



# Regional Comprehensive Economic Partnership/ Free Trade Agreements

ERIA is conducting a comprehensive mapping of existing ASEAN+1 Free Trade Agreements (FTAs) and bilateral FTAs to provide policy recommendations towards the Regional Comprehensive Economic Partnership.

## Assessing the Progress of ASEAN MRAs on Professional Services

By Yoshifumi Fukunaga

ERIA Discussion Paper 2015-21

ASEAN has established mutual recognition arrangements (MRAs) on eight professional services. This paper assesses the progress of these arrangements' paying special attention to the (i) regional and national implementation, (ii) national regulatory changes, and (iii) utilisation of these frameworks and actual movement of these professionals in the region. MRAs on Architectural and Engineering Services have made steady progress, including the setting up of regional registration systems. This, however, has not resulted in a large-scale movement of these professionals for many reasons, such as existence of alternative legal schemes and small additional benefits of ASEAN MRAs. The ASEAN MRA on Nursing Services, without a regional registration system, has facilitated movement of nurses in only a few countries. Meanwhile, further efforts in advancing initiatives closely related to the movement of people are being made through the ASEAN Agreement on the Movement of Natural Persons, ASEAN MRA on Accountancy Services, ASEAN MRA on Tourism Professionals, and the ASEAN Qualifications Reference Framework.

## Beyond Trade Creation: Free Trade Agreements and Trade Disputes

By Tan Li and Larry D. Qiu

ERIA Discussion Paper 2015-28

This paper investigates the effects of the formation of free trade agreements (FTAs) on trade disputes. A unique and comprehensive dataset on inter-country trade disputes from 1995 to 2007, covering 110 countries and 1,130 trade disputes, was constructed.

Findings reveal that the incidences of trade disputes between two countries are positively associated with economic size, economic growth, and trade shares, thereby lending partial support to the 'capacity hypothesis' in the dispute literature. More importantly, FTAs between two countries reduce the occurrence of trade disputes between them. Moreover, FTAs relying on the dispute settlement mechanism of the World Trade Organization further reduce trade disputes between their members compared to FTAs without provisions on trade dispute settlement. By contrast, the dispute-reducing effect is mitigated in FTAs which have their own dispute settlement mechanisms. The main results are robust to the control for possible measurement error and endogeneity problem.

## Business Licensing: A Key to Investment Climate Reform

By Lili Yan Ing, Stephen Magiera

ERIA Discussion Paper 2015-05

Reforming business licensing is a key starting point for improving the investment climate. Complex licensing procedures may encourage firms to remain unregistered, giving rise to difficulties later in accessing finance from formal financial institutions and constraining productivity and expansion. Across sectors, this can suppress the establishment of new firms and, therefore, the creation of new jobs, dragging down overall economic growth. Improving and reforming business licensing can significantly increase the number of businesses and thus help nurture job creation. Several quick-win interventions are possible. First, there is a need to improve the quality of the business licensing website and help desk. The website and help desk should act as a frontline in dealing with investment regulations and policies for investors. Improvements should cover both hard and soft infrastructure of the website and help desk, including the skills of officials. Second, business license simplification should be continued by limiting licenses to those that serve their objective and cutting unnecessary licenses, and/or consolidating licenses. Third, full implementation of electronic application and payment systems for business licenses should be fostered, together with increasing the non-fiscal incentives for firms to become registered. The registration system should also function as a nationwide database which could then be a source of reliable information both on firms and for firms, linked to government programmes and grants, and business regulation updates. Fourth, a transparent system to show the progress of each business application should be set up, together with a recorded evaluation system through which users can provide feedback to improve the system. Finally, efforts in the medium term should focus on improving coordination among government agencies and clarifying the roles of central and local regulations, both horizontally and vertically.

## Coverage of Trade in Services under ASEAN+1 FTAs

By Hikari Ishido

ERIA Discussion Paper 2014-26

This paper examines how ASEAN-centred free trade agreements (FTAs), or so-called ASEAN+1 FTAs, are correlated among themselves and thus have the potential to be merged into one single commitment toward the establishment of a Regional Comprehensive Economic Partnership (RCEP). The coverage index defined in this paper highlights similarities and differences among the ASEAN+1 FTAs. While it shows rather low levels of commitment by member countries, a feasible policy suggestion is to further prioritise the priority integration sectors, including transport-related sectors, for a seamless ASEAN Economic Community and a well-connected RCEP.

## Did China Tire Safeguard Save U.S. Workers?

By Sunghoon Chung, Joonhyung Lee, Thomas Osang

ERIA Discussion Paper 2015-26

It has been well documented that trade adjustment costs to workers due to globalisation are significant and that temporary trade barriers have been progressively used in many countries, especially during periods of high unemployment rates. Consequently, temporary trade barriers are perceived as a feasible policy instrument for securing domestic jobs in the presence of increased globalisation and economic downturns. However, no study has assessed whether such temporary barriers have actually saved domestic jobs. To overcome this deficiency, we evaluate the China-specific safeguard case on consumer tires petitioned by the United States. Contrary to claims made by the Obama administration, we find that total employment and average wages in the tire industry were unaffected by the safeguard using the 'synthetic control' approach proposed by Abadie et al. (2010). Further analysis reveals that this result is not surprising as we find that imports from China are completely diverted to other exporting countries partly due to the strong presence of multinational corporations in the world tire market.

## Dynamic Two-way Relationship between Exporting and Importing: Evidence from Japan

By Kazunobu Hayakawa and Toshiyuki Matsuura

ERIA Discussion Paper 2014-08

This paper investigates the dynamic nature of trading using Japanese firm-level data. Specifically, the study examines state dependence and cross effects in exporting and importing. Findings of this study are: (i) there are significant state dependence and cross effects in exporting and importing; (ii) those effects diminish over time; (iii) such state dependence and cross effects are found to be market-specific and such market specificity is more significant in small and medium-sized enterprises; and (iv) past export/import intensity matters in the current trade status.



## Exporting and Firm-Level Credit Constraints - Evidence from Ghana

By Mai Anh Ngo

ERIA Discussion Paper 2015-27

This paper models how firms finance their fixed costs of exporting—through internal financing from retained earnings and external financing by borrowing from banks. The theoretical model features firms that are heterogeneous in productivity, liquidity, and collateral. It also models the lending decisions of banks explicitly, allowing for endogenous firm default rate as well as allowing the loan interest rate to depend on the characteristics of firms. The model predicts that credit access positively impacts the export propensity of firms and that this effect is only significant in firms in the intermediate range of productivity. These predictions are supported by the empirical analysis of a longitudinal data set of Ghanaian firms; the empirical results are robust to various robustness checks.

## Fiscal Policy and Equity in Advanced Economies: Lessons for Asia

By Gemma Estrada, James Angresano, Jo Thori Lind, Niku Määttä, William McBride, Donghyun Park, Motohiro Sato, and Karin Svanborg-Sjövall

ERIA Discussion Paper 2015-04

Advanced economies have a longer history of leveraging fiscal policy to address inequality relative to developing Asia. We examine the country experiences of the Nordic countries, France, Japan, and the US, to draw lessons for developing Asia in its relatively new quest to use fiscal policy to promote inclusive growth. Those experiences suggest that fiscal policy can indeed be an effective tool for inclusive growth as long as it does not compromise fiscal sustainability or economic growth.

## How Restrictive are ASEAN's RoO?

By Olivier Cadot and Lili Yan Ing

ERIA Discussion Paper 2014-18

This paper uses a disaggregated (product-level) gravity approach to estimate the effect of ASEAN's product-specific rules of origin (RoO) on regional trade, using original data on rules applicable at the six-digit level of the harmonised system. Overall, findings reveal that the average ad-valorem equivalent (AVE) of ASEAN's RoO is 3.40 percent across all instruments and sectors. The trade-weighted average is 2.09 percent, which is in line with existing literature. However, some sectors—including leather, textile and apparel, footwear, and automobiles—have fairly high AVEs. The study finds that some rules appear more restrictive than others; in this regard, the Textile Rule seems to stand out as a relatively more trade-inhibiting rule than others.

## Impact of Free Trade Agreements on Trade in East Asia

By Misa Okabe

ERIA Discussion Paper 2015-01

This policy brief examines the transmission of economic shocks both from the rest of the world into the ASEAN region and into a typical ASEAN Member State (AMS). 'Typical' here means representative AMSs, e.g., Singapore for a developed country, Philippines or Indonesia for ASEAN-5 economies, and Viet Nam for the CLMV (Cambodia, Lao PDR, Myanmar, Viet Nam) countries. It looks into the trade and financial linkages of a typical AMS and employs a specialised type of vector autoregression model to decompose the shocks into trade shocks, financial shocks, and commodity price shocks. The policy brief concludes with an analysis of the implications for macroeconomic policy coordination in the region.

## Korea's Policy Package for Enhancing its FTA Utilization and Implications for Korea's Policy

By Inkyo Cheong

ERIA Discussion Paper 2014-11

Korea's trade with most of its 46 free trade agreement (FTA) partner countries expands continuously. Its FTA utilization ratios were as low as 20 percent before 2010. However, Korea recorded higher than 70 percent of FTA utilization in the case of the Korea-US FTA and the European Union-Korea FTA in 2013. Today's high performance could be achieved through the strategic approach and diverse support mechanisms initiated by its government since 2010. The supporting programmes for businesses included education courses for companies and consulting, workshops to explain, and provide information on, the FTAs, building the portals for FTAs, and the expos for FTAs in foreign countries.

Several policy implications can be drawn from Korea's experience in assisting businesses using FTAs: (i) the major barriers that prevent companies from utilizing FTAs should be clearly identified; (ii) coordination among national supporting agencies is critical in increasing the efficiency of the infrastructure assisting FTA utilization; (iii) governments should promote FTAs with large economies to bring expected high economic gains in general; (iv) authorities of trade and industry should understand the importance of the quality of FTAs.

## Learning from the ASEAN+1 Model and the ACIA

By Nanda Nurridzki

ERIA Discussion Paper 2015-19

The Regional Comprehensive Economic Partnership (RCEP) is a new regional integration initiative intended to achieve a modern, comprehensive, high-quality, and mutually beneficial economic partnership agreement among the ASEAN Member States (AMSs) and ASEAN's free trade agreement (FTA) partners. It will enhance access to a huge potential market, bringing benefits to both businesses and consumers in the participating countries and should lead to greater economic integration, support equitable economic development, and strengthen economic cooperation among the countries involved.

In general, RCEP can be seen as a regional economic integration process in East Asia on a higher level. It is assumed that RCEP will produce a commitment from AMSs and most partners. Commitments from the partners are also expected to be in conjunction with the commitments made with individual AMSs. Additionally, the commitments made under RCEP are supposed to be substantially better compared to the existing ASEAN+1 commitment. This technical note aims to support RCEP through an analysis of the current ASEAN+1 FTAs, which will be an input for policy during RCEP negotiations in the area of investment.

## Multiproduct Firms, Export Product Scope, and Trade Liberalization: The Role of Managerial Efficiency

By Larry Qiu and Miaojie Yu

ERIA Discussion Paper 2014-06

This paper provides a theoretical and empirical analysis of the effects of one-sided tariff cuts on the export product scope of firms. The theoretical model explicitly incorporates cost of management in addition to the commonly used production cost. Firms are heterogeneous in terms of managerial efficiency but homogenous in terms of production productivity. The analysis predicts that the home country's tariff cut reduces all home firm's export product scope, whereas in response to the foreign country's tariff cut, a home firm's export product scope expands (shrinks) if the firm's management cost is low (high). These predictions are supported by the paper's empirical analysis based on data on Chinese firms from 2000 to 2006.

## Searching for an Ideal International Investment Protection Regime for ASEAN + Dialogue Partners (RCEP): Where Do We Begin?

By Junianto James Losari

ERIA Discussion Paper 2014-25

The members of ASEAN and its six dialogue partners—Australia, China, India, Japan, New Zealand, and South Korea—decided in November 2012 to launch the negotiation of a free trade agreement (FTA), also known as the Regional Comprehensive Economic Partnership (RCEP). The agreement includes investment despite the fact that the negotiating states already have various international investment agreements with each other. This paper analyses how RCEP can better improve and add more value to the current regime of international investment protection within the region by suggesting standards that negotiators should consider.

## Towards an Enabling Set of Rules of Origin for the Regional Comprehensive Economic Partnership

By Erlinda M. Medalla

ERIA Discussion Paper 2015-03

With overlapping, multiple free trade agreements (FTAs), such as those of ASEAN and the various ASEAN+1 FTAs, complications could arise that run counter to the economic integration objectives of the East Asia region. Forging the Regional Comprehensive Economic Partnership (RCEP) among ASEAN and its FTA partners is a next logical step. How facilitative the rules of origin (RoO) provisions are could prove crucial in maximising the potential benefits. This paper revisits the nature of RoO in ASEAN and the various ASEAN+1 FTAs to (i) examine the surrounding constraints and issues, and (ii) provide recommendations on the beneficial set of RoO for the RCEP to serve as inputs for policymakers and negotiators.

## Use of FTAs from Thai Experience

By Archanun Kohpaiboon and Juthathip Jongwanich

ERIA Discussion Paper 2015-02

This paper examines in depth the use of free trade agreements (FTAs) in Thailand to shed light on the ongoing negotiations on the Regional Comprehensive Economic Partnership. The key finding is that whilst certificates of origin significantly increased over the period in consideration, their value remained less than one-third of total trade.

The ASEAN Free Trade Area and its successor, the ASEAN Economic Community, accounted for the largest share with a noticeably declining relative importance. Products that are often traded under an FTA preferential trade scheme are highly concentrated. Firms in these sectors are generally large in size and their products have a high level of local content. Evidence that the top 15 items are usually subject to high tariff margins suggests that firms incur costs when applying for a certificate of origin. Our analysis suggests that FTAs could be used to gradually achieve trade and investment policy reforms. To encourage firms to use the signed FTA, policy focus should be on the rules of origin and their related administrative procedures.

## Value and Limitations of the ASEAN Agreement on the Movement of Natural Persons

By Yoshifumi Fukunaga and Hikari Ishido

ERIA Discussion Paper 2015-20

ASEAN Economic Ministers signed the Agreement on the Movement of Natural Persons (MNP) in 2012. This is a new instrument potentially facilitating the free flow of goods, services, investment, and skilled labour, thus contributing to the establishment of an ASEAN single market and production base.

This paper then aims to assess the benefits and limitations of this new instrument. The MNP Agreement is an independent mode 4 services agreement. Actual commitments cover business visitors, intra-corporate transferees, and contractual services suppliers. In general, the commitments add value to predated agreements for many ASEAN Member States in terms of wider sectoral coverage and/or new categories of commitment. However, the commitments vary widely across countries in terms of sectoral coverage, committed categories of MNP, and lengths of initial periods of stay. A stand-alone MNP Agreement may result in mode 4 commitments inconsistent with mode 3 commitments. Furthermore, the current agreement does not cover non-services sectors at all.