

# Policy Brief

## Toward a Consolidated Preferential Tariff Structure in East Asia: Going beyond ASEAN+1 FTAs\*

By Yoshifumi Fukunaga and Arata Kuno

1. Level of Tariff Elimination in ASEAN+1 FTAs
2. "Common Concession" and the Level of Commitment
3. Possibility for Special and Differentiated Treatments
4. Approaches to Non-tariff Barriers
5. Policy Recommendations

*ASEAN countries are discussing a possible template for trade in goods chapter of so-called ASEAN++ FTA (also known as RCEP). Analyses of tariff structures under the current ASEAN+1 FTAs give insights on possible approaches as well as challenges in this discussion. To meet 90% or 95% tariff elimination thresholds, both ASEAN countries and their FTA partners should make further efforts. When a "common concession" approach, which we advocate in this paper, is applied, the challenge becomes even larger as member countries should focus their policy discretion on a more limited number of sensitive products. These challenges, on the other hand, mean room for additional gains for potential users of the new agreement despite the existence of ASEAN+1 FTAs.*

### 1. Level of Tariff Elimination in ASEAN+1 FTAs

Tariff elimination will undoubtedly be one of the key components in the ASEAN++ FTA<sup>1</sup> under consideration and be essential in realizing the free movement of goods in this region. Yet, and needless to say, the member countries of the ASEAN++ FTA cannot enjoy additional noteworthy gains from the new agreement without further reducing or eliminating their tariffs, in addition to their commitments under the existing ASEAN+1 FTAs.<sup>2</sup> To meet this end, and to fulfill the "substantially all" requirement under the GATT Article XXIV, the ASEAN++ members should look at minimum 90% and possibly higher figure, e.g. 95%, as their targets in tariff elimination.

In the existing ASEAN+1 FTAs, six ASEAN countries have committed to eliminate tariffs in more than 90% of the products on average after the transition period, as shown in Table 1 (in terms of tariff lines of HS2007 version, on HS 6-digit base; average of the five

\* This is a slightly revised and updated version of ERIA Policy Brief 2012-03 meant to replace the original one issued in 2012. The original Brief is being replaced in view of new data and information that have recently become available and which the authors have been able to gather and re-compute. The information and data in this Brief are relevant and useful to the ongoing negotiations of the Regional Comprehensive Economic Partnership (RCEP), thereby necessitating the issuance of a revised version to replace the original Policy Brief albeit using the same number (2012-03).

- Copyright © 2012. Economic Research Institute for ASEAN and East Asia. All rights reserved.
- The views expressed in this publication are those of the author(s). Publication does not imply endorsement by ERIA of any of the views expressed within.
- You can download this policy brief at the ERIA website: <http://www.eria.org>
- Contact:  
TEL: +62-21-5797-4460  
FAX: +62-21-5797-4463

ASEAN+1 FTAs). The remaining four countries have lower than 90% tariff elimination: Cambodia (88.7%), Indonesia (83.3%), Laos (89.1%), and Myanmar (86.9%). While the average share of duty free tariff lines committed by Singapore and Brunei exceed 95% thresholds, it turns out that even Brunei's commitment vis-à-vis India under the AIFTA is lower than 90%.

The six FTA partners<sup>3</sup> have committed to eliminate more than 90% tariff lines vis-à-vis ASEAN countries, with the exception of India, i.e., 78.8%. However, if we adopt the 95% thresholds in the possible ASEAN++ FTA, even China, Japan, and Korea also

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 if there is currently no bilateral FTA between the two countries, such as in the cases of China-India, China-Japan, Japan-Korea, and India-New Zealand.

In short, the 90% or 95% criterion will require a number of countries, both ASEAN member countries and FTA partners, to make further tariff elimination. On the other hand, this implies room for additional gains of the ASEAN++ FTA, in spite of

**Table 1. Tariff Elimination Coverage by Country under ASEAN+1 FTAs**

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

Notes: Share of duty free tariff lines after the transition period based on the HS six-digit level of the HS2007 version. The following tariff schedules are originally based on HS2002 version and converted into HS2007: Indonesia in the AANZFTA, Lao PDR in the ACFTA, all ASEAN Member States in AJCEP, and Brunei, Malaysia, and the Philippines in AKFTA.

Source: Authors' calculations from Kuno (2011).

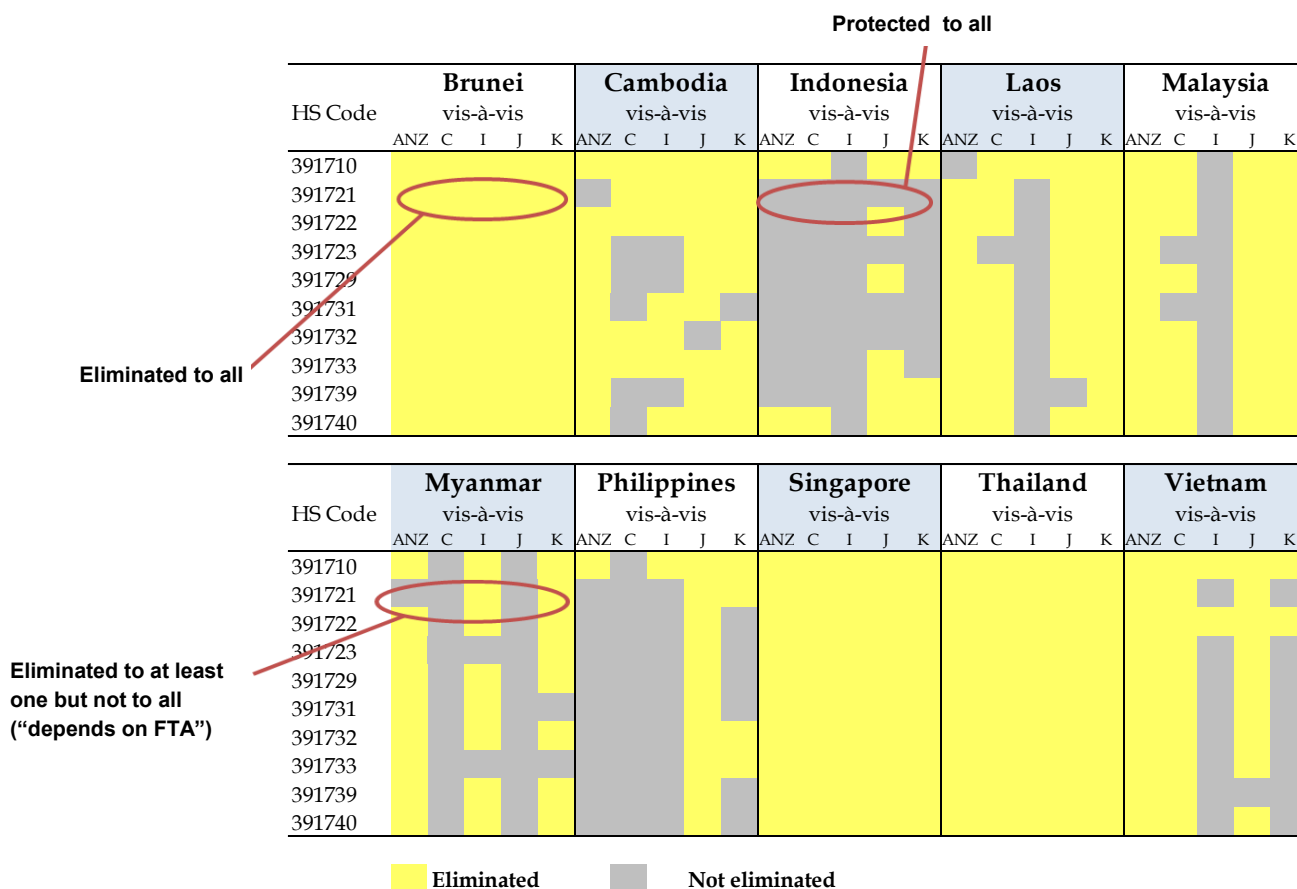
the existence of ASEAN+1 FTAs. In setting the tariff elimination thresholds, ASEAN should also consider the developments of competing initiatives for regional FTAs, especially the Trans-Pacific Partnership (TPP) which aims in principle at 100% tariff elimination. In order for ASEAN to maintain its “Centrality” in crafting a new regional architecture and to remain on the “driving seat,” ASEAN should set an ambitious level, at least 95% tariff elimination after a transition period.

## 2. “Common Concession” and the Level of Commitment

The ASEAN++ FTA should adopt a “common concession” approach,<sup>4</sup>

not a bundle of schedules or exclusion lists for every possible bilateral combination among the member countries,<sup>5</sup> in order to create a simple, transparent, and user-friendly FTA. When we have common concessions, a country should open up the same product markets to all the ASEAN++ members. In other words, a country should strategically focus its policy discretion, allowed for its sensitive industries, on a more limited number of products. Assuming 95% tariff elimination is the target, for example, a country can choose up to 5% of products to protect (roughly 250 tariff lines at HS 6-digit level), while opening up the rest. Figure 1 and Table 2 help

Figure 1. Examples of “eliminated to all”, “protected to all”, and “depends on FTA”



Source: Made by Ikumo Isono based on the ERIA's Data base

understand the current situation.

In order to analyze the gaps in meeting the 95% target under the common concession approach, we have categorized the current commitments into three types: “eliminated to all” ; “protected to all” ; and “depends on FTA”. If an ASEAN member country has committed to eliminate a tariff on a product vis-à-vis all the six FTA partners, Australia, China, India, Japan, Korea, and New Zealand, we count this as “eliminated to all” product. On the other hand, if a country has not committed to eliminate tariff to any FTA partners, those products are classified as “protected to all” products across the FTAs. In between are “depends on FTA” products: a country has

committed to eliminate a tariff vis-à-vis some FTA partner(s) but not to the other(s).

Figure 1 shows examples of the three categories. Brunei eliminates 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 fully 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 Australian, New Zealand, China, and Japan (“depends on FTA”).

ASEAN's average share of “eliminated to all” products in total

**Table 2. Distribution of Tariff Lines by Liberalization Status**

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

*Notes:* Share of duty free tariff lines after the transition period based on the HS six-digit level of the HS2007 version. The following tariff schedules are originally based on HS2002 version and converted into HS2007: Indonesia in the AANZFTA, Lao PDR in the ACFTA, all ASEAN Member States in AJCEP, and Brunei, Malaysia, and the Philippines in AKFTA.

*Source:* Authors' calculations from Kuno (2011).

number of products is 73.1%, ranging from 45.9% to 100% (Table 2). With the exception of Singapore, the shares of “eliminated to all” tariff lines committed by ASEAN member states are less than 95%, and eight countries score even lower than 80%. This suggests that under the 95% ambition, all the ASEAN member states except for Singapore need to make extra efforts to increase their respective shares of “eliminated to all” products. On the other hand, it is encouraging to see that ASEAN countries consistently protect only 0.8% on average of tariff lines vis-à-vis all the FTA partners. In other words, they have already opened up 99.2% 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 26.0% on average. We are not sure whether this is based on a strategic move of policymakers or depends simply on the course of discretionary negotiations. In any case, in the negotiation of the ASEAN++ FTA, ASEAN member countries should reconsider their strategy and strictly select the products (up to 5% or so, depending on the level of ambition) that are highly sensitive to trade liberalization.

This policy discretion does not mean that any level of tariffs is allowed. Indeed, both ASEAN+1 FTAs

and ASEAN Trade in Goods Agreement (ATIGA) are committed to lower tariffs as far as possible even if not eliminated. The same approach should be applied to the ASEAN++ FTA negotiation.

### **3. Possibility for Special and Differentiated Treatments**

Although the standard economic argument claims that a high level of tariff elimination is likely to benefit all participating countries, some countries may face political difficulties in achieving the target in the short run. There are two major policy options if member countries want to allow special and differentiated (S&D) treatments for certain countries. One is to set a lower threshold of tariff elimination, and the other is to allow a longer transition period. Most ASEAN+1 FTAs accept both measures for CLMV countries.<sup>6</sup>

It should be noted in this regard that allowing a lower threshold on a permanent basis does not necessarily benefit consumers or even exporters in those “treated” countries. Therefore, a longer transition period, instead of a lower threshold, should be considered more seriously as a means of providing S&D treatments. Even if it is impossible to go toward this direction, at least provisions on “automatic graduation” from or “renegotiation” on the treated country status should be incorporated

in the ASEAN++ FTA.

#### 4. Approaches to Non-tariff Barriers

The value of tariff elimination will be impaired if non-tariff barriers will persist or be introduced on the other hand. Although the ATIGA requires non-tariff barriers to be eliminated, substantial progresses have not been made, due to a lack of precise definition of "non-tariff barriers". ERIA proposes to introduce a clearer definition for non-tariff measures that are likely to have "barrier" effects (Intal, *et al.* 2011). Some non-tariff measures, such as para-tariff measures, automatic licensing, and technical regulations, are not necessarily recognized as barriers. Excluding these measures, ERIA proposes the term of "core non-tariff measures." These measures include quantity control measures, such as import quota, *de-facto* quantity control mechanism through state trading system, non-automatic licensing schemes, and others. The non-tariff barrier issue should surely be incorporated in the ASEAN++ FTA negotiation.

#### 5. Policy Recommendations

The ASEAN++ FTA will be valuable for its member countries only if it can provide additional gains on the top of the existing ASEAN+1 FTAs. To meet this end, all the parties, in the trade-in-goods chapter of the ASEAN++ FTA, should:

1. Aim at a high level of tariff elimination with 95% thresholds;
2. Take a "common concession" approach to make it simple and transparent;
3. Use policy discretion only on highly sensitive sectors, while substantially shifting "depends on FTA" products to "eliminated to all" categories;
4. Require a certain level of tariff reduction for sensitive products even if complete tariff elimination is not achievable;
5. Focus special and differentiated treatments, if truly necessary, on a longer transitional period arrangement rather than lowering tariff elimination thresholds; and,
6. Address non-tariff barrier issues by introducing a clear definition of non-tariff barriers.

---

<sup>1</sup> ASEAN Economic Ministers used the term of "ASEAN++ FTA" in their Joint Media Statement in August 2011 to refer to a possible future FTA to be developed by consolidating the existing ASEAN+1 FTA. Its membership is intentionally undefined while the ASEAN countries and their FTA partners are discussing the contents. Since the ASEAN Summit in November 2011, it is also called "RCEP" (Regional Comprehensive Economic Partnership). The ASEAN Summit, in this April, "looked forward to the launch of the RCEP negotiation" at the next Summit (i.e., November 2012).

<sup>2</sup> This study covers all the ASEAN+1 FTAs: ASEAN-Australia-New Zealand FTA, ASEAN-China FTA, ASEAN-India FTA, ASEAN-Japan Comprehensive Economic Partnership, and ASEAN-Korea FTA.

<sup>3</sup> ASEAN currently has six FTA Partners: Australia, China, India, Japan, Korea, and New Zealand.

<sup>4</sup> A "common concession" approach requires the adoption of a common concession system in which preferential tariff rates (concessions) committed by a member country are applied equally to other member countries.

<sup>5</sup> If all the ASEAN members and the FTA partners, i.e. 16 countries, join the ASEAN++ FTA, this combination will mean 240 tariff schedules.

<sup>6</sup> CLMV countries mean Cambodia, Laos, Myanmar, and Vietnam.

### **About the authors**

**Yoshifumi Fukunaga** is Senior Policy Coordinator, ERIA.

**Arata Kuno** is Associate Professor, Kyorin University.

### **References**

Intal, P., Narjoko, D., and Simorangkir, M (2011), "ERIA Study to Further Improve the ASEAN Economic Scorecard Phase II" (unpublished), ERIA.

Kuno, A. (2011) "Constructing the Tariff Dataset for the ERIA FTA Database." in Chang Jae Lee and Misa Okabe (eds.) *Comprehensive Mapping of FTAs in ASEAN and East Asia*. (to be posted at <http://www.eria.org>).

---

## **ERIA Policy Brief Series**

**No.2012-02:** Ishido, Hikari and Y. Fukunaga "ASEAN in the Global Economy—An Enhanced Economic and Political Role", March 2012

**No.2012-01:** Prakash, Anita and I. Isono "ASEAN in the Global Economy—An Enhanced Economic and Political Role", January 2012

**No.2011-04:** Itakura, Ken "The Economic Consequences of Shifting Away from Nuclear Energy", December 2011

**No.2011-03:** Isono, Ikumo and F. Kimura "Links with East Asia for a recovery from the Great East Japan Earthquake: Geographical Simulation Analysis", August 2011

**No.2011-02:** Tanaka, Kensuke "China's Ties with Southeast Asia: From Green Shoots to Sustained Recovery", January 2011

**No.2011-01:** Yamano, Norihiko, B. Meng, and K. Fukasaku "Fragmentation and Changes in the Asian Trade Network", January 2011.

**No.2010-02:** Fujimoto, Takeshi, S.Hara, and F. Kimura "Comprehensive Asia Development Plan and Beyond-Growth Strategies for More Prosperous and Equitable East Asia", October 2010.

**No.2010-01:** Dee, Philippa "Deepening East Asian Economic Integration in Services", October 2010.



## ERIA Discussion Paper Series

- No.2012-03:** Hayakawa, Kazunobu, F. Kimura and H.H. Lee, "How Does Country Risk Matter for Foreign Direct Investment?", February 2012.
- No.2012-02:** Isono, I., S. Kumagai, and F. Kimura, "Agglomeration and Dispersion in China and ASEAN: a Geographical Simulation Analysis", January 2012.
- No.2012-01:** Ando, Mitsuyo, and F. Kimura, "How Did the Japanese Exports Respond to Two Crises in the International Production Network?: The Global Financial Crisis and the East Japan Earthquake", January 2012.
- No.2011-10:** Machikita, T. and Y. Ueki, "Interactive Learning-driven Innovation in Upstream-Downstream Relations: Evidence from Mutual Exchanges of Engineers in Developing Economies", December 2011.
- No.2011-09:** Alba, J.D., W. Chia and D. Park, "Foreign Output Shocks and Monetary Policy Regimes in Small Open Economies: A DSGE Evaluation of East Asia", December 2011.
- No.2011-08:** Machikita, Tomohiro and Y. Ueki, "Impacts of Incoming Knowledge on Product Innovation: Econometric Case Studies of Technology Transfer of Auto-related Industries in Developing Economies", November 2011.
- No.2011-07:** Wu, Yanrui, "Gas Market Integration: Global Trends and Implications for the EAS Region", November 2011.
- No.2011-06:** Speed, Philip Andrews, "Energy Market Integration in East Asia: A Regional Public Goods Approach", November 2011.
- No.2011-05:** Sheng, Yu and S. Xunpeng, "Energy Market Integration and Economic Convergence: Implications for East Asia", October 2011.
- No.2011-04:** Lee, Sang-Hyop, A. Mason, and D. Park, "Why Does Population Aging Matter So Much for Asia? Population Aging, Economic Security and Economic Growth in Asia", August 2011.
- No.2011-03:** Shi, Xunpeng and S. Goto, "Harmonizing Biodiesel Fuel Standards in East Asia: Current Status, Challenges and the Way Forward", May 2011.
- No.2011-02:** Ishido, Hikari, "Liberalization of Trade in Services under ASEAN+n: A Mapping Exercise", May 2011.
- No.2011-01:** Chang, Kuo-I, and K. Hayakawa, "Location Choice of Multinational Enterprises in China: Comparison between Japan and Taiwan", March 2011.
- No.2010-11:** Harvie, Charles, D. Narjoko, and S. Oum, "Firm Characteristic Determinations of SME Participation in Production Networks", October 2010.
- No.2010-10:** Ando, Mitsuyo, "Machinery Trade in East Asia, and the Global Financial Crisis", October 2010.
- No.2010-09:** Kimura, Fukunari and A. Obashi, "International Production Networks in Machinery Industries: Structure and Its Evolution", September 2010.
- No.2010-08:** Machikita, Tomohiro, S. Miyahara, M. Tsuji, and Y. Ueki, "Detecting Effective Knowledge Sources in Product Innovation: Evidence from Local Firms and MNCs/JVs in Southeast Asia", August 2010.
- No.2010-07:** Machikita, Tomohiro, S. M. Tsuji, and Y. Ueki, "How ICTs Raise Manufacturing Performance: Firm-level Evidence in Southeast Asia", August 2010.
- No.2010-06:** Shi, Xunpeng, "Carbon Footprint Labeling Activities in the East Asia Summit Region: Spillover Effects to Less Developed Countries", July 2010.
- No.2010-05:** Hayakawa, Kazunobu, F. Kimura and T. Machikita, "Firm-level Analysis of Globalization: A Survey of the Eight Literatures", March 2010.
- No.2010-04:** Machikita, Tomohiro and Y. Ueki, "The Impacts of Face-to-face and Frequent Interactions on Innovation: Upstream-Downstream Relations", February 2010.
- No.2010-03:** Machikita, Tomohiro and Y. Ueki, "Innovation in Linked and Non-linked Firms: Effects of Variety of Linkages in East Asia", February 2010.
- No.2010-02:** Machikita, Tomohiro and Y. Ueki, "Search-theoretic Approach to Securing New Suppliers: Impacts of Geographic Proximity for Importer and Non-importer", February 2010.
- No.2010-01:** Machikita, Tomohiro and Y. Ueki, "Spatial Architecture of the Production Networks in Southeast Asia: Empirical Evidence from Firm-level Data", February 2010.