ERIA Discussion Paper Series

Taking ASEAN+1 FTAs towards the RCEP: A Mapping Study[1]

Yoshifumi FUKUNAGA[2]
Economic Research Institute for ASEAN and East Asia (ERIA)

Ikumo ISONO
Economic Research Institute for ASEAN and East Asia (ERIA)

January 2013

Abstract: In November 2012, the leaders of the ASEAN+6 countries agreed to launch a new FTA negotiation called the "Regional Comprehensive Economic Partnership" (RCEP). In this paper, we conduct stocktaking studies of ASEAN's own FTA and five existing FTAs with 6 dialogue partner countries, to identify the possible benefits and challenges of RCEP. We find that the five "ASEAN+1 FTAs" provide an insufficient level of liberalization, both in tariffs and services trade. The coexistence of five FTAs with different rules of origin (ROOs) creates a potential "noodle-bowl" situation which impedes the effective use of the FTAs. Also, the China-Japan-Korea FTA and the Trans-Pacific Partnership (TPP) pose challenges to the "ASEAN Centrality". We recommend that RCEP negotiation should address those challenges by (a) concluding a comprehensive and high-level RCEP by 2015; (b) setting the target of 95% percent tariff elimination with a "common concession" approach; (c) introducing the "core non-tariff measures (NTMs)" concept and removing them; (d) allowing co-equal rules in the ROOs, setting a general rule of "RVC(40) or CTH" and developing consolidated operational certification procedures; (e) introducing concrete and tangible trade facilitation programs and addressing FTA utilization issues; and (f) liberalizing trade in services at a high level.

***Keywords*:** FTA, ASEAN, and RCEP
***JEL Classification*:** F13, F15 and F53

1. Introduction

In November 2012, the leaders of the ASEAN+6 countries[3] agreed to launch a new free trade agreement (FTA) negotiation called the "Regional Comprehensive Economic Partnership" (RCEP). This paper aims at providing rationales for pursuing an East Asian-wide FTA and making policy proposals for the key elements to be negotiated under the RCEP.

In the past decade, we have witnessed an expanding intra-ASEAN trade and substantial increase in trade between ASEAN and China as well as ASEAN and India. In ten years from 1999 to 2009, ASEAN's exports to and imports from China have increased 6.9 and 5.8 times, and those to and from India have increased 4.5 times and 5.6 times, respectively. Both Japan and Korea have steadily increased their trade with ASEAN in absolute terms, although their relative shares are declining. The increase was mainly led by expanding production networks, especially in machinery industries. Production networks can be successful only when there are efficient information technology and trans-border logistics networks. They also require various policy schemes such as a tariff exemption scheme for imported raw materials, capital goods, parts and components under foreign direct investment (FDI) and special economic zone (SEZ) policies, and tariff elimination through an Information Technology Agreement (ITA), and Free Trade Areas/Agreements (FTAs). In fact, FTAs have been expanding the industrial coverage of production networks, from the successful examples in machinery industries to the automotive and other industries.

ASEAN has been playing a substantial role in developing FTAs in East Asia. The Common Effective Preferential Tariff (CEPT) entered into force in 1993 and was replaced by the ASEAN Trade In Goods Agreement (ATIGA) in 2010. The development of FTA networks with ASEAN's Dialogue Partners has been an integral part in the ASEAN Economic Community (AEC) design (Pillar 4 in the AEC Blueprint). As a result, five ASEAN+1 FTAs have come into force, namely the ASEAN-Australia-New Zealand FTA (AANZFTA), the ASEAN-China FTA (ACFTA), the ASEAN-India FTA (AIFTA), the ASEAN-Japan Comprehensive Economic Partnership (AJCEP) and the ASEAN-Republic of Korea FTA (AKFTA).

Moreover, ASEAN is taking further steps to establish the RCEP, which was formerly called "ASEAN++ FTA" and will bring larger advantages for ASEAN countries.

We believe that ASEAN should take the leadership role in designing a new regional architecture, using the ASEAN+1 FTAs, the AEC efforts including connectivity and trade facilitation, and various cooperation schemes as building blocks. The three reasons for this belief follow in this section and are discussed in detail throughout the paper.

Most importantly, the current ASEAN+1 FTAs have not yet achieved a fully liberalized region: there is much room for the RCEP to strengthen ASEAN and East Asia as a production base. The level of tariff liberalization is not sufficiently high. Also, rules of origin (ROOs) are not liberal enough in some ASEAN+1 FTAs: while most ASEAN+1 FTAs allow co-equal rules, i.e., more business-friendly rules, some do not. Similarly, services liberalization have only small "WTO Plus" (or "GATS[4] Plus") components in the current ASEAN+1 FTAs. Trade facilitation chapters remain general in most ASEAN+1 FTAs. In fact, the RCEP negotiation framework can give ASEAN a source of additional bargaining power toward a higher target which is not valid under *bilateral* negotiations. All the FTA Partners[5] have strong economic and political incentives not to be excluded from the new regional FTA. By analyzing convergences in the current ASEAN+1 FTAs and setting negotiation standards accordingly, ASEAN can push larger FTA Partners to change their FTA policies and make more substantial commitments which are meaningful for the ASEAN countries. This strategy is realistic only if ASEAN nations move quickly to build momentum in the RCEP negotiating process.

Secondly, the existence of several ASEAN+1 FTAs itself creates a "noodle-bowl" (also known as "spaghetti-bowl") situation[6] which potentially hampers the firms' usages of preferential systems and impairs the potential values of such FTAs. The "noodle-bowl" situation can be found in several different areas. First of all, the learning costs in understanding the most preferable trade regime for each business operators (e.g., in terms of tariff rates, ROOs, services and investment limitations and protection standards) can be immense . It can also be costly to meet the different requirements of multiple FTAs (e.g., in ROOs and mutual recognition of standards). Indeed, the utilization rates of ASEAN+1 FTAs are not as high as was expected

during their negotiations. The RCEP, being a common free trade framework across the East Asian region, will have more convergent rules which reduce the "noodle-bowl" effects and thus maximize the values of governments' efforts to create strong production bases in East Asia.

Thirdly, the RCEP will help strengthen the "ASEAN Centrality" in the regional architecture discussion in the Asia-Pacific region, which is at risk due to the competing initiatives of the China-Japan-Korea Free Trade Agreement (CJK FTA) and the Trans-Pacific Partnership (TPP). Based on the success of the trilateral investment treaty among China, Japan and Korea, CJK FTA negotiation was announced in November 2012, at exactly the same time as the announcement of the RCEP negotiation launch. The trilateral FTA is likely to have negative impacts on all the ASEAN economies due to trade and investment diversion. Also, once the three large economies have agreed among themselves on certain rules, ASEAN will have a lesser influence in discussion of the new regional architecture. The TPP has already recorded several rounds of negotiations. The implication of the TPP is more complicated economically, because four ASEAN Member States (AMSs) are also involved in the TPP negotiation, i.e., Brunei, Malaysia, Singapore, and Viet Nam.[7] However, the political implication may be more straightforward. As an Asia Pacific Economic Cooperation (APEC)-centered initiative, and because the TPP is aimed at creating a highly liberal trade regime with comprehensive issue coverage, "ASEAN Centrality" cannot be maintained if the TPP moves forward but the RCEP does not.

The rest of this paper is organized as follows: in section 2, we overview ASEAN's FTAs and the progress of the RCEP negotiation. Section 3 presents the current status of the five ASEAN+1 FTAs and discusses potential benefits of the RCEP. Section 4 shows the potential economic impacts of the ASEAN+1 FTAs and the RCEP using a Dynamic GTAP model. The final section summarizes the implications of the study, with policy recommendations.

2. Evolution of the ASEAN+1 FTAs and the RCEP

The AEC Blueprint, which was adopted in November 2007, identified two actions to achieve the policy goal of "Pillar IV: coherent approach towards external economic relations": (a) review ASEAN's commitments in FTAs/CEPs vis-à-vis its internal integration commitments; and (b) establish a system for enhanced coordination with common approaches and positions in ASEAN's external relations. The AEC Blueprint also emphasizes the importance of "ASEAN Centrality" in these processes, which should be taken into account in progress evaluation.

The most significant achievement in ASEAN's external economic policy since 2007 is the "completion" of the ASEAN+1 FTAs. By the time when the ASEAN leaders adopted the AEC Blueprint, ASEAN had signed FTAs with China (trade in goods and services) and Korea (trade in goods). In 2008, ASEAN signed the AJCEP (trade in goods). Then the AANZFTA (trade in goods, trade in services and investment) was signed in February 2009, followed by the AIFTA (trade in goods) in August 2009. With this, ASEAN "completed" the ASEAN+1 FTAs with the six FTA Partners, which covered all the East Asia Summit members as of 2009. All the agreements were ratified by the AMSs (ASEAN, 2012), but Indonesia in reality has not enjoyed the benefits of AJCEP due to unfinished transposition of its tariff schedule to HS2007. The substance of these ASEAN+1 FTAs has also deepened in the last five years. In the ACFTA, two service packages were concluded; and an investment agreement has been signed. Also, in the AKFTA, services and investment agreements were signed. ASEAN has almost concluded its services and investment negotiations with India in December 2012, and is currently negotiating services and investment agreements with Japan. In addition to these six countries, several more trading partners have shown interests in regional FTAs with ASEAN including the EU, the USA, and the Gulf Cooperation Council.[8]

These developments should be seen as highly positive. First of all, coherent external relations policies among ASEAN countries were developed in all these agreements. Those efforts have brought tangible fruits, in that ASEAN has been more integrated into the global economy. Further efforts are being made to deepen and broaden the substance of the agreements. The trading partners' interests in

regional FTAs with ASEAN, not only from the current FTA Partners but also from new entities, strongly indicate that ASEAN has increased its presence in the global economy. The ASEAN-centered dialogue opportunities, both in Summits and Economic Ministers Meetings have facilitated this progress.

In addition to the development of ASEAN+1 FTAs, significant progress has been made towards the establishment of the RCEP. Two East Asia-wide FTAs had been proposed: EAFTA for ASEAN+3 (CJK); and CEPEA for ASEAN+6 (CJK, Australia, India, and New Zealand). The Phase II Studies of the two initiatives were completed before the summer of 2009,[9] when the Reports were submitted to the ASEAN+3 and ASEAN+6 Economic Ministers Meetings respectively. At these meetings, Economic Ministers agreed to commence discussions on ROOs, tariff nomenclature, customs related issues and economic cooperation as building-blocks in the process of realizing East Asian integration. The studies were conducted through so-called "ASEAN Plus Working Groups," with participation by ASEAN+6 members. The study outcomes, including tentative templates for customs procedures and ROOs, were submitted to the ASEAN+3 and EAS (East Asia Summit) Economic Ministers Meetings in August 2011 (and subsequently to their Summits). ASEAN promptly started work on the structure and template for the RCEP. Also, three ASEAN Plus Working Groups (Goods, Services and Investment, respectively) were newly and jointly proposed by China and Japan. In November 2011, the ASEAN Summit adopted the ASEAN Framework for Regional Comprehensive Economic Partnership, which sets the general principles to be respected in the RCEP negotiations. The establishment of the three ASEAN Plus Working Groups was agreed in the AEM Retreat in February 2012, "to facilitate the scoping exercise in time for the launch of negotiations for a comprehensive RCEP agreement by the end of this year" (Chairman's Statement of the 20th ASEAN Summit, April 2012). After prior consultations in the RCEP Working Groups (Trade in Goods, Services and Investment), the leaders agreed to launch a negotiation at their summit in November 2012, with "Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership" (hereafter "Guiding Principles").

The Guiding Principles endorsed by all the ASEAN+6 leaders set key

characteristics of the RCEP. First of all, RCEP is recognized as a "modern, comprehensive, high-quality and mutually beneficial economic partnership agreement". The Guiding Principles stipulate eight principles, including; significant improvements over the existing ASEAN+1 FTAs; consideration of the different levels of development among the members; and parallel negotiation of different chapters. The Guiding Principles also list eight negotiation areas (trade in goods, trade in services, investment, economic and technical cooperation, intellectual property, competition, dispute settlement, and other issues). Details of each chapter, such as level of tariff elimination, are left for the negotiation, starting in early 2013.

ASEAN also should pay attention to the developments in competing regional initiatives, especially the CJK FTA and the TPP. The CJK trilateral initiative has made substantial progress, although all the three countries are also most likely to become RCEP members. They signed a trilateral investment treaty in May 2012, and had completed their joint study for the trilateral FTA by the end of 2011. Based on this, the three leaders agreed to launch an FTA negotiation in November 2012. TPP is also making significant progress. With nine Asia-Pacific states' participation, including four ASEAN countries, i.e., Brunei, Malaysia, Singapore and Viet Nam, the TPP countries have conducted several rounds of negotiations, and in November 2011 the nine leaders announced the outlines of the TPP Agreement. These initiatives could potentially impair the ASEAN Centrality if they move faster (or much faster) than the RCEP discussion, and if they have much richer content than the RCEP.

3. Current Status of the ASEAN+1 FTAs

This section illustrates the key components of, and challenges in, the current ASEAN+1 FTAs, namely tariffs, ROOs, and services, and is based mainly on ERIA's FTA Mapping Studies (Lee & Okabe, 2011: Lee, *et al.*, forthcoming).

3.1. Tariff[10]

3.1.1. Level of Tariff Elimination in ASEAN+1 FTAs

Tariff reduction and elimination will undoubtedly be one of the key components in FTAs. Because HS 6-digit is an internationally comparable level of tariff nomenclature, the analysis in this paper examines the level of tariff elimination at this level. In the existing ASEAN+1 FTAs, six AMSs have committed to eliminating tariffs in more than 90% of the products (on average), after the transition period, as shown in **Table 1**. The remaining four AMSs have committed to more than 80% but lower than 90% tariff elimination on average: Indonesia (83.4%), Lao PDR (89.3%), Myanmar (87.3%), and Viet Nam (89.5%).

The six FTA Partners have committed to eliminating more than 90% of tariff lines vis-à-vis ASEAN, with the exception of India (78.8%). However, if we adopt a 95% threshold in the possible RCEP, even China, Japan, and Korea would need to make further efforts. Moreover, while the potential economic gains will be immense, it is probably even more challenging for an FTA partner to open its goods markets to other FTA partners with a 95% threshold, even if there is a bilateral FTA between the two countries, as in the cases of China-New Zealand and India-Japan.

Table 1: Tariff Elimination Coverage by Country under the ASEAN+1 FTAs

	AANZFTA	ACFTA	AIFTA	AJCEP	AKFTA	Average
BRN	99.2%	98.3%	85.3%	97.7%	99.2%	95.9%
CAM	89.1%	89.9%	88.4%	85.7%	97.1%	90.0%
IDN	93.7%	92.3%	48.7%	91.2%	91.2%	83.4%
LAO	91.9%	97.6%	80.1%	86.9%	90.0%	89.3%
MLS	97.4%	93.4%	79.8%	94.1%	95.5%	92.0%
MYA	88.1%	94.5%	76.6%	85.2%	92.2%	87.3%
PHI	95.1%	93.0%	80.9%	97.4%	99.0%	93.1%
SGP	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
THA	98.9%	93.5%	78.1%	96.8%	95.6%	92.6%
VTN	94.8%	n.a.	79.5%	94.4%	89.4%	89.5%
AUS	100.0%					
CHN		94.1%				
IND			78.8%			
JPN				91.9%		
KOR					90.5%	
NZ	100.0%					
Average	**95.7%**	**94.7%**	**79.6%**	**92.8%**	**94.5%**	

Notes: HS2007 version, HS 6-digit base. Data on Viet Nam under the ASEAN-China are missing. Data on Myanmar under the ASEAN-China FTA are also missing for HS01-HS08.
Source: Kuno (forthcoming)

In addition to the levels of tariff elimination commitments, we need to consider the end-years of the transition periods in the respective FTAs. If tariff elimination for the RCEP takes a much longer time than the current ASEAN+1 FTAs, most users in AMSs would not be able to enjoy the fruits of the RCEP until its completion. **Table 2** shows the tariff elimination target years under the ASEAN+1 FTAs. The FTA Partners in the tables correspond to Australia and New Zealand for AANZFTA, China for ACFTA, India for AIFTA, Japan for AJCEP, and Korea for AKFTA. Columns for "Elimination" show the target years for tariff elimination to reach the elimination coverage ratios summarized in **Table 1.** China, Korea and most ASEAN-6 countries had reached the targets in ACFTA and AKFTA in 2012 while more time is needed in the other FTAs and for CLMV countries. India applies different target years vis-à-vis AMSs in accordance with the countries' schedule.

Table 2: Tariff Elimination Target Years under the ASEAN+1 FTAs

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

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

Source: Authors.

3.1.2. "Common Concession" and the Level of Commitment

All ASEAN+1 FTAs, except for AIFTA, require a "common concession" approach from the members. Under common concessions, a country should open up the same products to all the members of the FTA. In other words, a country should strategically focus its policy discretion, which is allowed for its sensitive industries, on a more limited number of products. Assuming 95% tariff elimination is the target in the RCEP, for example, a country can choose up to 5% of products to protect (roughly 250 tariff lines at the HS 6-digit level), while opening up the rest. **Table 3** helps understand the current situation. We count a product as "eliminated to all" when an AMS has committed to eliminate the tariff on the product in all five ASEAN+1 FTAs. On the other hand, if an AMS has not committed to eliminate a tariff to any FTA Partners in the five ASEAN+1 FTAs, those products are classified as "protected to all". In between are "depends on FTA" products: an AMS has committed to eliminate a tariff vis-à-vis some FTA Partner(s) but not in the case of other(s). For example, Brunei is eliminating tariffs on HS391721 (Tube, pipe or hose, rigid, of polyethylene) to all the six FTA Partners ("eliminated to all"). On the

other hand, Indonesia has not committed to eliminate tariffs on the same product to any FTA Partner ("protected to all"). Myanmar's tariff on the same product is mixed: the tariff is eliminated vis-à-vis Korea and India, but not for Australia, New Zealand, China, and Japan ("depends on FTA").

With the exception of Singapore, the share of "eliminated to all" tariff lines, as committed to by AMSs, is less than 95%, and eight countries score even lower than 80%. This suggests that under the 95% ambition of RCEP, all the AMSs except for Singapore will need to make extra efforts to increase their respective shares of "eliminated to all" products. Even though it might be politically difficult, it is encouraging to see that AMSs consistently protect only 0.9% on average of tariff lines vis-à-vis all the FTA Partners. In other words, they have already opened up 99.1% of product markets to at least one FTA Partner. The challenge is how ASEAN can reduce the number of "depends on FTA" products, which currently occupy 25.8% on average.

Table 3: Distribution of Tariff Lines by Liberalization Status

	% of "eliminated to all" products	% of "depends on FTA" products	% of "protected to all" products
Brunei	84.1	15.9	0.0
Cambodia	64.3	35.3	0.4
Indonesia	46.0	52.8	1.2
Lao PDR	68.0	31.6	0.4
Malaysia	76.0	22.9	1.1
Myanmar	66.6	31.8	1.6
Philippines	74.6	24.4	1.0
Singapore	100.0	0.0	0.0
Thailand	75.6	24.3	0.1
Viet Nam	78.1	19.1	2.8
Average	73.3	25.8	0.9

Note: Based on HS2007 version, HS 6-digit base. Data on Viet Nam under the ASEAN-China FTA are missing. Data on Myanmar under the ASEAN-China FTA are also missing for HS01-HS08.
Source: Kuno (forthcoming)

3.2. Rules of Origin[11]

The ROOs are integral to any FTAs. The ROOs should be designed not simply to prevent trade deflection but to be as business-friendly as possible if the FTA preferential treatment is to be useful. The ASEAN+1 FTAs use four basic rules to

determine the origin of the product: Wholly-Obtained (WO), Regional Value Content (RVC), Change in Tariff Classification (CTC), and Specific Process Rule. These rules could be used singly or in some combination, whether as options (so-called 'co-equal rules') or jointly (all rules to be satisfied). The agreements would provide for a 'general rule', with Product Specific Rules (PSRs) negotiated and spelled out in an Annex to the Agreement. There are two key observations about the features and characteristics of ROOs of the ASEAN+1 FTA, as follows:

1. There are numerous types of ROOs used. (See **Table 4**) This is even after grouping together similar types under one category. A lot more variations exist within each grouping. The variations come from the following:
    a. Some combination of rules – co-equal or jointly;
    b. For the Specific Process Rule, different specific processes required;
    c. For RVC, variation in cut-off level;
    d. For CTC, variation in the level of classification where change is required, e.g., change in chapter (CC), change in tariff heading (CTH), and change in tariff subheading (CTSH); and,
    e. Additional specific requirements, e.g., CTSH 'except change coming from some classification, or provided the materials are sourced'.

2. "RVC(40) or CTH" is the general rule for ATIGA, AANZFTA, AJCEP and AKFTA. For ACFTA, the general rule is RVC(40). For AIFTA, the general rule is the dual rule, RVC(35)+CTSH, which is considered the most restrictive as both rules need to be complied with. ATIGA has been undertaking ROO reforms, coming up with PSRs that are generally intended to encourage better utilization of the FTA. As a result, it has more HS lines using "RVC(40) or CTSH," more liberal than the general rule "RVC(40) or CTH".

Table 4: Frequency by Type of ROOs Used in ASEAN+1 FTAs (HS2002)

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

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

Source: Medalla (forthcoming)

The next step is to assess how much convergence exists among these FTAs in terms of product lines. **Figure 1** provides an overview of commonality in ROOs. ROO divergence is the highest in the textile and garments chapters (Chapters 50-63), with so many specific process rules, followed by agriculture (Chapters 1-27). This

is probably because these are commonly considered ‘sensitive’ sectors for all countries. In the automotive sector (Chapter 87), there is higher convergence, but using a single rule of RVC(40). Considering the number of different parts and components involved in automotive production, this rule may be sufficient, as a CTC rule would require not only listing of numerous inputs requiring change in tariff classification, but would require higher levels of classification (higher even than CTSH) to make it non-restrictive. Outside these product groups, however, substantial ROO convergence could be discerned. There is convergence for 4 FTAs at “RVC(40) or CTH” or better for more than 78% of HS lines in the other subgroups.

Also, the convergence of ASEAN+1 FTAs can be observed in terms of operational certification procedures (OCPs). All the ASEAN+1 FTAs allow back-to-back certificate origin, third country invoicing as well as accumulation of inputs from parties, provided that inputs pass origin criteria. ATIGA further allows partial accumulation, if at least 20% of the regional value content comes from the member countries. As for the CTC criterion, *de minimis* rules are used with slight variations across the various FTAs.

Figure 1: Commonality in ROOs (HS2002)

Source: Authors.

3.3. Services[12]

3.3.1. Services Restrictiveness (the Hoekman Index) of AFAS and ASEAN+1 FTAs

Some of the services sectors are essential to supporting production networks in the region. Also, high-quality services sectors are fundamental elements of people's wellbeing that nurtures human capital. Services sectors should not simply be an absorber of redundant labor but must become a central player in innovative activities.

While there has been a delay in the WTO-based liberalization of trade in services, the East Asian countries have been in the process of establishing preferential plurilateral FTAs with a wide coverage fit for regional community building.

The services chapters of existing ASEAN+1 FTAs adopt GATS-style reporting, which enables direct comparison among GATS commitments and other ASEAN+1 FTAs.[13] Hoekman (1995) proposes an indexation method for measuring the GATS-style degree of commitments in the services sector. This method assigns values to each of 8 cells (4 modes and 2 aspects--market access (MA) and national treatment (NT)--), as follows: first assign the value 1 when the sector at issue is "fully liberalized"; 0.5 when "limited (but bound)"; 0 when "unbound" (government has not committed to liberalize) by sub-sector, by mode, and by aspect (market access and national treatment), and take the simple average for aggregation; then calculate the average value by services sector and by country. The higher the figure, the more liberal are the country's services trade commitments to the FTA members.

Table 5 reports the result by FTA. "Total" means the score based on the simple average of the Hoekman Index derived from 155 sub-sectors. "WTO Plus" is the difference between commitments under FTAs and those under the GATS, meaning "additionality" to the WTO. As is shown, most countries have commitment levels of less than 0.5, meaning that the "unbound (no commitment)" is dominant overall. With the patterns of commitments differing greatly across the signatory countries, there is an obvious policy direction that more commitments should be made in the foreseeable future.

Table 5: WTO Plus in AFAS and ASEAN+1 FTAs (in terms of the Hoekman Index)

	AFAS(5)		AFAS(7)		AANZFTA		ACFTA		AKFTA	
	Total	WTO+	Total	WTO+	Total	WTO+	Total	WTO+	Total	WTO+
Brunei	0.17	0.15	0.23	0.20	0.18	0.15	0.05	0.02	0.08	0.06
Cambodia	0.40	0.03	0.41	0.04	0.51	0.14	0.38	0.01	0.38	0.01
Indonesia	0.18	0.12	0.36	0.30	0.29	0.22	0.09	0.03	0.18	0.11
Lao PDR	0.09	NA	0.34	NA	0.24	NA	0.02	NA	0.07	NA
Malaysia	0.22	0.12	0.34	0.24	0.31	0.21	0.11	0.01	0.20	0.10
Myanmar	0.20	0.18	0.36	0.33	0.26	0.23	0.04	0.01	0.06	0.03
Philippines	0.22	0.12	0.33	0.23	0.26	0.17	0.11	0.02	0.17	0.08
Singapore	0.28	0.17	0.39	0.28	0.44	0.33	0.30	0.19	0.33	0.22
Thailand	0.30	0.07	0.50	0.26	0.36	0.12	0.25	0.02	NA	NA
Viet Nam	0.31	0.04	0.38	0.11	0.46	0.19	0.34	0.07	0.32	0.05
ASEAN Average	**0.24**	**0.11**	**0.36**	**0.22**	**0.33**	**0.20**	**0.17**	**0.04**	**0.20**	**0.08**
Australia					0.52	0.18				
New Zealand					0.51	0.26				
China							0.28	0.04		
Korea									0.31	0.09

Notes: Based on Specific Commitments and some Horizontal Commitments (where explicit reference is made in Specific Commitments). AFAS (ASEAN Framework Agreement on Services), as a living agreement, moves toward deeper commitments by releasing new "packages" almost every year; AFAS5 means its package 5, while AFAS7 means its package 7. ACFTA does not cover the second package.

Source: Ishido (forthcoming)

The Hoekman Index for AFAS package 5 (0.24) is below ASEAN's commitments in AANZFTA (0.33). Australia and New Zealand cannot gain anything from RCEP if AFAS package 5 is used as the basis for negotiation. Likewise, all the FTA Partners analyzed in this study have committed to higher levels of liberalization than AFAS package 5. As such, ASEAN can gain very little or nothing if AFAS package 5 sets the standard for RCEP negotiation. On the other hand, the level of liberalizations in AFAS package 7 is much higher than the one in package 5. ASEAN's average score is higher than ASEAN's commitments in AANZFTA (0.33), ACFTA (0.17), and AKFTA (0.20). Thus, the four FTA Partners who currently have services chapters in their respective ASEAN+1 FTAs can enjoy a higher level of services trade liberalization when AFAS package 7 sets the standards. Under AFAS package 5, the sector with the largest average WTO Plus component is Construction (03), and the additionality is 0.31. Under AFAS package 7, Construction (03) and Health (08) both have the largest WTO

Plus component of 0.32. In ACFTA and AKFTA, we observe that there were no or small additional commitments made, neither by the FTA Partners nor by ASEAN. The same result can be observed in the treatment of foreign investment, where ASEAN allows greater mobility to ASEAN investors than ACFTA and AKFTA do to their FTA partners (Lim & Thangavelu, forthcoming).

It is encouraging to note in this context that actual regulation is much more liberal than the commitments: there is much "water" in between mainly for the purposes of keeping policy discretion (Lim & Thangavelu, forthcoming), which suggests some possibility for higher liberalization commitments in the RCEP negotiation.

3.3.2. Contents of Limitations under AFAS and ASEAN+1 FTAs

Descriptions of limitations in the specific commitment tables under each of the five ASEAN+1 FTAs can be captured by the following GATS-style categorization:

A: Limitations on the number of service suppliers whether in the form of numerical quotas, monopolies, exclusive service suppliers or the requirements of an economic needs test;

B: Limitations on the total value of service transactions or assets in the form of numerical quotas or the requirement of an economic needs test;

C: Limitations on the total number of service operations or on the total quantity of service output expressed in terms of designated numerical units in the form of quotas or the requirement of an economic needs test;

D: Limitations on the total number of natural persons that may be employed in a particular services sector or that a service supplier may employ and who are necessary for, and directly related to, the supply of a specific service in the form of numerical quotas or the requirement of an economic needs test;

E: Measures which restrict or require specific types of legal entity or joint venture through which a service supplier may supply a service; and,

F: Limitations on the participation of foreign capital in terms of maximum percentage limit on foreign shareholding or the total value of individual or aggregate foreign investment.

The six categories of limitations are in line with GATS Article XVI on market access. While these categories are not mutually exclusive, an attempt has been made to classify the contents of limitations by assigning one or more of these characterizations as appropriate. **Table 6** shows the overall comparison among AFAS (both packages 5 and 7) and the three ASEAN+1 FTAs. As is shown, AFAS package 7,

ACFTA, and AKFTA present similar patterns, indicating that merging these three FTAs looks relatively feasible in terms of the categories of limitations used in each. AANZFTA is rather different, having the largest number of limitations with its most dominant limitation being D (limitations on the total number of natural persons). This agreement alone has a separate chapter on the movement of people, in which the labor-related restriction, D, is by far the most dominant.

Table 6: Frequency of limitations under the five ASEAN+1 FTAs

FTA	A	B	C	D	E	F	Total
AFAS(5)	26	0	2	263	378	268	1,400
AFAS(7)	1	0	1	345	477	359	1,446
AANZFTA	0	0	0	3,587	364	163	4,217
ACFTA	0	0	0	32	123	71	256
AKFTA	14	0	1	154	406	169	914
Total	41	0	4	4,381	1,748	1,030	8,233

Notes: Symbols A-F denote the limitations indicated in the boxed text above.
Source: Ishido (forthcoming)

An overall common observation, apart from the distinction of AANZFTA, is the dominant use of D (limitations on the total number of natural persons), E (measures which restrict or require specific types of legal entity), and F (limitations on the participation of foreign capital). Narrowing the types of limitations with these three measures and reducing their frequency and restrictiveness[14] as the main convergence pillars could serve as a feasible policy option. This approach will help increase the transparency of limitations to trade in services, especially when requiring all other types of limitation is eliminated as much as possible.

3.4. Utilization Rates of FTAs

Utilization rate is a key issue in any FTA. A survey by JETRO on Japanese affiliates in ASEAN found that 56% of companies using FTAs utilize only one FTA. Furthermore, many firms still do not use even one FTA. In 2010, the ratios of FTA-applied exports in the total exports to ASEAN from Thailand and Malaysia were 32% and 18%, respectively. ADB conducted a survey on the FTA usage of 607 companies in East Asia, including Japan, Korea, the Philippines, Singapore and Thailand. Only 22% of the responding companies used FTAs (Kawai & Wignaraja

2008). Some companies reported that the reasons for not using FTAs were the existence of other tariff exemption schemes such as ITA, duty-drawback, GSP or investment incentives. However, many companies, especially SMEs answered that they had difficulty in learning about and using even one FTA. Hayakawa (2012) examined the factors affecting the usage ratio of FTAs using the survey data on Japanese affiliates in ASEAN and found that firms with 10% larger employment have around a 12% higher probability of using FTAs. Hayakawa (2012) concluded that this scale-merit effect has most effect on the usage ratio of FTAs and supported the observation that SMEs have difficulty in using FTAs.

Firms are facing the noodle-bowl problem with current FTAs, even when they want to export to only one country. There is an example in the case of AJCEP and the Japan-Viet Nam Economic Partnership Agreement (JVEPA). From October 2009 to March 2010, 3,486 tariff lines had lower preferential rates in AJCEP and 1,364 tariff lines were lower in JVEPA. From April 2010 to March 2011, the number of tariff lines for which AJCEP was lower decreased to 3,298 while those in JVEPA increased to 1,843. This example reveals that firms have to check the tariff rates every year and sometimes need to change FTA to enjoy the lowest rate, whilst also taking into consideration other factors such as ease of ROOs, MFN tariffs,[15] and other schemes. This problem seems very likely to raise the administration costs of firms.

Hayakawa (2012) also discussed the issue of low utilization of various FTAs by SMEs. Firms who already have experience in FTA utilization have around 42% point higher probability of using FTA schemes when they export to other countries. Combining this finding with the observation that SMEs have difficulty in learning about even one FTA, we suggest that large firms can more easily learn about FTAs and are likely to enjoy benefits from various FTAs in their exports to various countries while many SMEs cannot use even one FTA.

4. Impacts of ASEAN+1 FTAs and the RCEP[16]

4.1. Introduction

This section provides an evaluation by Itakura (2013) of the impacts of liberalization, and improved connectivity and facilitation in ASEAN, which have been implemented or will be accomplished in the near future in East Asia. It uses the Dynamic GTAP model developed by Ianchovichina & McDougall (2001), which is an extended framework of the GTAP Data Base version 7.1 (Narayanan & Walmsley, 2008), as the fundamental input to our analysis. The GTAP Data Base version 7.1 covers 112 countries/economies/regions and 57 sectors in production, international trade, protection, and consumption, correspond to the year 2004. It aggregated the GTAP Data Base to 22 countries/regions and 23 sectors. In these simulations, Brunei corresponds to the "Rest of Southeast Asia" which includes Brunei and Timor-Leste. We could not conduct the simulations for Myanmar because of the limitation that Myanmar is included in the "Rest of the World."[17] It relied on variety of database and estimates from international organizations, research institutions, and researchers in this area of the study. It mainly has three policy parameters: tariffs, services trade barriers and time cost of trade.

4.2. Simulated Impacts of the ASEAN+1 FTAs and the RCEP

This section describes simulation design and policy scenarios. The baseline scenario is built on the projections of population (U.S. Census Bureau, 2011), real GDP (IMF, 2011), and labor (ILO, 2011) so that all the projections are closely tracked by the Dynamic GTAP model.

Baseline Scenario:

- Baseline Scenario

Policy Scenarios:

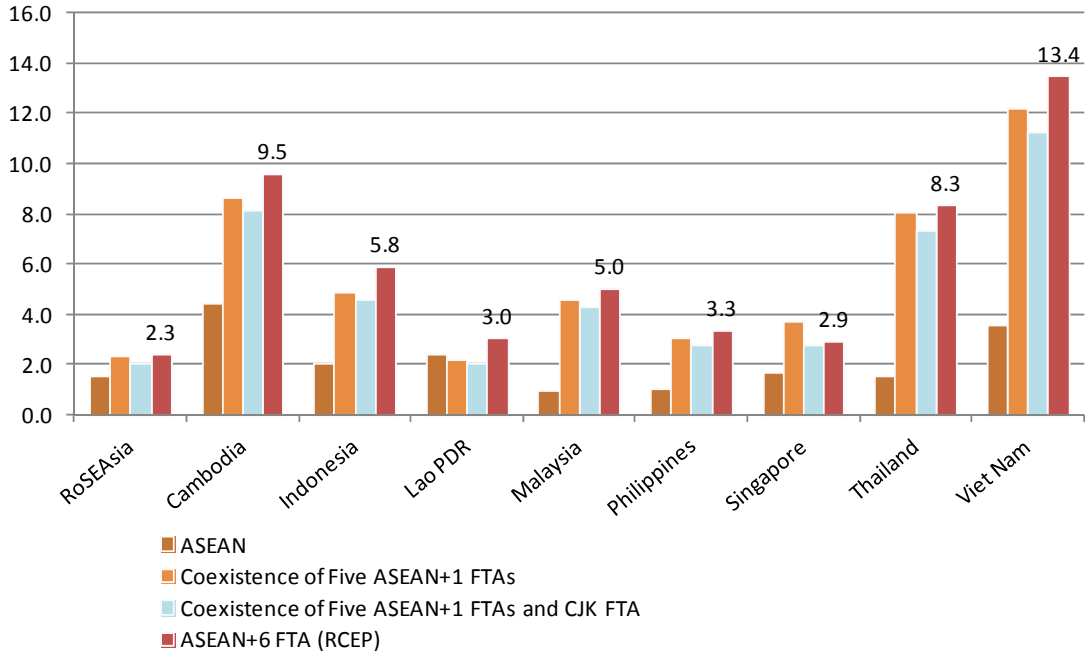
- ASEAN: FTA among AMSs
- Coexistence of AANZFTA, ACFTA, AIFTA, AJCEP and AKFTA
- Coexistence of 5 ASEAN+1 FTAs and China-Japan-Korea FTA

- ASEAN+3: ASEAN + China + Japan + Korea
- ASEAN+6 (RCEP)[18]: ASEAN + China + Japan + Korea + Australia + India + New Zealand

In each policy scenario, Itakura (2013) assumes all policy measures including (a: Tariff) complete elimination of the tariffs over the specified period of time, (b: Services) reduction of ad valorem equivalents of service trade barriers by 20%, and (c: Time) improvements in logistics, cutting the ad valorem time by 20%. In "Coexistence of five ASEAN+1 FTAs" and "Coexistence of five ASEAN+1 FTAs and CJK FTA" scenarios, it assumes a lower level of services liberalization, relatively restrictive ROOs and different ROOs and OCP adopted by ASEAN+1 FTAs, as in Ando & Urata (2007) and Ando (2009)[19]. Under ASEAN+3 and ASEAN+6, higher level of services liberalization, as in the FTA among AMSs, and unified ROOs applied to trade involving ASEAN+3 and ASEAN+6 members are assumed. Compared to the case of "Coexistence of five ASEAN+1 FTAs" and "Coexistence of five ASEAN+1 FTAs and CJK FTA", trade cost is assumed to be lower under ASEAN+6 because of the absence of the noodle-bowl effect.

Figure 2 summarizes the impact of various FTAs on GDP for AMSs. Impact is evaluated in percentage point deviation from the baseline, accumulated from 2011 to 2015. Compared with the baseline scenario, FTAs involving ASEAN countries will provide positive economic impacts on all AMSs. Moreover, the coexistence of all ASEAN+1 FTAs creates higher economic impacts than ASEAN's FTA, except for Lao PDR. If there is a CJK FTA on top of the 5 ASEAN+1 FTAs, ASEAN's impacts will be lower than the previous scenario. The CJK FTA does not involve ASEAN countries, so ASEAN countries will suffer from adverse effects. The ASEAN+6 FTA will provide most benefit for most AMSs.

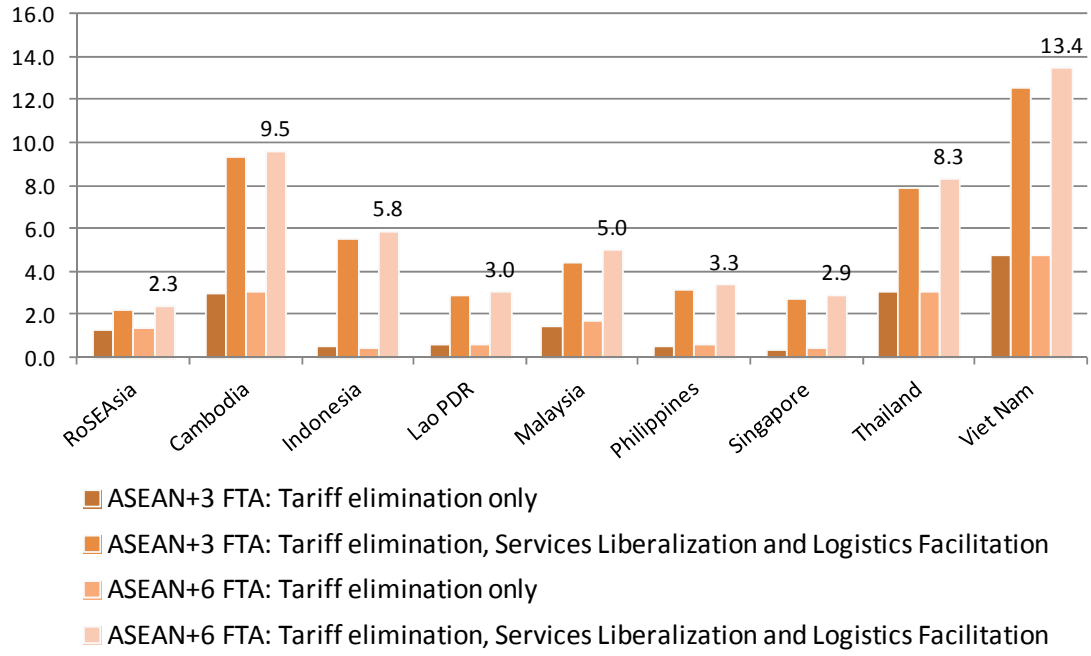
Figure 2: Economic Impact of ASEAN's FTA and Five ASEAN+1 FTAs (Percentage Point, Accumulated from 2011 to 2015)



Source: Itakura (2013).

Figure 3 clearly shows the importance of wider geographical coverage and the combination of tariff elimination, services liberalization and logistic improvement. The ASEAN+6 FTA gives larger economic impacts on AMSs than the ASEAN+3 FTA (and any of the ASEAN+1 FTAs).[20] This result supports the results by Kawai & Wignaraja (2007) and Ando (2009) which claimed that the ASEAN+6 FTA brought larger impacts on AMSs than the ASEAN+3 FTA.[21] The ASEAN+3 FTA and ASEAN+6 FTA scenarios, combining elimination of the tariffs, 20% reduction of ad valorem service trade barriers and 20% reduction of ad valorem logistics time, have much larger impacts than the "Tariff elimination only" scenarios.[22]

Figure 3: Comparison of Economic Impacts between "Tariff Reduction Only" and "Tariff Reduction with Other Liberalizations" (Percentage Point, accumulated from 2011 to 2015)



Source: Itakura (2013).

5. Conclusions and Policy Recommendations

Conclude a Comprehensive and High-level RCEP by 2015

ASEAN should pursue the RCEP for three main reasons; (a) the liberalization level of the current ASEAN+1 FTAs is not satisfactory, (b) a noodle-bowl situation impedes the utilization of FTAs, and (c) the competition from other initiatives may erode the "ASEAN Centrality".

This reasoning for the RCEP will lead us to three major points to take into consideration in designing the new architecture. First, the RCEP should aim at a "respectable" FTA, i.e., high-level and comprehensive. In order to bring additional and real gains for ASEAN countries, the RCEP should aim at a higher level than the contents of the current ASEAN+1 FTAs in terms of tariff, ROOs, trade facilitation, services, investment and economic cooperation. Other issues such as IPR protection and competition policy are increasingly important under the *second unbundling* of

economies (Kimura, 2012). Secondly, the new RCEP regime should introduce as many convergent rules as possible so that the noodle-bowl situation will be eased. This applies to all the chapters: common concessions in tariff structure; clear definition and approach in non-tariff barriers (NTBs); a general rule in ROOs; a region-wide approach in trade facilitation and economic cooperation; and fewer types of limitations in services regulation. Lastly, ASEAN should take the lead in making the new framework more attractive than its rivals, i.e., CJK FTA and TPP, so that it can maintain the "ASEAN Centrality". The speed of RCEP negotiation will also be a key in creating an attractive package. ASEAN should move more quickly than other initiatives, and with a clear goal, e.g., conclusion of RCEP negotiations by 2015.

Set a Target of 95% Tariff Elimination with a "Common Concession" Approach

Facing significant challenges by TPP, which in principle aims for 100% tariff elimination, ASEAN should set an ambitious level of tariff elimination, at least 95% tariff elimination after a transitional period. The 95% criterion will require a number of countries, both ASEAN member countries and FTA Partners, to make further tariff eliminations. On the other hand, this implies room for additional gains arising from the RCEP, despite the existence of ASEAN+1 FTAs.

Another challenge in the ASEAN+1 FTA tariff component can be found in the divergence of each ASEAN members' tariff commitments. ASEAN countries have thus far opened up their markets for different products to different FTA Partners. In order to create a simple, transparent and user-friendly FTA, the RCEP should adopt a "common concession" approach, not a bundle of schedules or exclusion lists for every possible bilateral combination among the member countries.[23] Another advantage of a "common concession" approach can be found in cumulation. If tariff schedules are different from country to country even within the RCEP members, regional cumulation rules will become highly complicated and may bring unpredictable impacts on members' economies.

At the same time, the RCEP should provide certain principles for sensitive products. The value of the new pact would become limited even if 95% of tariffs were eliminated, if the other 5% remain very high. Therefore, as in the ATIGA and the ASEAN+1 FTA, a sensitive track approach should be taken to accelerate tariff liberalization, while at the

same time allowing flexibility.

Introduce the "Core NTMs" Concept and Remove Them as much as Possible

The value of tariff elimination will be impaired if Non Tariff Barriers (NTBs) persist or are newly introduced. Although the ATIGA requires NTBs to be eliminated, substantial progress has not been made, due to lack of clear definition of "NTBs". As a result, the Coordinating Council for the Implementation of the ATIGA (CCA) is now discussing ways to identify the "non-tariff measures (NTMs) with barrier effects" (ERIA, 2012). The RCEP should prevent such a situation by clarifying the types of NTBs (or NTMs with barrier effects, alternatively) to be eliminated at the implementation of the new initiative. Recognizing that not all NTMs lack rationales, ERIA is proposing to introduce the concept of "core NTMs" (ERIA, 2012). These measures include quantity control measures, such as import quotas, *de-facto* quantity control mechanisms through state trading systems, or non-automatic licensing schemes. Although all the ASEAN+1 FTAs deal with the NTB issues to a certain degree, the provisions pertaining to WTO rule consistency or transparency clauses are even more general than those in ATIGA (Pellan & Wong, 2011). The NTB issue should be duly considered by the RCEP Working Group on Trade in Goods.

Allow Co-equal Rules in the ROOs, Set a General Rule of "RVC(40) or CTH" as much as Possible, and Develop Consolidated OCPs

The RCEP negotiation will provide a precious opportunity to ease the complexity in ROOs, by using business-friendly co-equal rules as much as possible. First of all, the RCEP should utilize "RVC(40) or CTH" as the general rule, supplemented by alternative (more liberal) rules. This approach is essential for improvement in production networks. ASEAN firms are not fully benefiting from the ASEAN+1 FTAs due to restrictive ROOs, especially those in ACFTA and AIFTA.

In addition to the rules themselves, we should also seek an easing of restrictiveness in ROO administration. While a high level of similarities is observed in the ASEAN+1 FTAs, there remain substantial differences in details. An ROO template should use a liberal cumulation rule.

Furthermore, members should consider applying the new consolidated ROOs in the

RCEP to the existing ASEAN+1 FTAs. If the same ROOs apply in the ASEAN+1 FTAs and the RCEP, it will significantly improve the noodle-bowl situation, and thus potentially reduce the transition and administrative costs associated with the ROOs. In this sense, adopting consolidated and business-friendly operational certification procedures is also indispensable.

Introduce Concrete and Tangible Trade Facilitation Programs and Address FTA Utilization Issues

As the simulation results in Section 4 showed, trade facilitation is known to have positive economic impacts, even larger than those of additional tariff elimination. Trade facilitation is an emerging success story in ASEAN, especially with the targets of National Single Windows and the ASEAN Single Window by 2015 (ERIA, 2012). In addition, ASEAN is taking several more key initiatives in this area, including common tariff nomenclature (known as AHTN), and the ASEAN Trade Repository and trade facilitation agreements. On the other hand, the current ASEAN+1 FTAs have only general provisions and lack specific work programs on trade facilitation, with the outstanding exception of the AANZFTA covering paperless trading, risk assessment, advance rulings and Single Windows (Pellan & Wong, 2011). The RCEP should contain concrete and tangible trade facilitation programs to maximize its economic impacts, learning from the successes and challenges in AEC efforts.

One important area should pertain to FTA utilization. The current utilization rates of FTAs have not yet reached a satisfactory level. FTA utilization rates are affected by marginal tariff margins, costs of compliance with rules of origins, as well as time costs for understanding the FTA structure. Reducing the barriers for firms trying to understand a variety of trade-related rules existing in the region, with wider coverage of countries, by providing not only FTA-related information but also broad areas of trade-related policies such as technical regulation is important.

Commit to Liberalize Trade in Services at a High Level (e.g., at the level of AFAS Package 7)

The AMSs should aim at an ambitious level of services liberalization, much higher than the ambition expressed in AFAS package 5 (e.g., as high as AFAS Package 7).

Therefore, in making specific commitments in each subsector and mode, the RCEP members should seek and make tangible commitments that are “plus” to their respective WTO GATS commitments as well as existing ASEAN+1 FTAs. Also, they should create utmost transparency by narrowing the types of limitations allowed in the RCEP.

The RCEP members should prioritize the services sectors which contribute to strengthening East Asia’s link with the global production networks, i.e., to create “supporting industries” in services. Such industries should include ASEAN’s “priority sectors” stipulated in the AEC Blueprint, e.g., air transport, e-ASEAN, and logistics services. In addition, transportation, distribution, telecommunication, and financial services should also be in focus, since these sectors will surely expedite the construction of what is called “regional supply chains” in East Asia.

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ENDNOTES

[1] This paper elaborates the findings of ERIA's FTA Mapping Study Projects (2010 and 2011) and several other ERIA projects. The authors appreciate the contributions (paper and/or discussion) of Chang-Jae Lee, Shujiro Urata, Fukunari Kimura, Christopher Findlay, Ponciano Intal, Hikari Ishido, Ken Itakura, Arata Kuno, Hank Lim, Dinonisius Narjoko, Erlinda M. Medalla, Misa Okabe, Shandre Mugan Thangavelu, and all the participants in the relevant ERIA workshops.

[2] Corresponding author (yoshifumi.fukunaga@eria.org).

[3] ASEAN 10 countries, China, Japan, Korea, Australia, India and New Zealand.

[4] General Agreement on Trade in Services (GATS) of the WTO.

[5] "FTA Partners" refer to the Dialogue Partners which have already signed their respective ASEAN+1 FTAs, namely Australia, China, India, Japan, Korea and New Zealand.

[6] One may argue that information cost is particularly large when a firm learns its first ROO protocol, and thus that the information cost problem is different in nature from the typical "noodle-bowl" situation. However, a firm faces a challenge in selecting the first ROO protocol to learn when there co-exist several ROOs. A common and business-friendly ROO at a regional level (i.e., RCEP) will reduce this "selection cost". In this paper, we include this problem as a type of "noodle-bowl" situation.

[7] In addition, the Philippines and Thailand have indicated their interests in joining the TPP negotiation.

[8] In addition, the inclusion of Hong Kong in the ACFTA is under discussion.

[9] The EAFTA Phase I Report was submitted in 2006. The CEPEA Phase I Report was concluded in 2008.

[10] This subsection is modified from Fukunaga & Kuno (2012).

[11] This subsection is excerpted and modified from Medalla (forthcoming).

[12] This subsection is modified from Ishido & Fukunaga (2012).

[13] The analysis of ACFTA is based on the first package. The other two ASEAN+1 FTAs, namely AIFTA and AJCEP, currently do not have services chapters.

[14] For example, AFAS reduces the restrictiveness in foreign share in accordance with the AEC Blueprint.

[15] JVEPA stipulate a rule that MFN tariff for a product will apply if the MFN tariff is lower than the FTA preferential tariff.

[16] See Itakura (2013) for details of this section.

[17] Myanmar is discussing developing its statistics framework, according to ERIA's communication with Myanmar.

[18] The original negotiation members of RCEP are the ASEAN+6 countries. Thus this scenario is the one which most resembles the RCEP scenario.

[19] We assume the reduction of the ad valorem equivalents of service trade barriers and the ad valorem time is 10 %.

[20] One may claim that the differences between ASEAN+3 and ASEAN+6 are insubstantial. This is partly due to the limitation of the assumption of small trade volume between ASEAN and India in the base year, 2004. We have seen a significant increase of ASEAN-India trade in recent years so the simulated impacts may become larger if we adopt the updated trade data. Also, because Dynamic GTAP captures cumulated impacts via investment growth, the economic impacts can be larger if we extend the target years toward 2016 and further.

[21] Kawai and Wignaraja (2007)'s simulation argued that in the ASEAN+6 scenario ASEAN will get 5 billion USD or 0.43 % point more than in the ASEAN+3 scenario in the baseline year.

[22] Ando (2009) uses simulations to show that economic cooperation in FTAs also creates larger economic impacts on AMSs.

[23] If all the AMSs and the FTA Partners, i.e., 16 countries, join the RCEP, this combination will mean 240 tariff schedules (16 countries have 15 schedules). Even assuming one common schedule vis-à-vis ASEAN, the RCEP would still have 106 tariff schedules (10 AMSs have 7 schedules (1 for ASEAN and 6 for the FTA Partners), and the 6 FTA Partners will have 6 schedules (1 for ASEAN and 5 for the other FTA Partners, respectively)).

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