Economic Research Institute for ASEAN and East Asia

Policy Brief

Liberalization of Trade in Services: Toward a Harmonized ASEAN++ FTA

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The East Asian countries are seriously discussing the consolidation of ASEAN+1 FTAs[2] to develop so-called ASEAN++ FTA or RCEP[3]. The detailed analysis of services chapters in the existing ASEAN+1 FTAs gives insights to services trade liberalization in this new trade agreement. In order for ASEAN and its FTA partners to gain substantial new commitments that are genuinely "plus" to the existing trade pacts, both WTO GATS and ASEAN+1 FTAs, ASEAN++ countries should aim at an ambitious level of liberalization much higher than the AFAS package 5. Also, the detailed analysis suggests a policy option of narrowing the types of services trade limitations, i.e., focusing on three types of limitations and hence improving transparency. Furthermore, we advocate for the needs of prioritizing production-related services sectors in the negotiation. Beyond ASEAN++ FTA, we briefly explain the critical roles of domestic regulatory reform.

1. Services Restrictiveness Index of AFAS and ASEAN+1 FTAs

Since service-related regulations are mostly domestic policies and are taken care of by ministries and agencies other than the trade ministry, the liberalization of services trade tends to be delayed in newly developed economies. However, there are a number of reasons why we would like to accelerate services trade liberalization in ASEAN and East Asia. First, some of the services sectors are essential to supporting production networks and a single production base in the region. Second, services sectors should not simply be an absorber of redundant labor but become a central player of innovative activities. Third, services sectors of high quality are fundamental elements of people's wellbeing that nurtures human capital.

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 pluri-lateral free trade agreements (FTAs) with a wide coverage fit

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for regional community building. They have the potential of merging into a consolidated region-wide free trade framework, so-called “ASEAN++ FTA”. The services chapters of existing ASEAN+1 FTAs adopt a GATS-style reporting, which enables direct comparisons among GATS commitments and other ASEAN+1 FTAs.

Table 1. Services — The Hoekman Index for AFAS and ASEAN+1 FTAs

	AFAS(5)	AFAS(7)	AANZFTA	ACFTA	AKFTA
Brunei	0.17	0.23	0.18	0.05	0.08
Cambodia	0.40	0.41	0.51	0.38	0.38
Indonesia	0.18	0.36	0.29	0.09	0.18
Laos	0.09	0.34	0.24	0.02	0.07
Malaysia	0.22	0.34	0.31	0.11	0.20
Myanmar	0.20	0.36	0.26	0.04	0.06
Philippines	0.22	0.33	0.26	0.11	0.17
Singapore	0.28	0.39	0.44	0.30	0.33
Thailand	0.30	0.50	0.36	0.25	NA
Vietnam	0.31	0.38	0.46	0.34	0.32
ASEAN Average	0.24	0.36	0.33	0.17	0.20
Australia			0.52		
New Zealand			0.51		
China				0.28	
Korea					0.31

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 AFAS 7 means its package 7.

Source: Made by Ikumo Isono based on Ishido’s (2011)

Hoekman (1995) proposes an indexation method for measuring the GATS-style degree of commitment in the services sector. This method assigns values to each of 8 cells (4 modes and 2 aspects--market access (MA) or 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 of 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 the country’s service trade commitments are to the FTA members. Using the database we construct, the “Hoekman Index” is derived for each 155 sub-sectors. Then the simple average at the level of the 11 sectors is calculated. Table 1 reports the results by FTA. As shown, most countries have the 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 be done in the foreseeable future.

Unlike in the case of tariff elimination, it is not easy to set negotiation modalities in service trade liberalization. While the Hoekman Index does not necessarily fit for the purpose of modality setting, comparison across FTAs can suggest levels of service liberalization to aim at. 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 ASEAN++ if AFAS package 5 is used as the negotiation basis for ASEAN++ FTA. Likewise, all the dialogue partners analyzed in this study have committed higher liberalization than AFAS package 5. As such, ASEAN can gain very little or none if AFAS package 5 sets a standard for ASEAN++ negotiation. Therefore, trade negotiators should aim at more ambitious level than AFAS package 5 in order to create meaningful opportunities for economic growth, and not the purely political outcome.

2. "WTO Plus" Gains by AFAS and ASEAN+1 FTAs

The difference between commitments under FTAs and those under GATS is often called "WTO Plus" (or "GATS Plus"). The concept captures the advantage of forging bilateral/plurilateral FTAs on the top of the GATS commitments. This WTO Plus component has therefore been calculated, using the Hoekman Index. Tables 2 through 6 show the results. Some observations are as follows: under AFAS package 5, the sector with the largest average WTO Plus component is Construction (03), and the additional gain is 0.31. Under AFAS package 7, Construction (03) and Health (08) both have the largest WTO Plus component of 0.32. Under ASEAN-Australia-New Zealand FTA, the Construction sector (03) has the largest WTO Plus component of 0.34 by ASEAN

Table 2. The Level of Commitments and Additional Gains by AFAS(5) from GATS Commitments (in terms of the Hoekman Index)

AFAS(5)	01 Business	02 Communication	03 Construction	04 Distrubution	05 Education	06 Environment	07 Finance	08 Health	09 Tourism	10 Recration	11 Transport
Brunei	0.36	0.08	0.31	0.00	0.00	0.00	0.33	0.31	0.27	0.11	0.17
Cambodia	0.30	0.28	0.50	0.75	0.45	0.75	0.44	0.19	0.52	0.30	0.20
Indonesia	0.22	0.13	0.50	0.00	0.36	0.00	0.25	0.00	0.48	0.08	0.07
Laos	0.11	0.03	0.55	0.00	0.00	0.00	0.24	0.00	0.14	0.00	0.01
Malaysia	0.32	0.09	0.50	0.15	0.24	0.00	0.28	0.16	0.53	0.18	0.09
Myanmar	0.09	0.09	0.63	0.30	0.10	0.16	0.09	0.25	0.36	0.18	0.10
Philippines	0.16	0.33	0.31	0.16	0.00	0.00	0.45	0.14	0.45	0.00	0.37
Singapore	0.27	0.16	0.75	0.30	0.15	0.25	0.34	0.23	0.66	0.15	0.08
Thailand	0.35	0.15	0.64	0.10	0.34	0.69	0.39	0.13	0.52	0.14	0.14
Vietnam	0.36	0.32	0.56	0.25	0.28	0.50	0.49	0.30	0.38	0.10	0.14
ASEAN Average	0.25	0.17	0.53	0.20	0.19	0.23	0.33	0.17	0.43	0.12	0.14
Additional Gains of AFAS (5) from GATS Commitments											
Brunei	0.24	0.03	0.31	0.00	0.00	0.00	0.20	0.31	0.27	0.11	0.16
Cambodia	0.00	0.00	0.00	0.05	0.00	0.00	0.09	0.00	0.06	0.15	0.03
Indonesia	0.17	0.03	0.28	0.00	0.36	0.00	0.04	0.00	0.31	0.08	0.04
Laos	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Malaysia	0.02	0.05	0.41	0.15	0.24	0.00	0.07	0.00	0.31	0.00	0.06
Myanmar	0.09	0.09	0.63	0.30	0.10	0.16	0.09	0.25	0.02	0.18	0.09
Philippines	0.13	0.11	0.31	0.16	0.00	0.00	0.11	0.14	0.09	0.00	0.21
Singapore	0.06	0.02	0.60	0.30	0.15	0.25	0.02	0.23	0.38	0.00	0.05
Thailand	0.13	0.05	0.23	0.00	0.04	0.00	0.19	0.13	0.00	0.00	0.03
Vietnam	0.02	0.05	0.06	0.00	0.08	0.06	0.08	0.05	0.02	0.01	0.02
ASEAN Average	0.10	0.05	0.31	0.11	0.11	0.05	0.10	0.12	0.16	0.06	0.08

Notes : The upper part shows the level of commitments; the lower part shows additional gains from GATS commitments.

Source: Made by Ikumo Isono based on Ishido's (2011) calculation.

Table 3. The Level of Commitments and Additional Gains by AFAS(7) from GATS Commitments (in terms of the Hoekman Index)

AFAS(7)	01 Business	02 Communication	03 Construction	04 Distrubution	05 Education	06 Environment	07 Finance	08 Health	09 Tourism	10 Recration	11 Transport
Brunei	0.38	0.10	0.33	0.00	0.45	0.00	0.33	0.31	0.28	0.11	0.21
Cambodia	0.30	0.30	0.51	0.75	0.45	0.75	0.44	0.19	0.53	0.30	0.20
Indonesia	0.27	0.16	0.53	0.21	0.48	0.42	0.25	0.66	0.61	0.24	0.30
Laos	0.35	0.28	0.75	0.34	0.56	0.56	0.24	0.27	0.42	0.00	0.14
Malaysia	0.50	0.19	0.50	0.43	0.39	0.34	0.28	0.33	0.56	0.23	0.14
Myanmar	0.25	0.35	0.63	0.38	0.48	0.47	0.09	0.50	0.52	0.30	0.13
Philippines	0.42	0.52	0.35	0.28	0.00	0.27	0.45	0.14	0.47	0.30	0.38
Singapore	0.52	0.38	0.75	0.60	0.15	0.25	0.34	0.38	0.66	0.30	0.14
Thailand	0.66	0.20	0.64	0.60	0.58	0.75	0.39	0.31	0.64	0.64	0.24
Vietnam	0.39	0.33	0.56	0.25	0.43	0.50	0.49	0.63	0.52	0.18	0.19
ASEAN Average	0.41	0.28	0.55	0.38	0.40	0.43	0.33	0.37	0.52	0.26	0.21
Additional Gains of AFAS (7) from GATS Commitments											
Brunei	0.26	0.06	0.33	0.00	0.45	0.00	0.20	0.31	0.28	0.11	0.20
Cambodia	0.01	0.02	0.01	0.05	0.00	0.00	0.09	0.00	0.08	0.15	0.03
Indonesia	0.23	0.06	0.30	0.21	0.48	0.42	0.04	0.66	0.44	0.24	0.28
Laos	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Malaysia	0.20	0.14	0.41	0.43	0.39	0.34	0.07	0.17	0.34	0.05	0.12
Myanmar	0.25	0.35	0.63	0.38	0.48	0.47	0.09	0.50	0.17	0.30	0.12
Philippines	0.39	0.30	0.35	0.28	0.00	0.27	0.11	0.14	0.11	0.30	0.22
Singapore	0.31	0.23	0.60	0.60	0.15	0.25	0.02	0.38	0.38	0.15	0.10
Thailand	0.44	0.10	0.23	0.50	0.28	0.06	0.19	0.31	0.13	0.50	0.13
Vietnam	0.05	0.06	0.06	0.00	0.23	0.06	0.08	0.38	0.16	0.09	0.08
ASEAN Average	0.24	0.15	0.32	0.27	0.27	0.21	0.10	0.32	0.23	0.21	0.14

Notes : The upper part shows the level of commitments; the lower part shows additional gains from GATS commitments.
Source: Made by Ikumo Isono based on Ishido's (2011) calculation.

Table 4. The Level of Commitments and Additional Gains by AANZFTA from GATS Commitments (in terms of the Hoekman Index)

AANZFTA	01 Business	02 Communication	03 Construction	04 Distrubution	05 Education	06 Environment	07 Finance	08 Health	09 Tourism	10 Recration	11 Transport
Brunei	0.27	0.18	0.38	0.13	0.13	0.13	0.26	0.13	0.13	0.13	0.16
Cambodia	0.42	0.43	0.63	0.88	0.58	0.88	0.56	0.31	0.58	0.28	0.29
Indonesia	0.27	0.23	0.63	0.13	0.58	0.13	0.35	0.28	0.44	0.13	0.15
Laos	0.24	0.16	0.40	0.13	0.33	0.59	0.23	0.13	0.42	0.13	0.12
Malaysia	0.47	0.29	0.56	0.13	0.38	0.13	0.40	0.28	0.47	0.30	0.15
Myanmar	0.28	0.14	0.63	0.13	0.48	0.13	0.13	0.13	0.45	0.13	0.22
Philippines	0.20	0.37	0.20	0.13	0.25	0.23	0.50	0.13	0.50	0.13	0.32
Singapore	0.61	0.34	0.88	0.43	0.28	0.38	0.49	0.38	0.66	0.40	0.19
Thailand	0.37	0.24	0.46	0.23	0.58	0.69	0.35	0.13	0.58	0.24	0.26
Vietnam	0.47	0.45	0.63	0.58	0.45	0.56	0.70	0.47	0.50	0.29	0.27
ASEAN Average	0.36	0.28	0.54	0.29	0.40	0.38	0.40	0.23	0.47	0.21	0.21
Australia	0.67	0.27	0.63	0.70	0.53	0.88	0.37	0.25	0.61	0.43	0.41
New Zealand	0.62	0.35	0.88	0.58	0.73	0.88	0.48	0.13	0.63	0.13	0.37
Additional Gains of AANZFTA from GATS Commitments											
Brunei	0.14	0.14	0.38	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.15
Cambodia	0.12	0.15	0.13	0.18	0.13	0.13	0.21	0.13	0.13	0.13	0.13
Indonesia	0.22	0.13	0.40	0.13	0.58	0.13	0.15	0.28	0.27	0.13	0.12
Laos	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Malaysia	0.16	0.25	0.48	0.13	0.38	0.13	0.18	0.13	0.25	0.13	0.13
Myanmar	0.28	0.14	0.63	0.13	0.48	0.13	0.13	0.13	0.11	0.13	0.21
Philippines	0.17	0.15	0.20	0.13	0.25	0.23	0.16	0.13	0.14	0.13	0.16
Singapore	0.40	0.20	0.73	0.43	0.28	0.38	0.17	0.38	0.38	0.25	0.15
Thailand	0.16	0.13	0.05	0.13	0.28	0.00	0.16	0.13	0.06	0.10	0.14
Vietnam	0.13	0.19	0.13	0.33	0.25	0.13	0.29	0.22	0.14	0.20	0.16
ASEAN Average	0.20	0.16	0.34	0.19	0.30	0.15	0.17	0.18	0.18	0.14	0.15
Australia	0.14	0.13	0.23	0.13	0.13	0.50	0.09	0.13	0.13	0.13	0.21
New Zealand	0.28	0.24	0.38	0.13	0.28	0.88	0.13	0.13	0.38	0.13	0.14

Notes : The upper part shows the level of commitments; the lower part shows additional gains from GATS commitments.
Source: Made by Ikumo Isono based on Ishido's (2011) calculation.

Table 5. The Level of Commitments and Additional Gains by ACFTA from GATS Commitments (in terms of the Hoekman Index)

ACFTA	01 Business	02 Communication	03 Construction	04 Distrubution	05 Education	06 Environment	07 Finance	08 Health	09 Tourism	10 Recration	11 Transport
Brunei	0.12	0.05	0.00	0.00	0.00	0.00	0.13	0.00	0.02	0.00	0.14
Cambodia	0.29	0.28	0.50	0.75	0.45	0.75	0.43	0.19	0.45	0.15	0.17
Indonesia	0.05	0.10	0.40	0.00	0.00	0.00	0.21	0.00	0.33	0.00	0.03
Laos	0.05	0.00	0.00	0.00	0.00	0.00	0.23	0.00	0.00	0.00	0.00
Malaysia	0.34	0.05	0.09	0.00	0.01	0.00	0.22	0.16	0.27	0.18	0.04
Myanmar	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.34	0.00	0.07
Philippines	0.06	0.23	0.00	0.00	0.00	0.11	0.34	0.00	0.44	0.00	0.16
Singapore	0.40	0.14	0.15	0.45	0.30	0.25	0.39	0.25	0.53	0.40	0.15
Thailand	0.22	0.11	0.41	0.10	0.44	0.69	0.19	0.00	0.58	0.14	0.11
Vietnam	0.35	0.33	0.50	0.45	0.31	0.44	0.57	0.34	0.38	0.16	0.18
ASEAN Average	0.19	0.13	0.21	0.18	0.15	0.22	0.27	0.09	0.33	0.10	0.10
China	0.35	0.29	0.44	0.48	0.31	0.58	0.23	0.00	0.34	0.01	0.15
Additional Gains ACFTA from GATS Commitments											
Brunei	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.02	0.00	0.13
Cambodia	0.00	0.00	0.00	0.05	0.00	0.00	0.08	0.00	0.00	0.00	0.00
Indonesia	0.00	0.00	0.18	0.00	0.00	0.00	0.00	0.00	0.16	0.00	0.00
Laos	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Malaysia	0.03	0.00	0.00	0.00	0.01	0.00	0.01	0.00	0.05	0.00	0.01
Myanmar	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.05
Philippines	0.02	0.01	0.00	0.00	0.00	0.11	0.00	0.00	0.08	0.00	0.00
Singapore	0.19	0.00	0.00	0.45	0.30	0.25	0.06	0.25	0.25	0.25	0.11
Thailand	0.01	0.00	0.00	0.00	0.14	0.00	0.00	0.00	0.06	0.00	0.00
Vietnam	0.01	0.06	0.00	0.20	0.11	0.00	0.16	0.09	0.02	0.08	0.07
ASEAN Average	0.03	0.01	0.02	0.08	0.06	0.04	0.03	0.04	0.07	0.04	0.04
China	0.01	0.00	0.00	0.00	0.00	0.44	0.00	0.00	0.00	0.01	0.03

Notes : The upper part shows the level of commitments; the lower part shows additional gains from GATS commitments.
Source: Made by Ikumo Isono based on Ishido's (2011) calculation.

Table 6. The Level of Commitments and Additional Gains by AKFTA from GATS Commitments (in terms of the Hoekman Index)

AKFTA	01 Business	02 Communication	03 Construction	04 Distrubution	05 Education	06 Environment	07 Finance	08 Health	09 Tourism	10 Recration	11 Transport
Brunei	0.12	0.06	0.31	0.00	0.00	0.00	0.13	0.19	0.11	0.00	0.06
Cambodia	0.29	0.30	0.50	0.75	0.45	0.75	0.43	0.19	0.45	0.15	0.17
Indonesia	0.19	0.13	0.50	0.00	0.46	0.00	0.24	0.16	0.34	0.00	0.04
Laos	0.02	0.00	0.41	0.00	0.20	0.06	0.01	0.13	0.00	0.00	0.00
Malaysia	0.34	0.15	0.44	0.18	0.04	0.00	0.24	0.16	0.52	0.20	0.09
Myanmar	0.03	0.04	0.13	0.00	0.00	0.00	0.00	0.00	0.34	0.00	0.09
Philippines	0.19	0.40	0.11	0.00	0.00	0.11	0.44	0.00	0.42	0.00	0.25
Singapore	0.44	0.33	0.75	0.45	0.15	0.25	0.38	0.25	0.47	0.30	0.06
Thailand	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Vietnam	0.34	0.33	0.50	0.45	0.20	0.44	0.52	0.30	0.38	0.16	0.15
ASEAN Average	0.22	0.19	0.41	0.20	0.17	0.18	0.27	0.15	0.34	0.09	0.10
Korea	0.58	0.30	0.36	0.48	0.13	0.50	0.16	0.00	0.50	0.08	0.28
Additional Gains of AKFTA from GATS Commitments											
Brunei	0.00	0.01	0.31	0.00	0.00	0.00	0.00	0.19	0.11	0.00	0.04
Cambodia	0.00	0.02	0.00	0.05	0.00	0.00	0.08	0.00	0.00	0.00	0.00
Indonesia	0.14	0.03	0.28	0.00	0.46	0.00	0.03	0.16	0.17	0.00	0.01
Laos	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Malaysia	0.04	0.10	0.35	0.18	0.04	0.00	0.03	0.00	0.30	0.03	0.06
Myanmar	0.03	0.04	0.13	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.07
Philippines	0.16	0.18	0.11	0.00	0.00	0.11	0.10	0.00	0.06	0.00	0.09
Singapore	0.23	0.18	0.60	0.45	0.15	0.25	0.06	0.25	0.19	0.15	0.03
Thailand	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Vietnam	0.00	0.06	0.00	0.20	0.00	0.00	0.11	0.05	0.02	0.08	0.04
ASEAN Average	0.07	0.08	0.22	0.11	0.08	0.04	0.05	0.08	0.11	0.03	0.04
Korea	0.25	0.10	0.01	0.06	0.13	0.05	0.05	0.00	0.02	0.08	0.15

Notes : The upper part shows the level of commitments; the lower part shows additional gains from GATS commitments.
Source: Made by Ikumo Isono based on Ishido's (2011) calculation.

on average, whereas Environment (06) has the largest WTO Plus gains of 0.50 by Australia and 0.88 by New Zealand as partner countries. Under ASEAN-China FTA, Distribution (04) has the largest, if not so large, WTO Plus component of 0.08 by ASEAN average, and as for China, Environment (06) exhibits the largest WTO Plus wedge of 0.44 with minimal WTO Plus commitments in other services sectors. As for ASEAN-Korea FTA also, the Construction sector (03) records the largest WTO Plus element of 0.22 (by ASEAN average), whereas Korea as the partner country shows the largest WTO Plus component of 0.25 for Business (01). In ASEAN-China FTA and ASEAN-Korea FTA, we observe many white columns that suggest no additional commitment was made, both on dialogue partners and ASEAN sides.

Taking into account the low level of services trade liberalization as shown in the previous section, members should seriously consider *real* gains, i.e. WTO Plus, or additional commitments from the existing ASEAN+1 FTAs, in the ASEAN++ FTA negotiation so that they will not waste precious negotiation resources.

3. 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;

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;

G: limitations related to government approval (indicated explicitly); and

T: restrictions related to paying taxes or fees.

Out of the above eight categories, the first six, i.e., A through F, are in line with GATS Article XVI on market access, while G and T have been added for comprehensiveness. 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. After constructing a database, aggregation by country, by sector and by mode has been made. Table 7 shows the overall comparison among AFAS (both packages 5 and 7) and the three ASEAN+1 FTAs. As is shown, AFAS package 7, ASEAN-China FTA, and ASEAN-Korea present similar patterns, indicating that merging these three FTAs

Table 7. Frequency of Limitations under the Five ASEAN+1 FTAs

FTA	A	B	C	D	E	F	G	T	Total
AFAS (5)	26	0	2	263	378	268	443	20	1,440
AFAS (7)	1	0	1	345	477	359	144	119	1,446
ASEAN-Australia-New Zealand FTA	0	0	0	3,587	364	163	76	27	4,217
ASEAN-China FTA	0	0	0	32	123	71	26	4	256
ASEAN-Korea FTA	14	0	1	154	406	169	117	53	914
Total	41	0	4	4,381	1,748	1,030	806	223	8,233

Notes: Symbols A-T denote the limitations indicated in the boxed text above.
Source: Hikari Ishido's calculation based on the commitment tables.

looks more feasible in terms of the categories of limitations used in each of them.

ASEAN-Australia-New Zealand FTA is rather unique, 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 labor-related restriction, D, is by far the most dominant.

An overall common observation, apart from the distinction in ASEAN-Australia-New Zealand FTA, 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 to these three measures, as reducing the frequency and restrictiveness of them, as the main convergence pillars could serve as a feasible policy option, to be considered in the ASEAN++ FTA negotiation. This approach will help increase the transparency of limitations to trade in services, especially when requiring all other types of limitation be eliminated as much as possible.

4. Priority Services Sectors: Supporting Industry for Manufacturing

As the ASEAN Economic Community Blueprint focuses on the five "priority sectors" (i.e., air transport, e-ASEAN, healthcare, tourism, and logistics services) within the mandate of retaining the ASEAN centrality, some concrete "model measures" of stage-by-stage liberalization for harmonizing AFAS and ASEAN+1 FTAs could be formulated at the earliest convenience, as proposed by Findlay (2011). ERIA's ongoing work is looking into the supporting task of establishing a seamless ASEAN++ region where the literally seamless services sectors will serve as one single industry base on its own and also as a "supporting industry" for manufacturing activities (i.e., trade and investment) in this region. In addition to the "priority sectors" above, transportation, distribution, telecommunication, and financial services should also be the focus in proposing such model measures, since these sectors will surely expedite the construction of what is called "regional supply chains" in East Asia.

5. Reform beyond Non-discrimination

Liberalization in Trade in Service will give much larger impacts if associated with appropriate domestic regulatory reforms, by inviting new entrants both from domestic and foreign to the markets and thus dramatically improving efficiency. Therefore, to consider ways forward, a "reform beyond non-discrimination", i.e., removing non-discriminatory barriers, would be a desirable policy direction (as indicated by Dee, 2010).

6. Policy Recommendations

The services chapter of upcoming ASEAN++ FTA should be designed to dramatically enhance services activities in the region. To meet this end, Member countries should:

(1) Aim at an ambitious level of services liberalization, e.g. higher than the ambition expressed in AFAS package 5;

(2) Seek and make tangible commitments that are "plus" to their respective WTO GATS commitments as well as existing ASEAN+1 FTAs;

(3) Create utmost transparency by allowing several categories of limitations such as foreign equity share while eliminating the others; and,

(4) Prioritize the service sectors which contribute to strengthening East Asia's link with the global production chains.

Moving forward, the East Asian countries should consider domestic regulatory reforms to maximize the values of trade liberalization in services.

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[2] "ASEAN+1 FTAs" analyzed in this paper include ASEAN-Australia-New Zealand FTA, ASEAN-China FTA, and ASEAN-Korea FTA, as well as ASEAN Framework Agreement on Services. The analysis of ASEAN-China FTA is based on the first package. FTAs, i.e., ASEAN-India FTA and ASEAN-Japan CEP, currently do not have services chapters.

[3] 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 converging 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)."

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