

Regionalism in East Asia: the ASEAN +1 initiatives

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Free trade agreements (FTAs) have been proliferating in Asia since the late '90s and show no sign of abating. The ASEAN +3 model should ideally serve as the starting point because of existing linkages in the real and monetary sectors. Nevertheless, what have emerged are six ASEAN +1 initiatives. Each of these initiatives covers similar areas of liberalization but progresses at different paces. The +6 countries have independently concluded FTAs with Singapore, which have built on their WTO commitments and moved on to difficult areas of liberalization. From 2004 onward, the +6 countries have started concluding bilateral FTA with each other and with the United States and the European Union.

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1. Introduction

Regionalism in Asia began in the late '90s. There were many factors that contributed, nuanced or otherwise, to this recent trend. First, it was Asia's response to the rise of regionalism in Europe and the Americas in the early '90s, which eventually led to the formation of the ASEAN (Association of Southeast Asian Nations) Free Trade Area (AFTA) in 1992. Second, it reflected Asia's impatience with the slow progress of the multilateral processes, the Uruguay and the Doha Development Rounds. Third, the Asian financial crisis in 1997 created an immediate sense of urgency for regional cooperation¹ as interdependence of regional financial markets, highlighted in the crisis, led to the ASEAN +3 process. Fourth, China's transition to a market economy, its changed

¹An earlier attempt was initiated by Malaysia in 1990 after unsatisfactory progress on the Uruguay Ministerial, but the political realities were not ripe and it was eventually abandoned. This earlier attempt provided the background to the ASEAN +3 process.

role during the crisis years, and its subsequent membership in the World Trade Organization (WTO) in 2001 also gave impetus to regional cooperation, i.e., Asia now has a more measured approach to engage and participate in China's economic growth and huge economic potential.

In the next few sections, the paper examines the trends and scope of regional liberalization achieved in East Asia² and assesses the achievements made so far. Can regionalism in East Asia complement the multilateral process of liberalization?

2. Emerging trends in regionalism in East Asia

Unilateral trade and financial liberalization in East Asia came to a halt during the financial crisis years, but what followed was a mad rush toward forging free trade agreements (FTAs). The most sacrosanct indicator of multilateral liberalization, most-favored-nation (MFN) tariffs, show that there is room for lowering tariffs in Southeast Asia, and specifically in agriculture for China, Korea, and Japan. India, late in its trade reforms, has even more room (Table 1). The recent spate of FTAs has been able to reduce these MFN rates to zero, regionally and or bilaterally of course, while negotiators in the Doha Round are still hammering away at how to arrive at a Swiss formula to cut tariffs that would eventually converge to zero, reduce the bound rate, and increase its coverage.

FTAs in East Asia began with two initiatives, i.e., Singapore-New Zealand (NZSCEP) and Japan-Singapore (JSEPA), both proposed in 1999 and implemented in 2001 and 2002, respectively (A.1 and A.2, Table 2). The birth, in the late '90s, of the ASEAN +3 process was overtaken by the ASEAN +1 initiatives by early 2000. The ASEAN, even while it has not really achieved any deep integration, was the logical trading partner in East Asia because it was the only trade bloc. As governments in Asia responded with counteroffers, the ASEAN +1 track became the model by which developed countries form FTAs in Asia. From 2002 to 2003, six developed countries in Asia proposed FTAs with ASEAN. The ASEAN-China Free Trade Area (ACFTA) and the ASEAN-Korea Free Trade Area (AKFTA) both advanced more quickly than the rest and were implementing the trade in goods agreement in July 2005 and June 2007, respectively. Both have concluded the services agreement too and are continuing with investment negotiations.

The ASEAN-India has concluded the trade in goods component, and negotiations in services and investment will begin. Both the ASEAN-Japan Comprehensive Economic Partnership (AJCEP) and ASEAN-CER (Closer Economic Relations) are in advanced stage of negotiation, while the ASEAN-EU

² Early on, the reader is cautioned that East Asia within the context of regional integration now includes India, Australia, and New Zealand.

Table 1. MFN tariffs in East Asia, the United States, and the European Union (all in %)

	Year	MFN			Bound rate			Coverage		
		All goods	Agri	Mfg	All goods	Agri	Mfg	All goods	Agri	Mfg
A. ASEAN10 +6										
Brunei	2002	2.6	0.0	3.0	24.3	23.2	24.5	95.3	97.6	95.0
Cambodia	2002	16.4	19.7	15.9						
Indonesia	2004	6.4	8.0	6.1	37.1	47.0	35.6	96.6	100.0	96.1
Lao PDR	2003	8.6	15.9	8.2						
Malaysia	2003	7.3	2.1	8.1	14.5	12.2	14.9	83.7	99.9	81.2
Myanmar	2003	4.8	8.7	4.1	83.6	102.8	22.3	17.3	100.0	4.7
Philippines	2004	7.5	11.8	6.9	25.6	34.7	23.4	66.8	99.4	61.8
Singapore	2004	0.0	0.0	0.0	6.9	9.5	6.3	69.2	100.0	64.5
Thailand	2003	14.7	16.2	14.6	25.7	35.5	24.2	74.7	100.0	70.9
Vietnam	2004	13.7	18.1	12.9						
B. +6 Countries										
China	2004	10.3	15.0	9.5	10.0	15.8	9.1	100.0	100.0	100.0
Japan	2004	4.7	10.4	3.3	5.0	10.9	3.6	99.6	100.0	99.5
Korea, Rep.	2004	11.9	42.5	6.6	16.1	52.9	10.2	94.4	99.1	93.7
India	2004	28.3	30.0	25.3	49.8	114.5	34.3	73.8	100.0	69.8
Australia	2004	4.2	1.1	4.6	9.9	3.2	11.0	97.0	100.0	96.5
New Zealand	2004	3.2	1.7	3.4	10.3	5.7	11.0	99.9	100.0	99.9
C. Rest of the World										
United States	2004	4.3	8.2	3.7	3.6	6.9	3.2	100.0	100.0	100.0
European Union	2004	4.5	9.5	3.6	4.1	5.8	3.9	100.0	100.0	100.0

Sources: WTO, IDB, and CTS CD ROMs 2005; Trade Policy Review (various issues) 1993-2005; World Bank 2005.

Notes: MFN rates are based on simple average of MFN applied tariffs available in the latest year. Product categories are defined by HS classifications as all goods (HS 01-97), agricultural goods (HS 01-24), and manufacturing goods (HS 25-97).

FTA negotiation was launched in 2007. Waiting in the wings is the United States: a Trade and Investment Framework Agreement (TIFA) with ASEAN was signed in August 2007; the US Enterprise for ASEAN Initiative requires a Trade and Investment Framework Agreement, seen as preparatory work, before FTA negotiations can begin (B.8, Table 2).

In parallel and almost simultaneously, Australia, Korea, India, and even the United States started negotiations and implemented bilateral FTA with Singapore between 2003 and 2006. China started bilateral negotiations with Singapore in August 2006, one year after it concluded its trade-in-goods agreement with ASEAN. China is the only country without a concluded FTA with Singapore.³

In the first East Asia Summit in December 2005, two Pacific countries and one South Asia country participated. What was originally envisioned as an East Asian trade bloc, the ASEAN +3, is now ASEAN +6—regionalism in East Asia has spilled over to other subregions.

What happens when four ASEAN +1 initiatives (B.1 to B.5 in Table 2, except India) are fully implemented by 2015? In effect, the five countries will have a free trade zone in goods, indirectly with each other through ASEAN. One can only surmise that this future effect is now taking shape and is emerging as an outer layer of bilateral FTAs among the six countries. Not one FTA has been concluded since negotiations started in 2004 and 2005 (C.2 and C.3, Table 2);⁴ the rest are in their negotiations stage. Nevertheless, it is surprising to see that newer FTA proposals have continued to be proposed, the most recent of which is the Japan-India FTA in January 2007. Australia, by far, is the most aggressive in this trend: it has a bilateral FTA with the rest of the +4 countries.⁵

Regionalism in East Asia has become transcontinental. It has ongoing trade negotiations with the European Union after years of preparatory talks. The United States has made inroads through the signing of a TIFA with ASEAN only in August 2006 but has bilateral trade agreements with Singapore since 2004.

Table 2 can be visualized in Figure 1. The bilateral FTAs with Singapore form an inner core of FTAs, and the ASEAN +1 initiatives are the middle layer. Who is the hub: Singapore or ASEAN? The emerging outer layer is the bilaterals among the +6 countries.

³ The CER countries—Australia, New Zealand, and Japan—are implementing bilateral FTAs with other ASEAN-member countries such as Malaysia, Thailand, and the Philippines. The present paper detracts from these additional arguments and trends and focuses only on Singapore for reasons that will be clear toward the end of the paper.

⁴ The first of +3 bilaterals is Japan-Korea (C.1, Table 2), but negotiation has been suspended since 2004 because of differences in agricultural liberalization.

⁵ Only +4 instead of +5 because Australia has been implementing a free-trade zone with New Zealand since 1989.

Table 2a. Regionalism in East Asia: emerging scenarios

A. Inner ring: (Bilateral tracks)	B. Middle ring: (ASEAN + 1 initiatives)	C. Outer ring: Bilateral FTA among +6	D. Periphery: +6 FTA with rest of the world*
<i>CER (Australia/New Zealand)</i>			
<p>A.1 New Zealand-Singapore CEP</p> <ul style="list-style-type: none"> • Under implementation since January 2001 • Scope: goods, investment, services, customs procedures, government procurement, IPR (competition policy is not included) 	<p>B. 4 ASEAN-CER</p> <ul style="list-style-type: none"> • Under negotiation since February 2005 • Full implementation by 2015 • Scope: trade in goods, investment and services, economic cooperation 	<p>C. 3 Australia-China FTA</p> <ul style="list-style-type: none"> • Under negotiation since May 2005 (last round in October 2007) • Scope: goods, investment services 	<p>D.1 US-Australia FTA</p> <ul style="list-style-type: none"> • Under implementation since January 2005 • Scope: trade in goods, services (including financial and telecommunications), investment, government procurement, competition policy, IPR
<p>A.3 Australia-Singapore FTA</p> <ul style="list-style-type: none"> • Under implementation since July 2003 • Scope: trade in goods (100 percent), services (including financial and telecommunications), investment, government procurement, IPR, customs procedures 		<p>C. 4 Australia -Japan FTA</p> <ul style="list-style-type: none"> • Negotiations launched in December 2006 (last round in August 2007) • Scope: goods, services, investment, government procurement, competition policy, and IPR 	
		<p>C.6 Australia-Korea FTA</p> <ul style="list-style-type: none"> • Proposed in December 2006 	
		<p>C.6 Australia-India FTA</p> <ul style="list-style-type: none"> • Proposed in August 2007 	

Table 2a. Regionalism in East Asia: emerging scenarios (continued)

A. Inner ring: (Bilateral tracks)	B. Middle ring: (ASEAN + 1 initiatives)	C. Outer ring: Bilateral FTA among +6	D. Periphery: +6 FTA with rest of the world*
<i>China</i>			
A.7 China-Singapore FTA <ul style="list-style-type: none"> • Under negotiation since August 2006 • Scope: trade in goods, services, and investment 	B.1 ASEAN-China FTA <ul style="list-style-type: none"> • Trade in goods under implementation since July 2005 • Trade-in-services (TIS) agreement signed in January 2007 and enforced in June 2007 • Negotiation on investment is ongoing • Full implementation with ASEAN 6 by 2010 	C. 2 New Zealand-China FTA <ul style="list-style-type: none"> • Under negotiation since 2004 	
		C.6 India-China Regional Trading Arrangement <ul style="list-style-type: none"> • Proposed since 2005 	

Source: Author's compilation from official government websites (as of November 9, 2007).

*Rest of the world: US and EU

Table 2b. Regionalism in East Asia: emerging scenarios

<i>A. Inner layer (Bilateral with Singapore)</i>	<i>B. Middle ring: (ASEAN + 1 initiatives)</i>	<i>C. Outer ring: Bilateral FTA among +6</i>	<i>D. Periphery: +6 FTA with rest of the world*</i>
<i>Korea</i>			
A.6 Korea-Singapore FTA • Under implementation since 2006 • Scope: trade in goods (92 percent), services, investment, government procurement, IPR, customs procedures	B.2 ASEAN-Korea FTA • Trade-in-goods agreement: under implementation since June 2007 • Negotiations on services concluded • Investment negotiations are ongoing • Full implementation with ASEAN 6 by 2010	C.1 Japan-Korea FTA • Under negotiation since 2003 (negotiation suspended since November 2004)	D.2 US-Korea FTA • Signed in June 2007 • Scope: goods, services (including financial and telecommunication) IPR, government procurement, competition policy and trade facilitation
<i>Japan</i>			
A.2 Japan-Singapore Economic Agreement for a New-Age Partnership • Under implementation since 2002 • Scope: trade in goods (77 percent), services (including financial and telecommunications), investment; government procurement, IPR, movement of natural persons, customs procedures	B.5 ASEAN-Japan CEP • Under negotiation since April 2005 (full implementation by 2012) • Scope: goods, investment and services, trade facilitation and cooperation	C. 5 Japan-India EPA • Negotiations launched in January 2007 (fourth round of negotiation in September 2007) • Scope: goods, services, investment, IPR	

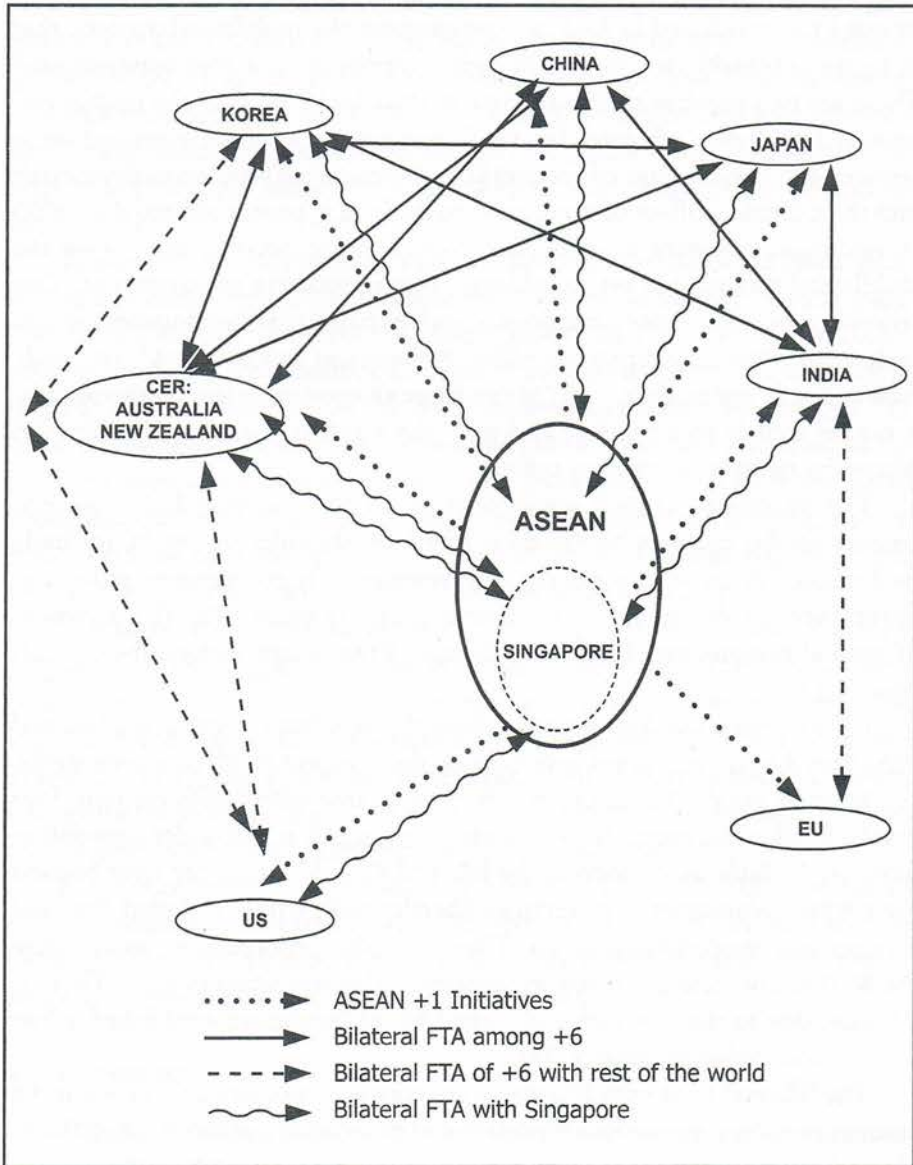
Table 2b. Regionalism in East Asia: emerging scenarios (continued)

A. Inner layer (Bilateral with Singapore)	B. Middle ring: (ASEAN + 1 initiatives)	C. Outer ring: Bilateral FTA among +6	D. Periphery: +6 FTA with rest of the world*
<i>India</i>			
A.5 India-Singapore CEPA • Under implementation since August 2005 • Scope: goods, services including financial and telecommunication services, investment, customs procedures, movement of natural persons, IPR	B.3 ASEAN-India RTTA • Under negotiation since 2004 (trade-in-goods agreement concluded; negotiations on investment and services to begin) • Scope: goods, investment, services	C. 4 India-Korea CEPA • Under negotiation since March 2006 • Scope: goods, services, investment, trade facilitation	D.3 India-EU Trade and Investment Agreement • Negotiations launched in June 2007 • Scope: goods, services, investment
<i>Rest of the World</i>			
A.4 US-Singapore FTA • Under implementation since 2004 • Scope: goods, services (including financial), investment, competition policy, IPR, government procurement	B.7 ASEAN-EU • Negotiation launched in 2007	B.8 ASEAN-US TIFA • Signed in August 2006	

Source: Tan 2007; updates from official government websites (all information as of November 9, 2007).

*Rest of the world: United States and European Union.

Figure 1. The emerging regionalism in East Asia



Source: Table 1

3. Characteristics of FTAs in East Asia

In this section, the paper suggests two broad criteria for evaluating whether or not FTAs concluded in Asia can complement the multilateral process, that is, by using breadth or coverage in each component, or across components.⁶ There are two possible methods. First, if FTAs build on what the multilateral process has already achieved, i.e., tariff elimination, areas of liberalization in services, etc. The coverage of services liberalization would require more research into the individual offers of countries⁷ to find out if parties offered their WTO commitments, or went beyond these commitments. Second, using what the multilateral process has yet to achieve—that is, securing an agreement. This criterion is breadth across components, and the paper uses the Singapore issues, such as investment, competition policy, government procurement,⁸ and trade facilitation. If regionalism via FTAs can forge an agreement among themselves, it can be seen as its advantage and thus play a role in fostering liberalization where the multilateral process cannot.

The provisions in each component of an FTA can vary but in general contain similar chapters on (a) trade in goods, (b) rules of origin, (c) trade facilitation, (d) trade in services, (e) investment, (f) competition policy, (g) government procurement, (h) intellectual property rights (IPR), (i) movement of natural persons, etc. The more advanced FTAs usually include the difficult issues (e) to (i).

FTAs in East Asia have several salient characteristics. One, in the bilateral FTAs with Singapore, parties have built on their respective WTO commitments, i.e., trade in goods: Singapore is a free trade area with tariffs on only four goods. In all cases, except the FTA with China, which is still under negotiation (column A, Table 2), partners in the bilateral FTAs of Singapore went beyond their WTO commitments in services liberalization, which included financial services and telecommunications. They have also proceeded to areas where the WTO-led process has failed: investment and competition policy.⁹ There is a bonus; due to the FTA with the United States, Singapore established a Fair Trade Commission in January 2005.

The bilateral FTAs with Singapore are seen as a mechanism where any +6 country can achieve broader liberalization in more areas and move into difficult areas such as competition policy, IPR, and government procurement.

⁶ This is an *ex ante* assessment based on a strong assumption that broader and more areas of liberalization can counteract the trade diversion effects of RTAs.

⁷ This criterion may be used in a full paper in the future?

⁸ The WTO has an agreement on government procurement, but there are only 14 signatories.

⁹ There is an Agreement on Government Procurement but unlike all agreements, there are only 14 signatories.

In two ASEAN +1 initiatives, the ACFTA and AKFTA, tariffs on 95 percent of all goods traded will be reduced to zero by 2010 and 2012, respectively [Tan 2007].¹⁰ By this indicator, the two FTAs have been able to lower MFN rates where the multilateral process has not been able to do so. Nevertheless, all the ASEAN +1 initiatives have an investment component. Negotiations on this area are ongoing in the ACFTA and AKFTA. In agreements that involve a developing and developed partnership, the FTA includes trade facilitation. This is provided for in the framework agreements of ACFTA, AKFTA, AJCEP, and the ASEAN-CER.

The investment provisions of FTAs are the most substantial and salient gains in Asia's brand of regionalism because they serve to sustain the existing trade-investment linkages that drive the export growth of the newly industrialized economies (NIEs). The traditional model is the hub-spoke model encouraged by Japan's FDI. In the mid-'90s, this trade-investment relationship changed. The niche in global export markets for finished goods previously occupied by the NIEs has been taken over by China [World Bank 2006]. This shift was partly brought about by the relocation of the global production chain from higher-cost middle-income countries in East Asia such as Singapore, Malaysia, and Korea, to low-cost countries such as China, Vietnam, and the Philippines.

The JSEPA and KSFTA have covered FDI liberalization. Among the NIEs, Singapore is the biggest investor in Japan, which looks forward to using Singapore as an R&D center to serve ASEAN. By far this has been the most important and significant contribution of FTAs in driving deeper economic integration in the region through the reinforcement of existing trade-FDI nexus. Except for trade-related and GATs V-related provisions on investment, the WTO to date does not have an agreement on FDI liberalization.

The future trend of regionalism in Asia might look like this: the ASEAN +1 FTAs achieve a "free trade zone" (95 percent zero tariffs) by 2015 and the bilateral FTAs with Singapore allows the other middle-income countries to proceed to other more difficult area of liberalization.

4. Conclusion

With the strides made by ASEAN +1 in three minimum areas of liberalization plus the bilateral FTAs of Singapore, which have achieved breadth and depth in difficult areas of liberalization, regionalism in Asia has a potential of complementing the multilateral liberalization process. This is reinforced by the new emerging bilaterals among the +6 countries.

¹⁰ Based on actual tariff lines under the normal tracks of each FTA.

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