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Asian FTAs: Trends, Prospects, and Challenges

Masahiro Kawai and Ganeshan Wignaraja

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Abstract

Although a latecomer, economically important Asia has emerged at the forefront of global free trade agreement (FTA) activity. This has sparked concerns about the negative effects of Asian FTAs, including the “noodle bowl” problem. Amid slow progress in the World Trade Organization’s (WTO) Doha negotiations and the global financial crisis, however, Asian regionalism seems to be here to stay. The focus for policy makers should then be how best to minimize the costs of FTAs while maximizing their benefits. Adopting a pragmatic perspective, this paper examines key trends and challenges in Asian FTAs. It provides new evidence from firm surveys, analysis of specific agreements, and computable general equilibrium estimates. It provides the following set of recommendations: strengthen the support system for using FTAs; rationalize rules of origin and upgrade their administration; ensure better coverage of agricultural trade; forge comprehensive “WTO-plus” agreements; and encourage a regionwide FTA. Political economy considerations suggest that a likely scenario is for FTA consolidation in Asia—by creating a People’s Republic of China–Japan–Republic of Korea FTA, combining it with ASEAN+1 FTAs, and then involving Australia, India, and New Zealand—to be followed by connections with North America and Europe. In conclusion, the analysis suggests that a bottom-up approach to a Doha Round Agreement should be adopted.

I. Introduction

The recent advent of free trade agreements (FTAs) will likely have a marked impact on Asia's trade policy and its cherished status as the global factory. This paper deals with the spread of FTAs in economically important Asia since 2000, including the current FTA landscape, the challenges FTAs pose for business and public policy, and what might be done to make Asian FTAs more multilateral-friendly.

Three recent and interrelated developments provide the context for this paper:

First, Asia's advanced production networks, which underlie its spectacular global export success over the past several decades, have deepened regionally (Kimura 2006, ADB 2008). Production processes have been broken down into smaller processes, with each process located in the most cost-effective economy, thereby further improving efficiency. Falling regional trade barriers and logistics costs, along with technological progress, underlie this trend. Intraregional trade in Asia has increased significantly, particularly in the production of parts and components, and this trend may continue with further regional liberalization via FTAs.

Second, Asia—a relative latecomer to using FTAs as a trade policy instrument—is now at the forefront of global FTA activity with 61 concluded FTAs. The Association of Southeast Asian Nations (ASEAN) is emerging as the hub for Asia's FTAs, with other major Asian economies joining the FTA bandwagon. Policy support for the deeper integration of production networks, regional integration efforts in other major markets, and the 1997–1998 Asian financial crisis have spurred the growth of Asian FTAs (Urata 2004, Kawai 2005). With many more FTAs currently under negotiation, there is little sign of a diminishing appetite for FTAs in Asia.

Third, there is emerging literature on the economic effects of Asian FTAs.[1] Issues and concerns highlighted in the new literature include low FTA preference utilization, a "noodle bowl" problem of criss-crossing agreements that potentially distort trade toward bilateral channels, excessive exclusions and special treatment in FTAs, and the possibility that the multilateral trading system may be progressively eroded (Baldwin 2006, Tumbarello 2007, World Bank 2007, Bhagwati 2008). FTAs are a relatively new phenomenon in Asia and a dearth of empirical evidence, particularly with respect to patterns of Asian FTAs and

[1] See Freund and Ornelas (2010) for a review of theoretical and empirical literature on FTAs and Chia (2010) for the literature on Asian FTAs.

business impacts, has made it difficult to verify the validity of these concerns. With the availability of new data, the time is ripe for an evidence-based assessment of Asian FTAs.

FTA-led regionalism seems here to stay in Asia for three reasons. First, the large economies of Northeast Asia—the People's Republic of China (PRC), Japan, and the Republic of Korea—are at the forefront of efforts to use FTAs to pursue their respective regional and global trade strategies. Meanwhile, ASEAN members are increasingly entering into FTAs as a means to expand trade and increase their participation in Asia's advanced production networks. Second, the stalled World Trade Organization (WTO) Doha Round of trade negotiations means that FTAs are a vehicle to support the deepening of production networks through trade and investment liberalization. And finally, even if the Doha Round were to be concluded in 2011, FTA activity would continue as many of the "new age" agreements go well beyond what is on the negotiating table and deal with investment, competition, intellectual property, and public procurement (the so-called Singapore issues). Accordingly, business will need to learn to export more effectively under a regional trade regime anchored on FTAs. The focus for policy makers is how best to minimize the costs of Asian FTAs (e.g., transactions and administrative costs) while maximizing their benefits (e.g., preferential tariffs, better market access, and new business opportunities).

Adopting a pragmatic perspective, this paper examines trends, prospects and challenges in Asian FTAs with a view to making suggestions. Section II summarizes Asia's emergence as the global factory through outward-oriented development strategies and highlights the region's recent emphasis on FTAs. It charts major trends in Asian FTAs since 2000, including growth, activity intensity, cross-regional orientation, and trade coverage. Section III analyzes five key challenges posed by Asian FTAs: (i) improving firm-level use of FTAs, (ii) tackling the Asian noodle bowl problem, (iii) promoting comprehensive coverage of agricultural trade, (iv) increasing "WTO-plus" elements, and (v) forming a regionwide FTA. New evidence from analysis of FTAs, firm surveys, and computable general equilibrium (CGE) models is used to address these challenges. In response to increasing interest in forming a regionwide agreement, Section IV explores political economy issues as they relate to FTA consolidation in Asia and its potential connection with North America and Europe. In conclusion, Section V advocates strengthening the support system for regional production networks, forging comprehensive WTO-plus agreements, and encouraging an East Asia-wide FTA. A bottom-up approach to a WTO Doha Round Agreement emerges from the analysis.

For purposes of this paper, the term "Asia" is narrowly used to describe 16 economies in East Asia and India, while the term "developing Asia" excludes Japan.[2]

[2] More specifically, "Asia" includes: the 10 ASEAN member states (Brunei Darussalam; Cambodia; Indonesia; the Lao People's Democratic Republic [Lao PDR]; Malaysia; Myanmar; the Philippines; Singapore; Thailand; and Viet Nam); the Asian newly industrialized economies (NIEs) other than Singapore (i.e., Hong Kong, China; the Republic of Korea; and Taipei,China); the PRC; India; and Japan.

II. Trends in Asian Free Trade Agreements

A. Emergence of the Global Factory

The story of developing Asia's spectacular rise from a poor underdeveloped agricultural backwater to become the global factory over a 50-year period is regarded as an economic miracle (Stiglitz 1996). In the 1960s, developing Asian economies lacked natural resources and had high levels of poverty. There seemed to be little prospect of economic advancement. However, Asian economies had ample supplies of inexpensive, productive manpower. They were also geographically close to an expanding high-income Japan, with efficient multinational corporations (MNCs) seeking to relocate production to less costly locations in Asia. Multilateralism through the WTO framework and its predecessor, the General Agreement on Tariffs and Trade (GATT), and open regionalism supported by unilateral liberalization centered on Asia–Pacific Economic Cooperation (APEC) underpinned Asia's approach to international trade policy for several decades. FTAs were absent both outside and in Asia. International trade policy at the national level was anchored by outward-oriented development strategies, high domestic savings rates, creation of strong infrastructure, and investment in human capital. A booming world economy hungry for labor-intensive imports from Asia, falling tariffs in developed country markets, inflows of trade-related foreign direct investment (FDI), and generous foreign aid flows also favored outward-oriented growth in Asia.

A long period of market-driven expansion of trade and FDI followed, during which Asia increasingly became a global production center with deep and diverse technological capabilities—what Baldwin (2006) aptly calls "factory Asia" and others refer to as the global factory. Through strategies of innovation and learning, Asian firms acquired the requisite technological capabilities to either compete internationally or become suppliers to MNCs (Hobday 1995, Mathews and Cho 2000, Wignaraja 2008). This involved developing production engineering skills to use imported technologies efficiently, and successfully plugging into the advanced global production networks formed by MNCs and local suppliers. As systematic innovation and learning took place at the firm level, a shift from labor-intensive exports (e.g., textiles, garments, and footwear) to more technology-intensive exports (e.g., chemicals, ships, electric appliances, electronics, and automobiles) occurred in Asia. Some Asian firms built deep innovative capabilities based on investments in research and development, emerging as leading firms in production networks and supply chains. Rising economic prosperity in Asia followed in the wake of rapid industrialization. As a result, three of the world's richest economies—in terms of per capita income—are now in Asia: Japan, the Republic of Korea, and Singapore.

Falling regional trade barriers and logistic costs, technological progress, and rising factor costs at core production locations spurred the decentralization of production networks to the most cost-effective locations. Accordingly, trade within Asia increased significantly from 37% of total trade to 56% between 1980 and 2008, led by trade in parts and

components (ADB 2008) and ADB's Asia Regional Integration Center FTA Database (see www.aric.adb.org). Toward the turn of the 20th century, this simple story of outward orientation and export success was punctuated by a change in the nature of Asia's international trade policy toward FTAs.

B. Growth of FTAs

Alongside multilateralism, Asia began emphasizing FTAs as a trade policy instrument in the late 1990s and the region is today at the forefront of world FTA activity (Feridhanusetyawan 2005; Fiorentino, Crawford, and Toqueboeuf 2009). The ADB's FTA Database provides information on the number of concluded FTAs in Asia between 2000 and 2010 (as of August 2010). As a group, the number of concluded FTAs in Asia increased from only three to 61 during that time. Of these, 47 FTAs are currently in effect. The proliferation of FTAs in Asia is likely to be sustained: another 79 are either under negotiation or proposed. Asia is ahead of the Americas in FTAs per country—on average Asia has 3.8 concluded FTAs per country compared with 2.9 for the Americas.[3] On the whole, Asia seems to be opting for bilateral agreements rather than more complex plurilateral ones because bilateral agreements may be easier to negotiate. Bilateral FTAs comprise 77% of the concluded FTAs, while plurilateral FTAs comprise the remainder.

Four main factors underlie the recent spread of FTA initiatives in Asia: (i) deepening market-driven economic integration in Asia, (ii) European and North American economic integration, (iii) the 1997–1998 Asian financial crisis, and (iv) slow progress in the WTO Doha negotiations.[4]

First among these is market-driven economic integration through trade, FDI, and the formation of Asian production networks and supply chains. Market-driven economic integration has begun to require further liberalization of trade and FDI and harmonization of policies, rules, and standards governing trade and FDI, including the protection of investment and intellectual property rights. Asia's policy makers are increasingly of the view that FTAs, if given wide scope, can support expanding trade and FDI activities through further elimination of cross-border impediments, facilitation of trade and FDI, and other such harmonization efforts. Thus, FTAs can be regarded as part of a supporting policy framework for deepening production networks and supply chains formed by global MNCs and emerging Asian firms.

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[3] According to the Organization of American States (OAS), its 34 members (including the United States and Canada) had 98 concluded FTAs (including customs unions and partial preferential agreements) (see www.sice.oas.org). This compares with 16 Asian economies with 61 concluded FTAs as of August 2010.

[4] More complete explanations can be found in Kawai (2005), ADB (2008), and Chia (2010).

Second, European and North American economic regionalism—including European Union (EU) expansion into central and eastern Europe, a monetary union in the eurozone, the success of the North American Free Trade Agreement (NAFTA), and incipient moves toward a Free Trade Area of the Americas (FTAA)—motivated Asian countries to adopt FTAs. Governments fear that the two giant trading blocs of Europe and North America might dominate rule-setting in the global trading system, thereby marginalizing Asia. Increasingly, policy makers have realized the need for stepping up the pace of integration to improve international competitiveness by exploiting economies of scale and strengthening their bargaining power through a collective voice on global trade issues. FTAs can help insure against the periodic difficulties of multilateral trade liberalization, such as the recent slow progress in the WTO Doha negotiations and a perceived loss of steam in the APEC process.

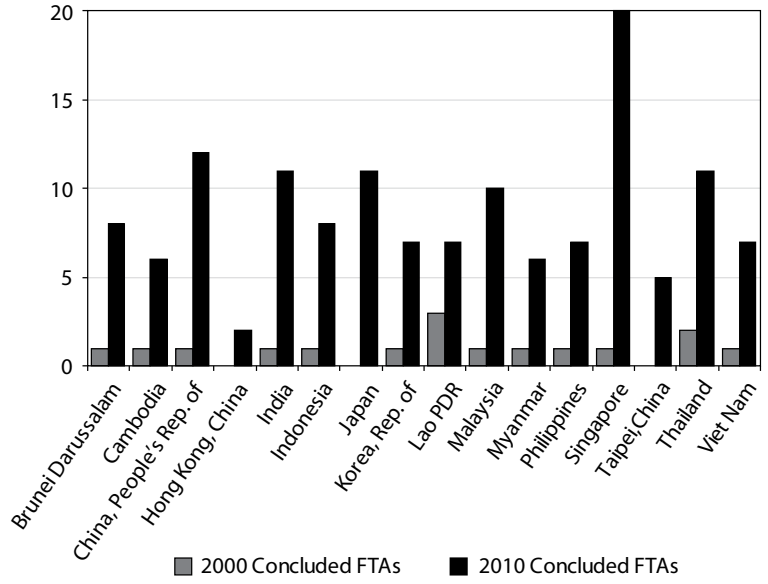
Third, the 1997–1998 Asian financial crisis made it clear that Asian economies needed to work together in the area of trade and investment in order to sustain growth and stability by addressing common challenges. This need has not yet been fully met by either regional initiatives to strengthen the international economic system or by national efforts to strengthen individual economies' fundamentals, both of which will take time to bear fruit. With the proliferation of FTA initiatives in the region, a number of countries have begun to jump on the bandwagon of these initiatives out of fear of exclusion.

Fourth, slow progress in the WTO Doha negotiations encouraged countries to consider FTAs as an alternative. Hailed as a development round to promote trade-led growth in poor countries, the WTO Doha Development Round began in November 2001. The talks have largely focused on liberalization in two key areas: agricultural and nonagricultural goods market access. In essence, developed countries were being asked to accelerate the pace and scope of reductions in agricultural tariffs and subsidies, and developing countries were being asked to reduce tariffs for industrial goods and liberalize services trade. Seven years of formal negotiations eventually stalled in mid-2008 over concerns in developing countries about safeguard measures to protect poor farmers from rising food and oil prices. However, discussions have continued behind the scenes and it is possible that Doha will not be very comprehensive if it gets concluded anyway. As prospects for an early deal diminished over time, pro-business Asian countries emphasized bilateral and plurilateral FTAs for the continued liberalization of trade in goods and services, as well as the adoption of the Singapore issues (i.e., trade facilitation, investment, government procurement, and competition policy), which are currently beyond the scope of the WTO.

C. Intensity of FTA Activity in Asia

FTA activity in Asia over the last decade has given rise to varying degrees of intensity in terms of the number of agreements. As Figure 1 shows, the region's three largest economies and ASEAN's more developed countries have become key players of FTA activity, while smaller neighbors have also joined in this bandwagon, with less intensity. The number of concluded FTAs includes Singapore (20), the PRC (12), Japan (11), India (11), Thailand (11), and Malaysia (10), with many more FTAs under negotiation. It is noteworthy that ASEAN—with one of the oldest trade agreements in Asia—is emerging as the major regional hub linking ASEAN members with the region's larger economies. Having enacted FTAs with the PRC, Japan, and the Republic of Korea, ASEAN recently implemented regional agreements with India and with Australia and New Zealand jointly, and is in FTA discussions with the EU. The varying degrees of intensity of FTA activity across economies in Asia can be related to several factors, including economic size, per capita income, levels of protection, economic geography, and production network strategies of MNCs.

Figure 1: Growth of Concluded FTAs in Asia (number of FTAs by economy)



FTA = free trade agreement.
Note: FTAs in Asia cover all FTAs with at least one Asian economy. Here, Asia includes the 16 economies included in the figure.
Source: ADB's FTA Database (available: www.aric.adb.org), downloaded August 2010.

Singapore is by far the most active Asian economy in terms of the number and geographic coverage of FTAs. With its strategic location, the region's most open economy, and world-class infrastructure and logistics, the country is the regional

headquarters for many leading MNCs. Singapore is seeking access to new overseas markets, particularly for services and investments. The country is a founding member of the ASEAN Free Trade Area (AFTA) and has implemented bilateral agreements with the largest Asian economies—the PRC, India, Japan, and the Republic of Korea—as well as economies outside the region, including the United States (US) and Australia. The US–Singapore FTA, which has been in effect since 2004, was the first such agreement made by the US in Asia and is reputed to be a model agreement in terms of scope (Koh and Lin 2004).

As a supporter of multilateralism, Japan was a latecomer to FTAs (Urata 2004). The region's first developed economy, Japan has the strongest base of giant MNCs involved in production networks and supply chains throughout Asia. One motivation for Japan's engagement in FTAs is to provide a market-friendly and predictable regional business environment for its MNCs. Japan has rapidly implemented bilateral economic partnership agreements (EPAs) with 10 countries,[5] an agreement with ASEAN, is negotiating agreements with Australia and India, and is about to reopen negotiations with the Republic of Korea.

The two Asian giant developing economies, the PRC and India, are forming FTAs to ensure market access for goods and expand regional coverage for outward investment. To this end, the PRC implemented separate FTAs on goods and services with ASEAN and is now finalizing its negotiations on an investment agreement. The PRC has also forged bilateral comprehensive economic partnership agreements (CEPAs) with Hong Kong, China and Macau, China; FTAs with Chile and Pakistan; and is a member of the Asia–Pacific Trade Agreement (APTA). In addition, the PRC concluded FTAs with Singapore and New Zealand in 2008, and an Economic Cooperation Framework Agreement with Taipei,China in 2010. India is a member of APTA and has a comprehensive agreement with Singapore. It also has agreements with its South Asian neighbors.

Middle-income countries such as Malaysia and Thailand have emerged as regional production hubs for the auto and electronics industries, respectively. As one of the founding members of ASEAN, Thailand has entered into bilateral agreements with Australia, the PRC, India, Japan, and New Zealand.

Though the Republic of Korea does not have as many FTAs as do other large economies in the region, it has forged, or is forging, FTAs with ASEAN, Europe, and the US. The Republic of Korea has agreements with members of APTA, ASEAN, and Singapore within Asia; and with Chile and countries of the European Free Trade Area (EFTA) outside Asia. It also signed an agreement with Asia's largest trading partner, the US, in June 2007 and is expected to sign an FTA with the EU.

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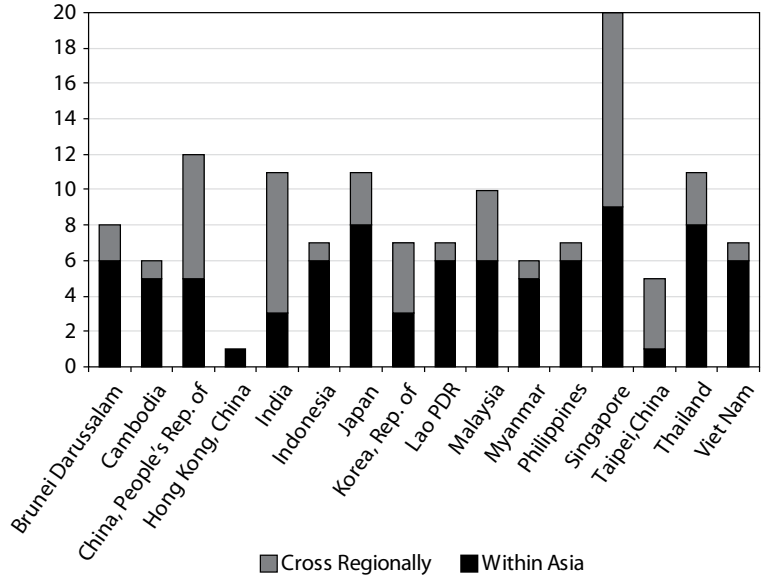
[5] Brunei Darussalam, Chile, Indonesia, Malaysia, Mexico, the Philippines, Singapore, Switzerland, Thailand, and Viet Nam.

With some exceptions, the region's low-income economies—Cambodia, Indonesia, the Lao PDR, the Philippines, and Viet Nam—have tended to rely on ASEAN for concluding FTAs with the region's larger economies. This may reflect weak institutional capacity, lack of human and technical resources, and limited leverage to undertake FTA negotiations in poorer economies. The ASEAN framework offers the possibility of pooling scarce capacity and resources.

The geographical orientation of Asian FTAs is summarized in Figure 2. A high degree of cross-regional orientation among some of the region's stronger economies is visible—notably for the PRC, India, and Singapore. The trend toward cross-regional FTAs is even more evident in Asia's proposed FTAs and those under negotiation. It appears that Asia has a strong preference to maintain open trading relations with the rest of the world rather than become inward-looking (Kawai 2005).

Figure 2: Geographical Orientation and Share of Concluded FTAs in Asia—FTAs within Asia and Cross-Regionally (number of FTAs by economy)



FTA = free trade agreement.
Note: FTAs within Asia cover FTAs where all partners are in Asia. Here Asia includes the 16 economies listed in the figure.
Source: ADB's FTA Database (available: www.aric.adb.org), downloaded August 2010.

D. Trade Coverage of FTAs

The numbers of FTAs are relatively easy to track over time, but by themselves the numbers do not indicate the importance of FTAs to economic activity or trade at the national level. It is informative to get an idea of how much of a country's world trade

is covered by FTA provisions.[6] This is difficult to measure because of exceptions and exclusions contained in many agreements. Furthermore, official statistics on utilization rates of FTA preferences in Asia are hard to come by and published data on the direction of services trade do not exist. Nevertheless, by making the bold assumption that all goods trade is covered by concluded FTAs, indicative estimates can be obtained.[7] Accordingly, Figure 3 shows the share of an economy's bilateral trade with its FTA partners in its total trade with the world for 2000 and 2008. Two observations can be made.

First, the region's larger economies have smaller shares in 2008 than ASEAN members, highlighting the latter's greater reliance on FTAs, especially AFTA. The shares for the larger economies are: the Republic of Korea (42%), the PRC (27%), India (23%), and Japan (11%). There is some diversity within ASEAN, with Brunei Darussalam, the Lao PDR, and Myanmar having shares in excess of 80%; Singapore and Indonesia over 60%; while others range between 47% and 55%.[8] Meanwhile, Taipei,China has the lowest trade coverage by FTAs at 1%.

Second, all Asian economies experienced a significant increase in reliance on FTAs between 2000 and 2008, reflecting the spread of FTAs throughout the region. Asia's largest FTA players—Japan, the Republic of Korea, the PRC, and India, respectively—have experienced at least a quadrupling of the ratio of trade covered by FTAs to total trade over the period. Notable increases are also visible in most ASEAN countries.

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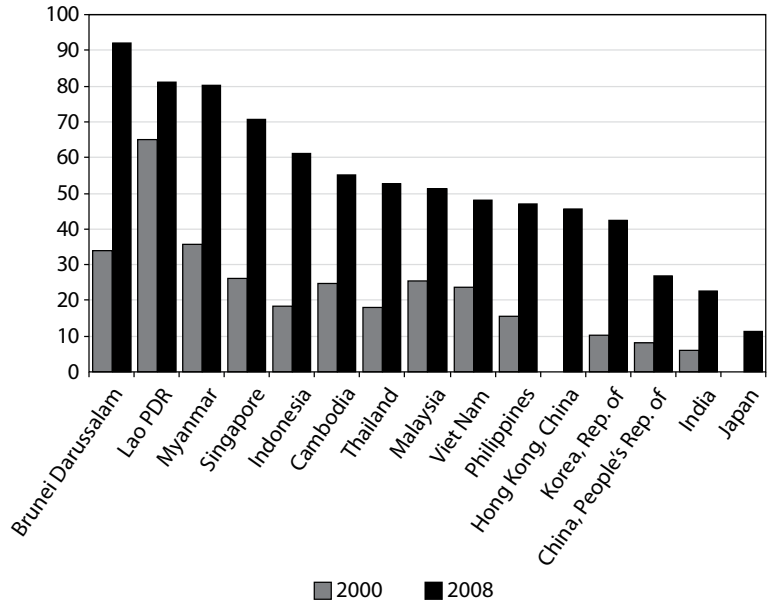
6 On this point, see Fiorentino, Crawford, and Toqueboeuf (2009).

7 We are grateful for Richard Baldwin for this suggestion.

8 In Singapore's case, the high ratio reflects a proactive strategy of concluding a large number of bilateral and ASEAN FTAs. In Brunei Darussalam, the Lao PDR, and Myanmar, this ratio may suggest high commodity dependence and market concentration in a limited export base.

Figure 3: Share of an Economy's Trade with Its FTA Partners Relative to the Economy's Trade with the World, 2000 and 2008 (percent of total trade)



FTA = free trade agreement.
Note: Only covers concluded FTAs for that year. Japan and Hong Kong, China had no FTA partners in 2000.
Sources: ADB staff estimates based on *Direction of Trade Statistics,* International Monetary Fund (downloaded November 2009); ADB's FTA Database (available: www.aric.adb.org), downloaded April 2010.

III. Challenges Posed by Asian Free Trade Agreements

As FTAs have spread across Asia, concerns over such agreements have increased. A cursory analysis of the growing number of political debates, media stories, policy studies, and conference reports on Asian FTAs indicates that a host of challenges exist for regional integration. It is not possible in this paper to address all the economic, political, and legal issues arising from the subject of integration. From a pragmatic perspective and with a view to making suggestions, five key challenges associated with Asian FTAs merit further examination: (i) improving firm-level use of FTAs, (ii) tackling the Asian noodle bowl problem, (iii) promoting comprehensive coverage of agricultural trade, (iv) increasing WTO-plus elements, and (v) forming a regionwide FTA. New evidence from firm surveys, analysis of agreements, and CGE models can be useful in addressing some of these challenges and indicating the way forward.

A. Challenge 1: Improving Firm-Level Use of FTA Preferences

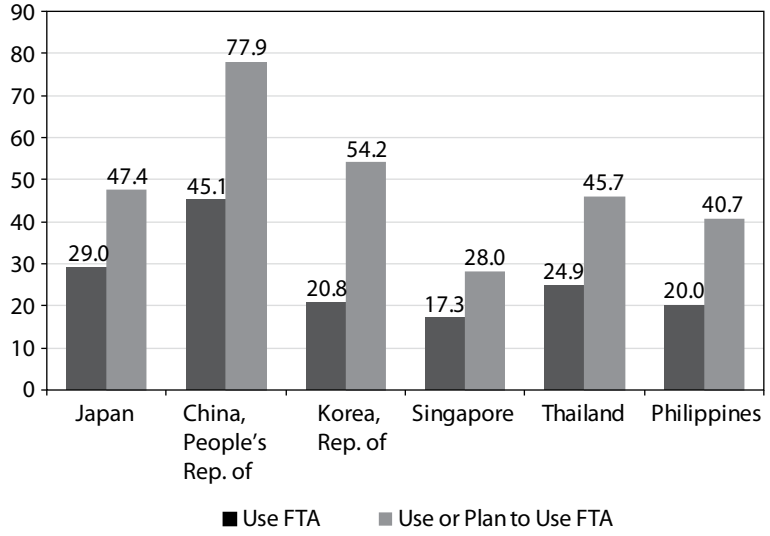
Improving preference use at the firm level is probably the most important challenge associated with Asian FTAs. Well-designed and comprehensive FTAs provide numerous benefits, including preferential tariffs, market access, and new business opportunities. One might assume that firms would desire to avail of such benefits once a given FTA is in effect. Previous studies at the country and industry levels, however, suggest that FTA preference utilization rates—based on shares of export value enjoying preferences—are low in Asian countries and that FTAs are underutilized (Baldwin 2006, World Bank 2007). A firm-level study of Japan's FTAs also reported modest preference utilization rates and related this to the low volume of trade with FTA partner countries (Takahashi and Urata 2008). Accordingly, Asian FTAs are often viewed as discriminatory and a drain on scarce trade negotiation capacity in developing countries (Bhagwati 2008).

Six comprehensive surveys of exporting firms conducted in 2007–2008 by ADB and several partner researchers in the PRC, Japan, the Republic of Korea, the Philippines, Singapore, and Thailand shed light on the use of FTA preferences (see Kawai and Wignaraja 2011). Although data on shares of export value enjoying preferences were not available from the enterprise surveys, it was possible to estimate utilization of FTA preferences based on the incidence of firms—i.e., the share of sample firms in a given country—that use FTA preferences. While such a proxy is not ideal, we expect it to be reasonably accurate; in Thailand the utilization rate of FTAs based on certificates of origin match with the utilization rate found in the Thai firm survey.[9]

Figure 4 shows this measure for firms that use and plan to use FTAs. Asian exporting firms tend to utilize FTA preferences more frequently than previously thought and may even be increasing their utilization rate. Of the 841 Asian sample firms, around 28% use FTA preferences. When plans for using FTA preferences are also factored in, 53% of all Asian firms either use or plan to use FTA preferences. The PRC and Japanese firms are the highest users of FTA preferences, while firms from the Republic of Korea, the Philippines, and Singapore make relatively less use of preferences. Firms in all five countries have plans in place to increase the use of FTA preferences—in particular the PRC, Japan, and the Republic of Korea. While these findings are encouraging, room for improvement exists in FTA preference use at the firm level in Asia. By comparison, about 54% of all Canadian exports to the US used NAFTA preferences between 1998 to 2003 (Kunimoto and Sawchuk 2005).

[9] Interestingly, our Thai firm survey utilization rate of 25% agrees with that (27% in 2008) provided by Chirathivat (2008) using certificate of origin data from Thailand's Ministry of Commerce.

Figure 4: Utilization of FTA Preferences (percent of respondents by country)



FTA = free trade agreement.
Source: Kawai and Wignaraja (2011).

T-tests indicate that a striking difference between FTA preference users and nonusers in Asian countries is found in firm size. Japan stands out for its base of large multinational corporations. The average number of employees among Japanese firms using FTA preferences is 30,104; this number is 3,542 in the PRC; 1,098 in Singapore; 591 in Thailand; and 395 in the Philippines. The average number of employees among nonusers is 7,020 in Japan; 2,226 in the PRC; 291 in Thailand; 269 in the Philippines; and 142 in Singapore. Accordingly, a classic firm size effect seems to underlie the pattern of FTA preference use in the Asian sample. The results suggest that using FTAs entail large fixed costs—e.g., learning about FTA provisions, tailoring business plans to complex tariff schedules, and obtaining certificates of origin—and larger firms are better able to muster the requisite financial and human resources than small- and medium-size enterprises (SMEs).

The reasons that the majority of Asian sample firms do not currently use FTA preferences are not widely known. The ADB surveys generated responses from 551 Asian sample firms on the reasons for nonuse of FTA preferences. Surprisingly, a lack of information on FTAs is the most significant reason for nonuse of preferences as reported by 35% of firms surveyed. Low margins of preference (17%) and delays and administrative costs associated with rules of origin (15%) were the second and third most common reasons cited. Other reasons for nonuse include: use of other schemes such as export processing zones and the Information Technology Agreement for exporters, which also provide

incentives for exporters (8%); and nontariff measures in partner countries (6%) that inhibit exports and, hence, use of FTA preferences.

Accordingly, use of FTA preferences can be encouraged by raising awareness of (i) FTA provisions, including the phasing out of tariff schedules; (ii) margins of preference at the product level; and (iii) administrative procedures for rules of origin (ROOs). Business associations and governments could make information on how to use FTAs more transparent, particularly for SMEs. Practical ideas include frequent seminars with SMEs, television programs directed at businesses, and dedicated websites and telephone help lines. More generally, institutional support systems for businesses, particularly for SMEs, need to be improved. Existing support systems for exporting under FTAs are of varying quality and take-up rates. Significant public and private investment is required in Asia to improve coverage of support services, upgrade service quality, and reduce bureaucratic impediments to service use. Business and industry associations will have to play a greater role in providing members with support services for exporting under FTAs. Upgrading SME technical standards, quality, and productivity could be useful so that they can participate more fully in regional production networks driven by large firms.

B. Challenge 2: Tackling the Asian Noodle Bowl

ROOs are another potentially challenging aspect of Asian FTAs. These are devices to determine which goods will enjoy preferential tariffs in order to prevent trade deflection among FTA members. For manufactured goods, ROOs comprise three types: (i) a change in tariff classification rule defined at a detailed harmonized system level; (ii) a local (or regional) value content rule, which requires a product to satisfy a minimum local (or regional) value in the country (or region) of an FTA; and (iii) a specific process rule, which requires a specific production process for an item (Estevadeordal and Suominen 2006). An influential strand of literature argues that Asian FTAs have complicated ROOs, sparking concerns about what the attendant rules and administrative procedures would imply for the cost of doing business (Manchin and Pelkmans-Balaoing 2007, Tumbarello 2007). This literature claims that restrictive ROOs in Asian FTAs deter the use of FTA preferences, while complex ROOs raise transactions costs for firms. With the rapid spread of FTAs throughout Asia, this literature further suggests that multiple ROOs in overlapping FTAs pose a severe burden on SMEs, which have less ability to meet such costs. Originally termed a “spaghetti bowl” of trade deals (Bhagwati 1995), this phenomenon has become widely known as the noodle bowl effect in Asia.[10]

To what extent are multiple ROOs perceived as a problem by businesses in Asia? The ADB firm surveys provide interesting insights into this issue (see Kawai and Wignaraja 2011). Specifically, the surveys provide enterprise perceptions of whether dealing with

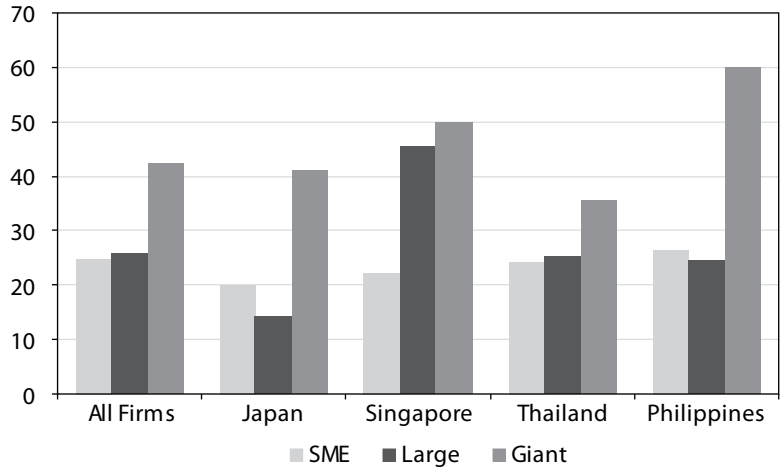
[10] Others suggest that the depiction of Asian FTAs as a complicated noodle bowl is misleading. On the contrary, it has been argued that Asian FTAs may be creating an order of a different sort by building the foundation for a stronger regional trading system (Petri 2008, Chia 2010).

multiple ROOs in the region's FTAs would significantly add to business costs. The main findings suggested by the surveys are given below.

First, at the present level of concluded FTAs in the region, the evidence suggests that multiple ROOs impose a limited burden on firms in Asia. Of the 688 firms that responded to the question on this issue, 138 firms (20%) said that multiple ROOs do significantly add to business costs. Meanwhile, the bulk of the sample firms did not think that they were a problem at present. However, the aggregate figure masks interesting country-level variations in perceptions. Singaporean firms had the most negative perceptions regarding multiple ROOs (38%), while the PRC firms had the least negative perceptions (6%). In between these two extremes were Japan, the Philippines, Thailand, and the Republic of Korea firms with negative responses of 31%, 28%, 26%, 15% respectively. National FTA strategies, industrial structures, and quality of institutional support may underlie differences in perceptions of ROOs across Asian countries.

Second, the surveys suggest that larger firms in Asia have more negative perceptions of multiple ROOs than SMEs, which was an unexpected finding (Figure 5). The relationship between firm size and concerns about multiple ROOs presents an interesting puzzle for research. Econometric analysis to resolve the puzzle shows that large established firms tend to export to multiple markets and change their business plans in response to FTAs. Therefore, they are more likely to complain about issues of multiple ROOs (Kawai and Wignaraja 2009b). In contrast, smaller firms tend to export to a single market and hence do not have much basis for complaining. While intercountry and intrafirm size variations exist, there does not seem to be much variation in perceptions across sectors.

Figure 5: Burden Imposed by Multiple Rules of Origin in FTAs (percent of respondents by firm size)



SME = small- and medium-size enterprise.
Note: SME = 100 or fewer employees; Large = 101–1,000 employees; Giant = more than 1,000 employees.
Source: Kawai and Wignaraja (2011).

Third, most firms want to be able to choose between ROOs included in FTAs. The surveys suggest that firms are supportive of having alternative ROOs for the same product for several reasons: (i) if they cannot reach the value content requirement, having another ROO could enable firms to still use FTA preferences; (ii) as the application for the value content rule may require confidential information on costs, suppliers and many firms are often reluctant to divulge such information; and (iii) some ROOs may be better aligned with the technology and production process of particular industries.

The finding of a limited burden imposed by multiple ROOs does not mean that policy makers should be complacent about the issue. As the number of concluded agreements increases, it is possible that multiple ROOs may become more of a problem for firms. Supportive measures—such as encouraging rationalization of ROOs and upgrading their administration—are needed to mitigate the negative effects of the Asian noodle bowl in the future. Widespread gains are possible from pursuing a simplified approach to ROOs in Asia involving harmonized ROOs, cumulation of value contents, and coequality of ROOs. Likewise, it would be useful to adopt international best practices in ROO administration. These may include introducing a trusted trader program, as is the case with NAFTA, which would allow successful applicants to self-certify their own certificates of origin, switching to business associations issuing certificates of origin for a fee, increasing use of information technology-based systems of ROO administration, and training SMEs to enhance their capacity to use FTAs.

C. Challenge 3: Promoting Comprehensive Coverage of Agricultural Trade

A third potential challenge for Asian FTAs may be the extent of coverage of goods trade. Some suggest that the coverage of goods trade differs markedly among Asian FTAs, while agricultural products are largely excluded due to pressures from powerful farm lobbies or social concerns over the rural sector, where poverty is predominant in developing countries (Feridhanusetyawan 2005). As a result, there is a suboptimal level of liberalization in agricultural products and even conflict with the spirit of GATT article XXIV, which provides exemption to the WTO's most favored nation clause, or nondiscriminatory treatment. Consistency with GATT article XXIV requires FTAs to eliminate trade barriers on "substantially all trade" in originating goods from members within a reasonable period of time, which is sometimes referred to as the "substantially all trade" rule.

Two problems have hampered empirical research on the coverage of agricultural goods trade in Asian FTAs. First, little systematic data and analysis is available on the treatment of agricultural products across Asian FTAs. Second, clear criteria for the "substantially all trade" rule do not seem to exist. With the development of new databases on Asian FTAs—e.g., ADB's Asia Regional Integration Center database—new sources of FTA data are now available. Furthermore, tariff lines for agricultural products can be used as a basis to gauge the criteria of substantially all trade.

A simple three-fold classification system was used to categorize Asian FTAs according to tariff line coverage of agricultural products. Given the complexity of provisions for agriculture in many agreements, and the availability of tariff schedules and exclusion lists at the product level, a combination of coverage of product lines and exclusions was used to assess each agreement. The classifications are as follows:

(i) Comprehensive coverage—at least 85% of all agricultural product lines in a given agreement are covered, or not more than 150 product lines are excluded. FTAs with these features for agricultural products are taken as covering substantially all trade.

(ii) Limited or no coverage—agricultural products are completely excluded in the agreement, or less than 100 product lines are included.

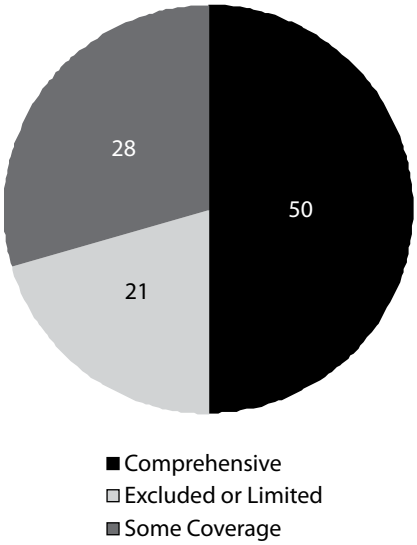
(iii) Some coverage—more agricultural products are included in FTAs than "limited or no coverage", but less products are covered than "comprehensive coverage." Agreements with such coverage typically include more than 100 agricultural product lines, but less than 85% of agricultural product lines. These agreements may also exclude over 150 agricultural product lines.

It was possible to apply this classification system to 58 concluded Asian FTAs,[11] and the results are shown in Figure 6. Some examples may be illustrative. For example, the Republic of Korea–Chile FTA is taken as a comprehensive agreement for agricultural goods as the Republic of Korea excludes only 21 agricultural products from the agreement, such as rice, apples, and pears. The AFTA is also regarded as a comprehensive agreement as members exclude only 20 agricultural products on average.[12] The ASEAN–Australia and New Zealand FTA follows the AFTA model where most tariffs on agricultural products are bound at 0% upon the FTA's entry into force, or phased to 0% by 2020. Exclusions from tariff commitments have been kept to a minimum including rice, sugar, and maize. Using this approach, 29 Asian FTAs (50% of the total) can be regarded as comprehensive in terms of coverage of agricultural products, while another 17 (28%) have some coverage of these items. The remaining 12 (21%) have limited or no coverage. Additional work is needed to refine the criteria for assessing the coverage of agricultural products in Asian FTAs according to the "substantially all trade" rule and to develop new criteria based on the value of total trade.

[11] The data excludes three agreements involving the the PRC–Taipei,China ECFA and two agreements with Latin American countries for which texts were not available in English.

[12] Lao PDR excludes five items, Viet Nam seven items, Malaysia 16, Philippines 17, Indonesia 24, and Cambodia and Myanmar 36 each. In contrast, Brunei Darussalam and Singapore eliminated tariffs on all agricultural products.

Figure 6: Agricultural Coverage of Asian FTAs (percent of FTAs covering agriculture)



Note: The data covers 58 FTAs in Asia due to unavailability of online official English text of three FTAs. Agricultural products and chapters are classified according to WTO classification. "Comprehensive" means agriculture is substantially covered (at least 85% of agricultural product lines) or not more than 150 product lines are excluded. "Excluded or Limited" means agriculture is completely excluded or less than 100 product lines or 5% of the total tariff lines. "Some coverage" refers to those in between excluded/limited and comprehensive.

Sources: Legal annexes of FTAs (see www.aric.adb.org); Trade Policy Review reports as of June 2010 (WTO, various years).

Better coverage of agricultural trade in Asian FTAs is needed and a gradual approach to liberalization seems optimal for developing economies. This is a key element of the continuation of the liberalization agenda for trade in goods. An important future step would be to include provisions on agricultural products in all prospective agreements. This would serve as a signal for producers to adjust to competition and improve productivity. A next step would be meeting the benchmark for comprehensiveness by ensuring coverage of at least 85% of all agricultural product lines in a given agreement and minimizing exclusions to not more than 150 product lines. This can be done by adopting a negative list approach to agricultural products with a few sensitive items. Issues for the future would include a realistic tariff elimination schedule, a transparent sanitary and phytosanitary regime, and subsidy reform.

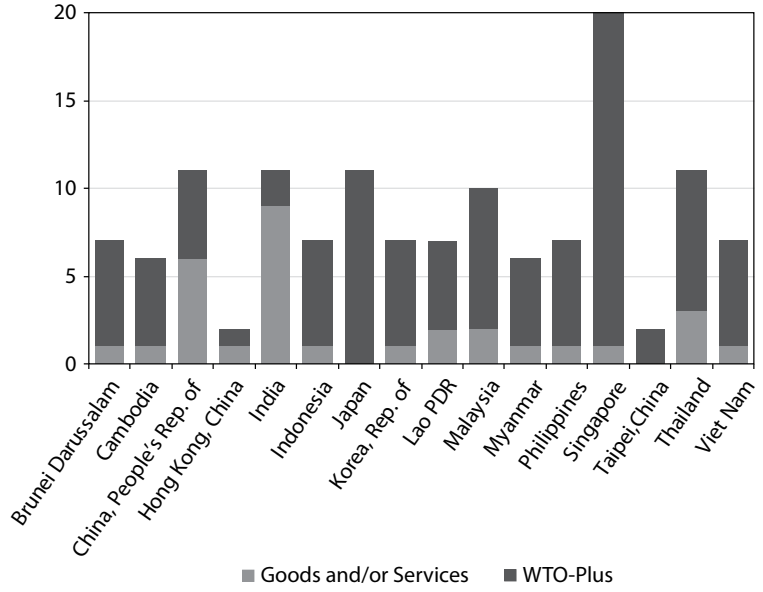
D. Challenge 4: Increasing WTO-Plus Elements

Asian FTAs are under increasing scrutiny for their scope, i.e., inclusion of new issues that go beyond the WTO framework. The WTO system that emerged from the Uruguay Round in the mid-1990s consisted of substantive agreements on goods and services. The subsequent WTO Doha Development Round initiated in 2001 has focused on liberalization in agricultural and nonagricultural market access. The four Singapore issues

were conditionally included in the work program for the Doha Round, but were dropped at the WTO Ministerial Conference in Cancun in 2004. WTO-plus agreements and new age FTAs, which are comprehensive and address the Singapore issues, are becoming more common globally (Fiorentino, Crawford, and Toqueboeuf 2009; Freund and Ornelas 2010). An increase in WTO-plus elements in the landscape of Asian FTAs has been identified as a pressing challenge for economies. Studies suggest that Asian FTAs vary considerably in their scope with some sophisticated agreements alongside limited FTAs (Banda and Whalley 2005, Plummer 2007).[13] Yet, systematic cross-country evidence on the scope of Asian FTAs is lacking, particularly with regard to more recent agreements.

Figure 7 shows the scope of concluded Asian FTAs by economy according to (i) narrow agreements that primarily deal with goods and/or services, and have few WTO-plus elements; and (ii) broad agreements with many WTO-plus elements. The scope of concluded agreements reflects a combination of economic interests, economic strength, and negotiation capacity.

Figure 7: Scope of Concluded FTAs in Asia (number of FTAs with narrow and WTO-plus coverage by economy)



Note: Data do not include the Taipei,China–Nicaragua FTA and Taipei,China–El Salvador–Honduras FTA due to difficulty in accessing their official English translation.
Source: ADB's FTA Database (available: www.aric.adb.org), downloaded June 2010.

[13] An early review of 11 Asian agreements concluded that "modern FTAs in Asia, some of which are the most sophisticated in the world, have tended to be more comprehensive in terms of coverage and of the building bloc rather than the stumbling bloc type, though there are some (minor) exceptions in terms of certain components" (Plummer 2007, 1795). The study suggested a set of best practices to guide future FTAs.

Two leading participants in Asian FTAs—Japan and Singapore—strongly favor a WTO-plus approach to FTAs. Appendix Table 1 summarizes coverage of selected FTAs by participant. All of Japan's agreements and most of Singapore's are WTO-plus. Likewise, Brunei Darussalam, Indonesia, the Republic of Korea, Malaysia, the Philippines, and Viet Nam largely follow a WTO-plus format.

Historically, the PRC and India have been relatively cautious on scope, preferring agreements focusing on goods and services elements. More recently, however, both have begun to experiment by incorporating some WTO-plus provisions such as in the India–Singapore Comprehensive Economic Cooperation Agreement (CECA) and the PRC–New Zealand FTA. Thus, with a few exceptions, Asian economies are increasingly favoring WTO-plus agreements rather than narrowly limited agreements.

Some additional points are noteworthy about WTO-plus provisions in Asian FTAs (Kawai and Wignaraja 2009a). First, agreements between developed countries and developing and emerging economies generally take a WTO-plus format. Examples include the ASEAN–Japan FTA, US–Singapore FTA, US–Republic of Korea FTA, and PRC–New Zealand FTA. Second, the Republic of Korea and Singapore tend to behave like developed countries in their agreements with many developing countries. This behavior is visible in the Transpacific Strategic EPA, Singapore–PRC FTA, and Republic of Korea–Chile FTA. Third, some existing FTAs are gradually being expanded to have WTO-plus coverage. Comprehensive agreements under negotiation include the ASEAN–Republic of Korea CEPA and the India–Sri Lanka CEPA. Fourth, the trend toward increasing WTO plus elements in Asian FTAs means that the region's FTA activity is likely to continue even if a Doha deal (focusing on liberalization in agricultural and nonagricultural market access) were to be concluded in 2011.

The inclusion of WTO-plus provisions—particularly the four Singapore issues—would be desirable in all future Asian FTAs. For example, competition policy and investment provisions are integral ingredients in facilitating FDI inflows and the development of production networks. Inclusion of provisions on trade facilitation and logistics development would help lower transactions costs in conducting trade. Cooperation provisions—along the line of the APEC economic and technical cooperation (ECOTECH) agenda[14]—would stimulate technology transfer and industrial competitiveness. In their FTA negotiations, the US and EU prefer a single undertaking and the inclusion of these WTO-plus provisions. The US–Singapore and US–Republic of Korea agreements are cases in point. ASEAN is also considering an ASEAN Comprehensive Agreement on Investment as a part of the process of moving toward an ASEAN Economic Community by 2015.

[14] ECOTECH is the APEC schedule of programs designed to build capacity and skills in APEC member economies to enable them to participate more fully in the regional economy and the liberalization process. See www.apec.org for more information.

E. Challenge 5: Forming a Regionwide FTA

Finally, there is increasing recognition in Asia of the merits in forming a regionwide FTA as a means to consolidate the plethora of bilateral and plurilateral agreements. Such an FTA would confer various economic benefits: (i) increase market access to goods, services, skills, and technology; (ii) increase market size to permit specialization and realization of economies of scale; (iii) facilitate the FDI activities and technology transfer of MNCs; and (iv) permit simplification of tariff schedules, rules, and standards (see Chia 2010).

ASEAN—with the region's oldest FTA—is emerging as an integration hub for FTAs in Asia. The PRC, Japan, and the Republic of Korea have implemented their respective FTAs with ASEAN. India as well as Australia and New Zealand together are also following suit and implementing FTAs with ASEAN. With key ASEAN+1 agreements under way, the policy discussion in Asia is focusing on competing regionwide FTA proposals—an East Asia Free Trade Area (EAFTA) among ASEAN+3 countries and a Comprehensive Economic Partnership for East Asia (CEPEA) among ASEAN+6 countries—that will guide future policy-led integration in the region. Seeking to bridge ASEAN and its Northeast Asian neighbors, the EAFTA was an early vision of an East Asia-wide FTA, while the CEPEA has emerged through the realization that synergies could be gained by linking ASEAN+3 countries with India, Australia, and New Zealand. An important challenge is to identify which of the two, an EAFTA or a CEPEA, is more beneficial in terms of economic welfare for the global economy.

Some studies using CGE models have been conducted on the impact of prospective FTAs on Asian economies (Gilbert, Scollay, and Bora 2004; Bchir and Fouquin 2006; Plummer and Wignaraja 2006). CGE models have the advantage of being based on consistent structural equations that describe economic activity in each economy. While there has been some CGE work on an EAFTA and other alternatives, only limited work is available on the effects of a CEPEA and on a comparison between an EAFTA and CEPEA (a recent example is Lee, Owen, and van der Mensbrugghe 2009). Furthermore, such work tends to narrowly focus on an FTA involving goods only, while other aspects of Asian FTA coverage—such as services and trade facilitation—are excluded. A more comprehensive set of CGE estimates is required to inform the policy debate.

Figure 8 shows the results of a CGE exercise for economies in Asia. The EAFTA scenario provides for free trade among the 10 ASEAN members, the PRC, Japan, and the Republic of Korea. The CEPEA scenario broadens the EAFTA scenario to include India, Australia, and New Zealand. Four model features are noteworthy:

(i) strong microeconomic foundations and detailed interactions among industries, consumers, and governments across the global economy

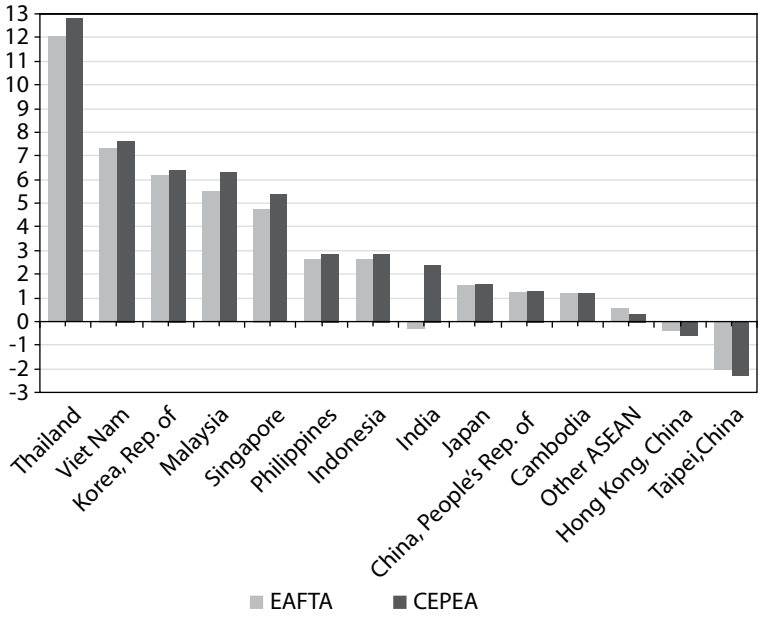
(ii) medium- to long-run investment effects by allowing for trade to affect capital stocks through investment activities

(iii) use of the Global Trade Analysis Project (GTAP) database (version 6.3) through to 2017, which projects trade and production patterns to represent a post-Uruguay Round world using the phaseout of the Agreement on Textiles and Clothing, the implementation of the remaining WTO commitments under the Doha Round, and enlargement of the EU to 27 members

(iv) a stylized FTA that includes goods, services, and some aspects of trade cost reduction.

The model's baseline is 2017 and the simulations show changes from this baseline. As the formation of a regionwide FTA may take time, setting up the model and dataset in this way provides for more realistic scenarios.

Figure 8: Income Effects of Alternative Scenarios Compared to 2017 Baseline (percent change in GDP by economy)



GDP = gross domestic product, ASEAN = Association of Southeast Asian Nations, EAFTA = East Asia Free Trade Area, CEPEA = Comprehensive Economic Partnership for East Asia.

Source: Kawai and Wignaraja (2009a) based on the computable general equilibrium model used in Francois and Wignaraja (2008).

Three overall results can be highlighted from the CGE exercise in terms of percentage change from 2017 baseline income: (i) a regionwide FTA, whether an EAFTA or CEPEA, offers larger gains to world income than the current wave of bilateral and plurilateral FTAs; (ii) the CEPEA scenario, which is broader in terms of country coverage, offers larger gains to the world as a whole in terms of income (US$260 billion, measured in constant 2001 prices) than the EAFTA scenario; and (iii) third parties outside either an EAFTA or CEPEA lose little from being excluded from a regionwide agreement.[15]

Some interesting national-level results in terms of percentage change from 2017 baseline income emerge from this exercise (see Figure 8):

(i) For ASEAN's more dynamic members, projected gains are significant under the CEPEA scenario: Thailand (12.8%), Viet Nam (7.6%), Malaysia (6.3%), and Singapore (5.4%). For the rest of ASEAN—Cambodia, Indonesia, the Philippines, and the remaining ASEAN economies—the gains are less than 3.0%.

(ii) Among Northeast Asian countries, the Republic of Korea experiences the largest gain under the EAFTA (6.2%) and CEPEA (6.4%) scenarios.

(iii) Australia, India, and New Zealand experience losses under the EAFTA scenario and gains under the CEPEA scenario. The losses under an EAFTA are less than 0.5% for each, while under a CEPEA, gains are 2.4% for India, 3.9% for Australia, and 5.2% for New Zealand.

(iv) Third parties like Hong Kong, China and Taipei,China experience small losses from being excluded from both EAFTA and CEPEA.

For the CEPEA scenario, Appendix Table 2 contains output effects across broad sectors compared to 2017 baseline. The implementation of the CEPEA scenario is likely to result in significant structural change toward manufactures and services (and away from agriculture and other primary products) in Asia. There are also shifts within manufacturing. Among ASEAN's most dynamic members, Thailand witnesses projected gains in electrical machinery/electronics, motor vehicles, and services; Viet Nam in textiles and clothing; and Malaysia in metals and metal products. In the rest of ASEAN, Cambodia sees losses in a key sector (textiles and clothing) and the Philippines in motor vehicles. Meanwhile, the PRC has gains in electrical machinery/electronics and India in services and metals. Japan and the Republic of Korea see gains in most manufacturing sectors. Strikingly, seven countries see declines in agriculture and the others negligible gains.

[15] Our overall findings broadly echo those of Lee, Owen, and van der Mensbrugghe (2009), whose sophisticated CGE exercise incorporates tariff reduction, trade cost reduction, and endogenously determined productivity levels. These authors also suggested that the CEPEA scenario (US$201 billion) yields larger gains than the EAFTA scenario (US$177 billion), and that insiders gain while losses to outsiders are negligible.

The CGE analysis indicates that a regionwide agreement in East Asia—particularly a CEPEA—provides welfare gains over the present wave of ASEAN+1 FTAs.[16] The gains to members of such an agreement are notable, while losses to nonmembers are relatively small. Accordingly, arguments for and moves toward CEPEA are supported by economic modeling. The CGE analysis also reveals that some members gain more than others and this issue may need to be addressed in policy discussions. There is a case for further narrowing development gaps by providing financial and technical support for low-income countries, particularly with respect to trade-related infrastructure, governance reforms, customs modernization, enhancing SME development, and capacity building.

IV. Political Economy Considerations of FTA Consolidation in Asia

Even if the consolidation of FTAs into a regionwide agreement—whether in the form of an EAFTA among the ASEAN+3 countries or a CEPEA among the ASEAN+6 countries—yields large economic gains to Asia, the future path seems unclear. Several political economy considerations may impinge on the outcome. For instance, the PRC has been a strong supporter of an EAFTA, while Japan has put more emphasis on a CEPEA. In addition, political rivalry over FTA leadership in Asia may hinder any such joint venture. Also, given the role of the US in Asia as a security anchor for many countries, one may argue that excluding the US from the Asian integration process is not viable from a political perspective. Furthermore, the rising importance of European markets for many Asian economies suggests that involving Europe may also make sense.

We consider three competing scenarios for consolidation of various Asian FTAs into a larger FTA: (i) an East Asia-wide FTA, either in the form of an EAFTA or CEPEA; (ii) a Free Trade Area of the Asia–Pacific (FTAAP) among APEC economies; and (iii) a Free Trade Area of Asia and Europe (FTAAE) among Asia–Europe Meeting (ASEM) countries. An East Asia-wide FTA—whether an EAFTA or CEPEA—addresses the noodle bowl problem among the production network countries, while an FTAAP or an FTAAE takes into account external markets as well. The idea of forming an EAFTA or CEPEA has been on the official agenda of the ASEAN+3 leaders' process and East Asia Summit meetings. In the same vein, an FTAAP has been officially considered in the APEC Leaders' process. However, the idea of establishing an FTAAE has not attracted much attention so far.

To discuss these scenarios and their feasibility, some political economy considerations have to be made with regard to an East Asia-wide FTA (EAFTA or CEPEA) and an FTAAP.

[16] As Lee, Owen, and van der Mensbrugghe (2009) observed, a worthwhile but difficult extension of CGE models on regionwide Asian FTAs would be to endogenize FDI flows involving Asian countries. Consistent data on bilateral FDI flows in Asia, however, are lacking.

A. Building Blocks for Wider Agreements

Due to a rise in the number of players in official negotiations for FTAs, creating an encompassing FTA in Asia could become more complicated. This suggests that forming a CEPEA would be more complex than forming an EAFTA and that forming an FTAAP would be even more complex than forming a CEPEA. Therefore, the first step toward consolidation of various FTAs might be to create preconditions—or building blocks—for a regionwide FTA, like an EAFTA or a CEPEA, and then to develop further conditions toward a trans-regional FTA, such as an FTAAP or an FTAAE. In this process, ASEAN will likely act as Asia's integration hub or convener. The "plus-three countries"—the PRC, Japan, and the Republic of Korea—would then need to coordinate their trade and FDI regimes. India, which has only recently moved away from its former protectionist stance, would need to pursue deeper structural and regulatory reforms addressing both tariff issues and "behind-the-border" red tape.

1. An EAFTA or CEPEA

An EAFTA or a CEPEA would likely be based on the existing ASEAN+1 FTAs with the "plus countries"—such as Australia, the PRC, India, Japan, the Republic of Korea, and New Zealand—as well as future networks of bilateral and/or plurilateral FTAs among these plus countries. Five ASEAN+1 FTAs have been completed. In contrast, other plurilateral and/or bilateral FTAs are patchy and some important components—such as a trilateral FTA among the PRC, Japan, and the Republic of Korea or three bilateral FTAs among these three countries—are still missing (Table 1). All these FTAs can facilitate the formation of an EAFTA or CEPEA as important building blocks. From this perspective, the successful formation of an EAFTA or CEPEA requires not only a set of ASEAN+1 FTAs, but also a series of agreements among the plus countries, particularly among the PRC, Japan, and the Republic of Korea (see Kawai and Wignaraja 2008).

Table 1: Bilateral and Plurilateral FTAs (status by economy)

	ASEAN	Japan	China, People's Rep. of	Korea, Rep. of	India	Australia	New Zealand
ASEAN	◎	◎	◎	◎	◎	◎	
Japan	◎	––	△	○	○	○	×
China, People's Rep. of	◎	△	––	△	△	○	◎
Korea, Rep. of	◎	○	△	––	◎	○	○
India	◎	○	△	◎	––	△	△
Australia	◎	○	○	○	△	––	◎
New Zealand	◎	×	◎	○	△	◎	––

◎ = FTA in place or FTA negotiation signed, ○ = official negotiation under way, △ = feasibility study of FTA under way, × = no official move taken.

Note: Australia and New Zealand jointly have an FTA with ASEAN. Although Japan and the Republic of Korea launched an official negotiation in December 2003, it was suspended in November 2004 due to significant differences in views. A new official feasibility study on a PRC–Japan–Republic of Korea FTA was introduced in May 2010. An official consultation meeting between Japan and the Republic of Korea is expected to be held, seeking a possible resumption of bilateral FTA negotiations.

Source: ADB's FTA database (available: www.aric.adb.org), downloaded August 2010.

In principle, ASEAN+3 or ASEAN+6 countries can begin EAFTA or CEPEA negotiations without some of these important building blocks among the plus countries in place, as these blocks can be created as a part of the EAFTA or CEPEA negotiations. Nonetheless, given that bilateral negotiations between the PRC and Japan will likely take time, it would be preferable to conclude such a contentious agreement before starting the official negotiation process for an EAFTA or CEPEA. Similarly, to begin the official negotiation for a CEPEA, it would be preferable for India to conclude negotiations with Australia, the PRC, Japan, and New Zealand. With all the building blocks in place, EAFTA or CEPEA negotiations could lead to the early formation of a single, larger FTA in Asia through consolidation and harmonization of existing FTAs.

The respective cases vary for supporting an EAFTA and a CEPEA, yet they are linked. An important reason for an EAFTA is that the production network has been developed most significantly among the ASEAN+3 countries, and harmonizing rules of origin among these countries can produce a tangible benefit. In addition, India is perceived as a slow liberalizer and it would take more time to produce a regionwide FTA if India were included from the beginning. Once a process begins for EAFTA negotiations, pressure could then be applied to India to further open up its economy. On the other hand, a reason for advocating a CEPEA is that the production network is already developing beyond ASEAN+3 countries, encompassing India and Australia. In addition, the economic benefit from FTA consolidation is larger with a CEPEA than with an EAFTA.

The officially appointed study group for a CEPEA has agreed that ASEAN+3 countries should focus on trade and investment liberalization as the first priority, facilitation as the second, and technical cooperation as the last; and that ASEAN+6 countries may focus on technical cooperation as the top priority, trade and investment facilitation as the next, and liberalization as the least. The study group's description of the difference in terms of priorities between an EAFTA and a CEPEA may suggest that an EAFTA should proceed first, followed by a CEPEA. This sequenced approach would be realistic particularly if India is slow in liberalizing trade, investment and certain behind-the-border issues.

2. A PRC–Japan–Republic of Korea FTA

One of the most important preconditions for an EAFTA or a CEPEA is the creation of a PRC–Japan–Republic of Korea FTA , i.e., either a trilateral FTA among, or three bilateral FTAs between pairs of these countries. However, differences in the eagerness to form FTAs exist among these three countries. The PRC is keen on establishing FTAs with Japan and the Republic of Korea, but both Japan and the Republic of Korea appear to have some reservations over entering into FTAs with the PRC.

The Government of Japan is concerned about the rising competitiveness of the PRC's manufacturing sector and the competitiveness of the PRC's agricultural products. Japan wishes to treat the PRC as a nonmarket economy so that it can use safeguard

measures against a rapid increase of the PRC's imports into the Japanese markets, but the Government of the PRC insists upon market economy status for itself. Japan also argues that the PRC has yet to clearly demonstrate progress toward implementation of WTO entry commitments, including the treatment of Japanese firms in the PRC, clarity of regulations and rules over firms, and protection of intellectual property rights. Food safety issues are also a concern for Japan. The Japanese government has taken the position that an investment treaty should be a first condition before starting an EPA negotiation.[17]

The Republic of Korea is concerned about its excessive dependence on the PRC market and the lack of an overall policy on how to position itself in terms of trade and investment vis-à-vis the PRC. The Republic of Korea is also concerned about the PRC's agricultural competitiveness.[18]

Japan and the Republic of Korea are interested in concluding an FTA with each other, but each country has concerns. Japan's primary concern over a Japan–Republic of Korea EPA is the competitiveness of the Republic of Korea's agriculture and fishery sectors. In contrast, the Republic of Korea is concerned about Japan's competitiveness in manufactured products (intermediate inputs), the Republic of Korea's large tariff concessions required due to high most favored nation tariffs, and the risk of greater bilateral trade deficits with Japan.

Despite these problems, if the three countries can come up with mutually agreeable FTAs, they could provide a strong foundation for a possible EAFTA, and eventually a CEPEA. This will require joint political commitment from the governments of all three countries.

3. An FTAAP

As with an EAFTA or CEPEA, an Asia-Pacific-wide FTA requires a series of bilateral and/or plurilateral agreements among key players, particularly those for the US with ASEAN, the PRC, and Japan (the US–Republic of Korea FTA was signed in June 2007 but has yet to take effect). Given that the US provides the most open market for Asian products and a security umbrella for key Asian economies, the region's relationship with the US is critical, both economically and politically.

APEC remains important for both Asia and the US because it is the only multilateral economic forum that bridges the two. The US has advocated strengthening economic ties among APEC members through the formation of an APEC-wide free trade area (e.g., an FTAAP). While several Asian countries have concluded bilateral FTAs with the US, others have reservations about a comprehensive agreement with the US. Deeper questions

[17] The PRC, Japan, and the Republic of Korea embarked on negotiations for a trilateral investment agreement in March 2007.

[18] Interestingly, farmers in the Republic of Korea do not seem overly threatened by the US–Republic of Korea FTA, but express concerns on agriculture with regard to a Republic of Korea–PRC FTA.

remain as to whether the US is ready to agree to an FTA with the whole of Asia—one that includes the PRC—under the current domestic political environment.

An FTAAP could increase the two-way trade of partner countries in a significant manner, and could be a useful way of reviving the stalled Doha Round or offer a "Plan B" hedge should the Doha Round permanently fail (Bergsten 2007, Hufbauer and Schott 2009). An FTAAP was proposed for consideration at the APEC Summits in 2007, 2008, and 2009. The formation of an FTAAP is expected to take many years and involve studies, evaluations, and negotiations among all 21 member economies. Given that the number of APEC member economies is so large, a smaller group may be more appropriate to initiate the process.

A recently emerging FTA, called the Transpacific Strategic Economic Partnership Agreement (TPP), is attracting a growing number of countries sympathetic to its goal of high-standard liberalization (Markheim 2008). The TPP, also known as the Pacific Four (P4) agreement, is a plurilateral FTA among Brunei Darussalam, Chile, New Zealand, and Singapore that came into force in May 2006.[19] The aim of the agreement is to eliminate 90% of all tariffs among member countries upon entry into force and reduce all trade tariffs to zero by 2015. The TPP is a comprehensive agreement covering many WTO-plus elements, including ROOs, trade remedies, sanitary and phytosanitary measures, technical barriers to trade, intellectual property, government procurement, and competition policy. As part of the conclusion of negotiations, the P4 countries agreed to negotiate on financial services and investment within two years of TPP's entry into force.

The TPP has the potential to grow to include many other nations under the agreement's accession clause. In September 2008, the US announced its intension to enter comprehensive negotiations in order to join the agreement. Shortly afterward, Australia and Peru announced that they would be joining the negotiations, and Malaysia and Viet Nam have shown interest too. Thus, the TPP could help expand and strengthen economic and strategic ties among select APEC members and could lay the foundation for a wider FTAAP.

There are two possible avenues for creating an FTAAP: one through an EAFTA or CEPEA, and the other through an expanded TPP. In our view, there are several noteworthy stumbling blocks in pursuing the TPP route and the EAFTA or CEPEA route would be more politically acceptable. First, APEC is a voluntary, nonbinding organization; however, forming an FTA would require the concerned governments' binding commitments to trade liberalization, which means that this route should be pursued outside of the formal APEC process unless the mandate of APEC changes.[20] Second, the TPP route neglects the importance of ASEAN centrality in Asian integration, especially given that

[19] The TPP, previously known as the Pacific Three Closer Economic Partnership (P3-CEP), launched its first negotiations at the 2002 APEC Leaders' Summit.

[20] Changing APEC's mandate into a prospective FTA organization, however, would likely encounter strong oppositions from the PRC and many middle-income ASEAN countries.

not all ASEAN countries are APEC members. Currently, only Brunei Darussalam and Singapore are TPP members from ASEAN and it is highly unlikely that most other ASEAN countries that are also APEC members could join the TPP within a reasonable time frame because the agreement is a high-standard and comprehensive liberalization agreement. Third, the PRC will unlikely be accepted as a member of TPP and a regional FTA that excludes the PRC—the most dynamic economic giant in the region—cannot be a core grouping leading to the formation of an FTAAP. Fourth, India is not an APEC member and, therefore, it would take some time for India to join the TPP.

4. Links with Europe

Economic ties between Asia and Europe have been expanding rapidly in recent years. Two-way trade has doubled over the last 5 years and the EU is one of Asia's largest foreign investors. However, in comparison to APEC's efforts at trade liberalization and facilitation, ASEM has been much less active on transregional trade liberalization. It is only in the last few years—since 2007—that the EU has begun to initiate negotiations on trade agreements with Asia; the EU and the Republic of Korea concluded the EU's first FTA in Asia in October 2009, and it has been negotiating FTAs with ASEAN and India.

The EU–Republic of Korea FTA is one of the most comprehensive agreements ever negotiated by an Asian country, going much further than WTO commitments and eliminates 97% of all tariff barriers within 3 years. The EU initially took the approach of signing an FTA with ASEAN, but later changed its strategy to negotiating separate FTAs with individual ASEAN members reflecting the economic diversity and heterogeneity among ASEAN countries. The EU–India negotiations are slowing down because of a number of controversies; the EU wants India's liberalization of services trade, investment, and government procurement, while India wants the EU to relax its stringent food safety criteria and immigration policy with regard to Indian professionals.

Though connecting Asia with Europe is a relatively new idea, once the EU decides to negotiate FTAs with the PRC and Japan, building on its FTAs with the Republic of Korea and possibly with ASEAN and India, a solid foundation for a free trade agreement with Europe could be developed.

B. A Likely Scenario: Sequencing of FTA Consolidation

Given the prominence of political economy considerations, it may be difficult to expand the TPP to all of Asia within a short period of time. FTA consolidation in Asia may proceed along the line of an ASEAN-centric EAFTA or CEPEA. Thus, a likely scenario may be the following consolidation sequence:

(i) the acceleration of an ASEAN Economic Community (AEC) to be created by 2015

(ii) the creation of a PRC–Japan–Republic of Korea FTA either through a PRC–Japan–Republic of Korea trilateral FTA or three bilateral FTAs among the three countries

(iii) the formation of an EAFTA among the ASEAN+3 countries through mechanisms to connect the existing ASEAN+1 FTAs and a new PRC–Japan–Republic of Korea FTA by allowing simplification, cumulation, and harmonization of ROOs[21]

(iv) the formation of a CEPEA by including India, Australia, and New Zealand

(v) the connection of Asia's consolidated, regionwide FTA with the US through an FTAAP, and with Europe through an FTAAE

The dynamics of this "likely scenario" could evolve over time, with each step creating incentives and momentum for the next step to be taken. First, the completion of an ASEAN Economic Community (AEC) is vital to FTA consolidation in Asia as this would strengthen ASEAN's ability to play the region's integration hub role. Once an AEC is in place, ASEAN would be transformed into a much more coherent entity and, building on this strength, could substantially improve the quality of ASEAN's FTAs.

Next, the creation of a PRC–Japan–Republic of Korea FTA is a necessary building block for the formation of an EAFTA because without it, the integration of the ASEAN+3 countries through a formal agreement would be impossible. The political decision by Japan and the PRC to form a bilateral FTA (or EPA) is the cornerstone. ASEAN may play a key role in encouraging Japan and the PRC (and the Republic of Korea) to agree on a Northeast Asian FTA. Once a PRC–Japan–Republic of Korea FTA (or at least a bilateral FTA/EPA between the PRC and Japan) is formed, it could be connected with the ASEAN+1 FTAs through various mechanisms that allow simplification, cumulation, and harmonization of ROOs. This development could put competitive pressures on India, an excluded party, to further liberalize so that India would be eventually included in a larger FTA, thus forming a CEPEA.

Apart from this line of sequencing, several Asian APEC economies—such as Japan and the Republic of Korea—may join the TPP, and the US may conclude an FTA with

[21] Australia and New Zealand may join this process, if they have completed FTAs with other "plus-three" countries, thereby making the grouping ASEAN+5. In addition, if India has similarly completed FTAs with all other "plus" countries, then the country could join the process to form a CEPEA, by-passing the process of creating an EAFTA.

ASEAN as an ASEAN+1 partner.[22] Indeed, by that time the US and Europe may have concluded a series of FTAs with several key Asian economies so that it might be possible to eventually connect the whole of Asia with the US (say, through an FTAAP), or with Europe (say, through an FTAAE). All of these nested approaches are important and could potentially accelerate the process of Asia's intraregional integration as well as its transregional economic integration with North America and Europe.

V. Conclusion

In this paper, we have outlined the main trends, prospects, and challenges associated with the rapid spread of Asian FTAs, and provided new evidence on FTA use from firm surveys, analysis of agreements, and CGE results. The paper also considered political economy issues associated with FTA consolidation in Asia, and various competing proposals. The evidence highlights the shift in Asia's trade policy that has occurred since 2000. With 61 concluded agreements, FTAs are assuming more importance as a tool of commercial policy in Asia than ever before. Singapore and the region's three largest economies have become key players of FTA activity while ASEAN as a group is emerging as the integration hub for Asia's FTAs. Furthermore, the Asian FTAs have maintained a strong cross-regional orientation, the trade coverage of FTAs has increased, and issues other than trade liberalization—such as investment, intellectual property rights, and labor standards or mobility—have been included.

The conclusion of a comprehensive Doha Round Agreement would be an invaluable contribution to global and Asian prosperity (for a recent restatement of the case, see Hoekman, Martin, and Mattoo 2009). But the outcome of the stalled global trade talks remains uncertain and a limited Doha deal might eventually result. With a large number of FTAs either under negotiation or proposed, Asian FTAs are here to stay. A pragmatic approach would be to maximize the benefits of FTAs while minimizing their costs. Based on the new evidence presented in the paper, some key elements of a pragmatic approach towards Asia's FTAs might include:

(i) improving the use of FTAs at the firm level through increased awareness and strengthened institutional support systems, particularly for SMEs

(ii) tackling the Asian noodle bowl problem by encouraging rationalization of ROOs and upgrading ROO administration to best practice levels

[22] The US has signed ASEAN's Treaty of Amity and Cooperation in July 2009, which is a significant political step for the relationship between the two. This can lay a strong foundation for the US to become a legitimate ASEAN+1 partner.

(iii) encouraging better coverage of agricultural products in Asian FTAs and a gradual approach to agricultural trade liberalization

(iv) including WTO-plus provisions—particularly the four Singapore issues—in all future Asian agreements

(v) facilitating the creation of a regionwide agreement in East Asia—particularly a CEPEA—with appropriate subsequencing and support for dealing with development gaps among members.

While the economic case for a regionwide agreement such as a CEPEA is borne out by CGE analysis, political economy considerations remain likely to weigh heavily on the final outcome. With all key ASEAN+1 FTAs already in place, a sequential approach of first creating a series of building blocks within Asia—deepening ASEAN economic integration, creating a PRC–Japan–Republic of Korea FTA, and combining ASEAN+1 FTAs with a PRC–Japan–Republic of Korea FTA—followed by forging a CEPEA (perhaps after developing an EAFTA) and then connecting Asia with the US and Europe seems a likely and realistic scenario.

With geopolitics rather than economics determining the outcome and actual sequence, events may overtake this scenario; actual developments may not be as neat or orderly as described above and could be even more complex. Ultimately, any regionwide agreement could turn out to be a series of linked agreements with variable membership and coverage of issues. In conclusion, the analysis suggests that a bottom-up approach to a Doha Round Agreement, as a complement of the top-down process, should be adopted.

Appendix Table 1: Coverage of Selected FTAs in Asia

		China, People's Republic of				India				Japan						Korea, Republic of				Singapore			
Provisions	**ASEAN FTA (1992)**	**ASEAN–PRC CECA (2005)**	**PRC–Chile FTA (2006)**	**PRC–New Zealand FTA (2008)**	**PRC–Pakistan FTA (2007)**	**India–Sri Lanka FTA(2000)**	**India–Singapore CECA (2005)**	**South Asian FTA (2006)**	**India–Mercosur FTA (2004)**	**ASEAN–Japan CEPA (2008)**	**Japan–Singapore EPA (2002)**	**Japan–Mexico EPA (2005)**	**Japan–Philippines EPA (2008)**	**Japan–Chile FTA (2007)**	**Japan–Thailand EPA (2007)**	**ASEAN–Rep. of Korea CECA (2007)**	**Republic of Korea–Chile FTA (2004)**	**Republic of Korea–Singapore FTA (2006)**	**Republic of Korea–US FTA (2007)**	**New Zealand–Singapore CEP (2001)**	**EFTA–Singapore FTA (2003)**	**US–Singapore FTA (2004)**	**Transpacific Strategic EPA (2006)**
A. GOODS																							
Tariff Elimination	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
ROOs	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Trade Remedies—Anti Dumping		■	■	■	■	■	■	■	■	■				■	■	■	■	■	■	■	■		■
Trade Remedies—Subsidies and Countervailing		■	■	■	■	■	■		■	■	■			■	■	■		■	■	■	■		■
Trade Remedies–Bilateral Safeguards		■	■	■	■	■	■	■	■	■	■	■	■	■	■		■	■	■	■	■	■	■
Agriculture	■	■	■	■	■			■	■	■	■	■	■	■	■	■	■	■	■		■		■
Textiles and Apparel		■		■	■		■	■	■	■	■		■	■	■	■			■			■	
Quarantine and SPS Measures	■	■	■	■	■		■		■	■		■		■		■	■	■	■	■	■		■
Other Nontariff Measures		■									■		■		■	■	■		■	■			■
Technical Barriers to Trade	■	■	■	■	■		■		■	■	■		■	■		■	■	■	■	■	■	■	■
Standards and Conformance, MRAs	■		■	■	■		■	■	■	■	■	■	■		■		■	■	■	■	■	■	■

continued.

Appendix Table 1: *continued.*

		China, People's Republic of				India				Japan						Korea, Republic of				Singapore			
Customs Administration and Procedures	■			■		■	■		■				■	■		■		■	■				
B. SERVICES																							
Telecommunications		■		■		■				■	■	■	■	■		■	■	■		■	■		
Financial Services		■		■		■				■	■	■	■	■			■	■		■	■	■	
Professional Services		■		■		■							■	■			■	■		■			
Labor Mobility/Entry of Business Persons				■						■	■	■	■	■		■	■	■		■	■	■	
C. SINGAPORE ISSUES																							
Trade Facilitation (Paperless Trading/Transit)				■			■		■	■	■	■	■	■			■	■	■		■	■	
Investment	■			■	■	■			■	■	■	■		■		■	■	■	■	■	■	■	
Government Procurement										■	■	■	■	■		■	■	■	■	■	■	■	
Competition Policy									■	■	■	■	■	■		■	■	■	■	■	■	■	
D. COOPERATION ENHANCEMENT																							
Intellectual Property			■	■		■			■	■	■	■	■	■		■	■	■	■	■	■	■	
ICT and E-Commerce						■			■								■	■			■		
Labor Standards/Movement of Natural Persons				■		■				■		■		■				■	■		■	■	
Environment			■						■		■	■	■	■			■	■			■	■	
ECOTECH			■							■	■	■		■			■					■	

continued.

Appendix Table 1: *continued.*

		China, People's Republic of				India				Japan						Korea, Republic of				Singapore			
Capacity Building																							
Information Exchange			■	■											■								
Energy										■					■			■					
Transport and Communications										■	■	■	■		■			■	■				
Construction											■	■	■					■					
SMEs			■	■						■	■		■		■								
Trade and Investment Promotion			■	■						■					■				■				
State Trading Enterprises						■			■	■				■							■		
Education							■								■								
Transparency		■	■	■	■										■	■	■	■	■	■		■	■
Dispute Settlement	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Note:																							
Percent of Goods and Services provisions covered (A+B)	44	81	56	94	63	31	81	50	63	69	75	56	69	88	88	56	75	81	100	63	81	56	75
Percent of WTO-plus provisions covered (C+D)	5	5	37	42	11	5	26	5	5	58	53	47	58	32	79	5	26	63	58	37	26	47	47

ADB = Asian Development Bank; ASEAN = Association of Southeast Asian Nations; CECA = Comprehensive Economic Cooperation Agreement; CEP = comprehensive economic partnership; CEPA = comprehensive economic partnership agreement; ECOTECH = economic and technical cooperation; EFTA = European Free Trade Area; EPA = economic partnership agreement; FTA = free trade agreement; ICT = information and communications technology; Mercosur = Common Market of the South; MRA = mutual recognition agreement; PRC = People's Republic of China; ROOs = rules of origin; SME = small- and medium-size enterprise; SPS = sanitary and phytosanitary standards; US = United States; WTO = World Trade Organization.

Source: FTA legal texts available at ADB's FTA Database (available: www.aric.adb.org) downloaded 30 June 2010.

Appendix Table 2: CEPEA Scenario—Changes in Output across Broad Sectors Compared to 2017 Baseline (percent)

	Thailand	Viet Nam	Korea, Rep. of	Malaysia	Singapore	Philippines	Indonesia
Agriculture and Food	-1.2	-6.3	10.5	-1.2	64.8	0.3	-0.2
Other Primary	0.5	0.4	0.7	0.6	0.3	0.5	0.4
Manufactures	9.3	49.9	5.5	5.7	1.5	10.6	2.4
Textiles and clothing	3.2	63.1	26.3	2.6	-14.3	12.4	1.9
Metals	22.0	12.1	11.8	24.4	16.7	-2.3	-1.2
Electrical Machinery	25.8	11.5	2.4	-0.4	1.2	2.0	7.1
Motor Vehicles	10.6	-28.9	2.5	-3.3	-28.4	-18.2	-6.5
Services	13.3	16.0	5.8	4.7	4.5	4.0	2.9
	India	**Japan**	**China, People's Rep. of**	**Cambodia**	**Other ASEAN**	**Hong Kong, China**	**Taipei,China**
Agriculture and Food	0.5	-2.1	-0.4	-4.1	0.9	0.2	0.7
Other Primary	0.3	1.3	0.2	0.1	0.3	0.4	1.9
Manufactures	5.9	0.6	2.4	55.2	-2.9	-10.2	-2.4
Textiles and Clothing	-1.5	5.8	2.7	-2.1	-3.5	-13.1	-17.5
Metals	15.6	6.5	-1.4	69.4	-8.0	-6.1	2.0
Electrical Machinery	1.8	-8.8	13.2	-17.4	5.5	-21.4	-4.5
Motor Vehicles	-2.1	0.5	-5.6	-7.7	-2.1	1.8	0.0
Services	4.2	1.1	2.4	3.1	0.2	0.2	-1.6

CEPEA = Comprehensive Economic Partnership for East Asia.
Source: Estimates based on the computable general equilibrium model used in Francois and Wignaraja (2008).

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About the Paper

Amidst an ongoing debate, Masahiro Kawai and Ganeshan Wignaraja examine new evidence on trends, prospects, and challenges in Asian free trade agreements with a view to making suggestions. The paper advocates strengthening the support system for regional production networks, forging comprehensive World Trade Organization-plus agreements, and encouraging an East Asia-wide free trade agreement. A bottom-up approach to a World Trade Organization Doha Round Agreement emerges from the analysis.

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ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than $2 a day, with 903 million struggling on less than $1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

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