

Chapter 1

Comprehensive Mapping of FTAs in ASEAN and East Asia: The First Phase

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CHAPTER 1

Comprehensive Mapping of FTAs in ASEAN and East Asia: The First Phase

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This chapter describes the objective of a research project on the comprehensive mapping of FTAs in ASEAN and East Asia, and explains the expected contributions of our studies to existing FTA studies and the FTA database. There is increased need for comprehensive study of FTAs and RTAs between ASEAN nations and their dialogue partners, in response to growing discussions about the architecture of a region-wide FTA. There exist several research studies on convergence and divergence of FTAs in this region, and there are also databases of FTAs which provide basic information on the text of agreement of each FTA. In contrast, the main objective of our study is to construct a comprehensive and quantitatively comparable database of all FTAs in this region. Such an intensive FTA database, based on a common framework around each outstanding issue, would enable us to conduct comparative and multidimensional analyses, offering policy implications for construction of an efficient, region-wide FTA system. Our database construction will cover ASEAN+n FTAs as well as AFTA, bilateral FTAs among ASEAN members and their dialogue partners in sequence. Based on our work in constructing the database, our analyses will explore efficient FTA strategies and the region-wide FTA architecture in ASEAN and the East Asian region. This chapter also provides brief summaries of each chapter of the project report which are based on work carried out up to July 2011. Each chapter of this project report focuses on the framework and methodologies of database construction for each official text of the FTA, and also outlines some tentative analyses based on the primary dataset. In addition, we introduce some tentative policy implications based on the database up to this point.

1. Back ground: Proliferation of FTAs in East Asia

The total number of Free Trade Agreements (FTAs) in the world has increased rapidly since the beginning of the 1990s. According to the World Trade Organization (WTO), the number of RTAs notified to the General Agreement on Tariffs and Trade (GATT) and the WTO was 505 as of 15 November 2011, and 313 were in force¹. Until the 1980s, most of the FTAs had been plurilateral regional agreements or bilateral FTAs among countries in the same region, the enlargement of the European Union (EU) being a case in point. The number of bilateral FTAs has also been increasing rapidly since the late 1990s, and many inter-regional bilateral FTAs such as the US-Singapore FTA, the Korea-Chile FTA, the MERCOSUR-India FTA and the Japan-Switzerland FTA, and bilateral FTAs between developed and developing countries such as the Canada-Costa Rica FTA, the Thailand-Australia FTA and the Japan-Vietnam FTA have been concluded since 2000.

In the East Asian region, most governments prioritized multilateral trade liberalization under the WTO until the later part of the 1990s. However, after the formation of the Singapore-New Zealand FTA in 2001 and the Singapore-Japan FTA in 2002, 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. Table 1 shows FTAs concluded within and beyond East Asia since the 1970s. Urata (2009) points out that the motivation behind this proliferation of FTAs in East Asia since 2000 is thought to stem from both economic competition for market access for growing East Asian economies and political competition for the initiative in East Asian regional economic integration, mainly between China and Japan. Agawal and Koo (2006) note that the most striking phenomenon is that small and medium-sized countries, such as Singapore, Korea and Thailand, have played a central role in setting the pace toward bilateralism in the Asia-Pacific region. They point out that these small and medium-sized countries have served as inspiration and motivation for their neighbors to form bilateral FTAs. To summarize major arguments from various perspectives, there are two major factors driving the proliferation of bilateral and plurilateral FTAs in East Asia. The first is the desire for economic gains by gaining access to larger export markets and by improvement of productivity through strengthening regional production and sales networks. The second is political. Nations aim to seize the initiative in regional economic integration and to promoting political and

¹ The WTO website: http://www.wto.org/english/tratop_e/region_e/region_e.htm

economic security by expanding bilateral FTA networks with regional and extra-regional countries.

Table 1: FTAs initiated by East Asian economies

Date of entry into force	Agreement name	Type	Coverage
1970s	11-Feb-73	Protocol on Trade Negotiations (PTN)	PSA
	17-Jun-76	Asia Pacific Trade Agreement (APTA)	PSA
	1-Feb-77	Australia – Papua New Guinea (PATCRA)	FTA
1980s	1-Jan-81	South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA)	PSA
	1-Jan-83	Australia – New Zealand (ANZCERTA)	FTA & EIA
	19-Apr-89	Global System of Trade Preferences among Developing Countries (GSTP)	PSA
1990s	20-Jun-91	Lao PDR – Thailand	PSA
	28-Jan-92	ASEAN Free Trade Area (AFTA)	FTA
	7-Dec-95	South Asian Preferential Trade Arrangement (SAPTA)	PSA
2000–	1-Jan-01	New Zealand – Singapore	FTA & EIA
	15-Dec-01	India – Sri Lanka	FTA
	1-Jan-02	Asia Pacific Trade Agreement (APTA) – Accession of China	PSA
	30-Nov-02	Japan – Singapore	FTA & EIA
	1-Jan-03	EFTA – Singapore	FTA & EIA
	13-May-03	India – Afghanistan	PSA
	28-Jul-03	Singapore – Australia	FTA & EIA
	1-Jan-04	China – Hong Kong, China	FTA & EIA
	1-Jan-04	China – Macao, China	FTA & EIA
	1-Jan-04	US – Singapore	FTA & EIA
	1-Apr-04	Korea – Chile	FTA & EIA
	1-Jan-05	ASEAN – China	PSA & EIA
	1-Jan-05	Thailand – Australia	FTA & EIA
	1-Jan-05	US – Australia	FTA & EIA
	1-Apr-05	Japan – Mexico	FTA & EIA
	1-Jul-05	Thailand – New Zealand	FTA & EIA
	1-Aug-05	India – Singapore	FTA & EIA
	22-Aug-05	Jordan – Singapore	FTA & EIA
	1-Jan-06	South Asian Free Trade Agreement (SAFTA)	FTA
	2-Mar-06	Korea – Singapore	FTA & EIA
	28-May-06	Trans-Pacific Strategic Economic Partnership (TPP)	FTA & EIA
	13-Jul-06	Japan – Malaysia	FTA & EIA
	24-Jul-06	Panama – Singapore	FTA & EIA
	29-Jul-06	India – Bhutan	FTA
	1-Sep-06	EFTA – Korea	FTA & EIA
	1-Oct-06	Chile – China	FTA & EIA
	1-Jul-07	Pakistan – China	FTA & EIA
	17-Aug-07	Chile – India	PSA
	3-Sep-07	Chile – Japan	FTA & EIA
	1-Nov-07	Japan – Thailand	FTA & EIA
	1-Jan-08	Pakistan – Malaysia	FTA & EIA
	1-Jul-08	Japan – Indonesia	FTA & EIA
	31-Jul-08	Brunei – Japan	FTA & EIA
	1-Oct-08	China – New Zealand	FTA & EIA
	21-Nov-08	ASEAN – Korea (Myanmar)	FTA & EIA
	1-Dec-08	ASEAN – Japan	FTA
	11-Dec-08	Japan – Philippines	FTA & EIA
	1-Jan-09	China – Singapore	FTA & EIA
	6-Mar-09	Australia – Chile	FTA & EIA
	1-Jun-09	MERCOSUR – India	PSA
	1-Aug-09	Peru – Singapore	FTA & EIA
	1-Sep-09	Japan – Switzerland	FTA & EIA
	1-Oct-09	Japan – Viet Nam	FTA & EIA
27-Oct-09	India – Nepal	PSA	
1-Jan-10	ASEAN – Australia – New Zealand	FTA & EIA	
1-Jan-10	ASEAN – India	FTA	
1-Jan-10	ASEAN – Korea	FTA & EIA	
1-Jan-10	Korea – India	FTA & EIA	
1-Mar-10	Peru – China	FTA & EIA	
1-Jan-11	Hong Kong, China – New Zealand	FTA & EIA	
1-Jul-11	EU – Korea	FTA & EIA	
1-Jul-11	India – Malaysia	FTA & EIA	
1-Aug-11	India – Japan	FTA & EIA	
1-Aug-11	Peru – Korea	FTA & EIA	

However, 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. Multiple rules of origins (ROOs), at the center of the spaghetti bowl problem, are applied to each bilateral and plurilateral FTA in this region. If a country forms multiple bilateral FTAs with the same partner redundantly under several plurilateral FTAs, the spaghetti bowl problem becomes obvious. Medalla (2011) gives an example of an ASEAN producer exporting to another ASEAN country who has to decide which of several different FTAs should provide the rules of governing his transaction. Furthermore, each ASEAN+n FTA consists of plural bilateral FTAs between member countries, hence the levels of liberalization of tariffs, non-tariff measures, service trade and investment and other sectors are different from one partner to another under the same ASEAN+n FTA. Proliferation of FTAs in such an uncoordinated fashion not only increases inefficiency in trade transactions but also creates impediments to the future development of regional integration based on a region-wide FTA. In order to strengthen the 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.

2. Objective of this study

More than twenty RTAs/FTAs including the ASEAN Free Trade Area (AFTA) have been concluded and are in effect in East Asia at present. An FTA is expected to improve the productivity of member countries by not only improving the efficiency of production but also encouraging scale and competitive effects. In addition, a region-wide FTA in ASEAN and East Asia would play a critical role in promoting and reinforcing regional production and sales networks in this area. The increase of RTAs and FTAs may however cause problems due to overlapping which, again, may give rise to a spaghetti bowl phenomenon. There are rising concerns about this problem in East Asia, as a wider regional free trade area emerges as a regional policy issue. It should be reiterated that the accumulation of bilateral and plurilateral RTAs and FTAs in this region was uncoordinated, and that liberalization commitments were not always binding.

The aim of our study is to construct a comparable and comprehensive database on FTAs in this region by investigating the articles of concluded 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.

Several research groups have already conducted studies on the convergence and divergence of FTAs in this region, and such existing studies have developed their own comparisons of ASEAN+n FTAs in specific areas, such as tariff nomenclature and Rules Of Origin (ROOs).² The EAFTA (East Asian Free Trade Area) Study was conducted by experts from ASEAN countries and China, Japan and Korea, while the CEPEA (Comprehensive Economic Partnership in East Asia) Study was done by experts from India, Australia and New Zealand in addition to the above thirteen countries. The Joint Expert Group for EAFTA reported the outcome of the Phase I study in 2006 and the Phase II study in 2009. They conducted an in-depth analysis of the EAFTA, including a comparative study on trade in goods, services and investment, ROOs, trade facilitation and cooperation issues under three ASEAN +1 FTAs. Likewise, the Track Two Study Group for CEPEA released their Phase I report in 2008 and the Phase II report in 2009. They engaged in research for potential region-wide FTAs based on three pillars; deepening economic integration, narrowing development gaps, and achieving sustainable development. In addition to these two major studies of the frameworks for regional FTAs in East Asia, an FTA framework between China, Japan and Korea also has been studied by the Trilateral Joint Research (Development Research Center of the State Council (DRC) of China, National Institute for Research and Advancement (NIRA)/ Institute of Development Economies - Japan External Trade Organization (IDE-JETRO) of Japan and Korea Institute for International Economic Policy (KIEP) of Korea) from 2003 to 2009. Thus, many and various comprehensive and comparative studies on the frameworks of regional FTAs in East Asia have already been conducted.

Although these studies provide important perspectives on each regional FTA strategy, they still have not offered a comprehensive tool to compare the various characteristics of all FTAs at once. In addition, there are several databases of FTA articles provided by related agencies of FTA members, or by certain international organizations. The World Trade Organization (WTO) has released the Trade Agreements Information System which contains information on all regional trade agreements notified to the organization, such as the date of notification and entry into force, coverage of FTA (Goods/Services), and type of FTA³. Asia-Pacific Economic Cooperation (APEC) provides the “Comparative Toolkit of Study on Identifying Convergence and Divergence in APEC FTAs/RTAs”, which covers all FTAs related to the APEC member countries⁴. This database provides the text of each chapter of 42 FTAs in the region.

² For example, the joint studies conducted by EAFTA Joint Expert Group and CEPEA Tract Two Study Group.

³ Trade Agreements Information System released by WTO at <http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx>.

⁴ “Comparative toolkit of study on Identifying Convergence and Divergence in APEC FTAs/RTAs” is released

Although there are several types of studies and databases of FTAs in East Asia, there is still no comparable and quantitatively-analyzable database which can serve as a measure to compare characteristics and multidimensional aspects of all FTAs objectively among ASEAN members and other East Asian countries. Although it is exceedingly difficult to compare the characteristics of all FTAs at once, we need such datasets and reference indices in order to extensively discuss and elicit from diverse perspectives a convincing future strategy for a region-wide FTA architecture.

Our study sets itself apart from several existing FTA stocktaking studies by providing comparable and quantitatively-analyzable database of articles, commitments and indices related to liberalization under FTAs. Constructing such an intensive 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, the following four chapters; 1) Tariff Components; 2) Rules of Origin; 3) Trade in Services and 4) Investment are covered. , We will also conduct several analyses on 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.

3. Summary of the report in each chapter

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. This project report provides the methodology of compilation of the dataset for each chapter. Also, each researcher engages in some simple comparative analysis using their respective datasets.

3.1 Tariff

Starting with the tariff dataset, Kuno (2011) constructs the current version of the dataset covering 70 signatory-level tariff schedules bound under the five ASEAN+n FTAs namely, the ASEAN-Japan Comprehensive Economic Partnership (AJCEP), the ASEAN-Korea FTA (AKFTA), the ASEAN-China FTA (ACFTA), the ASEAN-Australia-New Zealand FTA (AANZFTA), and the ASEAN-India FTA (AIFTA) and seven bilateral FTAs concluded by Japan. Kuno gives a detailed description of the methodologies of compilation of tariff datasets, and shows that 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 present dataset, Kuno calculated the conventional liberalization index by FTA and by country. 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 points out that this index suggests that the key to forming a high-quality FTA among ASEAN+6 countries is to realize further liberalization between India and the ASEAN countries.

Using his dataset, Kuno can identify “tariff lines already liberalized under the Most Favored Nation (MFN) regime” and “tariff lines newly liberalized under the FTA”. He points out that this decomposition exercise is useful in identifying true liberalization efforts made by a particular country during FTA negotiation. Such data could provide useful information of the cost to each member country in this region in the process of forming a region wide FTA.

3.2 Rules of Origins (ROOs)

Medalla (2011) compiles a database on the Rules of Origin 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. She constructs matrices of ROOs, including a Product Specific Rules (PSRs) comparison, matrixes of Operational Certification Procedures (OCP), matrixes of Verification Procedures at 6 digit 2002 HS classification under ASEAN+n FTAs and bilateral FTAs. Using the dataset, she assesses the various ROO regimes of these FTAs, particularly regarding their degree of commonality and relative restrictiveness. She finds a substantial commonality in ROOs across the five ASEAN FTAs (ATIGA, AKFTA, ACFTA, AJCEP and AANZFTA), although, from the point of convergence, considerable variation still exists across these five FTAs, and across various sectors.

In addition, Medalla (2011) assesses the ROO restrictiveness in ASEAN and ASEAN+n FTAs by using the index/point system by type of ROO. The result shows that the ATIGA ROO regimes appear the most liberal; she points out that this result is indicative of the continued reforms being undertaken. The ACFTA appears to be the most restrictive and the main reason is that it followed the original ASEAN ROO, with only a few changes. In sum, there is substantial commonality in ROOs across the four FTAs although considerable variation still exists. She indicates 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.

3.3 Service Trade

Ishido (2011) explains and constructs an index of the degree of liberalization of commitments in service trade, including 55 sub-sectors by four modes and two aspects of liberalization for AFAS, four ASEAN+n FTAs and six bilateral FTAs by Japan with ASEAN countries. He also constructs a Hoekman index of each FTA by sectors. Based on the dataset, comparative analyses using correlation coefficients across countries of each FTA and clustering of countries under each FTA are conducted. Ishido (2011) finds 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. Ishido (2011) also finds that there are cross-country and sector specific similarities among the ASEAN+n FTAs. He points out that this implies that shared domestic sensitivities can be overcome by a shared economic cooperation scheme for enhancing competitiveness through FTA provisions.

In the case of the dataset of six bilateral FTAs by Japan and ASEAN members, there are positive correlations among these FTAs as expected. Also, it is found that these bilateral FTAs Japan signed with ASEAN members are more committed, especially in mode 3 and mode 4. For comparison purposes, Ishido (2011) also constructs a dataset for India's two bilateral FTAs, namely the India-Korea CEPA and India-Singapore CECA. He finds that the commitment levels of Japan's bilateral FTAs are significantly higher than those of India, and that commitment patterns among member countries of an FTA are more similar in the case of India's FTA. He suggests, however, that similarly clustered sectors should be harmonized first, the "social-experiment" aspect should be recognized, and the smallest-scale feature of bilateral FTA would allow for some bold opening up of the service trade market. The convergence

scenario in East Asia's service sector could actually start with some bold policy initiatives in terms of bilaterally opening up service sectors for further trade.

3.4 Investment rules

Turning to the investment rules of FTAs, Thangavelu and Lim (2011) 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 ASEAN Free Trade Agreement, as well as their more recent individual action plans. Also, they construct an index for the ASEAN-China and ASEAN-Korea FTAs. The results of their mapping exercises on the degree of liberalization show that Malaysia, The Philippines and Thailand ranked lower among the ASEAN 5 countries. Conversely, 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. By sector, it was found that the degree of liberalization in the service sectors under the AFTAS is higher than under the agreement of GATs. However, Thangavelu and Lim (2011) point out that the degree of liberalization in service sectors is much lower compared with the manufacturing sector, thereby indicating a greater need to liberalize the service sectors in ASEAN. In addition, they point out that there is still greater opportunity for liberalizing ASEAN's manufacturing sector. They find that agricultural and resources sectors, in particular, tend to have very restrictive FDI policies.

Thangavelu and Lim (2011) also construct an FDI index for the China-ASEAN and Korea-ASEAN FTAs for comparison. They find that manufacturing sectors tend to have more liberal FDI policies as compared with service sectors in both the China-ASEAN and Korea-ASEAN FTAs, and they point out that it is necessary to facilitate liberalization for service sectors in order to promote a greater flow of services and labor in the region.

4. Policy implications from each chapter

The database is still in under construction and it is planned to cover all ASEAN+n FTAs and the bilateral FTAs of ASEAN countries and their dialogue partners sequentially. Our studies have therefore 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:

A policy implication can be derived 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:

Although the “spaghetti bowl” of FTAs might not be as messy as it may seem, it would still be cumbersome for Customs authorities to be processing different Certificates of Origin forms. Harmonization of these forms, across ASEAN+n FTAs at least, would simplify not just administration but compliance of exporters dealing with multiple markets.

For East Asian integration, the ultimate direction in ROO reforms should be toward ROO harmonization. There should be harmonization upwards, toward best practice, in line with the goal of deepened regional integration. In the interim, practical steps should be taken and progress toward convergence should be completed.

In addition, further streamlining of OCP could focus on facilitating the use of cumulation. 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:

Overall, the absolute degree of commitment in service sectors remains rather low, even under the ASEAN+n FTAs with a preferential nature. Given that there are more benefits than costs arising from deepening trade in services, further harmonization of the service chapters under the four ASEAN+n FTAs studied would be economically valid for bringing about more benefits to the ASEAN members, as well as for all the other participating countries in the Asia-Pacific area.

With regard to the ASEAN+n FTAs, there are cross-country similarities in the pattern of commitments under each FTA. This implies that the shared domestic sensitivities can be overcome by a shared economic cooperation scheme for enhancing competitiveness through

FTA provisions. 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 short, there have been significant improvements on direct measures to improve and facilitate FDI in ASEAN, especially in the case of cross-border investment. At the same time, indirect measures such as the time required to open and close investment establishments have deteriorated much. 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.

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. Comparative analysis on the degree of restrictiveness and liberalization of the investment rules of ASEAN and its six dialogue partners, on the basis of FTA agreements and industrial sectors covered, will also provide multidimensional measures for evaluation among FTAs and could become a basis for discussion on feasible investment rules for a region-wide FTA.

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