift in the direction of Asia's trade towards more S–S trade has accompanied these remarkable economic developments. The growth of S–S trade accelerated sharply from 11.1% per year in 1990–2000 to 17.4% per year in 2000–2008. The share of S–S trade in total Asian trade correspondingly increased from 30.3% to 52.1% between 1990 and 2008 (Table 1). In contrast, N–S trade grew more slowly. Accordingly, the shares of the region's N–S trade and N–N trade in total Asian trade declined over the same period from 51.1% to 42.4% and from 18.6% to 5.5%, respectively. Underlying the expansion of S–S trade in Asia are several factors including increasing demand for natural resources from rapidly growing developing countries in Asia; growing demand for new markets, particularly markets in the South; and evolving strategies for regional and global supply chains of transnational corporations (UNCTAD–JETRO, 2008).

### **Regionalism and the Dominance of South–South FTAs**

FTAs are a relatively recent addition to Asia's trade policy landscape. Before the mid-1970s, Asia did not have a single FTA. The 1997/98 Asian financial crisis marked a turning point and it is possible to distinguish two distinct waves of Asian regionalism through FTAs: (i) early Asian regionalism (with limited FTA activity), lasting from the mid-1970s to the mid-1990s; and (ii) growing Asian regionalism (with heightened FTA activity), beginning in the late 1990s.

The first wave of Asian regionalism saw only three concluded FTAs in the region. The second wave, however, witnessed the rapid proliferation of FTAs. Virtually every Asian economy is now a party to an FTA and many are parties to several. The region's concluded FTAs rose from three to 61 between 2000 and January 2010 (Figure 1).<sup>5</sup> The number of Asian FTAs may more than double in the next decade as at least 86 new agreements are now either under negotiation or have been proposed.

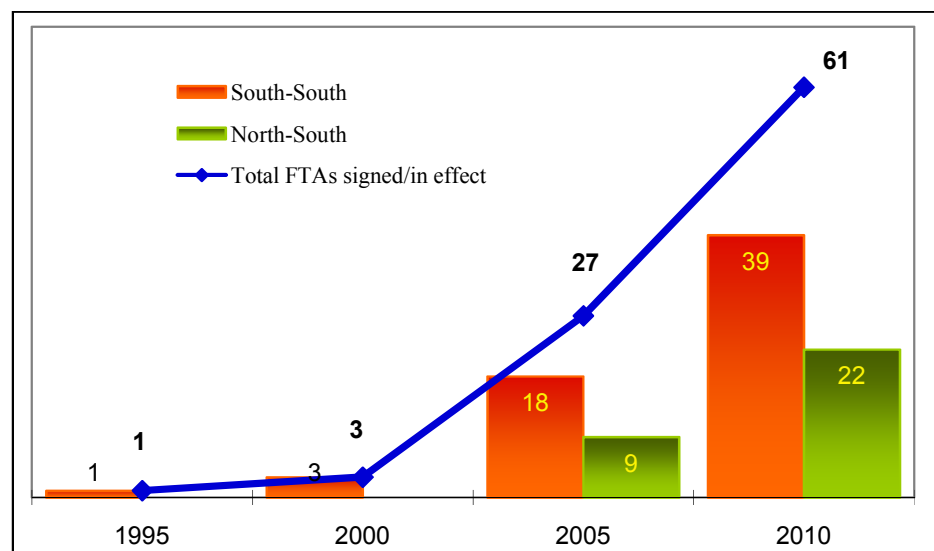
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<sup>5</sup> Source: ADB Free Trade Agreement Database ([www.aric.adb.org](http://www.aric.adb.org/)) data as of 15 January 2010.

Interestingly, three S–S preferential arrangements are associated with early Asian regionalism through FTAs that took place from the mid-1970s to the mid-1990s. First, the Asia Pacific Trade Agreement (APTA), which was previously known as the Bangkok Agreement, was signed in 1976. The original members of APTA include Bangladesh, India, the Republic of Korea (Korea), Lao People’s Democratic Republic (PDR), and Sri Lanka. The PRC became a member in 2001. Papua New Guinea, the Philippines, and Thailand have acceded to APTA, but have yet to ratify the agreement. Second, a limited preferential agreement between Lao PDR and Thailand was signed in 1991. Third, the ASEAN Free Trade Area (AFTA), which is Asia’s pivotal regional agreement involving smaller developing countries, was signed in 1992. Among other features, AFTA adopted a common effective preferential tariff scheme (CEPT). The primary objective of these early S–S agreements was to eliminate tariffs and non-tariff barriers among their members. Meanwhile, Asia’s first N–S FTA was signed in 2001 between New Zealand and Singapore and was soon followed by the Japan–Singapore Economic Partnership Agreement (JSEPA) in 2002.

The number of S–S FTAs has also grown faster than N–S FTAs during the second wave of Asian regionalism dating back to the late 1990s. In every year since 2001, on average, about three S–S FTAs have been concluded for every two N–S agreements. Accordingly, S–S FTAs make up the majority of concluded Asian FTAs. As of 15 January 2010, there were 39 S–S FTAs compared with only 22 N–S FTAs (Figure 1). The dominance of S–S FTAs in Asia is expected to continue in the future. Around 53 S–S FTAs are either under negotiation or proposed compared with 33 N–S agreements (Appendix 1).

**Figure 1: Growth of Asian FTAs (signed and in effect) 1995–2010**



Note: South–South comprises FTAs among developing countries, North–South comprises FTAs with at least one developed country as a member.



Source: ADB FTA database ([www.aric.adb.org](http://www.aric.adb.org)), data as of 15 January 2010.

The spread of Asian FTAs can be traced to several external and internal causes (Gilbert, Scollay, and Bora, 2004; Kawai, 2007): (i) active FTA strategies of the EU and US, which have prompted Asian countries to follow suit to expand market access; (ii) slow progress in the WTO Doha trade negotiations, which has encouraged countries to use FTAs as an alternative means of liberalization; and (iii) deepening production networks requiring the further liberalization of barriers to goods, investment, and labor. More specifically, the proliferation of S–S FTAs in Asia and elsewhere may be explained by several motivations discussed in Box 1. While S–S cooperation evolved as an inward-looking trade strategy among developing countries during the export pessimism of the 1960s (Greenaway and Miller, 1990), recent developments show that S–S FTAs, particularly in Asia, are fast progressing as outward-oriented trade agreements. This development is very interesting in view of the debate on whether developing countries are better served by N–S FTAs than S–S FTAs. Some are of the view that S–S agreements have not yielded economies of scale yet have encouraged inefficiency and induced potential adverse effects on trade trends by reason of comparative advantage (Greenaway and Miller, 1990; Venables, 2003; and World Bank, 2000). On the other hand, there is new evidence that S–S FTAs promote trade creation and are no more trade-diverting than other types of arrangements (Cernat, 2001).

### **Box 1: Motivations of South–South FTAs**

*As a policy-driven tool for industrialization.* Although market-led expansion of South–South trade could well be due to the creation of international and regional production networks, particularly in the manufacturing sector, it is also generally accepted that government intervention is needed to resolve common trade and investment facilitation issues. In this case, South–South cooperation is expected to benefit lower income economies in particular and bring the least developed countries (LDCs) into the export process.

*As a substitute to North–South arrangements.* The General Systems of Preferences (GSPs) is a classic North–South mechanism in which developed countries give preferences to developing countries on a non-reciprocal basis. However, GSPs have been criticized for their lack of transparency, promotion of the geopolitical objectives of developed countries, and the conditions imposed upon developing countries. An alternative to the GSPs is the Global System of Trade Preferences among Developing Countries, which may be the highest form of a South–South agreement. This was a formal negotiating mechanism in the

late 1980s and 1990s that aimed to grant mutual preferential tariff treatment among developing countries. Unfortunately, despite successfully negotiating significant tariff reductions and the participation of major developing economies—the PRC, India, Brazil, and other members of the G-77 group of developing countries—these agreements never took effect.

*As a means to strengthen the developing countries' bargaining power.* In the alleged asymmetry of distribution of gains, negotiators from developing countries sought the need to strengthen their bargaining power. This is also evident in the North–South divide in the Doha Development Round.

*Difficulty of negotiating with developed countries.* The proliferation of South–South agreements may also be due to the disappointment generated by increasing protectionism in the North, particularly the use of non-tariff barriers.

Sources: Agatiello (2006), Greenaway and Miller (1990), Lamy (2002), and Shafaeddin (2008).

The recent trend in Asian FTAs, regardless of N–S and S–S typology, has also sparked a lively debate on the so-called Asian noodle bowl effect (World Bank, 2007). Some worry that the wave of FTAs has created an alarming noodle bowl” of overlapping ROOs, which may ultimately be costly to businesses. Meanwhile, others suggest that FTAs are a part of an evolving regional policy framework and lay the building blocks towards multilateral liberalization. Providing new evidence from surveys of 841 East Asian firms in the PRC, Korea, Japan, Philippines, Singapore, and Thailand, Kawai and Wignaraja (2009c) suggest that the Asian noodle bowl does not seem to have severely harmed the region’s business activity to date. Furthermore, the use of Asian FTA preferences by 28.4% of responding firms is even higher than expected or reported in earlier studies. However, as more FTAs that are currently under negotiation take effect and the complexity of the Asian noodle bowl increases, the business impact may intensify.

### **Key Players in South–South and North–South FTAs**

A handful of influential countries—the PRC, India, and Japan—have been at the forefront of the second wave of Asian regionalism since the late 1990s (Table 2). The FTA strategies of these key players are briefly discussed below.

The giant Chinese economy acceded to the WTO only in 2001, but has actively been using S–S FTAs as a major trade policy instrument since 2000. The PRC is increasingly at the center of Asian production networks and sees FTAs as a new platform to gain market access in the developing world

while also complementing a multilateral approach. The PRC has concluded nine S–S FTAs with a diverse range of countries—ASEAN members, Pakistan, and Chile—but has only concluded one N–S FTA with New Zealand. In concluding FTAs, the PRC seems to have followed different approaches over time. In earlier FTAs with ASEAN and Chile, the PRC followed a gradual approach—first trade in goods was liberalized, followed by services and investment. However, a single undertaking characterized more recent FTAs with New Zealand and Singapore. Meanwhile, all of the PRC’s concluded FTAs recognize the country’s status as a market economy.

Another big emerging Asian economy, India, is a founding member of the WTO. It is also a long time supporter of S–S trade and was party to APTA in 1976, which was the region's first FTA. India has since concluded 11 S–S FTAs, initially with South Asian neighbors and more recently with East Asia as a result of the Look East Policy of 1991. India's initial motivation for concluding FTAs was to foster S–S trade and investment through agreements centering on goods. More recently, its FTA approach seems to emphasize a more strategic focus using FTAs as a building bloc towards a broader Asian grouping along with more comprehensive agreements. Furthermore, the country is engaged in multiple N–S FTA negotiations with the EU, Australia, and New Zealand.

Asia's only developed economy, Japan, has traditionally relied on the multilateral trading system and is a latecomer to N–S FTAs in Asia. However, since signing its first FTA with Singapore in 2002, Japan has rapidly caught up with others. In just 7 years, Japan has concluded 10 N–S FTAs over a wide geographical coverage. Japan's N–S FTAs span developing countries in ASEAN (both with ASEAN as a whole and bilaterally with individual ASEAN members) as well as Chile and Mexico. Japan is also noted for introducing enhanced N–S FTAs, or what is called economic partnership agreements (EPAs). An EPA has two aspects: (i) trade liberalization and facilitation, and (ii) promotion of economic cooperation and enhancement. The second aspect of an EPA is particularly important for developing countries because it incorporates cooperation provisions including human resource development, small- and medium-sized enterprise (SME) promotion, technology transfer, and development assistance.

**Table 2: Major Players of Asian South–South and North–South FTAs, 2010**

Country	South–South FTAs			North–South FTAs		
	In effect	Signed	Future*	In effect	Signed	Future*

<b>Developed countries</b>						
Japan				10	—	7
New Zealand				5	1	4
Australia				3	0	6
EFTA states		n.a.		2	—	4
US				1	1	5
EU				—	—	3
<b>NIEs</b>						
Singapore	10	1	6	8	0	5
Korea, Rep. of	5	0	8	1	1	8
Taipei, China	4	—	2	—	—	1
<b>Developing countries</b>						
PRC	9	0	5	1	—	7
India	10	1	14	—	—	7
Thailand	6	0	8	5	1	5
Pakistan	6	2	14	—	—	—

Note: \*includes FTAs under negotiation and proposed.

— = none; EU = European Union, EFTA = European Free Trade Association, n.a. = not applicable; NIEs = newly industrialized economies, PRC = People's Republic of China, US = United States.

Source: ADB FTA database ([www.aric.adb.org](http://www.aric.adb.org)), data as of 15 January 2010).

Newly industrialized economies (NIEs) such as Singapore and Korea have been particularly active in both S–S and N–S FTAs. Singapore has concluded eight N–S FTAs and eleven S–S FTAs, while Korea has two N–S FTAs and five S–S FTAs. Both economies are outward-oriented NIEs with internationally competitive manufacturing sectors. Accordingly, a major feature of both countries'

FTA approach seems to be the pursuit of cross-regional agreements with partners outside Asia (notably the US and EFTA states, and soon with the EU) as well as a focus on achieving deep integration going well beyond the WTO.

Developed countries Australia and New Zealand have acted as catalysts for N–S FTAs in Asia in an attempt to match their respective economies with Asian regionalism. Australia has concluded two bilateral N–S Asian FTAs and one regional N–S FTA (with ASEAN and New Zealand). New Zealand pioneered Asia's first N–S FTA with Singapore in 2001 and is part of several Asian N–S Asian FTAs with the PRC, Malaysia, Thailand, and through Trans-Pacific agreement with Brunei, Chile, and Singapore.

In contrast, the US and EU have had limited involvement in Asian N–S FTAs. However, the rising importance of an integrated Asia in the world economy has recently spurred the FTA negotiating efforts of the US and EU. The US emphasizes a single undertaking in its general approach to FTAs. It has concluded just two N–S FTAs in Asia (with Singapore in 2004 and Korea in 2007). The EU has not concluded any N–S FTAs in Asia, but is expected to sign an FTA with Korea in early 2010 and recently launched FTA negotiations with Singapore in December 2009.

## **Compatibilities in North–South and South–South Asian FTAs**

This section examines the extent to which N–S and S–S Asian FTAs are compatible with WTO rules and with each other. Five key areas are considered: (i) tariff liberalization, (ii) ROOs, (iii) liberalization of trade in services, (iv) compliance with WTO notification, and (v) deep integration. Each of these is discussed in turn and recommendations are proposed.

### **Tariff Liberalization**

Major features of FTAs include preferential tariffs on trade in goods for members of an agreement and tariff elimination or reduction over time. N–S and S–S FTAs in Asia are likely to differ in their tariff schedules, particularly with respect to the speed and stated extent of tariff liberalization. Liberalization of tariffs is a basic compatibility issue between N–S and S–S Asian FTAs.

The WTO criteria for forming free trade areas provided in GATT Article XXIV offers insights into assessing tariff liberalization in Asian FTAs. GATT Article XXIV states: "where duties are eliminated with respect to substantially all the trade between the constituent territories... and ... the plan or schedule for its formation is within a reasonable length of time".<sup>6</sup> Several considerations are relevant

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<sup>6</sup> Paragraphs 4–10 of Article XXIV of GATT (as clarified in the Understanding on the Interpretation of Article XXIV of the GATT 1994, hereafter "The Understanding") provide for the formation and operation of customs unions and free trade areas covering trade in goods.

for empirical application of Article XXIV. First, the percentage of tariff lines is used as the yardstick because the coverage based on trade data could be overestimated.<sup>7</sup> Second, in spite of various proposals from WTO members, the meaning of "substantially all trade" remains contentious even today. An FTA that eliminates or reduces 85%<sup>8</sup> of either or both members' total tariff lines is often regarded as covering substantially all trade. Third, tariff elimination that moves economies closer to reaping the economic benefits of free trade is preferable to tariff reduction or granting margins of preference. Tariff elimination is also easier to administer and less confusing to users and implementers of FTAs. Fourth, a reasonable period of time has been subsequently interpreted by the WTO, which has stated that "where such agreement allowing more than 10 years for tariff elimination would require full explanation of the need for a longer period".<sup>9</sup> Hence, an FTA tariff schedule with significant tariff elimination within 10 years complies with the reasonable length of time requirement. An FTA that achieves 85% tariff elimination in a shorter period is one that exceeds the WTO requirement.

Based on these considerations, a simple three-fold classification system was developed according to the speed of tariff liberalization in N-S and S-S Asian FTAs. The number of years is counted from the time the FTA takes effect until tariffs on substantially all trade (or at least 85% of tariff lines) have been eliminated. The classification is as follows: (i) FTAs with immediate elimination of tariffs on 85% of both parties' tariff lines upon entry into force; (ii) FTAs that eliminate tariffs on 85% of both parties' tariff lines (or average of member parties) within 2–5 years; and (iii) FTAs that gradually eliminate or reduce tariffs over longer periods of time or cover a limited number of products. Therefore, (i) can be viewed as a "big bang" approach to liberalization, (ii) as a relatively fast approach, and (iii) as a gradual or limited approach.

Figure 2 shows a breakdown of 22 N-S and 36 S-S Asian FTAs according to these three classifications. N-S FTAs typically eliminate tariffs much faster than S-S FTAs. Around 32% of N-S FTAs seem to follow a big bang approach to tariff elimination. Meanwhile, 23% of N-S FTAs eliminate tariffs on substantially all trade in goods within 2–5 years and the remaining 45% provide for the gradual elimination or reduction of tariffs. By comparison, only 6% of S-S FTAs pursue big bang liberalization and another 17% eliminate tariffs on substantially all trade within 2–5 years. Most S-S FTAs either gradually reduce tariffs beyond the 5-year period (41%) or have limited goods coverage subject to liberalization (36%).

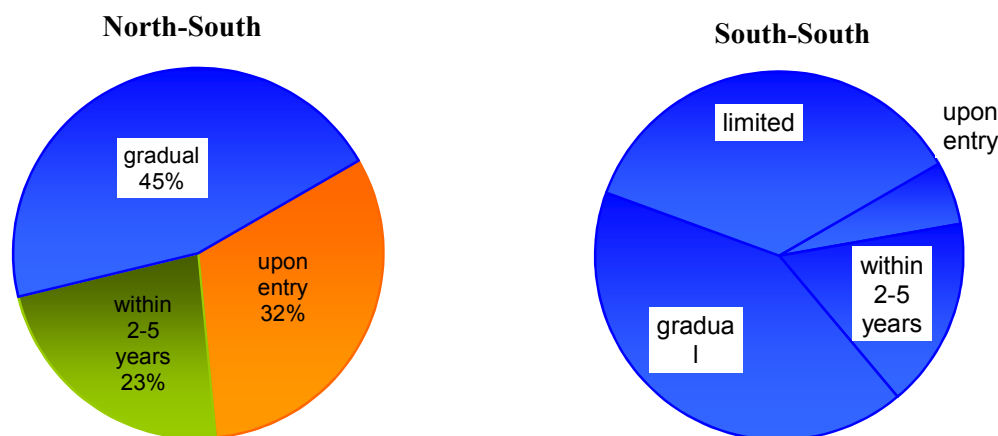
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<sup>7</sup> However in a few cases, where the data on tariff lines are not readily accessible, the percent of trade covered by the FTA tariff preferences as provided by official or secondary sources are used as substitute data in this study.

<sup>8</sup> This threshold follows the EU proposal of 85%–90% average. Australia; Japan; and Hong Kong, China have, however, called for "substantially" to be equated with 95% coverage. WTO (2002).

<sup>9</sup> The Understanding.

**Figure 2: Tariff Elimination in Asian FTAs**



Note: \*Data excludes three FTAs where English text of the agreements or detailed information on the coverage is not readily accessible. Data as of 15 January 2010.

Source: Authors estimates based on WTO Trade Policy Review reports and WTO FTA factual presentations (available at [www.wto.org](http://www.wto.org)), FTAs annexes; Lee, C.J. et al. (2006); and UNCTAD-JETRO (2008).

Not surprisingly, five of the big bang N–S FTAs and both big bang S–S FTAs include free-trade-oriented Singapore as an FTA partner. Tariff schedules in these FTAs have been synchronized with Singapore’s most favored nation (MFN) rate of zero percent. Singapore’s N–S FTAs with Australia, New Zealand, and EFTA, as well as its S–S FTA with the Gulf Cooperation Council (GCC) countries, are among Asia’s most rapid and comprehensive. These agreements allow for immediate duty-free access on all imports (100% of all products) upon entry into force of the agreements. The US–Singapore FTA is also commendable as the US eliminated tariffs on 95% of Singapore’s exports when the FTA took effect and benefited from 100% duty free exports to Singapore. Another big bang agreement is the EFTA–Korea FTA, which allowed for the immediate elimination of most of EFTA’s tariff lines and 86.3% of Korea’s. The Malaysia–New Zealand FTA is another big bang agreement that provides for even faster tariff liberalization than the ASEAN–Australia–New Zealand FTA (AANZFTA). The bilateral agreement provides for elimination of Malaysia’s tariffs on 99.5% of New Zealand’s exports within 7 years from its entry into force (or by 2016), which is 5 years earlier than provided for under the AANZFTA.

Some N–S and S–S FTAs are worth mentioning under category (ii), which provides for elimination of 85% of tariff lines within 2–5 years. One of the most comprehensive N–S FTAs is the Korea–US FTA that eliminates tariffs on 91.6% of Korea’s tariff lines and 92.6% of the US’ within 5 years from its

entry into force. (Rice is excluded and there are some special safeguards in this FTA.) Japan's EPAs with selected developing countries (e.g. Singapore, Brunei, and Chile) are also examples under category (ii). The Japan–Singapore EPA, for instance, allows for immediate tariff elimination on 6,928 items and the phased elimination for some petrochemical products. The AANZFTA is noteworthy for its consideration of the different levels of development of member countries. Accordingly, Australia and New Zealand have the shortest implementation time frames and the three LDC members (Burma, Cambodia, and Lao PDR) have the longest. The agreement took effect in January 2010 for Australia, New Zealand, and five of its ASEAN member countries (Brunei, Myanmar, Philippines, Singapore, and Viet Nam). The rest of the ASEAN members have yet to ratify the agreement.

S–S FTAs under category (ii) include agreements involving two NIEs (Korea and Singapore) and two big emerging economies (the PRC and India). Singapore's FTAs with India and Peru, the PRC's FTA with Chile and its two comprehensive economic partnership agreements (CEPAs) with Hong Kong, China and Macao, China are all examples of category (ii).<sup>10</sup> The ASEAN–Korea FTA also aims to achieve the elimination of tariffs on goods within 2–5 years. While the FTA took effect only in 2007, tariffs under the normal track list are to be eliminated by 2010, which is the same year as the full implementation of earlier agreements (e.g., AFTA and ASEAN–PRC FTA). In particular, Korea eliminates tariffs on 70.0% of its tariff lines upon entry into force and eliminates tariffs on a further 20.8% within 5 years. Meanwhile, ASEAN partners give duty free treatment to Korea's exports on approximately 90% of total tariff lines—50% upon entry into force and 40% within 5 years.

As observed above, the largest numbers of S–S FTAs can be found in category (iii) and seem to adopt a gradual approach to tariff elimination or provide for limited coverage. At one end of the spectrum is AFTA. As one of the pioneer S–S FTAs in Asia, AFTA members were granted two decades, beginning in 1993, to eliminate tariffs on all goods on the inclusion list. However, as of January 2010, the ASEAN-6 countries (see footnote 4 for list of member countries) had achieved zero tariffs on around 99.11% of all tariff lines traded, while Cambodia, Myanmar, Lao PDR, and Viet Nam (CMLV) were expected to eliminate tariffs on at least 80% of goods by 2015. By the start of 2010 (with some flexibility up to 2012), ASEAN's FTA with the PRC will eliminate tariffs on 90% of products for ASEAN-6 and the PRC, creating the world's third largest free trade area. The India–Sri Lanka FTA is a similar gradualist agreement. The FTA provides for a gradual reduction (i.e., giving relatively high margins of preference of 50%, 70%, and 90%) rather than the immediate elimination of tariffs, thereby allowing for a phased adjustment. Most of India's tariff lines are covered (except for sensitive sectors

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<sup>10</sup> In some bilateral FTAs, however, there may be cases that “substantially all trade” is satisfied only by one FTA partner. For example, 100% of imports from the PRC to Hong Kong, China are covered in the PRC–Hong Kong, China CEPA preference. Due to a lack of modality of staged tariff elimination/reduction, it is difficult to identify when the PRC would satisfy “substantially all trade” in terms of tariff line coverage as well as volume of trade (UNCTAD–JETRO 2008).



like textiles, plastics, and rubber products), while there seems to be less coverage of Sri Lanka's. India and Sri Lanka are currently negotiating to expand not only the goods coverage, but to form a comprehensive economic partnership.

At the other end of the spectrum under category (iii), a few S–S FTAs seem to provide for very limited coverage and much longer periods of liberalization. For instance, APTA covers far less than 50% of members' tariff lines and is currently on the fourth round of exchanges of tariff concessions after 30 years of being in effect. Furthermore, South Asian FTAs, including the South Asia Free Trade Agreement (SAFTA), offer preferences on a limited number of products and maintain a large exclusion or negative lists for liberalization. In general, FTAs under category (iii) are more like preferential trade agreements rather than full-blown FTAs. These FTAs commonly have LDCs as contracting parties, with special and differentiated treatment given to the LDCs.

Interestingly, N–S FTAs under category (iii) seem to be better in some respects than S–S agreements. Typically, such N–S FTAs provide for longer adjustment periods for the developing country partners and more rapid liberalization by the developed country partners. Australia and New Zealand, for instance, extended flexibility in their bilateral FTAs with Thailand. While both developed countries committed to complete tariff elimination by 2015, Thailand's liberalization schedule allows up until 2025 for some sensitive products. The schedules included in Japan's bilateral FTAs with the Philippines, Malaysia, and Viet Nam, as well as the ASEAN–Japan EPA, provide for equal reduction of tariffs in stages after 5, 7, 10, and 15 years from the first year of the respective FTA's implementation.

## Rules of Origin

Varying ROOs, which determine the goods that enjoy preferential tariffs in order to prevent trade deflection among FTA members, are another compatibility topic directly related to trade in goods for N–S and S–S Asian FTAs. ROOs are primarily applied to manufactured goods and fall into three general categories: (i) a change in a tariff classification rule defined at a detailed harmonized system level; (ii) a local (or regional) value content rule, which requires a product to satisfy a minimum local (or regional) value in the country (or region) of an FTA; and (iii) a specific process rule, which requires a specific production process for an item (Estevadeordal and Suominen, 2006).

The growing number of FTAs, origin disputes, and use of anti-dumping brought about the need to harmonize ROOs in the multilateral context and led to the signing of the WTO Agreement on Rules of

Origin in 1994.<sup>11</sup> While this WTO agreement refers to non-preferential agreements, some of its general principles and requirements—particularly with respect to transparency, publication in accordance with GATT Article X:I, positive standards, administrative assessments, judicial review, prospective application, and confidentiality—are made applicable to preferential FTAs.<sup>12</sup> In 2004, APEC Ministers endorsed several FTA best practices<sup>13</sup> on the use of simple ROOs that facilitate trade and are easy to understand and comply with. Wherever possible, an economy's ROOs should be consistent across all of its FTAs to prevent high compliance costs for businesses (see Lazaro and Medalla, 2006; and De Lombaerde and Garay, 2007 for a discussion on best practices for ROOs in FTAs).

These developments notwithstanding, many have suggested that Asian FTAs have complicated ROOs, sparking concerns about what the attendant rules and administrative procedures imply for the cost of doing business in the region (Manchin and Pelkmans-Balaoing, 2007; Tumbarello, 2007; World Bank, 2007). It is claimed that restrictive ROOs in Asian FTAs deter the use of FTA preferences, while complex ROOs in multiple FTAs raise transactions costs for firms and have led to the Asian noodle bowl effect discussed above. However, the majority of studies do not provide a comparative analysis of ROOs in N–S and S–S Asian FTAs. Nor do they provide evidence of how ROOs affect business activity in Asian firms.

The recent surveys of East Asian firms conducted by ADB and its partners provide insights on how ROOs in N–S and S–S Asia FTAs influence East Asian firms.<sup>14</sup> Table 3 shows aggregate data from 63 users of eight N–S FTAs and 150 users of eight S–S FTAs, covering the share of firms who responded to three origin issues: (i) whether ROOs impede using N–S and S–S FTAs, (ii) whether adopting harmonized ROOs in N–S and S–S FTAs brings benefits, and (iii) whether firms prefer having flexible ROOs in N–S and S–S FTAs. The first issue acts as proxy for the design and administration of ROOs in N–S and S–S FTAs. Interestingly, the evidence suggests that ROOs are more of an impediment to using S–S FTAs than to using N–S FTAs. Approximately 31% of firms view ROOs as an impediment to using S–S FTAs compared to only about 13% for N–S FTAs. The second issue indicates the potential efficiency gains from moving towards better designed and administered ROOs in N–S and S–S FTAs. There is a strong endorsement in favor of better ROOs in both N–S and S–S FTAs, with just over half the firms in each case in favor of adopting harmonized ROOs. The third issue deals with co-equality of ROOs in FTAs, with a value-added (VA) rule and a change-in-tariff-classification

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<sup>11</sup> The agreement is part of the The Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, which was signed in Marrakesh on 15 April 1994.

<sup>12</sup> Annex II of the Agreement on Rules of Origin.

<sup>13</sup> Endorsed at the 16th APEC Ministerial Meeting in Santiago, Chile in 2004 (APEC 2004). As a follow-up, APEC is currently developing model measures for FTAs to encourage a coherent and consistent approach to the design and content of RTAs and FTAs.

<sup>14</sup> Kawai and Wignaraja (2009b) and Kawai and Wignaraja (2009c).

(CTC) rule presented as alternatives. This would give firms a choice of ROOs depending on production processes and business strategies. Just under a quarter of firms opted for co-equality of ROOs in S–S FTAs compared with just under one-tenth for N–S FTAs. Overall, the available evidence from East Asian firms seems to suggest that ROOs in N–S FTAs are better designed and administered than those in S–S FTAs.

**Table 3: Firm Perception of ROOs**

Type of FTA	N = FTA users	ROO issues viewed as impediment to use <sup>/a</sup> (% of FTA users)	Benefits perceived from adoption of harmonized ROOs <sup>/b</sup> (% of FTA users)	Preference for VA or CTC rule <sup>/c</sup> (% of FTA users)
North–South	63	12.7	55.6	9.5
South–South	150	30.7	56.7	24.7

Note:

/a Firms indicating that the administration of origin functions (including delays and costs associated with processing the certificate of origin) was an impediment to use.

/b Firms agreeing that there are benefits to adopting harmonized rules for different FTAs.

/c Firms indicating their preference to choose the option of a value-added (VA) rule or change-in-tariff-classification (CTC) rule.

Source: Author’s computation based on survey data of firms in the PRC, Japan, Philippines, Singapore, and Thailand.

ROOs best practices have been widely incorporated in N–S FTAs. Recognizing the existence of regional production networks within ASEAN, Japan’s EPAs with ASEAN incorporate provisions for ASEAN regional value content and cumulation. First, the ASEAN–Japan FTA provides that “originating materials of a party used in the production of a good in another party shall be considered as originating materials of that party where the working or processing of the good has taken place.” The agreement extends further flexibility to selected information technology (IT) products.<sup>15</sup> Second,

<sup>15</sup> AJCEP Annex 3- Information Technology Products provides that “a good which is covered by Attachment A or B of the Ministerial Declaration on Trade in Information Technology Products...and is used as a material in the production of another good in a Party may be considered as an originating material of the Party, regardless of the applicable product specific rule for the former good, provided that the former good is assembled in any Party...” (emphasis added).

ASEAN cumulation was adopted in Japan's bilateral FTAs with Malaysia, Philippines, Singapore, and Thailand even before the conclusion of the ASEAN–Japan FTA. These agreements allow the use of non-originating materials from third parties if such materials originate (for the purpose of computing regional value content) or are assembled (for the purpose of satisfying product specific rule) within the territory of any ASEAN member country.

Other N–S FTAs have adopted third-party outsourcing or outward process schemes that are similar to (but more limited than) the ASEAN–Japan FTA's cumulation provisions. An example is the Integrated Sourcing Initiative of the US–Singapore FTA in which covered goods (a limited number of IT products and medical devices that are already duty free in the agreement) are not subject to ROOs when shipped from either of the parties to the FTA, even if they originate from a non-party (e.g., the Indonesian islands of Bintan and Batam). Another example is the case of the Singapore–Australia FTA, where raw materials (e.g., lauryl myristyl alcohol) that cannot be manufactured in either Singapore or Australia are imported and can be considered as a local raw material under the FTA's determined manufactured raw material scheme.

N–S FTAs also introduce options or co-equal rules in FTAs as in the case of the origin rules in some auto and auto parts in the Korea–US FTA. Under the agreement, the product specific rule for HS 87.03 gives the following options for satisfying the origin requirement: (i) a change in tariff classification; or (ii) a regional value content of 35% using the build-up or net cost methods, or 55% using the build-down method.

Furthermore, self-certification or certification by a third party (as opposed to or in addition to government certification) is provided in some N–S FTAs. For instance, a declaration from a US importer or Singaporean exporter, and an origin certificate from Japan's chamber of commerce fulfill the origin documentation requirements of the US–Singapore FTA and the Japan–Singapore EPA, respectively.

On the other hand, a few S–S FTAs provide for more restrictive ROOs. The India–Singapore Comprehensive Economic Cooperation Agreement (CECA), requires not only a single product specific rule, but a combination of at least two types of ROOs. Specifically, a change in tariff classification and value content of 40% is required to satisfy its ROOs. The S–S FTAs that provide for limited coverage also have confusing or restrictive ROOs. Under APTA, the threshold for value content differs if a product originates from a single source (40%) rather than if it cumulates with other member countries (60%). In the case of SAFTA, the change in tariff classification must be accompanied by a 40% domestic value content, or a 20% domestic value content when combined with a 50% regional value content.

## Liberalization of Trade in Services

Studies suggest that impediments to trade in services, particularly regulatory restrictions on foreign services and service providers, exist across Asia (Findlay, Ochiai, and De, 2009). Such impediments may occur in ownership rules, technical regulations, licensing, and qualification requirements. Preferential treatment in services in FTAs relate to the removal of regulatory restrictions on foreign services and service providers. Conformity with Article V of the General Agreement on Trade in Services (GATS) requires WTO members to conclude FTAs that meet three requirements: (i) substantial sectoral coverage, (ii) elimination of substantially all discrimination in the sense of national treatment, and (iii) no raising of barriers against nonmembers as a result of a given FTA. All three conditions need to be satisfied for strict GATS conformity.

However, in practice it is difficult to assess conformity of an FTA with GATS Article V. A lack of data on trade in services makes it hard to estimate the value of the services trade covered by an FTA. There also seems to be limited consensus on the meaning of "substantial sectoral coverage" in the services trade and an assessment of "national treatment" requires detailed subsectoral analysis. Furthermore, varying liberalization approaches to services (e.g., positive, negative, or hybrid approaches to GATS negotiations) and an absence of disaggregated data on trade in services makes it difficult to quantify substantial sector coverage.

A practical way forward is to focus on requirement (i) of the GATS and to interpret "substantial sectoral coverage" to mean that a high-quality FTA should cover key services sectors. The GATS classification list of 12 services sectors (Appendix 2) is a useful input for creating a simple three-fold classification of N–S and S–S Asian FTAs as follows:

- (i) Comprehensive coverage of services: FTA covers the five key sectors of the GATS—business and professional services, communications services, financial services, transport services, and labor mobility/entry of business persons.<sup>16</sup> Coverage of other sectors may also be included.
- (ii) Excluded or limited coverage of services: FTA either excludes services trade liberalization or provides only general provisions thereof, or covers only one of the five key sectors in addition to some other sectors.
- (iii) Some coverage of services: FTA is not otherwise classified as comprehensive, excluded, or limited. Such an FTA would typically cover between two and four key sectors of the GATS and some minor sectors.

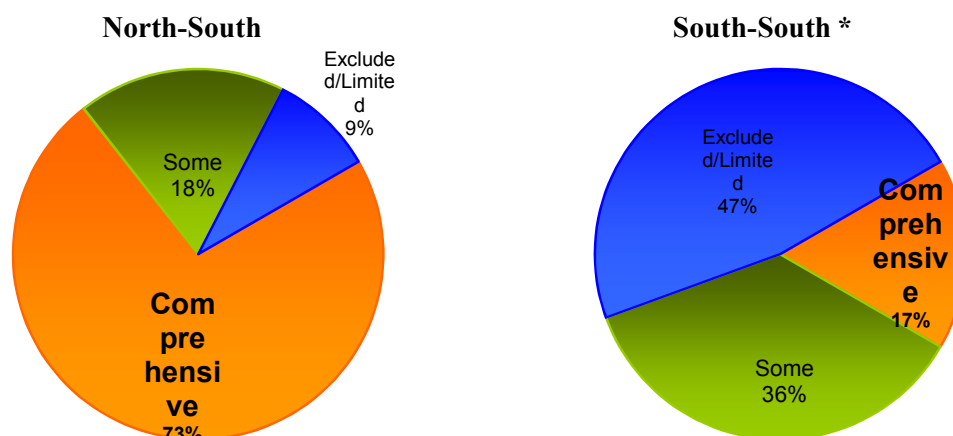
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<sup>16</sup> The five sectors were chosen as the yardstick because they are the main sectors in terms of the value of services trade in Asia and also subject to multiple regulatory barriers on foreign services and service providers.

A sector is considered as covered if at least one party includes its GATS and GATS-plus commitments, regardless of the number of sub-sectors, volume of trade affected, or the four modes of supply.<sup>17</sup> This classification system was applied to 22 N–S and 36 S–S FTAs, while three S–S FTAs were excluded as the services texts were not available. The results are presented in Figure 3.

It is striking that N–S FTAs are more comprehensive in their liberalization of services sectors than S–S FTAs. About 73% (16) of N–S FTAs are deemed to be comprehensive in covering at least five key services, while another 18% provided coverage of between two and four key sectors. The remaining 9% have general provisions on services liberalization and are still in the process of negotiating their services commitments. Thus, N–S FTAs seem to have progressively liberalized the services sectors of their participants and provided for deeper regulatory cooperation in services.

**Figure 3: Services Coverage of Asian FTAs**



Note: \*Data excludes three FTAs where there was no English text or information on services provisions available as of 15 January 2010.

Sources: Authors estimates based on WTO Trade Policy Review reports, WTO FTA factual presentations, FTA annexes; Lee, et al. (2006); and Fink and Molinuevo (2007).

In addition, many N–S FTAs have adhered to various GATS principles such as market access (quota elimination); national treatment (equal treatment of local and foreign service providers); MFN treatment;<sup>18</sup> reasonable, impartial, and objective domestic regulations; transparency; and mutual

<sup>17</sup> Namely, cross-border trade in services (Mode 1); consumption abroad (Mode 2); commercial presence (Mode 3); and temporary movement of natural persons (Mode 4).

<sup>18</sup> Under the MFN clause, service suppliers of an FTA member will automatically receive the benefit of any commitments the other FTA members make in future FTAs that are more liberal than those in the existing FTAs among them.

recognition agreements (MRAs).<sup>19</sup> In the US–Singapore FTA, for instance, the US gives Singaporean service suppliers the same treatment that it gives to a supplier in the US. Regulatory authorities of both countries are also bound to high standards of openness and transparency, including consultations with interested parties, advance notice, a reasonable comment period, and publication of regulations. There is also a mechanism to lock-in the eventual liberalization of exempted measures, such as exempted measures that apply to individual states within the US. In terms of the movement of business people, Singaporean citizens who are business visitors can enter the US to conduct business activities for up to 90 days without the need for a labor market test, while remaining subject to the usual immigration and security measures.

Furthermore, several N–S FTAs provide for GATS-plus commitments meaning that FTA liberalization goes beyond WTO commitments in relation to subsectors or regulations (Roy, Marchetti, and Lim, 2006). For example, in the AANZFTA, the six original ASEAN members expanded the liberalization of their telecommunication services to additional subsectors, while four others (Indonesia, Malaysia, Philippines, and Singapore) went even further with their commitments in financial services. Australia and New Zealand have also made GATS-plus commitments covering modes 1–3 (refer to footnote 17) in a number of sectors, including business and financial services.

In contrast, S–S FTAs provide for less coverage of services since 47% of all such FTAs either exclude or have limited services sector coverage. Around 36% of S–S FTAs provide for some coverage and only 17% include comprehensive coverage. The lack of services coverage in S–S FTAs may be attributed to the following factors: (i) parties are still in the process of gradually liberalizing their trade in goods; (ii) member countries are at a nascent stage in opening up their services sector, even on the multilateral front; (iii) lack of capacity to manage the complexities of services trade negotiations; and (iv) information on market access opportunities in services is not readily available.

By exception, notable comprehensive coverage of services among S–S FTAs include the ASEAN FTA, India–Singapore CECA, and PRC–Singapore FTA. ASEAN countries began to negotiate trade in services in 1995 through the ASEAN Framework Agreement on Services (AFAS). To date, ASEAN has concluded at least seven packages of commitment, agreed on five priority services sectors (air transport, e-ASEAN, healthcare, tourism, and logistics) and seven MRAs.<sup>20</sup> ASEAN is continuously negotiating all other sectors and modes of supply to achieve the free flow of services by 2015. Under the India–Singapore CECA, preferential treatment is given for all five of the major services sectors as well as for construction and related engineering, tourism and travel-related services, distribution,

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<sup>19</sup> MRAs enable the qualifications of professional services suppliers to be mutually recognized by signatory member states, thereby facilitating the easier movement of professional services providers among the member countries.

<sup>20</sup> Includes engineering, nursing, architectural, surveying, medical and dental, and accounting services.

education, and environmental services. Meanwhile, the services coverage of the PRC–Singapore FTA goes beyond GATS to incorporate commitments under the ASEAN–PRC FTA and also includes a chapter on the movement of natural persons.

### **Compliance with WTO Notification**

In addition to the substantive WTO criteria related to trade in goods and services, there is a mandatory procedural requirement for WTO members entering into an FTA. In such cases, WTO members are mandated to give due notice to all other members when they give this exception of the MFN treatment in the WTO. The rules are clearly spelled out in the transparency provisions of Article XXIV:7 of GATT; the Understanding on the Interpretation of Article XXIV of GATT; Article V:7 of GATS; and the 1979 Decision on Differential and More Favorable Treatment, Reciprocity, and Fuller Participation of Developing Countries (known as the Enabling Clause). These provisions essentially require that a member must notify and submit details to the WTO regarding FTAs and interim agreements<sup>21</sup> that the member is joining or intends to join. This procedural requirement was expanded upon in the 2006 WTO General Council Decision on the Transparency Mechanism for Regional Trade Agreement, which calls for an early announcement by members participating in FTA negotiations. After the required notification, a working party is convened to examine the FTA, verify consistency with the WTO Agreement, and make appropriate recommendations. Furthermore, periodic reports on the operation of FTAs, including significant changes and other developments, are required.

There is a high degree of compliance with WTO notification requirements among Asian N–S FTAs (Figure 4). Around 95% of N–S FTAs were notified to the WTO. Of the 21 N–S FTAs notified, 18 were notified under both GATT and GATS, one under GATT only, and two have complied with early notification requirements. The only N–S FTA not notified is the Malaysia–New Zealand FTA, which was signed fairly recently (26 October 2009). S–S FTAs show less compliance with notification requirements at 67%. Of these, 13 S–S FTAs were notified under both GATT and GATS, and nine under the Enabling Clause, which allows developing countries to enter into agreements that may be non-reciprocal or cover a very limited range of products. Notification under this category is less strict than otherwise provided for in the GATT and GATS.<sup>22</sup> The remaining three S–S FTAs were notified under GATT only, while one S–S FTA reported early notification of FTA negotiations.

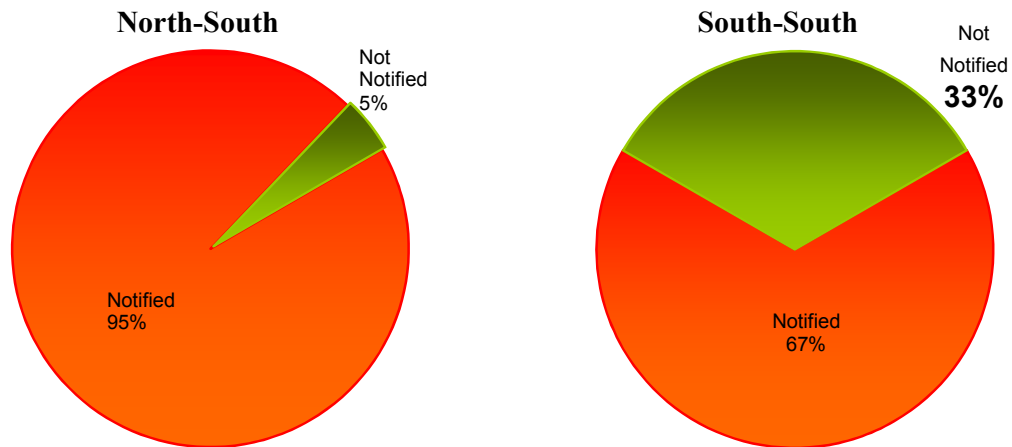
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<sup>21</sup> The types of agreements notified are preferential arrangements, free-trade agreements, customs unions, service agreements, and accession to any of these agreements.

<sup>22</sup> For notification requirements see [http://www.wto.org/english/tratop\\_e/region\\_e/trans\\_mecha\\_e.htm](http://www.wto.org/english/tratop_e/region_e/trans_mecha_e.htm).



**Figure 4: Asian FTA by Compliance with WTO Notification**



Sources: Authors estimates based on ADB FTA Database and WTO RTA database. Data as of 15 January 2010.

The high rate of S–S FTAs not notified to the WTO (33%) is another compatibility issue because it could reflect the information, capacity, and other technical constraints of the parties to these S–S agreements in complying with the WTO requirement. In the long run, it widens the gap between the active efforts of N–S FTA participants to improve transparency in the global trading environment compared to what appears to be the indifferent stance among S–S FTA participants.

### Deep Integration

One of the growing debates in multilateral negotiations is whether or not cross-cutting themes should also be a part of the treaties of the WTO. Among the contentious topics are the so-called Singapore issues—investment, competition policy, government procurement, and trade facilitation. These four topics were introduced during the 1996 WTO Ministerial Conference held in Singapore<sup>23</sup> and formed part of the original Doha Development Agenda in 2001. The first three topics, however, were later dropped from the negotiations for lack of consensus, while the negotiations on trade facilitation pushed through as part of the so-called July package launched in 2004.<sup>24</sup> During the WTO Hong Kong Ministerial in 2005,<sup>25</sup> negotiations focused on yet another important topic. Acknowledging the crucial link between trade and development, and with developing countries comprising more than two-thirds of WTO membership, the current round is highlighting a development dimension with the launch of the Aid for Trade initiative to assist developing countries to build capacity to take advantage of the opportunities offered by the multilateral trading system.

<sup>23</sup> WTO. Singapore Ministerial Declaration adopted on 13 December 1996. WT/MIN(96)/DEC.

<sup>24</sup> WTO. Annex D of the July 2004 Package adopted by the General Council on 1 August 2004. WT/L/579.

<sup>25</sup> WTO. Hong Kong Ministerial Declaration adopted on 18 December 2005. WT/MIN(05)/DEC.

There is a general consensus that increased market access and institutional reforms with respect to these core issues could promote deeper economic integration and ultimately support multilateral trade objectives. Kawai and Wignaraja (2009a) underscore that the inclusion of deep integration or WTO-plus provisions, particularly the four Singapore issues, is desirable in all future Asian FTAs. First, competition policy and investment provisions are integral ingredients in facilitating FDI inflows and the development of production networks. Second, the inclusion of provisions on trade facilitation and logistics development would help lower transaction costs in conducting trade. Lastly, cooperation provisions—along the lines of the APEC economic and technical cooperation (ECOTECH)<sup>26</sup> agenda—would stimulate technology transfer and industrial competitiveness.

Even as negotiations on Singapore issues and development cooperation have been suspended or slowed down in the WTO, Asian countries have incorporated them in their FTAs. Studies suggest, however, that Asian FTAs vary considerably in their scope, with some sophisticated agreements alongside more limited FTAs (Banda and Whalley, 2005; Plummer, 2007). This has led to a compatibility issue between N–S and S–S FTAs, especially since most developed countries adopt a comprehensive approach in their overall FTA strategy. For example, the US’ competitive liberalization strategy has a dual objective: (i) removing trade barriers in goods, services, and investments; and (ii) tackling a range of broad policy priorities, including government procurement. Similarly, Japan has adopted an economic partnership agreement strategy providing for trade liberalization and facilitation on the one hand, and enhancing economic cooperation (e.g., WTO-plus and cooperation provisions) on the other.

While various terms have been coined to define the coverage of these provisions in FTAs (e.g., WTO-plus, FTA-plus, deep integration), there is no widely accepted criteria to assess such coverage or their comprehensiveness. For the purpose of comparing coverage of Asian FTAs, this section classifies FTA coverage into five groups: (i) new age, (ii) comprehensive, (iii) moderate, (iv) limited, and (v) shallow.

New age FTAs represent the gold standard of FTAs that enhance deep economic integration by including major chapters or provisions on all four Singapore issues as well as on development cooperation. Regardless of whether or not a chapter on development cooperation is provided, an FTA is classified as comprehensive if all four Singapore issues are covered, moderate if three Singapore issues are covered, and limited if only one or two Singapore issues are included in the FTA. Shallow

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<sup>26</sup> ECOTECH is the APEC schedule of programs designed to build capacity and skills in APEC member economies to enable them to participate more fully in the regional economy and the liberalization process. See <http://www.apec.org> for more information.

coverage refers to FTAs that are without any coverage of Singapore issues and limited to agreements on goods and/or services only.

By major chapters or provisions we mean, rights and obligations on treaty-basis have accrued to the FTA parties, and cover extensively basic disciplines, scope and coverage, commitments, and governing rules. A major chapter on investment in a given FTA specifies the scope of liberalization and includes clauses on national treatment and MFN<sup>27</sup> prohibition on performance requirements, exceptions, expropriation and compensation, protection from strife, transfers, subrogation, settlement of investment disputes, safeguards, taxation, and other measures. In the event that a bilateral investment treaty (BIT) has been signed between or among the parties, investment is deemed covered in the FTA. Meanwhile, a major competition policy chapter defines anti-competitive activities and includes transparency, cooperation, and dispute resolution provisions. A chapter on government procurement, which refers to the procurement of goods and services by government agencies for their own purposes, includes sections on technical specifications, supplier registration and qualifications, awarding of contracts, provisions on transparency, and exchange of information. The chapter on trade facilitation could either be a separate chapter or part of the customs procedure chapter, with provisions on transparency, movement of goods, and risk management applications. It might also cover paperless trading or incorporate existing transit trade treaties.

Finally, development cooperation is deemed to be provided if the FTA includes either a chapter or a separate agreement on ECOTECH and development assistance. For example, the AANZFTA includes a comprehensive cooperation chapter and a work program on development cooperation to be implemented over 5 years after entry into force. The work program is estimated to cost around USD20-25 million, with the funding borne largely by Australia and New Zealand (in addition to their ongoing economic assistance to ASEAN) and in-kind contributions from ASEAN member states.

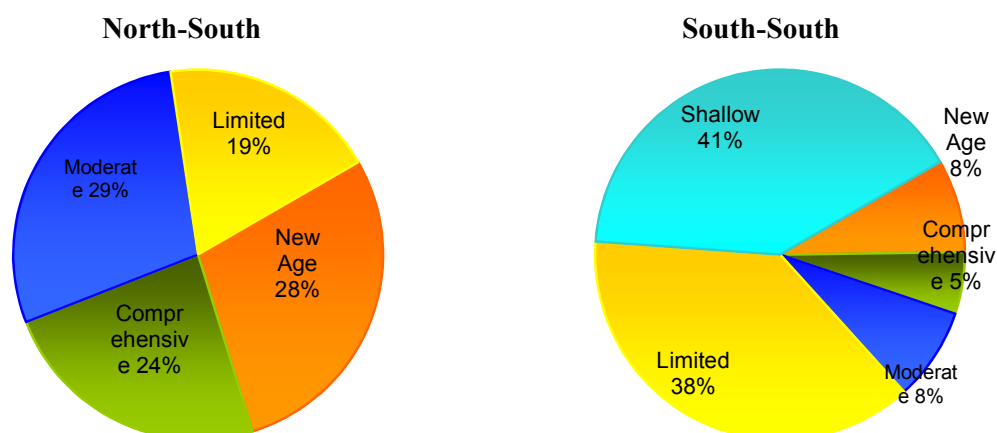
While N–S FTAs tend to favor deeper integration among members, S–S FTAs lag behind with only traditional coverage of trade liberalization (i.e., goods and services). More than half of N–S FTAs comprehensively cover the Singapore issues, including 28% with new age and 24% with comprehensive coverage; 29% have moderate coverage; and the remaining 19% have limited coverage (Figure 5). This demonstrates that all N–S FTAs cover areas beyond trade and can be referred to as WTO-plus agreements, given their goal of achieving deep integration among members. By comparison, the coverage in S–S FTAs show a striking difference, with only 8% providing for new

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<sup>27</sup> National treatment provides that each party shall treat investors of the other party in the same manner it would treat its own indigenous investors. MFN principle provides that each party shall treat investors of the other party in the same manner it would treat the investors of a non-party.

age coverage, 5% with comprehensive coverage, and 8% with moderate coverage. Furthermore, 38% of S–S FTAs have limited coverage and 41% have shallow coverage.

**Figure 5: Depth of Integration in Asian FTAs**



Sources: Authors estimates based on FTA legal texts. Data as of 15 January 2010.

Particularly relevant to lower- and middle-income developing countries (and even more so to LDCs), is the inclusion of development cooperation provisions in FTAs. An FTA that incorporates all of the Singapore issues, as well as development cooperation, promotes deeper economic integration. At the same, such an agreement gives developing countries equal opportunity to maximize their benefits from the agreement. Some of the N–S FTAs classified as new age agreements include Japan’s bilateral agreements with Indonesia, Mexico, Philippines, Singapore, and Thailand. As Asia’s biggest economy and the region’s largest source of overseas development assistance, Japan is extending better trade opportunities for its developing partners through its EPAs. In the case of the Japan–Philippines EPA, the provisions on cooperation in the fields of human resource development, ICT, science and technology, trade and investment promotion, and SME support are expected to enhance the transfer of technology and assist in the development goals of the two countries. The other new age N–S FTA is the 2005 agreement between Thailand and Australia, which apart from covering all of the Singapore issues, also incorporates a bilateral Agreement on Development Cooperation signed in 1989.

Only three of the S–S FTAs follow the new age framework of N–S FTAs: ASEAN–Korea CEPA, Korea–Singapore FTA, and Singapore–Panama FTA.

## Ways Forward

The global spread of FTAs in the 1990s and 2000s has focused attention in the WTO and elsewhere on how to ensure improved compatibility between global and regional rules on FTAs. Some of this thinking under the heading of multilateralizing regionalism was recently manifested in ideas for a WTO Action Plan on Regionalism (Baldwin and Thornton, 2008). Suggestions for the WTO include: (i) deepening the transparency mechanism, (ii) establishing WTO advisory centre on FTAs for developing countries, (iii) global free trade in industrial goods (at least parts and components), and (iv) new Information Technology Agreement (ITA) initiatives. Complementary thinking and concrete actions are also needed in Asia to better align compatibilities between regional and global rules in the region's N–S and S–S FTAs. This section outlines three proposals: (i) voluntary good practice guidelines for Asian FTAs, (ii) a region-wide FTA, and (iii) an FTA advisory center.

### Voluntary Good Practice Guidelines for Asian FTAs

FTAs are usually guided by WTO legal disciplines but these seem to have had a mixed record in practice. Accordingly, there is a move towards voluntary guidelines for good practices in FTAs in regional fora like APEC and also in the academic literature.<sup>28</sup> Following this trend, it is proposed that new Asian FTAs adopt voluntary good practice guidelines for core areas and that modification are made for existing FTAs. The previous section identified good practices in the five core areas as follows:

*Tariff Liberalization.* The evidence indicates that tariff elimination is proceeding at different rates within the region. N–S FTAs typically eliminate tariffs at a more rapid and comprehensive pace than S–S FTAs. At a minimum, all Asian FTAs, particularly future S–S FTAs, should aim to comply with GATT Article XXIV by covering substantially all trade (85% of tariff lines) within a reasonable period of time (e.g., 10 years). With newer N–S FTAs exceeding 85% of tariff lines either immediately or within 5 years, better compatibility means that the majority of S–S FTAs should ultimately follow suit. Otherwise, developing countries may be more encouraged to use the preferences available in N–S FTAs rather than S–S FTAs. Longer periods of tariff elimination in S–S FTAs may also diminish the potential benefit among members because similar tariff reductions may ultimately be realized upon the conclusion of the Doha round.

*ROOs.* Trade liberalization in goods may be rendered ineffective if ROOs are restrictive and uncoordinated with emerging production networks and business strategies. ROOs in Asian FTAs are

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<sup>28</sup> The best known effort is the APEC Guidelines and Sets of Good Practices on Regional Trade Agreements. See also Plummer (2007) and ADB (2008).

generally difficult to assess and compare because they are very technical and differ by product as well as in ways of satisfying origin requirements. The further study of ROOs is needed to adequately assess the compatibility of N–S and S–S FTAs. At a minimum, the design and administration of ROOs should be guided by APEC principles of simplicity and consistency, as well as WTO requirements of transparency and prospective application. Where possible, good international practices exemplified in N–S FTAs (e.g., cumulation, third-party outsourcing or outward process schemes, option or co-equal rules, self-certification or certification by a third party) should be usefully incorporated into S–S FTAs.

*Services Liberalization.* Liberalization and regulatory harmonization in trade in services is both an essential and challenging component of FTA negotiations. Notwithstanding the GATS commitment of WTO members, there seems to be a notable gap in terms of services sectoral coverage between N–S and S–S FTAs. This undermines the potential gains to members of S–S FTAs in terms of increased market access; incorporation of good practice disciplines in services trade; and the residual benefit of overseas employment, labor protection, and mutual recognition of qualifications. Future S–S FTAs should incorporate at least five key services sectors (namely, business and professional services, communications services, financial services, transport services, and labor mobility/entry of business persons), expand sectoral coverage beyond the members' GATS commitments, and apply the basic GATS disciplines. This can be done gradually by focusing on priority sectors as in the example of the ASEAN agreement on services. Liberalization of the services sector through S–S FTAs, accompanied by regulatory reforms (e.g., competition policy), can help to prepare developing countries for future FTA negotiations with developed countries (e.g., negotiations with the US, which typically seeks comprehensive services liberalization) and future multilateral negotiations.

*WTO Notification.* Procedural requirements like FTA notification to the WTO are an essential element for better compatibility in N–S and S–S Asian FTAs. Notification not only promotes greater transparency, but also acts as a check on FTA quality as well as consistency with global rules. A higher rate of notification of S–S FTAs in the future is a necessary step towards a more rules-based regional trade policy regime in Asia. Improved notification of S–S Asian FTAs will subject them to scrutiny and help identify areas for alignment with WTO agreements.

*Deep Integration.* While there is a growing debate on whether the WTO should cover cross-cutting issues and even non-trade concerns such as the environment, these issues have featured in recent FTA negotiations, particularly N–S Asian FTA negotiations. With notable exceptions, S–S Asian FTAs have largely focused on goods and services. However, new age FTAs have become the gold standard for regional agreements by including major chapters on all four Singapore issues and a significant development cooperation provision. Incorporation of the four Singapore issues in FTAs encourages

deeper economic integration and locks in domestic structural reforms. Greater compatibility means that all Asian FTAs should eventually adhere to a new age format. This may occur in a sequenced manner. Where possible, future S–S FTAs should adopt a new age FTA format, particularly those involving economic giants such as the PRC and India. The rest may pursue a gradual approach in moving towards new age style FTAs. The process can start with incorporating good practice chapters on investment and trade facilitation in future S–S FTAs as these two issues are fundamentally important to intra-regional trade and investment. Over time, the more difficult issues of competition policy and government procurement can also be included.

### Region-Wide FTA

A region-wide FTA is an important means to better align compatibilities in global and regional rules among Asia's N–S and S–S FTAs. Over the last decade or so, three alternative proposals for region-wide FTAs—each with its own merits—have been under serious discussion in political fora in Asia. These include:

- (i) ASEAN+3 FTA, or East Asian FTA (EAFTA), covering the 10 ASEAN members, the PRC, Japan, and Korea.
- (ii) ASEAN+6, or Comprehensive Economic Partnership for East Asia (CEPEA) FTA, covering the countries included in (i) plus India, Australia, and New Zealand.
- (iii) Free Trade Agreement of the Asia–Pacific or FTAAP covering APEC members namely, Australia; Brunei Darussalam; Canada; Chile; PRC; Hong Kong, China; Indonesia; Japan; Korea; Malaysia; Mexico; New Zealand; Papua New Guinea; Peru; Philippines; Russia; Singapore; Taipei, China; Thailand; United States; and Viet Nam.

The case for a large, region-wide FTA in Asia is typically made on geopolitical and economic grounds (Chia, 2009). A large grouping would increase Asia's voice in international organizations such as the International Monetary Fund (IMF), World Bank, and WTO. Moreover, significant economic gains would include increased market access to goods and factor markets; increased market size to permit specialization and realization of economies of scale; increased inward investment and technology transfer by multi-national corporations; and simplification of trade facilitation and other trade rules.

The possibility of significant benefits from region-wide FTAs have been indicated by studies based on a CGE model, which have produced estimates of potential welfare gains to members, losses to non-members, and sector-level gains and losses. Depending on the CGE model and data sources used, these studies differ somewhat in their estimates of welfare gains and losses. In the main, these studies indicate that there would be significant gains to members from a region-wide FTA, particularly the

CEPEA, compared to the current bilateral agreements. (Gilbert, Scollay, and Bora, 2004; Francois and Wignaraja, 2008; and Kawai and Wignaraja, 2008). Meanwhile, losses to non-members would be negligible. CGE studies also indicate that larger agreements in terms of membership and issues covered would bring bigger welfare gains than agreements with less members and limited coverage of issues.

A comprehensive region-wide FTA covering a range of issues implies better alignment of compatibilities between global and regional rules in N-S and S-S Asian FTAs. Ideally, the five core good practices—tariff liberalization, ROOs, services liberalization, WTO notification, and deep integration—could form the heart of such an agreement. ASEAN seems to be emerging as a hub for FTA consolidation in East Asia, having concluded agreements with all six of the major economies in the proposed CEPEA. The Japan–PRC–Korea FTA is the next step on the road to CEPEA. Little is known about the extent of compatibility between global and regional rules in ASEAN and ASEAN-plus FTAs. Appendix 3 provides a preliminary analysis of compatibilities between global and regional rules in ASEAN and ASEAN-plus FTAs. The findings suggest that some aspects of ASEAN and ASEAN-plus FTAs are consistent with global rules. Nonetheless, compatibility issues would need to be addressed during the formation of a region-wide agreement centered on ASEAN as the hub. One practical way forward might be to take each ASEAN FTA’s best features and design a boilerplate regional agreement that is consistent with global rules. More in-depth analysis is needed to map compatibilities between global and regional rules in ASEAN FTAs.

The conclusion of a region-wide FTA in Asia is likely to be a medium- to long-term project. Official studies have been conducted on scenarios (i) and (ii) listed above. In late 2009, senior economic officials were requested to consider the recommendations of both studies. Furthermore, four smaller APEC members—Brunei, Chile, New Zealand, and Singapore—implemented a Trans-Pacific Economic Partnership Agreement (TPP) in 2005 to kick start the FTAAP process. The first round of negotiations to expand TPP to include the United States, Australia, Peru, and Viet Nam is expected in early 2010. In the end, politics, rather than economics, is likely to dictate the choice of a region-wide FTA and its possible sequencing.

### **Asian Advisory Center on FTAs**

The growing pace and scope of economic integration in the region is constrained by limited institutional and human resource capacity among developing countries, particularly LDCs. It is proposed that an FTA regional advisory center be established to provide technical and capacity building assistance to countries in order to prepare them to better design, negotiate, and implement FTAs that are consistent with the WTO as well as compatible with FTAs entered into by developed



countries. In particular, the FTA center could offer support by subsidizing specialist legal advisers on the WTO and FTAs, training officials, and spearheading studies to assist countries in developing their FTA strategies. In addition, the center could assist in monitoring and deepening the transparency mechanisms of FTAs and link up with the Advisory Centre on WTO Law. The proposed Asian advisory center on FTAs would also leverage the support of existing regional institutions and facilities. For example, ADB could play a supporting role as it already maintains a comprehensive and up-to-date database on FTAs, trains officials on good practices, and widely disseminates knowledge products on FTAs and regional integration.

## Conclusion

There is little doubt that the process of Asian integration is in the midst of a decisive shift towards deepening regional production networks alongside the spread of FTAs. Less noticed perhaps is the gathering momentum towards S–S trade and S–S FTAs in Asia. This paper reviewed trends in N–S and S–S Asian FTAs, examined compatibilities between regional and global rules in N–S and S–S Asian FTAs, and made proposals for improvements. Assessing compatibilities between regional and global rules in N–S and S–S FTAs is a difficult exercise. The paper offers some simple legal and economic criteria to facilitate empirical research. It also draws on new sources of information on Asian FTAs.

A handful of S–S FTAs led the early wave of Asian regionalism through FTAs from the mid-1970s to the mid-1990s. S–S FTAs were also largely behind the rapid spread of Asian FTAs beginning in the late-1990s. It is estimated that Asia currently has around 61 concluded FTAs of which as many as 39 are S–S FTAs and 22 are N–S FTAs. This paper's estimates of FTAs under negotiation and proposed suggest that the dominance of S–S FTAs is expected to continue in the future. The slow progress of the Doha trade negotiations, growth in FTAs elsewhere, and search for access to new Southern markets are among the factors underlying the spread of Asian FTAs.

The empirical analysis of the criteria against actual practice in FTAs shows that several incompatibilities exist between N–S and S–S FTAs in core areas including (i) tariff liberalization, (ii) ROOs, (iii) liberalization of trade in services, (iv) compliance with WTO notification requirements, and (v) deep integration. Accordingly, this paper has offered some proposals to facilitate better compatibility between N–S and S–S Asian FTAs. Of particular relevance are voluntary good practice guidelines to improve FTA quality and consistency, including:

- covering substantially all trade in goods within a reasonable or even shorter length of time;

- by following WTO, APEC, and international best practices, ensuring the better design and administration of ROOs;
- covering key services sectors, expanding to GATS-plus commitments, and adopting GATS disciplines in services provisions;
- ensuring greater transparency by timely notification the WTO of proposed FTAs; and
- gradually adopting more comprehensive provisions in new FTAs and using a new age FTA format that includes Singapore issues and development cooperation provisions.

Also important in the medium- to long-term is consolidating bilateral FTAs into a region-wide FTA centered on ASEAN as the hub. One practical way forward might be to take each ASEAN FTA's best features and design a boilerplate regional agreement that is consistent with global rules. Capacity building through the establishment of a regional FTA advisory center to assist developing countries, particularly LDCs, to achieve compatible FTAs would be a useful complement to the adoption of voluntary good practices and a region-wide FTA.

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## Appendix 1: List of South–South and North–South Asian FTAs by Type and Status, 2010

Type	In effect	Signed	Under Negotiation/Proposed
South–South	<ol style="list-style-type: none"> <li>1. APTA (1976)</li> <li>2. Laos-Thailand PTA (1991)</li> <li>3. ASEAN Free Trade Area (1993)</li> <li>4. India-Sri Lanka FTA (2001)</li> <li>5. Indo-Nepal Treaty of Trade (2002)</li> <li>6. PRC-Thailand FTA (2003)</li> <li>7. PRC-Hong Kong CEPA (2004)</li> <li>8. PRC-Macao CEPA (2004)</li> <li>9. Korea-Chile FTA (2004)</li> <li>10. Taipei, China and Panama FTA (2004)</li> <li>11. Pakistan–Sri Lanka FTA (2005)</li> <li>12. ASEAN-China FTA (2005)</li> <li>13. India-Singapore CECA (2005)</li> <li>14. Singapore-Jordan FTA (2005)</li> <li>15. India-Bhutan Trade Agreement (2006)</li> <li>16. South Asian Free Trade Area (2006)</li> <li>17. Pakistan-Iran PTA (2006)</li> <li>18. PRC-Chile FTA (2006)</li> <li>19. Taipei, China and Guatemala FTA (2006)</li> <li>20. Korea-Singapore FTA (2006)</li> <li>21. Singapore-Panama FTA (2006)</li> <li>22. India-Chile PTA (2007)</li> <li>23. PRC-Pakistan FTA (2007)</li> <li>24. ASEAN-Korea FTA (2007)</li> <li>25. Malaysia-Pakistan FTA (2008)</li> <li>26. Taipei, China-El Salvador-Honduras FTA (2008)</li> <li>27. India-MERCOSUR PTA (2009)</li> <li>28. PRC-Singapore FTA (2009)</li> <li>29. Singapore-Peru FTA (2009)</li> <li>30. Taipei, China and Nicaragua FTA (2009)</li> <li>31. ASEAN-India FTA (2010)</li> <li>32. India-Korea CEPA (2010)</li> <li>33. PRC-Peru FTA (2010)</li> </ol>	<ol style="list-style-type: none"> <li>1. India-Afghanistan PTA (2003)</li> <li>2. Economic Cooperation Organization Trade Agreement (2003)</li> <li>3. Sri Lanka-Iran PTA (2004)</li> <li>4. PTA-Group of Eight Developing Countries (2006)</li> <li>5. Pakistan-Mauritius PTA (2007)</li> <li>6. GCC- Singapore FTA (2008)</li> </ol>	<ol style="list-style-type: none"> <li>1. Singapore-Mexico FTA (2000)</li> <li>2. Thailand-Bahrain FTA (2002)</li> <li>3. India-Egypt PTA (2002)</li> <li>4. China-India RTA (2003)</li> <li>5. PRC-South African Customs Union FTA (2004)</li> <li>6. Singapore and Sri Lanka CECA (2003)</li> <li>7. Pakistan-Bangladesh FTA (2003)</li> <li>8. Pakistan-Kazakhstan PTA (2003)</li> <li>9. Malaysia-Korea FTA (2004)</li> <li>10. Taipei, China and Paraguay FTA (2004)</li> <li>11. India-Thailand Free Trade Area (2004)</li> <li>12. Thailand-Peru FTA (2004)</li> <li>13. BIMSTEC Free Trade Area (2004)</li> <li>14. Pakistan-Thailand FTA (2004)</li> <li>15. Trade Preferential System of the Organization of the Islamic Conference (2004)</li> <li>16. India-Indonesia CECA (2004)</li> <li>17. India-Southern African Customs Union PTA (2004)</li> <li>18. India-Colombia PTA (2004)</li> <li>19. India-Israel PTA (2004)</li> <li>20. India-Uruguay PTA (2004)</li> <li>21. India-Venezuela PTA (2004)</li> <li>22. Pakistan-GCC FTA (2004)</li> <li>23. Pakistan-Turkey PTA (2004)</li> <li>24. Pakistan-Tajikistan PTA (2004)</li> <li>25. Korea-MERCOSUR PTA (2004)</li> <li>26. Korea-South Africa FTA (2005)</li> <li>27. PRC-Korea FTA (2005)</li> <li>28. PRC-Gulf Cooperation Council FTA (2005)</li> <li>29. Pakistan–Singapore FTA (2005)</li> <li>30. Pakistan-Indonesia FTA (2005)</li> <li>31. India-Mauritius CECPA (2005)</li> <li>32. Pakistan-Morocco PTA (2005)</li> <li>33. Pakistan-Afghanistan FTA (2005)</li> <li>34. Korea-Mexico SECA (2006)</li> <li>35. Taipei, China and Dominican Republic FTA (2006)</li> <li>36. Singapore-Egypt FTA (2004) [Intent to Negotiate signed in November 2006]</li> <li>37. Thailand-Chile FTA (2006)</li> <li>38. Thailand-MERCOSUR FTA (2006)</li> <li>39. India-Gulf Cooperation Council Free Trade Area (2006)</li> <li>40. India-Russian Federation CECA (2006)</li> <li>41. Pakistan-MERCOSUR PTA (2006)</li> <li>42. Pakistan-Jordan FTA (2006)</li> <li>43. Singapore-Ukraine FTA (2007) [negotiations concluded; FTA expected to be signed soon]</li> <li>44. Malaysia-Chile FTA (2007)</li> <li>45. Pakistan-Brunei FTA (2007)</li> </ol>

			46. Malaysia-India CECA (2008) 47. Chile-Vietnam FTA (2008) 48. Korea-GCC FTA (2009) 49. Korea-Peru FTA (2009) 50. PRC- Costa Rica FTA (2009) 51. Singapore-Costa Rica FTA (2009) 52. Pakistan-Nepal FTA (2009) 53. Korea-Columbia FTA (2009)
North– South	1. New Zealand-Singapore CEP (2001) 2. Japan–Singapore EPA (2002) 3. EFTA -Singapore FTA (2003) 4. Singapore-Australia FTA (2003) 5. United States–Singapore FTA (2004) 6. EFTA- Korea FTA (2005) 7. Japan-Mexico EPA (2005) 8. Thailand-Australia FTA (2005) 9. Thailand-New Zealand Closer EPA (2005) 10. Japan-Malaysia EPA (2006) 11. Trans-Pacific Strategic EPA (2006) 12. Japan-Chile EPA (2007) 13. Japan-Indonesia EPA (2007) 14. Japan-Thailand EPA (2007) 15. ASEAN-Japan CEP (2008) 16. Japan-Brunei FTA (2008) 17. Japan-Philippines EPA (2008) 18. New Zealand-China FTA (2008) 19. Japan-Vietnam EPA (2009) 20. ASEAN-Australia and New Zealand FTA (2010)	1. Korea-United States FTA (2007) 2. Malaysia-New Zealand FTA (2009)	1. United States-Philippines FTA (1989) 2. United States-Indonesia FTA (1997) 3. New Zealand-Hong Kong CEP (2001) 4. Canada-Singapore FTA (2002) 5. United States-Brunei FTA (2002) 6. PRC -Japan-Korea FTA (2003) 7. ASEAN-EU FTA (2007) 8. East Asian (ASEAN+3) FTA (2004) 9. United States-Thailand FTA (2004) 10. Japan-Korea FTA (2003) 11. PRC -Australia FTA (2005) 12. Thailand-EFTA FTA (2005) 13. Malaysia-Australia FTA (2005) 14. Indonesia- EFTA FTA (2005) 15. Japan-GCC FTA (2006) 16. Korea-Canada FTA (2005) 17. PRC -Iceland FTA (2006) 18. United States-Malaysia FTA (2006) 19. Japan-India EPA (2007) 20. Comprehensive Economic Partnership for East Asia (CEPEA or ASEAN+6) FTA (2007) 21. Korea-European Union FTA (2007) [expected to be signed soon] 22. Indonesia-Australia FTA (2007) 23. India-European Union FTA (2007) 24. India-Australia FTA (2007) 25. New Zealand-India FTA (2007) 26. PRC-Norway FTA (2007) 27. New Zealand-Korea CEP (2008) 28. India-EFTA FTA (2008) 29. Japan-Peru FTA (2009) 30. Australia-Korea FTA (2009) 31. India-Canada FTA (2009) 32. PRC-Switzerland FTA (2009) 33. Singapore-EU FTA (2009)

Source: ADB FTA database (data as of 15 January 2010).



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## **Appendix 2 : GATS Services Sectoral Classification List**

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(1) Business and professional services

(Sub-sectors: accountancy services; advertising services; architectural and engineering services; computer and related services; legal services)

(2) Communication services

(Sub-sectors: audiovisual services; postal and courier, express mail services; telecommunications)

(3) Construction and related services

(4) Distribution services

(5) Educational services

(6) Energy services

(7) Environmental services

(8) Financial services

(9) Health and social services

(10) Tourism services

(11) Transport services

(Sub-sectors: air transport; maritime transport; services auxiliary to all modes of transport)

(12) Movement of natural person

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### Appendix 3: A Preliminary Analysis of Compatibilities in ASEAN and ASEAN-plus FTAs

Forming a region-wide Asian FTA requires examining compatibility issues between global and regional rules in existing Asian regional FTAs. As ASEAN is emerging as the hub of East Asia's regional integration, it is instructive to analyze the texts of the concluded ASEAN and ASEAN-plus agreements. Using three of the criteria—tariff liberalization, services liberalization, and deep integration—described in section 3, the table provides a preliminary assessment of core compatibility issues between global and regional rules in individual ASEAN FTAs. It also provides comparisons between ASEAN FTAs.

FTA	Tariff liberalization <sup>/a</sup>	Services coverage <sup>/b</sup>	Deep integration <sup>/c</sup>
ASEAN FTA (1993)	gradual	comprehensive	Limited
ASEAN-PRC CEP (2005)	gradual	some	Limited
ASEAN-Korea CEP (2007)	relatively fast	some	new age
ASEAN-Japan CEP (2008)	gradual	(under negotiation)	Limited
ASEAN-Australia-New Zealand FTA (2009)	relatively fast	comprehensive	Moderate
ASEAN-India FTA (2009)	gradual	excluded or limited	Shallow

Notes:

a/ Relatively fast are those which eliminate tariffs on 85% of both parties' tariff lines (or average of member parties) within 2-5 years; Gradual are those which gradually eliminate or reduce tariffs over longer periods of time.

b/ Comprehensive coverage if an FTA covers at least all of the 5 key sectors of the GATS—business and professional services, communications services, financial services, transport services, and labor mobility/entry of business persons. Excluded or limited if an FTA either excludes services trade liberalization or provides only general provisions thereof, or if it covers only one of the five key sectors mentioned. Some coverage if an FTA covers two to four key sectors of the GATs and some minor sectors.

c/ New age FTAs represent the gold standard of FTAs and enhance deep economic integration by including major chapters on all four Singapore issues and a development cooperation provision. Regardless of whether or not a chapter on development cooperation is provided, FTAs are classified as moderate if three Singapore issues are covered and limited if only one to two Singapore issues are in the FTAs. Shallow coverage means there is no chapter on Singapore issues.

Source: Authors estimates based on FTA legal texts.

The main findings are as follows:

- The ASEAN–Korea CEP and AANZFTA are noteworthy for adopting a relatively fast tariff liberalization approach. The texts provide for at least 90% of goods to be liberalized within a span of 3 years (between 2007–2010 for the ASEAN–Korea CEP and 2010–2013 for the AANZFTA). The remaining agreements adopt a more gradual approach to tariff liberalization.
- In terms of services coverage, greater differences seem to be visible among the ASEAN agreements. The AANZFTA and ASEAN FTA appear to be quite liberal in services and have opened up most sectors and subsectors beyond their GATS commitments (see details in section 3.3). Meanwhile, the ASEAN–India FTA and ASEAN–Japan FTA have yet to exchange their schedules of commitment. In between are the ASEAN–PRC FTA and ASEAN–Korea FTA, which have both partially liberalized their services sectors.
- In terms of deep integration (the four WTO Singapore issues), only the ASEAN–Korea CEP may be classified as a new age FTA, covering all four Singapore issues. The AANZFTA excludes only the chapter on government procurement. Of the remainder, three FTAs provide for two Singapore issues while one FTA has no coverage at all.

The preliminary analysis suggests that some aspects of ASEAN and ASEAN-plus FTAs are consistent with global rules. Nonetheless, compatibility issues would need to be addressed during the formation of a region-wide agreement that centers on ASEAN as the hub. One practical way forward might be to take each ASEAN FTA's best features and design a boilerplate regional agreement that is consistent with the global rules. More in-depth analysis is needed to map compatibilities between global and regional rules in ASEAN FTAs.