

# Trends of FTAs and the Patterns of Trade in East Asia from the 1990s to 2010s

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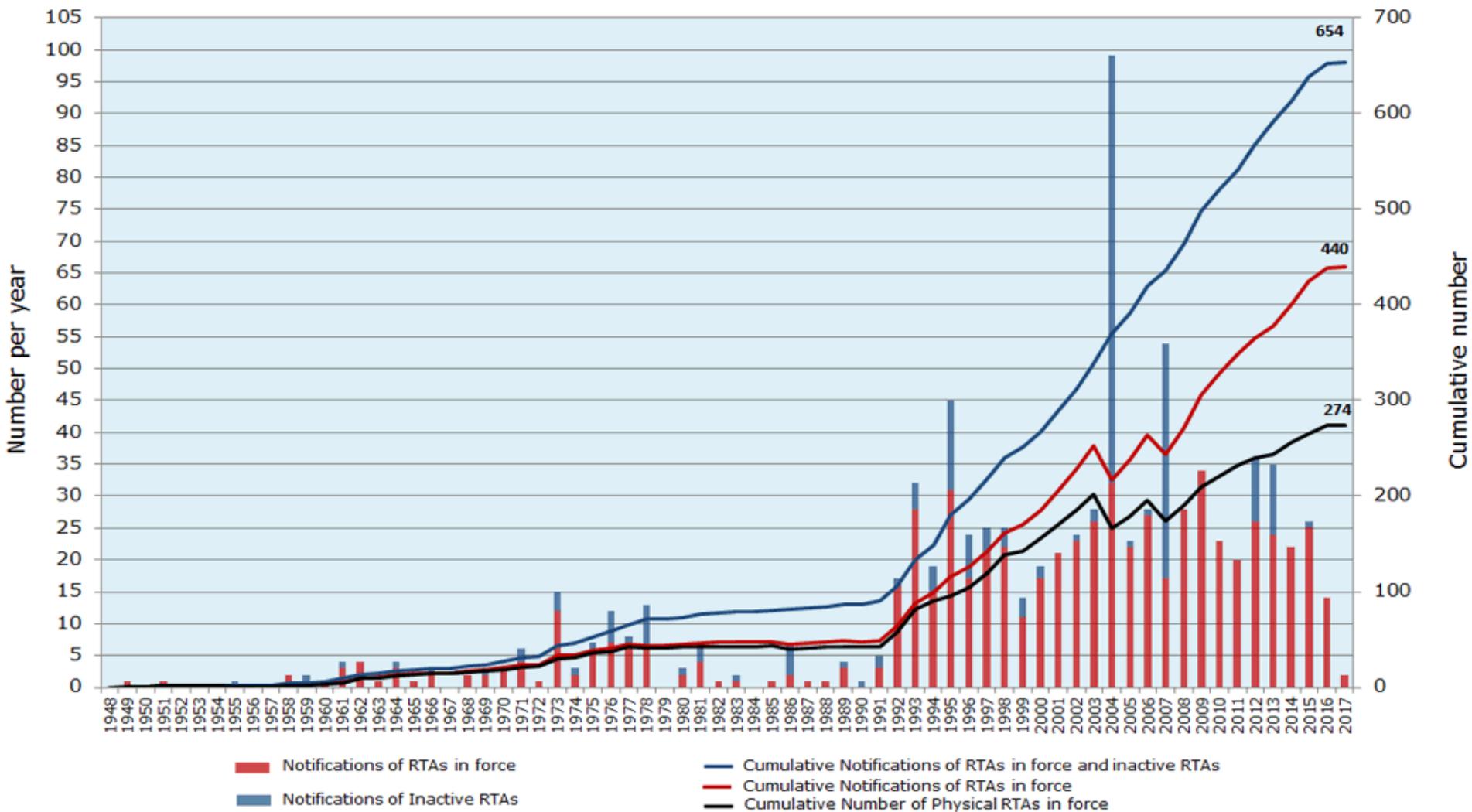
# I. Introduction

- East Asia: 1980s-1990s
- Market-driven (de facto) regional economic integration driven by trade and FDI by multinational corporations (regional production network, supply-chains)
- Market-driven regional economic integration was realized by trade and FDI liberalization policies

- Late 1990s
- Emergence of Institution-driven regional economic integration in the form of free trade agreements (FTAs)
- East Asia is a late comer in the FTA frenzy
- East Asia caught up with the rest of the world in the FTA race
- Objective of this paper
- Provide an overview of FTA developments in chronological order and examine intra-regional trade patterns in East Asia

# Figure 1 RTAs in the World

## Evolution of Regional Trade Agreements in the world, 1948-2017



Note: Notifications of RTAs: goods, services & accessions to an RTA are counted separately. Physical RTAs: goods, services & accessions to an RTA are counted together. The cumulative lines show the number of notifications/physical RTAs that were in force for a given year.  
 Source: RTA Section, WTO Secretariat, 5 May 2017.

## II. 1990s: ASEAN Free Trade Area (AFTA) and Emergence of Discussions on Bilateral FTAs

- In the late 1980s and 1990s, movement toward regional economic integration in the form of building institutions accelerated in regions other than East Asia: Europe, North America
- An exception in East Asia was AFTA in 1993.
- 6 ASEAN countries → 10 ASEAN countries
- Tariffs on intra-AFTA trade were reduced and then eliminated: 6 original members by 2010 and 4 new members by 2018

- AFTA → ATIGA (2010) : Positive impacts on intra-ASEAN trade
- Services: AFAS (1995)
- Investment: AIA (1998) → ACIA (2009)
- → ASEAN Economic Community (AEC): 2015
- AEC: Single market and production base
- Factors behind AFTA
- External factors: (1) regionalization in the world, (2) China's rise
- Internal factors: realization of the need for economic cooperation to achieve resilient (AFC), competitive and equitable region

- Toward the end of 1990s, several East Asian countries began to establish bilateral FTAs
- Singapore → Japan, Korea
- Korea → Japan
- Japan, Korea, China were not active in forming FTAs first (1<sup>st</sup> priority, WTO) but then later they became active → bilateral FTAs in 21<sup>st</sup> century
- Factors behind their change in the views toward FTAs: (1) FTAs are increasing → discrimination, (2) little (no) progress in trade liberalization in WTO

### III. 2000s: ASEAN+1 FTAs and Beginning of Discussions on Region-wide FTAs: ASEAN+3 FTA, ASEAN+6 FTA, CJK FTA, and TPP

- China → ASEAN: ASEAN+China FTA (Early harvest, cooperation extended to new ASEAN members)
- Motives: (1) expand/maintain export markets, (2) non-economic factors, regional policy
- Domino effect set in: Japan, Korea, India, Australia-New Zealand followed to establish ASEAN+1 FTAs
- Differences in Tariff elimination rates

# Tariff Eliminations Rates for ASEAN+1 FTAs

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

Note: The share of tariff elimination in total # of imports, computed at HS 6-digit level

Source: Kuno et al (2015)

- Developments of discussions on region-wide FTAs
- ASEAN+3 (CJK) FTA (East Asia FTA): Idea 2002, Feasibility study 2005---China-led initiative
- ASEAN+3+3 (India, Australia, NZ) FTA (CEPEA): Idea 2006, Feasibility study 2007----Japan-led initiative
- Proposals from study groups in 2009: move forward
- Motives behind ASEAN+3, ASEAN+6 FTAs:  
creation of large integrated market in East Asia, further development of regional production networks, supply-chains

- FTAs involving China, Japan, Korea are faced with difficult obstacles, economic and non-economic
- FTAs involving APEC economies: P5 (Australia, Chile, NZ, Singapore, US) in 1990s, P4 (Chile, Singapore, NZ, Brunei) enacted in 2006 → TPP
- P4: factors behind P4, (1) establishment of business friendly environment, (2) support APEC process (achievement of free and open trade and investment)

- 2010: Expanded TPP negotiation with 8 economies (TPP+US, Australia, Peru, Vietnam) began
- US interest is its concern about exclusion from East Asian market
- FTAAP : US proposition in 2006, Eventual goal of regional economic integration (2010, Yokohama APEC)
- 2014, Collective Strategic Study began, the report was delivered in 2016

## IV. 2010s: Negotiations of Mega FTAs: RCEP and TPP

- Enlarged TPP negotiations began with 8 members in March 2010 and concluded with 12 members (Malaysia, Canada, Mexico, and Japan joined) in October 2015. TPP treaty was signed in February 2016. Ratification process began. Enactment of TPP is unlikely, at least for a few years, because the US withdrew from TPP.

- RCEP negotiation began in May 2013.
- RCEP: China and Japan' joint proposal for accelerating EAFTA and CEPEA → ASEAN proposal of RCEP (ASEAN+6)
- Joint proposal: TPP put pressure on China
- TPP → RCEP, CJK FTA, TTIP : Competitive regionalism
- RCEP negotiations: missed target dates
- Comparison of TPP and RCEP:
- Coverage: TPP > RCEP
- Level of liberalization: TPP > RCEP
- RCEP: equitable development, cooperation
- TPP: high aspiration, innovation

# Comparison of Issue Coverage for TPP and RCEP

	TPP	RCEP
Market Access for Goods	●	●
Rules of Origin and Origin Procedures	●	●
Textiles and Apparel	●	○
Customs Administration and Trade Facilitation	●	●
Trade Remedies	●	○
Sanitary and Phytosanitary Measures	●	○
Technical Barriers to Trade	●	○
Investment	●	●
Cross Border Trade in Services	●	●
Financial Services	●	○
Temporary Entry for Business Persons	●	
Telecommunications	●	○
Electronic Commerce	●	●
Government Procurement	●	
Competition Policy	●	●
State-Owned Enterprises and Designated Monopolies	●	
Intellectual Property	●	●
Labor	●	
Environment	●	
Cooperation and Capacity Building	●	●
Competitiveness and Business Facilitation	●	
Development	●	●
Small and Medium-Sized Enterprises	●	●
Regulatory Coherence	●	
Transparency and Anti-corruption	●	
Administrative and Institutional Provisions	●	
Dispute Settlement	●	●

Note: ● indicates the issue is covered, and ○ is likely to be covered.

Sources: TPP are taken from the TPP text and RCEP are based on the information given by RCEP "Guiding Principle and Objectives for Negotiating RCEP" and other sources.

# Tariff Elimination Rates for TPP

	Actual Figures (2015)				Total	TPP Commitments			
	Agricultural products		Manufactured products			Agricultural products	Manufactured products		
	Final bound	MFN applied	Final bound	MFN applied		Immediate elimination	Eventual elimination	Immediate elimination	Eventual elimination
Australia	31.3	77.0	18.8	45.9	100	99.5	100	91.8	99.8
Brunei	0.0	98.5	0.0	78.5	100	98.6	100	70.2	96.4
Canada	46.0	59.6	25.8	78.5	99	86.2	94.1	96.9	100
Chile	0.0	0.0	0.0	0.3	100	96.3	99.5	94.7	100
Japan	34.1	36.5	55.9	55.7	95	51.3	81	95.3	100
Malaysia	12.9	75.0	5.0	64.1	100	96.7	99.6	78.8	100
Mexico	0.4	19.6	0.3	55.2	99	74.1	96.4	77	99.6
New Zealand	54.8	72.4	46.4	62.5	100	97.7	100	93.9	100
Peru	0.0	52.6	2.2	70.0	99	82.1	96	80.2	100
Singapore	4.1	99.8	17.0	100.0	100	100	100	100	100
United States	30.2	30.8	47.4	48.4	100	55.5	98.8	90.9	100
Viet Nam	8.7	15.5	15.0	38.8	100	42.6	99.4	70.2	100

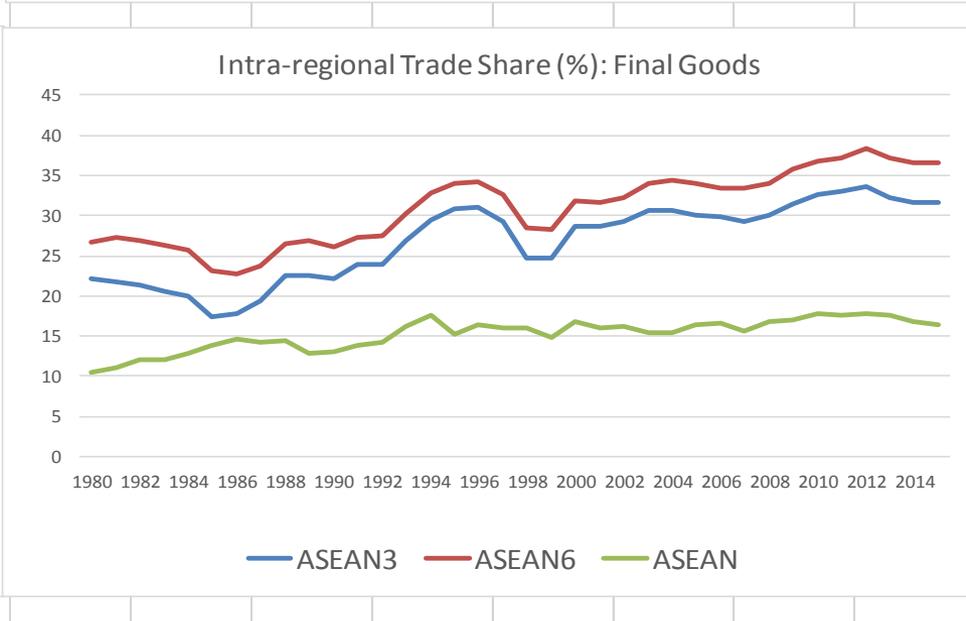
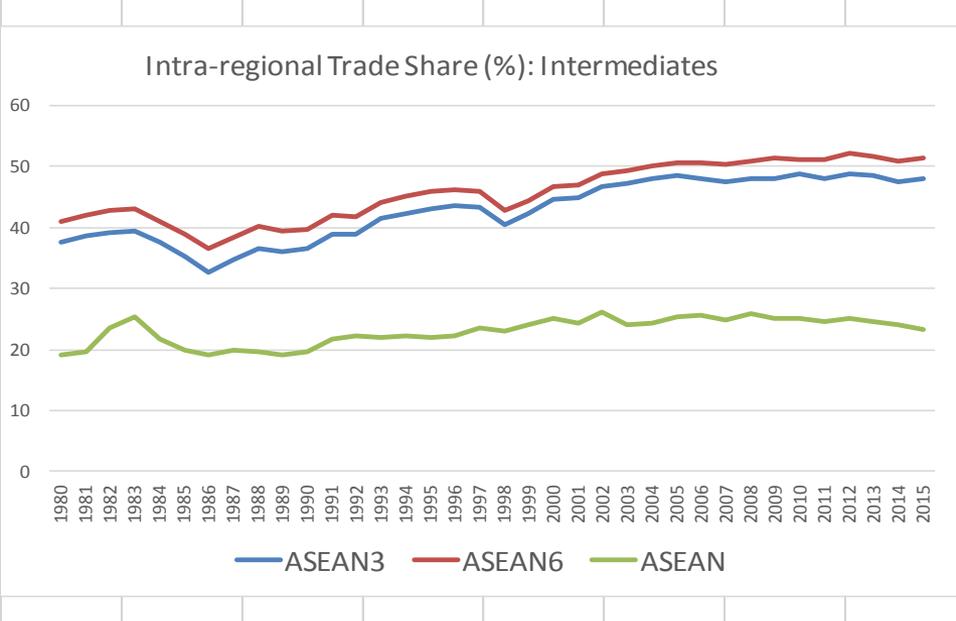
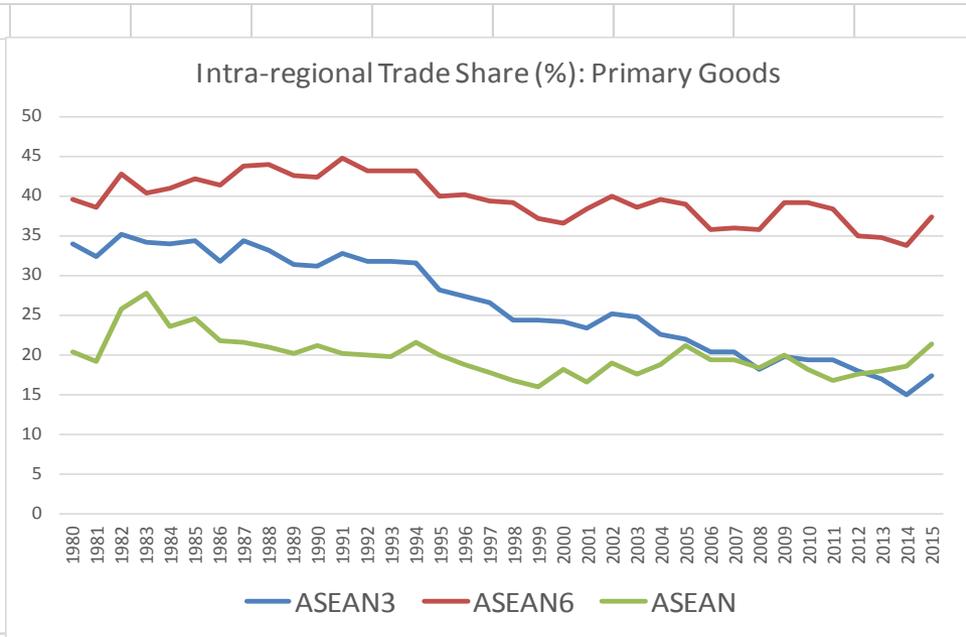
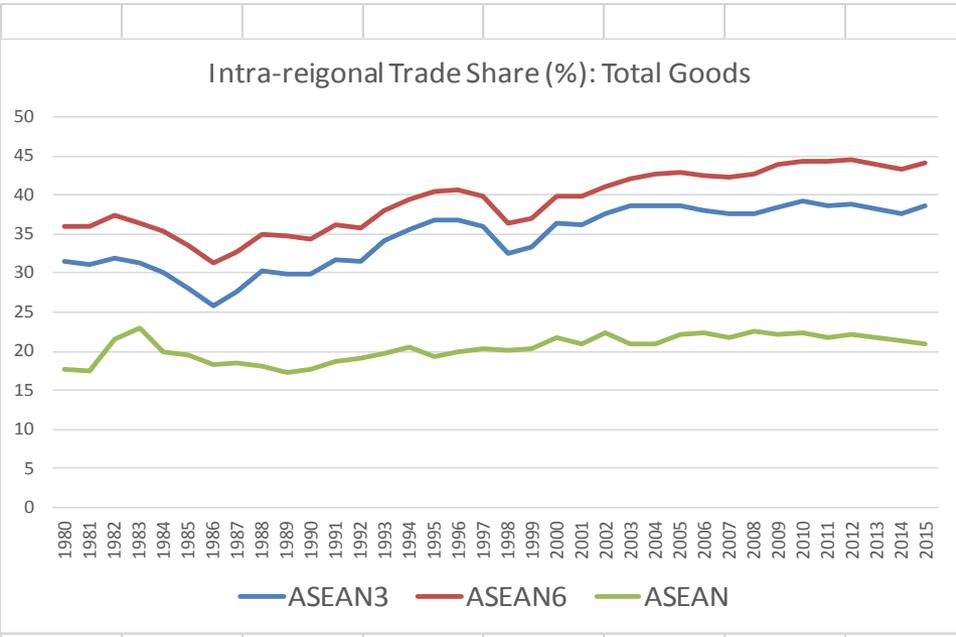
Source: WTO Tariff Profiles, and Japanese Government, Cabinet Secretariat, TPP Section

# V. Changing Patterns of Intra-regional Trade in East Asia

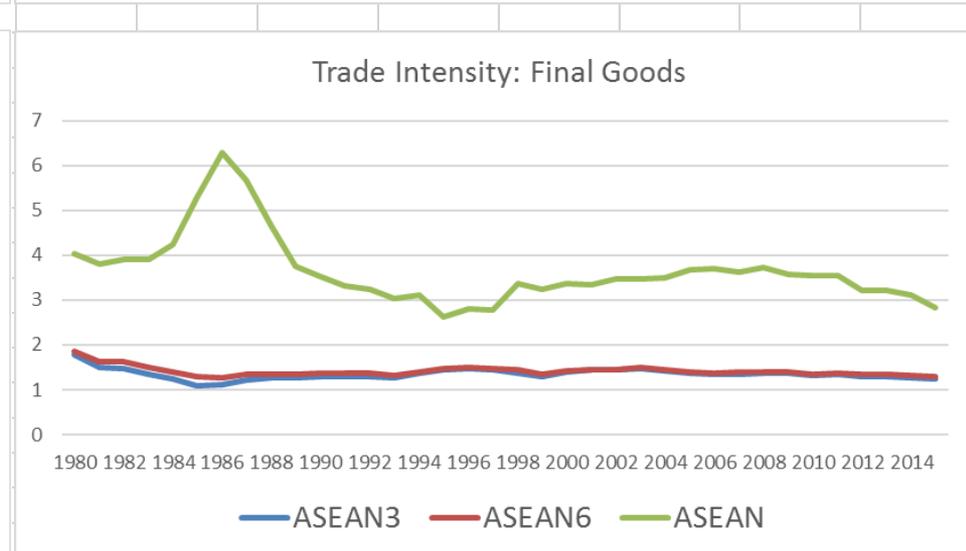
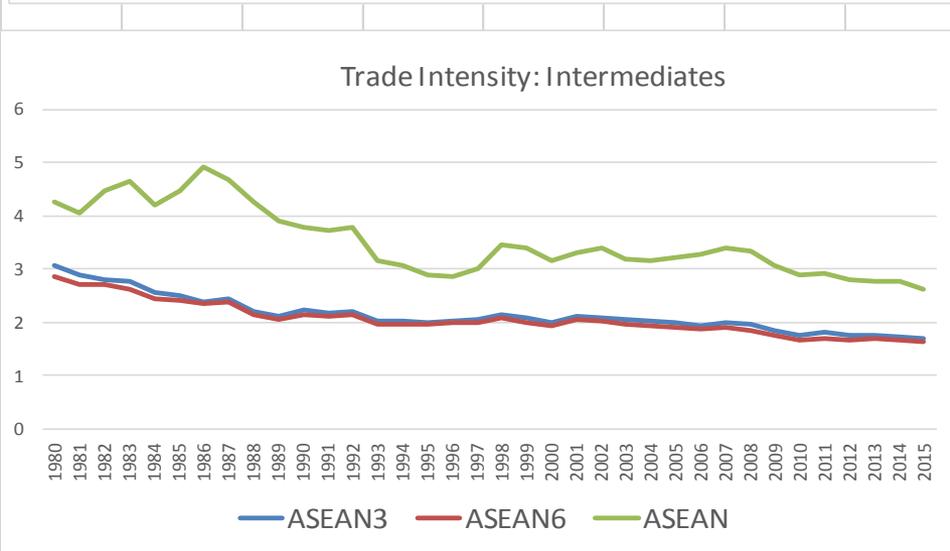
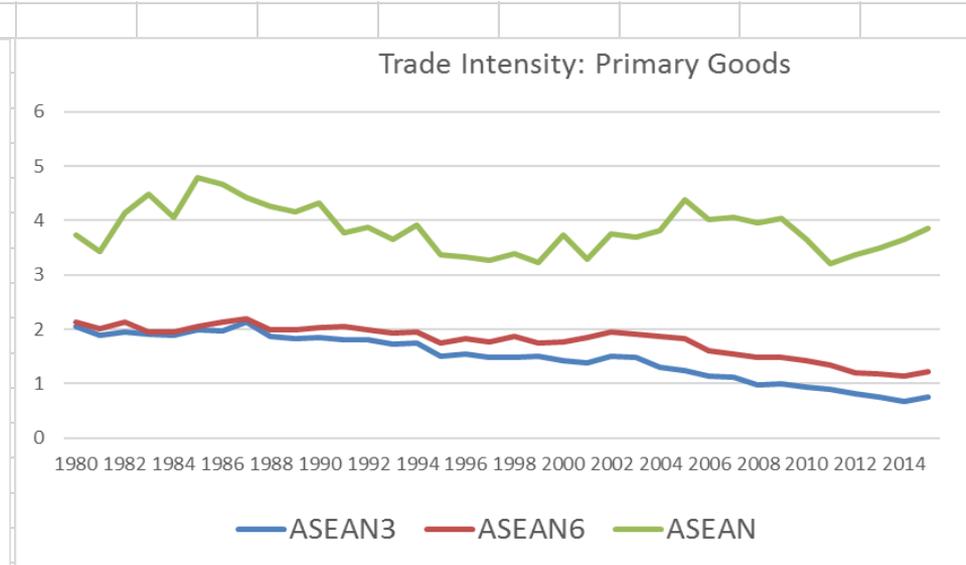
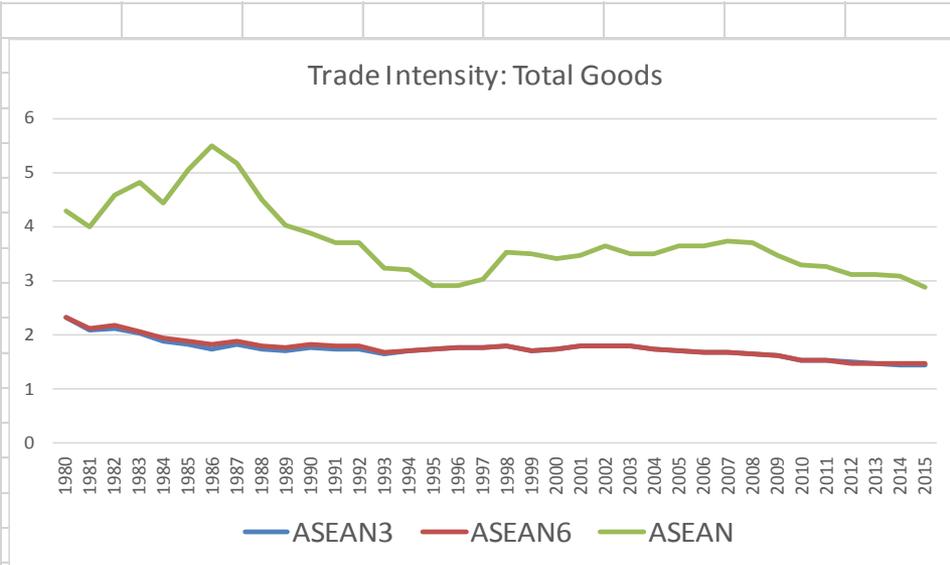
- Intra-regional trade share (intra-regional trade/region's overall trade)
- Levels: ASEAN+6 (35-45%) > ASEAN+3 (30-40%) > ASEAN (20%)
- Trends: ASEAN+6, ASEAN+3 rising, ASEAN remain more or less the same
- Sectoral patterns: Intermediate goods (rising) > final goods (rising)  $\approx$  primary goods (declining)

- Impacts of institution-driven regional economic integration (FTAs)
- Trade intensity index: remain more or less at the same level -> increase in intra-regional trade shares for ASEAN+6 and ASEAN+3 are likely to be attributable to expansion in trade of ASEAN+6 and ASEAN+3 not to FTAs
- Rigorous analysis is needed to present a final verdict on this issue

# Figure 2 Intra-regional Trade Shares



# Figure 3 Trade Intensities



# V. Concluding Remarks

- As for region-wide FTAs, TPP is not likely to be enacted (soon) -> TPP11
- RCEP is the only possibility at present. But the RCEP negotiation is faced with difficulty in making progress in various issues.
- For example, no agreement has been reached in market access in goods
- Possible conclusion: (1) Low level, (2) High level by dropping countries that cannot accept it, (3) High level with transition period

- Faced with growing protectionism, East Asia needs to fight against it by concluding RCEP negotiations and enacting RCEP
- Strong political will by the Leaders, who understand the importance of RCEP for the countries, region, the world, is needed to conclude the negotiation
- In order for the Leaders to have a strong will, researchers, journalists, opinion leaders, etc. who have influence in forming the public's view, need to show evidence on the benefits of RCEP and other FTAs.