EXECUTIVE SUMMARY

1. Background and objectives of the project

The number of bilateral FTAs between countries within and beyond East Asia has surged, and plurilateral FTAs between ASEAN and its 6 dialogue partners have also been forged in rapid sequence in the 5 years of the latter half of the 2000s. On the other hand, the increase of RTAs/FTAs may cause problems due to overlapping of RTAs/FTAs, leading to the so-called "spaghetti bowl" phenomenon. Concern over this problem has increased in East Asia, as a wider regional free trade area became a regional policy issue, since a number of bilateral and plurilateral RTAs/FTAs in this region have accumulated in an uncoordinated way and each liberalization commitment is not necessarily binding. Given the importance of strengthening foundation for sustainable growth of East Asia, it is absolutely essential to explore ways of encouraging the convergence of various types of bilateral and plurilateral FTAs in this region.

The aim of our study is to construct a comparable and comprehensive database on FTAs in this region by investigating ASEAN FTAs with dialogue partner countries and bilateral FTAs between ASEAN countries and other East Asian countries. The purpose of our study is also to serve as a knowledge base which can be used in creating efficient FTA strategies and a region-wide FTA architecture. Unlike several types of existing FTA stocktaking studies and databases in East Asia, our study provides comparable and quantitatively-analyzable database of articles, commitments and indices related to liberalization under FTAs. Constructing such a comprehensive database based on a common framework for each issue enables us to conduct a comparative and multidimensional analysis which offers persuasive strong policy implications for construction of an efficient region-wide FTA system. Our study will complement existing studies on FTAs by offering powerful and intensive measures to compare various characteristics of all FTAs simultaneously.

Our study will cover ASEAN+n FTAs as well as AFTA, bilateral FTAs among ASEAN members and the dialogue partners, in order. For the first step, we will conduct studies on; 1) Tariff Components; 2) Rules of Origin; 3) Trade in Services and 4) Investment, and also plan to analyze FTA convergence based on our database. This report mainly introduces the framework and methodology of database construction in each chapter, and also provides some tentative analyses based on the primary dataset mainly of AFTA and several ASEAN+n FTAs.

2. Major findings

As of mid-July 2011, we have constructed our FTA quantitative datasets for AFTA and five ASEAN+n FTAs, and several bilateral FTAs. Although each dataset is still a work in progress toward the completion of the whole database, the basis for the compilation of such quantitative datasets of each chapter have already been created and developed.

2.1 Tariff

In Chapter 2, Kuno constructs the current version of the dataset covering 70 signatory-level tariff schedules bound under the five ASEAN+n FTAs and seven bilateral FTAs concluded by Japan. There are several significant difficulties regarding compilation of the datasets into a comparable format, such as significant inconsistencies among original data on the 70 signatory-level tariff schedules. Based on the conventional liberalization indices by FTA and by country calculated by using the present dataset, it was found that the most liberalized ASEAN+n FTA is the AANZFTA and the least liberalized is the AIFTA. The average level of liberalization by Australia and New Zealand is 100%, while that by India reaches 74.3%. Kuno (2011) points out that this indices suggest that the key to forming a high-quality FTA among ASEAN+6 countries is to realize further liberalization between India and the ASEAN countries.

2.2 ROOs

In Chapter 3, Medalla compiles a database on the ROOs of the ASEAN Trade in Goods Agreement (ATIGA) and four ASEAN+n FTAs, and eight bilateral FTAs by Japan with individual ASEAN countries and India. Based on several types of matrices of ROOs, she assesses the various ROO regimes of these FTAs, particularly regarding their degree of commonality and relative restrictiveness. From the point of convergence, it was found that considerable variation still exists across these five FTAs and across various sectors, although there is a substantial commonality in ROOs across the five ASEAN FTAs. She points out that reforms during the past decade have been made to simplify and liberalize the ROO regimes, but that more can still be done in terms of convergence and easing of rules.

2.3 Trade in Services

In Chapter 4, Ishido constructs indices of the degree of liberalization of commitments in trade in services and Hoekman indices for ASEAN Framework Agreement on Services

(AFAS), four ASEAN+n FTAs and six bilateral FTAs by Japan with ASEAN countries. The database includes 55 sub-sectors by four modes of service trade and two aspects of liberalization. Based on the database, comparative analyses using correlation coefficients across countries of each FTA and clustering of countries under each FTA are conducted. It was found that the index of the degree of liberalization of commitments shows great disparity between sensitive and less sensitive sectors, and the index of the degree of liberalization under the AFAS is the highest among the four ASEAN+n FTAs.

2.4 Investment

Chapter 4 by Thangavelu and Lim construct Foreign Direct Investment (FDI) restrictiveness indexes of 156 sectors by 6 areas based on temporary exclusion lists and sensitive lists provided by each country under the AFTA, as well as the ASEAN-China and the ASEAN-Korea FTAs. Based on their mapping exercises on the degree of liberalization, they found that Malaysia, The Philippines and Thailand ranked lower among the ASEAN 5 countries while the emerging countries such as Vietnam and Cambodia are ranked higher since they tend to have adopted key FDI policies to maintain their momentum of economic liberalization and integration in the region. They also found that manufacturing sectors tend to have more liberal FDI policies as compared with service sectors in both the China-ASEAN and Korea-ASEAN FTAs. Given these results, it is necessary to facilitate liberalization for service sectors in order to promote a greater flow of services and labor in the region.

3. Policy implications

The database is still in under construction. Therefore, our studies have not yet resulted in comprehensive policy implications with which to draw up an integrated regional FTA architecture. We are, however, able to offer tentative policy implications up to this point.

> **From the Tariff dataset:**

Regarding the preparation and distribution of tariff data by East Asian countries, the countries could standardize the contents and format of publicly available electronic data on MFN and preferential tariffs. Standardizing publicly available MFN and preferential tariff data could contribute to enhancing the transparency of tariff structures in the region for business and public sectors, and promote more effective and efficient FTA negotiations in this region in the future.

➢ **From the ROOs dataset:**

For East Asian integration, the ultimate direction in ROO reforms should be toward ROO harmonization. In the interim, practical steps should be taken and progress toward convergence should be completed. Also, concerning streamlining of OCP, one possibility is the inter-FTA use of Certificates of Origin (Cos) among these East Asian FTAs, such as some form of Mutual Recognition of ROOs. Since substantial commonalities already exist, the ASEAN+n FTAs have the same basic rule. If this is adopted, it would actually be a very concrete step toward ROO harmonization.

➢ **From the Service Trade dataset:**

Based on similarities among countries and FTAs, and differences among sectors, there are two possibilities with respect to the sequence of streamlining of the four ASEAN+n FTAs: 1) start within the same "clusters" among similarly committed countries under a particular FTA then harmonize the level of commitments across all the signatory countries to the FTA, and 2) start with harmonizing rather dissimilar countries from different "clusters" of commitments under a particular FTA, which provides for a small-scale "social experiment"; then scale up this effort later at the appropriate time to the level of the whole FTA; then eventually attempt to harmonize across all the FTAs centering on ASEAN.

➢ **From the FDI restrictiveness dataset:**

In order to secure sustained liberalization and to facilitate FDI, it is critically important that a reliable monitoring mechanism is established and implemented in ASEAN. Also, there is a need to develop an FDI restrictiveness index that accounts for ASEAN+1, ASEAN+3 and ASEAN+6 FTAs. An extension of this study will be necessary to discover whether FTAs created greater access for FDI activities in the region, and to provide analysis and evaluation on the degree of liberalization and the FDI policy environment in each FTA.