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# The Changing Anatomy of Regional Trade Agreements in East Asia

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The recent proliferation of regional trade agreements in the East Asian region can be seen as the most notable development in the region's trading panorama in recent years. Yet, very little is as yet understood about the anatomy of these agreements and, consequently, their full implications to the regional economy. This article strives to fill this gap by analyzing the structure of four dozen RTAs by their various key component parts, including tariff liberalization schedules, rules of origin, and competition policy, customs, investment, and services provisions. The results reveal that intra-Asian RTAs are generally quite rapidly liberalizing, with the exception of agriculture, but they are also quite thin in trade-related disciplines when compared with the more legalistic US trans-Pacific RTAs and those of Mexico and Chile. The proposed Free Trade Area of the Asia-Pacific would inherently be a construct of the political economy interests of these various constituent RTAs.

**Keywords**: regional trade agreements (RTAs), Free Trade Area of the Asia-Pacific (FTAAP), Asia, United States, trade political economy, tariff liberalization, rules of origin, competition policy, customs, investment, services trade, agriculture

Regional trade agreements (RTAs) have spread widely around the world in the past twenty years. Today, some 200 RTAs have been notified to the World Trade Organization (WTO), and the number is expected to soar to 400 by 2010. Virtually all countries are member to at least one RTA, and most countries belong to two or more RTAs at once. RTAs have transformed the global economic landscape. Some one-half of global trade is carried out among partners to a common trade agreement; for some countries—such as Chile, Mexico, and

Turkey—that have formed RTAs with the main trading powers, the bulk of foreign trade occurs with their trade agreement partners.

Not only has the number of integration schemes grown, but also their content has become more complex and encompassing. Besides market access for goods, most agreements cover several "behind-the-border" issues, such as investment, intellectual property rights, competition policy, and government procurement. Subregional pacts have taken collaboration even further, to issues ranging from macroeconomic cooperation to movement of labor and establishment of common positions in multilateral trade negotiations.

While hugely active in international trade, Asian countries are surprisingly recent entrants to the global RTA chess game. However, Asian countries are rapidly catching up in the global race to integrate. All together, the East Asian economies had notified a total of thirty RTAs to the WTO by September 2008, both with each other and with extraregional players, such as the United States, Mexico, Peru, Pakistan, and Chile.[1]

Indeed, the proliferation of RTAs in the East Asian region can be seen as the most notable development in the region's trading panorama in recent years. Among some examples, China is in talks with such players as Australia, the Gulf Cooperation Council (GCC), Peru, Russia, and India; Japan is negotiating with India and Australia; and South Korea with the European Union, Canada, India, and Mexico. According to an encompassing calculation, East Asian countries had formed thirty-six agreements by the end of 2007 and were negotiating forty-one more, while twenty-five were at a proposal stage (Kawai and Wignaraja 2008).

Asian integrationism has not gone unnoticed. There is a substantial body of political economy literature on Asian regionalism. Perhaps the main forces that are seen as having long held back formal integration in the region include intraregional rivalries and domestic political economy dynamics in several countries. On the one hand, there is entrenched protectionism in the agricultural sector; on the other, there are relatively low intraregional trade barriers in the manufacturing sector. As such, there has been resistance to open in agriculture, while the rise of regional production networks that propelled Asia's rise into "factory Asia," a global manufacturing hub, was feasible without formal integration agreements: de facto integration outpaced, and to a degree obliterated, de jure integration. A leading scholar of Asian regionalism, Peter Katzenstein, has contrasted "Asia's market-driven network-style integration" with the "exclusive character of Europe's emphasis on formal institutions" (Katzenstein and Shiraishi 1997, 3).

Today's enthusiasm for RTAs in Asia is in part rooted in the Asia-Pacific Economic Cooperation (APEC) process, which brought the regional countries together to discuss trade issues under one coherent umbrella, and in part in the 1997–1998 Asian financial crisis, which increased awareness of the importance of regional economic policy coordination and resulted in a number of initiatives, particularly in financial integration. Some of the Asian economies' interregional deals in particular are motivated by bottom-up private sector drive to expand market access outside the region, (see, e.g., Copeland 2003, and Pempel 2005) as well as by nontrade concerns such as energy security, by access to minerals and resources, and, among smaller economies, by an effort to lock in domestic economic reforms (Asian Development Bank 2008). These considerations, along with regional security dynamics and foreign policy imperatives, also influence the choice of integration partners.

However, strategic reasons—concerns about remaining outside the proliferating regional and global RTA network—are perhaps the main and a top-down, government-led engine of the region's drive to integrate. Indeed, Asian integration can be viewed through both the competitive liberalization theory and the domino theory,[2] whereby the spread of RTAs gives outsiders incentives to form new RTAs or to join existing ones, lest they see their market access edge and appeal to investors undercut in the global economy. The forceful push by the major regional traders—China, South Korea, Japan, and Singapore—to forge formal trade ties within and outside the region, along with growing US and EU interest in agreements with Asian countries, will likely accentuate these systemic forces.

Despite the increasing importance of RTAs in Asia, very little is as yet understood about the anatomy of the Asian countries' agreements and, consequently, their full implications for the regional economies. Most studies on Asian regionalism are hugely broad, touching on issues from the environment to energy, security, and culture. Meanwhile, empirical works focused on the region's RTAs often fail to differentiate between these arrangements, even though RTAs come in many different shapes and sizes and thus could have vastly different economic effects (as well as be based on distinct political economy determinants). This is particularly the case of the sectoral market access commitments. The best gravity and general equilibrium models of the state and prospects of Asian integration still employ a simple dummy variable to denote any and all RTAs (see ADB 2008).

This is not unique to Asian regional integration: the lack of rigorous empirical analysis of the anatomy of RTAs is global. There is a massive and divided body of nearly fifty years of literature on the trade effects of RTAs and, more broadly, on whether RTAs are a stepping stone or a stumbling block to global free trade.[3] However, only a handful of empirical studies have managed to engage granular data, such as RTAs' tariff concessions or nontariff disciplines. They have reached mixed results, in part due to different samples and methodologies. N. Limão (2006) falls in the stumbling-block camp, finding that the United States and the EU have limited their multilateral tariff liberalization in goods traded with the RTA partners. Limão and M. Olarreaga (2006) make a similar finding in the case of import subsidies afforded to RTA partners by the United States, the EU, and Japan. Meanwhile, A. Estevadeordal and R. Robertson (2004) and Estevadeordal, Caroline Freund, and Emanuel Ornelas (2005) operationalize tariff liberalization in a number of Western Hemisphere RTAs, finding a building-block dynamic at play—namely that RTAs in the Americas not only have been liberalizing and propelled trade in the region, but also have helped further multilateral liberalization. There are even fewer studies on the nontariff contents of RTAs. I differentiate RTAs by the restrictiveness of their rules of origin, finding that restrictive rules of origin dampen RTAs' trade-creating potential (Suominen 2004).

The data gaps in a large share of scholarship on RTAs are hugely problematic for policy purposes. After all, understanding the intricate contents of RTAs is the first and crucial step for informing decision-making on the best trade-creating designs of RTAs. The details of RTAs are also crucial to the ongoing convergence processes aimed at connecting RTAs into broader regionwide agreements, such as the Free Trade Area of the Asia Pacific (FTAAP).

This article strives to fill some of these gaps in our understanding of the contents of RTAs in general and in Asia in particular. I draw on extensive data gathered at the Inter-American Development Bank (IADB) to analyze the structure of some three dozen RTAs by their various key component parts, including tariff liberalization schedules, rules of origin, and competition policy, customs, investment, and services provisions.[4] The purpose here is to provide an empirical basis for, as well as to inspire, further rigorous analyses of the determinants and economic effects of Asian RTAs and, ultimately, to inform decision-making on optimal RTA designs and prospects for connecting RTAs into broader "megaregional" arrangements.

This article reaches two main findings. First, there are two distinct "RTA families" in the Asia-Pacific space—US (and Mexican and Chilean) agreements formed in the Americas and across the Pacific, which are highly liberalizing as well as highly encompassing in terms of coverage of trade-related issues; and intra-Asian agreements, which, while also quite deeply and rapidly liberalizing, are less comprehensive in scope in the nontariff areas. In the Americas, there is yet another family of agreements forged by the Southern Common Market (Mercosur) grouping; these agreements are more backloaded in liberalization and also vaguer in the other trade-related issues than the US-style deals are.

These differences reflect the US desire to use RTAs to advance toward liberalization and rule making well beyond the multilateral, WTO agreements, and the Asian economies' relative (tariff) openness in the manufacturing sector coupled with their traditional reluctance to enter into formal, detailed, and binding agreements. While the future trans-Pacific agreements can give rise to a hybrid model between the Asian- and US-style agreements, they will likely still carry a strong flavor of the legalistic, encompassing US RTA model.

Second, the Asian RTA architecture is in flux. New agreements are coming on line at a rapid clip, and the liberalizing dynamic and strategic reasons could further entice the regional economies to advance toward broader regional agreements, such as ASEAN+3, ASEAN+6, and the FTAAP. Such arrangements would be critically shaped by their component parts—the existing RTA models in the region and, by implication, the political economy of their member countries. They would also likely be somewhat less ambitious in scope than the bilateral deals are, converging more toward the lowest (least ambitious) common denominator than toward the highest (most liberalizing). However, the existing, quite liberalizing bilaterals would likely coexist with such broader agreements; further, the ongoing reshuffling of the regional RTA architecture can also yield "coalitions of the willing" whose members are prepared to make particularly deep and meaningful mutual concessions.

In the following section, I discuss the architecture of Asian regionalism. This is followed by an examination of the anatomy of Asian RTAs in a comparative perspective, which dissects key RTA provisions such as tariff liberalization schedules, rules of origin, and investment and services provisions. Finally, I explore potential future scenarios for Asian regionalism.

## The Changing Architecture of Asian Integration

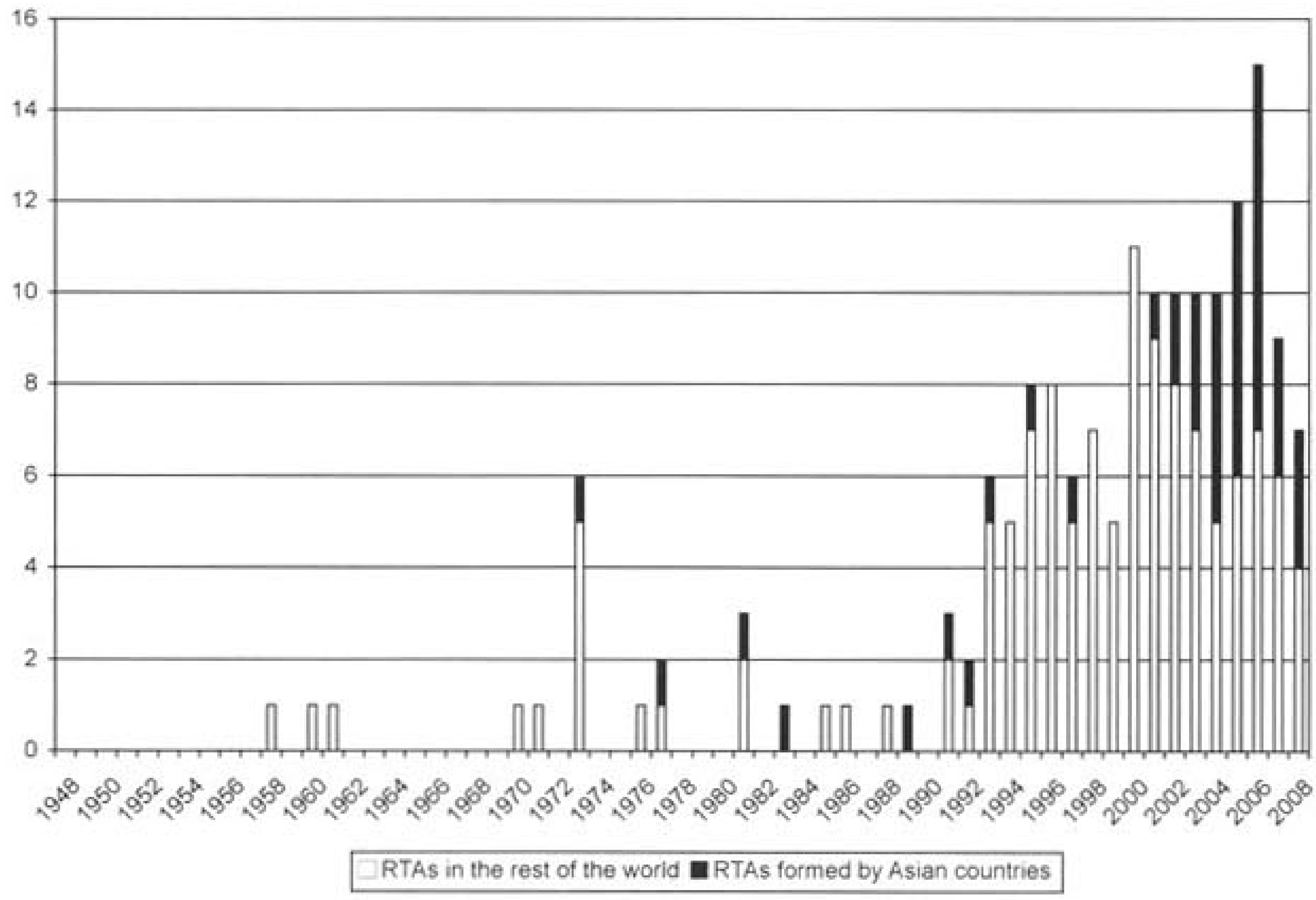
RTAs have become one of the most important phenomena in today's global economy since the formation of what can be considered the first postwar RTA, the European Communities, in 1958. In the Americas, the United States has departed from its reticence for regionalism to sign fourteen RTAs in the span of a mere thirteen years with partners in the Americas, Asia, and the Middle East. Its North American Free Trade Agreement (NAFTA) partner Mexico has twelve RTAs, and Chile has entered into seven agreements, including with the United States, the EU, China, and Mexico.

The EU has adopted a distinct logic of integration, forging free trade agreements (FTAs) with Eastern European countries in particular, and subsequently expanding to incorporate them in the EU proper, which now numbers twenty-seven countries. Yet the EU is also looking outward, having concluded FTAs with the southern Mediterranean countries, South Africa, Mexico, and Chile, and aiming at further ones in the Americas as well as with South Korea and the Association of Southeast Asian Nations (ASEAN) in Asia.

Asian countries are relative newcomers to the global RTA panorama, having formed less than a fifth of all RTAs notified to the WTO (see Figure 1). Asian countries' integration spree started with a megabloc, the APEC forum, in 1989. In 1992, the Southeast Asian countries launched a smaller plurilateral scheme, the ASEAN Free Trade Agreement (AFTA). Later in the 1990s, many leading economies in Asia—including Singapore, South Korea, Japan, and China—also set out to pursue RTAs. Some of the bilateral agreements include Japan-Thailand, Japan-Singapore, Japan-Malaysia, China–Hong Kong, South Korea–Singapore, and New Zealand–Thailand FTAs. Singapore has been Asia's integrator juggernaut par excellence, having concluded thirteen agreements both inside and outside the region; Japan ranks second with six in effect and three signed.

Asian countries have stepped up their integration with extraregional partners as well, pursuing FTAs with countries of the Americas in particular. In 2003, South Korea and Chile signed South Korea's first comprehensive bilateral FTA, and in 2005, Brunei Dar es Salaam, New Zealand, and Singapore concluded negotiations for a four-partite FTA with Chile. An FTA between China and Chile—China's first extraregional FTA—went into effect in October 2006. The Mexico-Japan Economic Partnership Agreement (EPA), Japan's first extraregional free

**Figure 1 RTAs Notified to the WTO Formed by Asian and Other Countries, 1948–2008**




trade agreement, took effect in 2005. In November 2006, Japan reached an agreement with Chile. Singapore and the United States reached one of the first agreements of Singapore's now extensive network of FTAs in 2003, and the US-Australia FTA entered into force in 2005. The same year, Peru and Thailand signed a bilateral FTA, while FTAs between Taipei, on the one hand, and Panama and Guatemala, on the other, took effect in 2004 and 2006, respectively. Singapore concluded FTA negotiations with Panama in 2006 and with Peru in May 2008.

Asian countries' RTA "noodle bowl" is poised to expand further at the back of the numerous agreements currently under negotiation, such as China-Australia, Japan-India, Chile-Malaysia, and EU-ASEAN FTAs. There are also active moves toward plurilateral FTAs in the Asia-Pacific region. China has entered into an FTA with ASEAN, and Japan and South Korea are seeking a similar deal. The chapter on trade in goods of the ASEAN-Korea FTA (AKFTA) entered into force in June 2007. Further ASEAN plurilateral initiatives include a proposal for an ASEAN-India economic partnership, and conversion of the long-running trade cooperation between ASEAN and Australia and New Zealand into a genuine FTA. The most ambitious current proposal is to form the FTAAP that is envisioned to include all APEC members.

## Anatomy of Agreements in Asia

The implications of the expansion of the Asian RTA network depends in good part on the contents of the various agreements. But how liberalizing are Asian RTAs? Do they liberalize trade on all products and do so quickly, or is liberalization less comprehensive and more prolonged? Are some agreements more liberalizing and comprehensive than others, and if so, why? Who are the laggards and who the leaders in liberalization? How encompassing are the region's RTAs—what issue areas do they cover, and how? How compatible are the various RTAs? Are there families of certain types of RTAs, and if so, where and why?

This section strives to answer some of these questions by dissecting and detailing the liberalization state of play in RTAs in Asia in a comparative perspective. I contrast intra-Asian agreements with trans-Pacific RTAs and agreements forged in the Americas. The data in the first set of indicators are based on a sample of sixty-two parties in thirty-one RTAs, and the data in the second set on forty-six RTAs (see Appendix 1).[5]

The first approach involves mapping out the obligations included in the annexes and protocols of the RTAs' market access chapters and centers primarily on different measurements of RTA parties' tariff liberalization schedules. The second approach focuses on a number of key provisions spelled out in the main texts of RTAs. While the first set of indicators is both country- and product-specific and largely based on quantitative information, the second set draws on inherently RTA-specific and qualitative information.

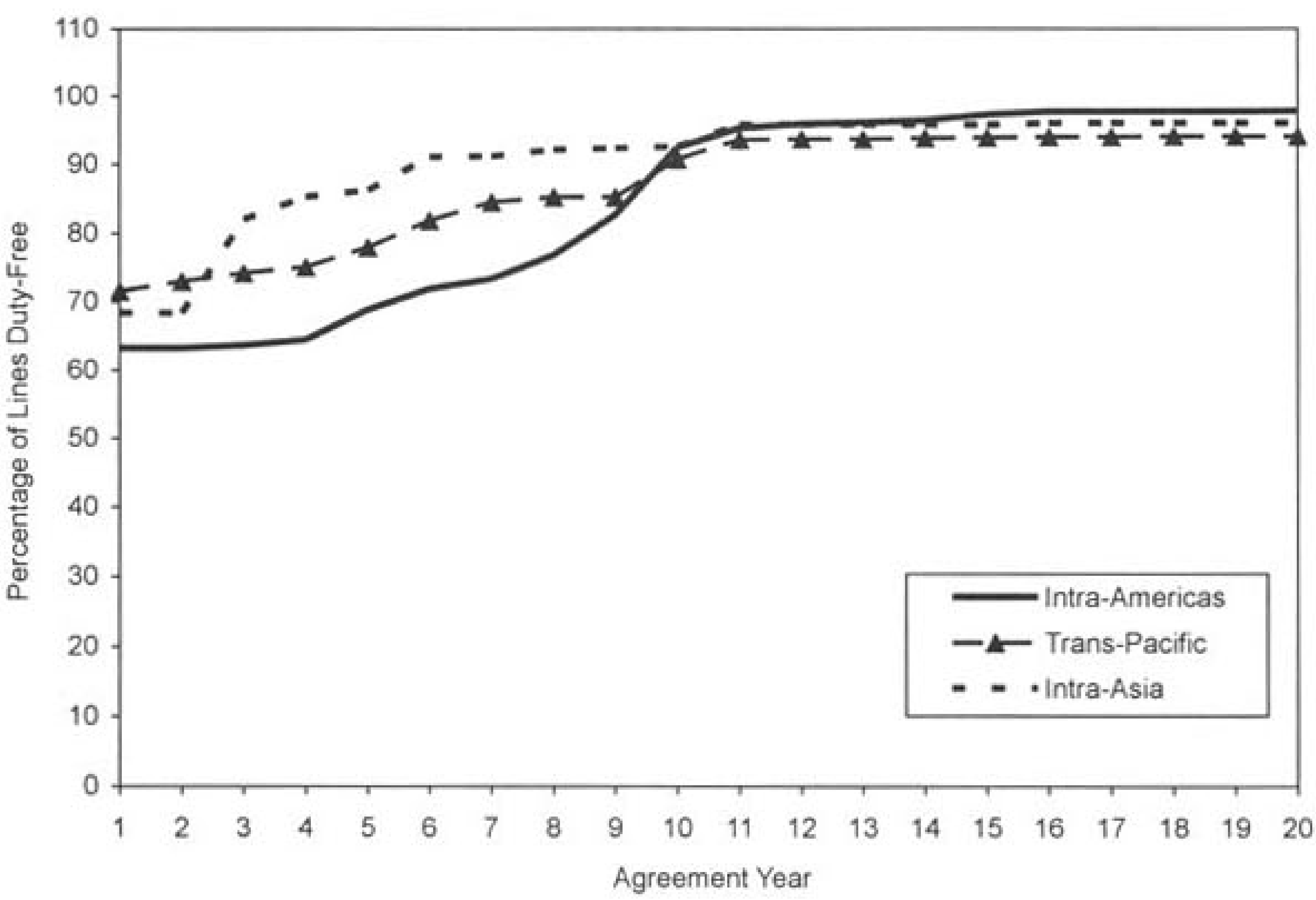
The dataset is very encompassing, covering all but two RTAs in the Americas and all but four intra-Asian deals that have thus far been notified to the WTO. The data also include a number of agreements that are signed but not ratified and, as such, not yet notified, such as US-Colombia and US–South Korea FTAs. The focus in each region is only on RTAs that liberalize at least 4,100 product categories. We thus omit partial scope agreements. Also omitted are unilateral preferential schemes. As a whole, all RTAs involving the major trading partners are included.

A close analysis of the tariff liberalization schedules of the partners in thirty-one RTAs in Asia, the Americas, and between the two regions yields encouraging results (see Estevadeordal, Shearer, and Suominen 2007). Most agreements are quite frontloaded, liberalizing the bulk of the tariff universe in the first year into the RTA. Singapore stands out for according duty-free treatment to all products upon the entry into force of its agreements. Also, Japan in the Mexico-Japan EPA and the United States in its agreements with Asian economies free some 80 percent of tariffs in the first year; however, Chile in Chile–South Korea and Chile-China agreements and Mexico in the Mexico-Japan agreement backload more than half of liberalization to years 2–5 or beyond. Both parties in the Philippines–South Korea agreement start liberalization only in years 2–5.

Figure 2 displays the dynamic, year-to-year evolution of liberalization by the RTA parties and regional averages over a period of twenty years.[6] Overall, agreements are highly liberalizing, freeing on average some 93 percent of tariff lines within ten years. Intra-Asian and intra-Americas RTAs lead the pack by freeing 93 percent of lines by year 10, followed by trans-Pacific agreements (91 percent).[7]

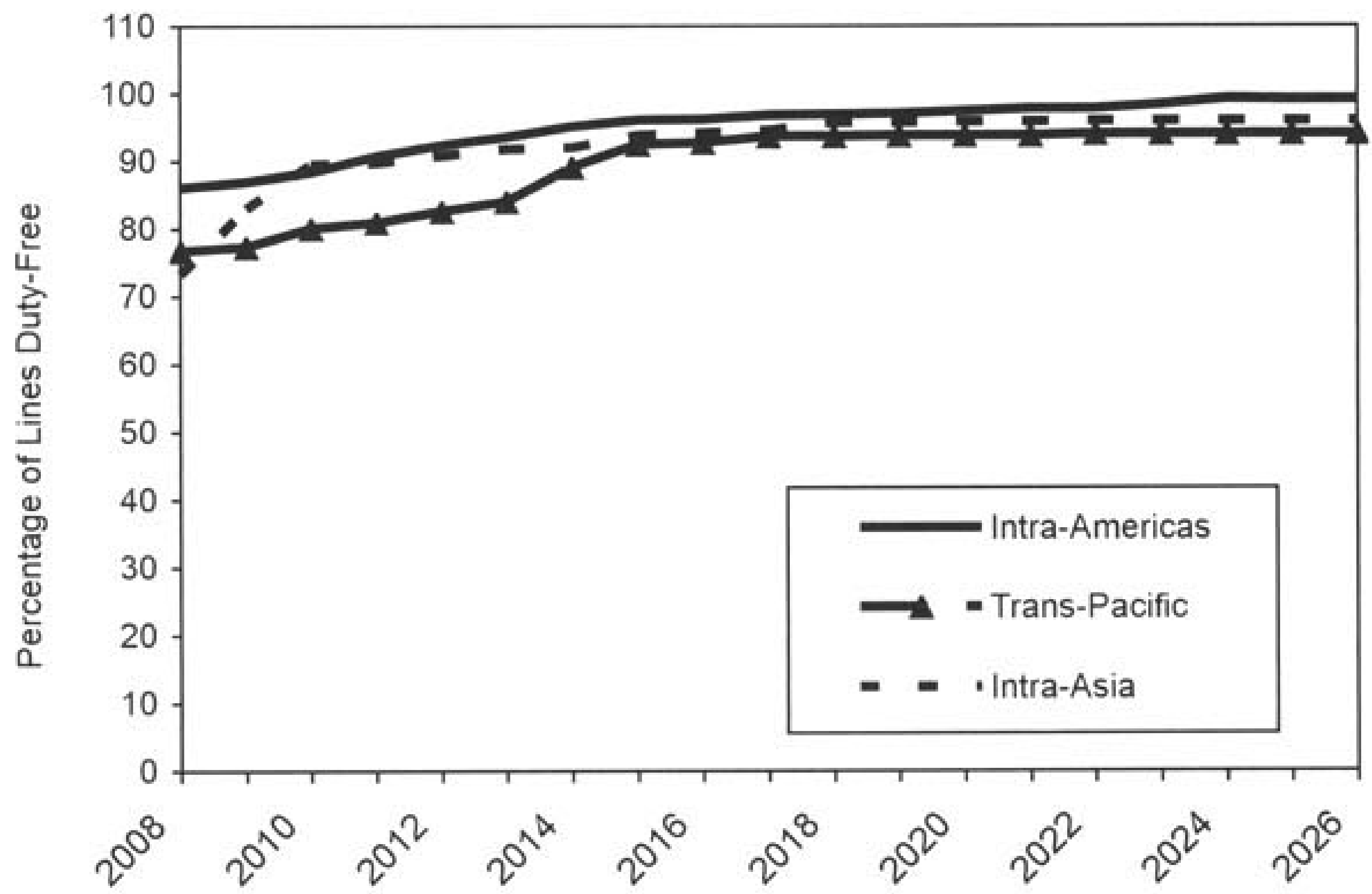
Figure 3 displays the same information in "real time," or by calendar years in the 1994–2026 period. Overall, two-thirds of the partners have freed more than 80 percent of lines to date, and the vast majority will have done so by 2013. One of the exceptions is the recent bilateral agreement between Peru and Thailand, which sprints toward the 80 percent threshold during the 2013–2018 period. On average, liberalization will have climbed above 95 percent by 2015. Intra-Americas agreements will have freed 95 percent of lines by 2014 on average; the less mature intra-Asian agreements attain the 95 percent mark in 2018. Trans-Pacific deals hover around 93 percent in 2016, reaching 94 percent in 2022.

**Figure 2 Evolution of Duty-Free Treatment in Selected RTAs, by Region**




*Source:* Inter-American Development Bank.

**Figure 3 Evolution of Duty-Free Treatment in Selected RTAs, 2008–2026**




*Source:* Inter-American Development Bank.

These data indicate deep and quite comprehensive liberalization in all three regions. Yet, there are in many RTAs some clear gaps in opening as well as prolonged liberalization. What accounts for these patterns?

Unsurprisingly, textiles and, in particular, agriculture are among the main laggards in liberalization. Agricultural products are in each region more protected than are industrial products. On average, RTAs explored here liberalize nearly 20 percent fewer lines in agriculture—some 60 percent for agriculture versus 77 percent for industrial goods by year 5, and some 75 percent versus 94 percent, respectively, by year 10. While there are some jumps after year 10—the trans-Pacific agreement average surges right in year 10 due to increases in China's agricultural concession to Chile and Panama's to Singapore—they are quite modest, so that agriculture trails well behind industry all the way through the end of the twenty-year period.

Importantly, simply measuring the share of liberalized tariff lines, as I have done, fails to capture the full trade effects stemming from protectionism if the share of protected lines is very small: a few protected lines could cover a lot of trade. However, an analysis of two alternative methods—liberalization statistics examined as weighted by trade, as I have done, and the actual percentage of total trade (imports) from the

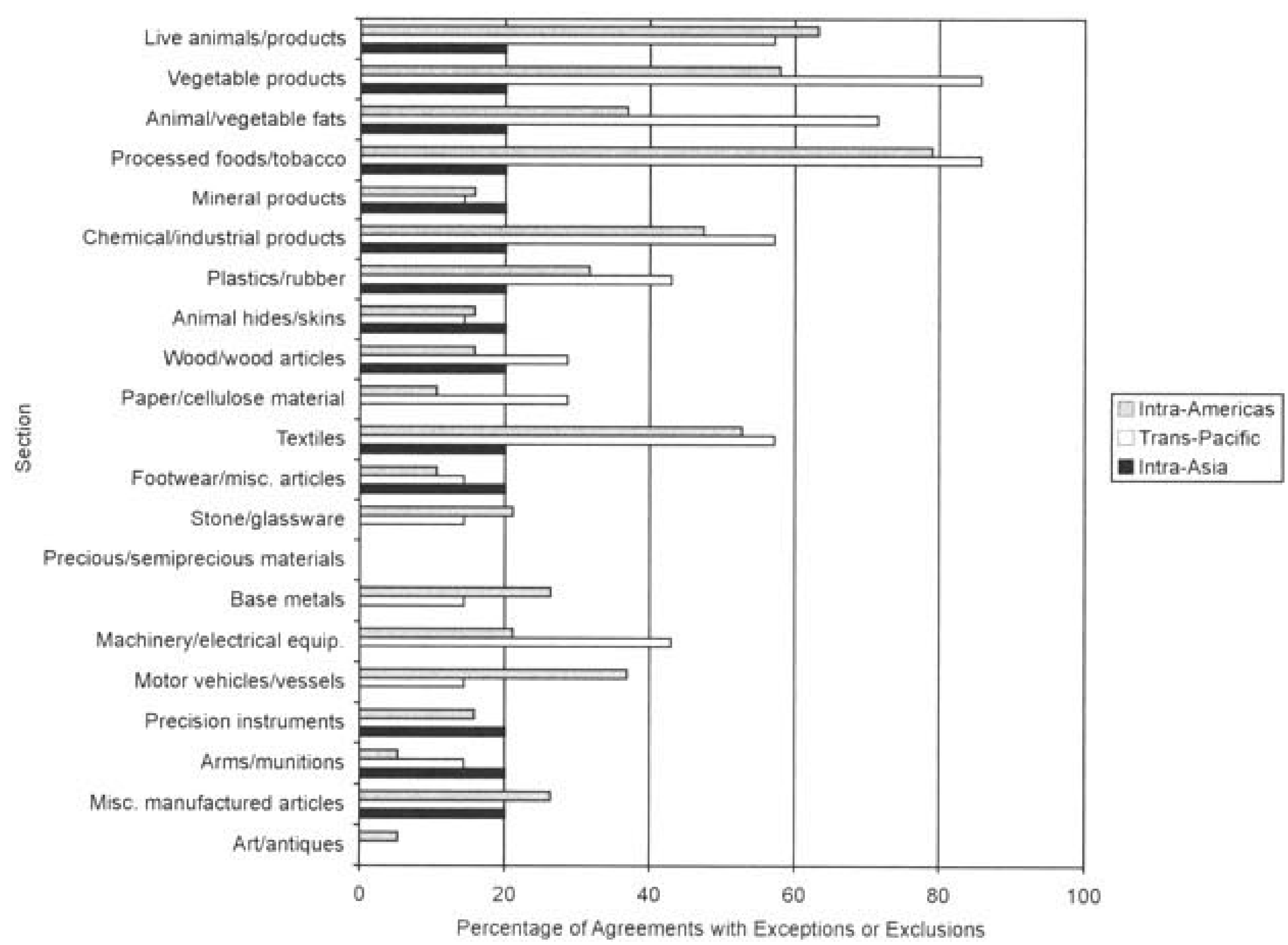
RTA partner that is liberalized—reveals broad similarities with the unweighted data in Figure 2. To be sure, the initial point at year 1 is higher in the trade-weighted dataset than in the unweighted tariff lines. This is hardly surprising: most trade occurs in sectors that are opened up rapidly, while sectors with backloaded liberalization tend to have very little trade precisely because they are protected. Weighting tariff commitments by potential trade is well beyond the scope of this article.

### Qualifying Market Access: Exceptions and Rules of Origin

Besides tariffs, RTAs contain numerous rules that may significantly qualify the market access provided by tariff liberalization, such as nontariff measures, special safeguards, exceptions, and demanding rules of origin.

Agreements involving countries of the Americas use tariff-rate quotas (TRQs) frequently in agriculture; there is also some TRQ incidence in textiles. Most agreements also contain exceptions in agriculture (Figure 4). This means that they subject a handful of products to

**Figure 4 Incidence of Exceptions and Exclusions in Select RTAs, Percentage of RTAs by Sector**




*Source:* Inter-American Development Bank.

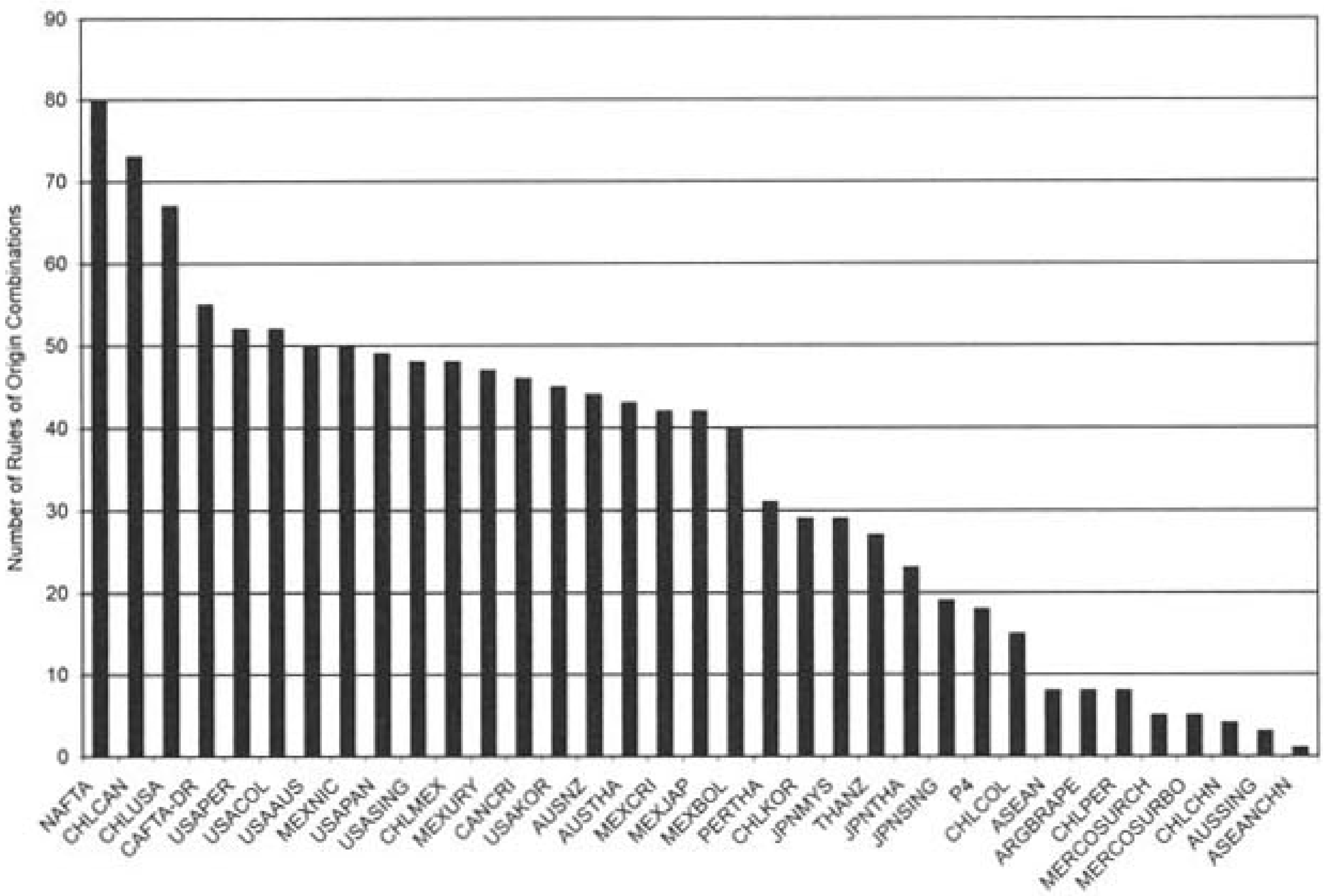
rules that imply infinite liberalization (such as forever-expanding TRQs). Some agreements also exclude some key products from RTA negotiations. Exceptions and exclusions are employed in RTAs in nearly all products and therefore in most regions. As in TRQs, countries of the Americas drive much of the action in this area. Overall, Asian agreements use exceptions more lightly.

Besides tariffs, rules of origin (RoO) are a key provision arbitrating the discriminatory impact and trade-creating potential of RTAs. The economic justification for RoO is to curb trade deflection—to avoid products from non-RTA members' being transshipped through a low-tariff RTA partner to a high-tariff one.[8] RoO are, however, widely considered "hidden protectionism," an obscure and opaque trade policy instrument that can work to offset the benefits of tariff liberalization. Most prominently, RoO can be employed to favor intra-RTA industry linkages over those between the RTA and the rest of the world and, as such, to indirectly protect RTA-based input producers vis-à-vis their extra-RTA rivals (Krueger 1993; Krishna and Krueger 1995). As such, RoO are akin to a tariff on the intermediate product levied by the country importing the final good (Falvey and Reed 2000; Lloyd 2001). When rules of origin are restrictive and intra-RTA final goods' producers lack access to globally cheapest inputs, their utilization of RTA preferences is dampened (see Suominen 2004; Estevadeordal, Suominen, and Teh 2009).

In general, Asian agreements have some of the least complex and restrictive rules of origin regimes in the world (Figure 5). Older agreements such as AFTA have one type of rule that applies similarly to all goods across the tariff universe. Agreements in the Americas and between Asia and the Americas do, however, carry more complex as well as restrictive RoO—and such RoO are found to dampen the liberalizing potential of RTAs (Suominen 2004; Estevadeordal, Harris, and Suominen 2007; Estevadeordal, Suominen, and Teh 2009). NAFTA alone has some eighty different combinations and types of rules of origin criteria, and the rules are particularly restrictive for sensitive products, such as textiles.

Encouragingly, however, unlike the straitjacket RoO model that the EU uses in all of its RTAs, agreements in Asia and the Americas are marked by diversity in RoO that suggests active negotiation and accommodation of country-specific idiosyncrasies. Furthermore, there is a trend toward market-friendly rules of origin, particularly in North America. US RoO regimes have gradually evolved toward a simpler and more liberal framework since NAFTA was launched in 1994. South Korea–US (KORUS) FTA RoO are less restrictive than those of the

**Figure 5 Number of Rules of Origin Types and Combinations in Select RTAs**




*Source:* Inter-American Development Bank.

US-Chile FTA. The NAFTA RoO regime itself has been under a liberalization process, with more flexible RoO being adopted in sectors ranging from alcoholic beverages to petroleum, chassis fitted with engines, photocopiers, chemicals, pharmaceuticals, plastics and rubber, motor vehicles and their parts, footwear, copper, and others.

In sum, the analysis of tariff liberalization in Asian RTAs yields three main results:

- Agreements in Asia are rather young compared to their counterparts in the Americas, yet the agreements analyzed here liberalize trade rapidly. Singapore is a particular case in point, liberalizing basically all goods in the first year of its agreements, but also Japan and Australia are quite rapidly liberalizing. RTAs formed between Asian and Western Hemisphere countries are somewhat more backloaded, particularly for Chile in the Chile–South Korea FTA and for Mexico in the Mexico-Japan agreement. In the Americas, RTAs signed by the original NAFTA members liberalize most products rapidly, or some 70 percent in the first year into the RTA. Mercosur's agreements are notably more backloaded. However, since most RTAs explored here liberalize 90 percent of tariff lines (as well as trade-weighted lines) by year 10 into the agreement, the coverage of products across the regional samples tends to become rather homogeneous by the end of the first decade.

- Liberalization in none of the three regions is uniform. There are a number of outlier RTA parties (often less developed parties) and product categories (particularly in sensitive sectors such as agricultural products, food preparations, textiles and apparel, and footwear) that trail the overall trend toward liberalization.
- Many agreements, particularly in the Americas, also carry provisions that could potentially be classified as "other restrictive regulations of commerce," such as restrictive rules of origin and exceptions. In Asia, the use of such instruments is less pronounced. However, trans-Pacific agreements carry important elements of the Western Hemisphere agreements.

This X-ray of Asian RTAs is quite encouraging. A further positive facet is the region's move toward open regionalism via uni- and multilateral liberalization. Indeed, for many observers, the 1990s multi- and unilateral liberalization was one of the handmaidens of the region's RTA spree. By the end of the decade, the region's average applied external ad valorem tariffs were brought down nearly threefold to single digits from some 30 percent in the mid-1980s. The averages are quite low compared with the levels of the past, although still notable in agriculture (Table 1). The simultaneous lowering of RTA and applied most-

**Table 1 Simple and Trade-Weighted Average Applied Tariffs in Selected Asian Economies, 2005–2006**

| | Simple Average MFN, Applied | | | Trade-Weighted, Average | | |
|---|---|---|---|---|---|---|
| | All | Agriculture | Industry | All | Agriculture | Industry |
| Brunei | 3.3 | 5.2 | 3.0 | n/a | n/a | n/a |
| Cambodia | 14.3 | 18.1 | 13.7 | 10.9 | 9.2 | 11.1 |
| China | 9.9 | 15.7 | 9.0 | 4.7 | 15.4 | 4.2 |
| Indonesia | 6.9 | 8.2 | 6.8 | 4.8 | 6.1 | 4.7 |
| Japan | 5.6 | 24.3 | 2.8 | 4.5 | 27.0 | 1.9 |
| South Korea | 12.1 | 47.8 | 6.6 | 8.0 | 101.9 | 4.0 |
| Malaysia | 8.5 | 12.3 | 7.9 | 4.6 | 16.0 | 4.0 |
| Myanmar | 5.6 | 8.7 | 5.1 | n/a | n/a | n/a |
| Philippines | 6.3 | 9.6 | 5.8 | 3.7 | 14.5 | 2.8 |
| Singapore | 0.0 | 0.2 | 0.0 | 0.0 | 1.3 | 0.0 |
| Thailand | 10.0 | 22.1 | 8.2 | 4.8 | 12.7 | 4.5 |
| Vietnam | 16.8 | 24.2 | 15.7 | n/a | n/a | n/a |

*Source:* Cheong (2008).

favored-nation (MFN) tariffs implied that preferential margins remained rather unchanged during the period.

Whether RTA members have in place more or less external tariff discrimination than in the late 1990s requires a much more detailed analysis than conducted here. It is the case that, at least in Latin America, the advance of RTA liberalization has been accompanied by a more modest liberalization of external tariffs in the past few years than was the case in the 1990s. However, it is also the case that particularly applied tariffs have been lowered in Asia quite dramatically following the 1994 conclusion of the Uruguay Round. Moreover, the formation of new RTAs around the world has provided a greater number of countries preferential access to any one RTA partners' market, thus reducing the preferential edge of the older partners. However, the fact that new RTAs are being signed indicates that the lure of preferential margins is still important.

### *Beyond Tariffs: How Comprehensive Are Asian RTAs?*

Analyzing tariffs and other instruments governing trade in goods provides a limited view of RTAs' anatomy and potential effects. RTAs contain a host of disciplines beyond tariffs, ranging from investment to competition policy, labor issues, dispute settlement, standards, government procurement, and transportation. These can provide for important complementarities, such as between tariff, services, and investment liberalization.

Here, I supplement the tariff liberalization statistics by providing a comparative description of the *coverage* of a number of RTAs' disciplines. In particular, I analyze the coverage of seventeen investment, twenty-nine services, twenty-four competition policy, and fifteen customs procedure provisions inside the four issue chapters in forty-six RTAs.[9] This analysis again shows that the US agreements are clearly the most encompassing ones, while Asian agreements and some agreements among South American countries are thinner.

RTAs' investment chapters tend to be encompassing, extending to such areas as MFN treatment, national treatment, transparency, denial of benefits and restriction of transfers, nationality of management and board of directors, performance requirements, expropriation, and investor-state disputes.[10] In Asia, Singapore and Australia's agreements are more encompassing in investment, but other agreements have scant coverage. In interregional agreements, the coverage is somewhat lower due to the limited coverage of disciplines in the Chile-China FTA and in the P-4 FTA between Brunei, Chile, New Zealand, and Singapore.

All RTAs forged by the three NAFTA members with their respective partners in the Americas are encompassing, applying the four modalities of investment—establishment, acquisition, postestablishment operations, and resale—and also covering such disciplines as MFN treatment, national treatment, and dispute settlement. Eighty percent or more also cover transparency, denial of benefits and restriction of transfers, nationality of management and board of directors, performance requirements, and expropriation. US FTAs again lead the way in being particularly comprehensive.

RTAs in the Americas are also quite encompassing in services, with more than 60 percent of them addressing MFN treatment, national treatment, market access, and unnecessary barriers to trade; they also prohibit discriminatory treatment. Strikingly, all these areas are generally not addressed in Asian agreements. The exception is the Japan-Singapore FTA, which covers national treatment, market access, domestic regulation, recognition of qualifications, transparency and restriction of transfers, and certain provisions on telecommunication and financial services.

A growing number of RTAs also include competition policy and competition-related provisions. NAFTA, the precursor of competition policy chapters of NAFTA parties' subsequent agreements, stipulates much more general treatment for the parties to adopt measures to proscribe anticompetitive business practices and take appropriate action with respect to them. In contrast, the EU's FTAs, which draw on the European Communities Treaty of 1958 for competition policy rules, address anticompetitive behaviors ranging from antitrust, to abuse of a dominant position, to monopolies, to coordination and cooperation issues such as exchange of information.

NAFTA also exempts competition policy issues from the agreement's dispute settlement provisions. In Asia, the Australia–New Zealand Closer Economic Relations Treaty Agreement (ANZERTA) is particularly far-reaching, requiring the parties to amend their national competition laws to ensure their full applicability to anticompetitive conduct or transactions that may affect either country. As a result, courts in both countries are empowered to rule on practices affecting consumers in the other, and there has been stepped-up cooperation between the parties' anticompetition agencies.

In customs procedures, nearly 60 percent of the RTAs examined here include provisions on confidentiality, advance rulings, penalties, review and appeal mechanisms, and cooperation in administration; and nearly one-half provide for technical assistance, transparency, and sharing of information. Here, Asian agreements and, in particular, agreements between Asia and the Americas are comprehensive. The recently concluded P-4 FTA between Brunei, Chile, New Zealand, and Singapore as well as the Central America Free Trade Agreement (CAFTA) contain highly comprehensive coverage of customs procedures and trade facilitation disciplines;[11] US agreements in general stand out for particularly high precision.[12]

In sum, the Asian agreements are somewhat less encompassing in some of the major trade-related provisions explored here than are agreements between Asia and the Americas and, in particular, in the Americas. Many US RTAs in particular could be viewed as "WTO+" in terms of incorporating a larger number and/or more specific provisions than are present in the multilateral rules. This indicates the perceived usefulness of rule making in the RTA context, perhaps both as a means of overcoming slow multilateral negotiations and as a way to deepen and appropriately mold provisions that are particularly pertinent to the RTA relationship—as well as a tool to attain greater synergies across the various RTA disciplines.

Thus, roughly speaking, there are three RTA families: Asian agreements, US-style agreements, and South American agreements. However, a closer inspection of the data suggests greater nuances and new trends, such as the exportation of RTA models from one region to the next through transcontinental RTAs, such as the "borrowing" of some of the US-Chile FTA's market access provisions in the Chile–South Korea FTA. This may suggest some longer-term melding of the Asian agreement models with those of the Americas.

## Future of Asian Regional Economic Integration

What accounts for the patterns in Asian RTAs? It is first important to acknowledge a selection issue in the sample. Some of the relatively rapid liberalization of Asian agreements owes to the pull of the Singaporean agreements, which have as one of their counterparts a highly open entrepôt. Tariff liberalization by South Korea, Thailand, and China, for instance, tends to be somewhat more backloaded and less comprehensive—yet, these economies are much larger and more weighty in the future of Asian integration than Singapore is. However, Singapore is a global exception; many of the other Asian countries fare quite well in international comparisons with regard to the speed and breadth of RTA liberalization.

To be sure, agriculture, the protected sector in Asia and around the world, remains a marked exception, at times heavily marked by exclusions and sluggish liberalization.

As for their scope, Asian agreements are thinner and vaguer than most agreements formed in the Americas or across the Pacific. One of the explanations is many Asian countries' traditional reluctance—rooted in domestic and regional politics—to form highly formal and binding agreements. This Asian modus operandi is also reflected in APEC, a large and rather ambitious but nonbinding initiative.

This anatomy of Asian agreements will likely affect the future geography and architecture of the regional economies' RTAs. There are perhaps five main scenarios for the future architecture of Asian regional integration.

The first scenario is a status quo continued proliferation of bilateral RTAs throughout East Asia and with extraregional partners, especially with some Latin American countries such as Chile and Peru and with India, the EU, and the United States. Such major schemes as KORUS could be expected to further ignite strategic incentives for building RTAs in the region. For instance, the interest in some circles in Japan for a bilateral FTA with the United States would likely be accentuated by KORUS. Meanwhile, further US inroads into the Asian RTA theater could inspire the EU to pursue further negotiations with Asian partners.

As for the format of such agreements, US RTAs with Asian partners would likely mirror KORUS, widely hailed as the most cutting-edge of US agreements to date. Some Asia-Americas hybrid agreements could also emerge, particularly in agreements between Latin American and Asian economies. The EU, meanwhile, has a set RTA blueprint that it has thus far applied very similarly across its RTA partners; the EU's RTA model differs in style from the US agreements, yet is quite as comprehensive and thus differs from most Asian agreements. The EU–South Korea agreement may be a harbinger model of the Europe-Asia RTAs to come.

The second scenario, and a likely complement to the first one, is the formation of intraregional blocs, such as ASEAN+3 (China, Japan, South Korea) or the ASEAN+6 (China, Japan, South Korea, India, Australia, and New Zealand), or some other constellation, such as a China–Japan–South Korea trade center in northeast Asia. Such arrangements would likely coexist with the current bilaterals between, for instance, ASEAN and China and ASEAN and India.

The third scenario is the realization of a broader, megaregional integration scheme along the lines of the FTAAP. Potentially building on the APEC architecture and essentially reigning over the FTAs crisscrossing Asia-Pacific, the FTAAP would connect countries of the region into one seamless production bowl. A sister scenario is the formation of an FTAAP among some subset of the twenty-one APEC members or another "coalition of the willing" (Bergsten 2007).

The ASEAN+ agreements and the FTAAP, if realized, could in good part be viewed as a result of the ongoing RTA spree. For one, the RTAs provide multiple channels of rather deep liberalization crisscrossing the East Asian seaboard. As such, they can create further bottom-up demands among traders and investors benefiting from the new liberalization for some broader forms of regional integration.

Conversely, the ongoing proliferation of overlapping RTAs is also creating increasing transactions costs for traders, investors, and governments operating on several RTA markets (governed by different RTAs' rules) simultaneously. The RTA noodle bowl can thus result in "lost" regional cost savings and scale economies vis-à-vis a scenario where cumulation of production was permitted *among* the various RTAs. Forthcoming surveys of firms' views on RTAs in Asia and Latin America by the Asian Development Bank and Inter-American Development Bank reveal that all of these issues do matter to companies: some 40–60 percent of firms in different countries in the two regions report that they would score "large" or "very large" cost savings from harmonizing rules of origin in the existing RTAs. These findings may well presage growing calls by Asian business for a single broad regional scheme.

The pain incurred in prior RTA liberalization can also translate into greater willingness across the region to drive at broader trade opening. And the proliferation of RTAs also means that while any given country will likely be an insider to a growing number of RTAs, it will also be an outsider to an even larger set of RTAs. Even the most prolific integrator countries can thus end up facing some degree of discrimination and/or preference erosion in a growing number of RTA markets; this could incentivize a critical mass of players to opt for a regionwide solution.

Again, the anatomy of existing RTAs would to an extent determine the shape of any future subregional or megaregional agreements. Protectionist interests, especially in agriculture—and, in some economies, in small-scale manufacturing—will still likely balk at comprehensive regionwide opening. Also some industries that are competitive in smaller subregions may be reluctant to open up to competition from some of the world's major economies. The anatomy of broader agreements may thus be more dotted by exceptions and other instruments aimed at curbing opening—and may also be less comprehensive—than the region's more detailed agreements are. Some suggestions to avoid a watering down of the enterprise include variable geometry (accession of countries into different tiers of ambition, i.e., depth and scope) and/or provision of some sort of flexibility for the less developed countries (Cambodia, Laos, Myanmar, and Vietnam) in the implementation and coverage of liberalization. Whichever the method, the existing bilateral agreements, with their respective rights and obligations, would likely continue operating in some fashion under the broader regionwide umbrella.

One way to construct such a regional scheme would be to stitch the already existing RTAs together, or for the to-be members to "dock," in APEC language, to an existing trans-Pacific scheme. The anatomy of the existing bilaterals would be crucial for such a convergence process. In a detailed analysis of tariff concessions and rules of origin, A. Estevadeordal, J. Harris, and K. Suominen (2007) show that RTA harmonization across the APEC region would likely be more easily accomplished in such sectors as wood, where the various regional RTAs implement rather similar rules and have lower barriers; it would likely be tougher in sectors where RTAs differ from each other, such as textiles and food products.

The fourth scenario for Asian integration, and a more unlikely one, is realization of global trade liberalization in the context of the Doha Round. The global round is perhaps at its lowest point since starting in 2001. But although the odds of a major Doha breakthrough in the short term appear quite diminished, they could be shaped by regional developments in the Asia-Pacific, the scene of the bulk of global trade. For instance, the creation of an FTAAP could build pressure for outsiders, such as the EU and India, to advance on the multilateral front. Indeed, NAFTA, launched in 1994, and the 1993 APEC summit in Seattle are widely seen as having provided just such an impetus for the Europeans to yield on the Uruguay Round agricultural talks and bring the round to a conclusion (see, e.g., Bergsten 1997.) However, for now, many observers see further developments in the Asian RTA architecture as likelier to bring the outside players to Seoul, Beijing, and Tokyo to forge new bilaterals, rather than to the multilateral table in Geneva.

The fifth scenario of Asian regionalism, and perhaps the most likely one, is some combination of prolific bilateralism, rise of miniblocs, and gradual movement toward a megaregional scheme. These dynamics will likely be mutually reinforcing and coexisting, rather than obviating one another or becoming mutually exclusive—although they would also raise important questions about the burgeoning of the RTA noodle bowl of overlapping agreements.

The main question mark in any of these scenarios is domestic politics in the major players in the Pacific Basin. Many countries of the region—Japan, South Korea, Thailand, and the United States, to name a few—have faced and are facing considerable trouble passing agreements at home. As of now, Washington's trade policymaking is in a logjam, and it is far from clear that the next Congress, taking office in 2009, would revive the Trade Promotion Authority required for opening new trade talks. The future shape of the Asia-Pacific RTA pathway, while affected by strategic considerations and foreign policy concerns, ultimately hinges on political economy of trade in the main regional economies.

## Conclusion

Asian countries have made forceful and rapid inroads into the now-global network of RTAs. The Asian RTA spree has followed and in some cases paralleled the region's overall economic and multilateral trade liberalization strategies and has brewed into an increasingly dense regional noodle bowl of agreements that is today starting to attain a genuinely transcontinental reach.

In this article, I have sought to shed new light on Asian regionalism by analyzing some of the key provisions in a number of Asian RTAs through a detailed comparative analysis. I have also preliminarily explored some of the connections between the contents of these agreements and the future architecture of Asian regionalism.

While the various RTAs differ in some important respects, including in the setup of the tariff liberalization programs, the speed and trajectory of tariff liberalization, and the employment of exceptions, there are important commonalities across RTAs belonging to the same regional "RTA families." Roughly speaking, there are three families: intra-Asian family, US-style agreement family in the Americas and in trans-Pacific agreements, and the Mercosur family of agreements in South America. In another rough generalization, the Asian family agreements are quite rapidly liberalizing, with the exception of agriculture, but they are also quite thin in trade-related disciplines when compared with the more legalistic US (and Mexican and Chilean) agreements.

Although this article is largely descriptive rather than analytical and prescriptive, I hope to have inspired further rigorous policy research on the contents of RTAs as well as their effects. The key underlying message of this article is that the understanding of the effects of RTAs necessarily travels through their intricate details. The shape of, and prospects for, new permutations in the Asian RTA architecture will also hinge on the setup of the existing schemes. The FTAAP would inherently be a construct of the political economy interests as well as sheer rule inertia expressed in its various constituent RTAs. The size and composition of new RTAs will, in turn, have a bearing on the makeup of rules in such broader schemes.

A further and broader area of rigorous policy research—one that is particularly important for gauging the pros and cons of the future of Asian regionalism—is the political economy of the key players in Asia and the Americas: the United States, China, Japan, South Korea, ASEAN, and even Brazil. The connections between the domestic political economy dynamics, the contents of RTAs, and the regional RTA architecture are hugely important for understanding and proposing policy options for the future of regional integration. They are also central for the prospects of global trade liberalization.

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**Appendix 1 RTAs Covered in the Study**

| Agreement | Date of Entry into Effect | Tariff Line Schedules | Aggregate Provisions |
|---|---|---|---|
| Chile-China | 10/1/06 | √ | √ |
| Panama-Singapore | 7/24/06 | √ | √ |
| Australia-Thailand | 1/1/05 | √ | √ |
| CAFTA | 12/17/04 (SV), 3/3/05 (HO), 3/10/05 (GU), 10/11/05 (NI), 7/27/05 (US)[a] | √ | √ |
| Canada-Chile | 7/5/97 | √ | √ |
| Canada–Costa Rica | 11/1/02 | √ | √ |
| Chile–South Korea | 4/1/04 | √ | √ |
| Chile-Mexico | 8/1/99 | √ | √ |
| China–Hong Kong, China | 1/1/04 | √ | √ |
| Japan-Singapore | 11/30/02 | √ | √ |
| Mexico-Japan | 4/1/05 | √ | √ |
| New Zealand–Singapore | 1/1/01 | √ | √ |
| Singapore-Australia | 7/28/03 | √ | √ |
| United States–Australia | 1/1/05 | √ | √ |
| United States–Chile | 1/1/04 | √ | √ |
| United States–Singapore | 1/1/04 | √ | √ |
| Chile–Central America | 2/15/02 (CR), 6/3/02 (SV) | √ | √ |

*continues*

**Appendix 1 RTAs Covered in the Study, continued**

| Agreement | Date of Entry into Effect | Tariff Line Schedules | Aggregate Provisions |
|---|---|---|---|
| Chile–New Zealand–Singapore-Brunei | 6/3/05, 11/8/06 (CHL); 6/06 (NZL, SGP, BRN) | √ | √ |
| Mexico-Bolivia | 1/1/95 | √ | √ |
| Mexico–Costa Rica | 1/1/05 | √ | √ |
| Mexico-Nicaragua | 7/1/98 | √ | √ |
| Mexico–Northern Triangle | 3/15/01 (SV, GU), 6/1/01 (HO), 3/14/01 (MEX) | √ | √ |
| Mexico-Uruguay | 7/15/04 | √ | √ |
| NAFTA | 4/1/94 | √ | √ |
| US-Peru FTA | 9/25/07 | √ | √ |
| Chile-Peru | 1998 (original) | √ | √ |
| United States–Colombia | N/A | √ | √ |
| Mercosur-Chile | 10/1/96 | √ | √ |
| Mercosur-Bolivia | 2/28/97 | √ | √ |
| ACE 58 (Mercosur-Colombia-Ecuador-Venezuela) | 6/27/05 | √ | √ |
| ACE 59 (Mercosur-Peru) | 6/27/05 | √ | √ |
| Australia–New Zealand | 3/28/83 | | √ |
| Central America–Dominican Republic | 3/7/02 (CR), 10/4/01 (SV), 10/3/01 (GU),12/19/01 (HO) | | √ |
| Mexico-Colombia-Venezuela | 1/1/95 | | √ |
| New Zealand–Thailand | 7/1/05 | | √ |
| Australia–Papua New Guinea | 2/1/77 | | √ |
| ASEAN | 1/28/92 | | √ |
| Chile-Japan | 9/3/07 | | √ |
| China-ASEAN | 7/1/03 | | √ |
| South Korea–Singapore | 3/2/06 | | √ |
| Peru-Mexico | 1/29/95[b] | | √ |
| Peru-Thailand | N/A | | √ |
| Japan-Malaysia | 7/13/06 | | √ |
| Japan-Philippines | N/A | | √ |
| Japan-Thailand | N/A | | √ |
| United States–South Korea | N/A | | √ |
| | Total Agreements | 31 | 46 |

*Notes:* a. Refers to ratification dates.
b. Partial Agreement, day of signature.

## Notes

The views expressed here are strictly my own and do not necessarily reflect the views of the International Development Bank or any of its member countries. Parts of this article have appeared in Estevadeordal, Shearer, and Suominen (2007, 2008). Matthew Shearer contributed extensively to sectoral data work. I wish to thank Santiago Florez Gomez and Carlos M. Gutierrez Jr. for superb research assistance and Sara Marzal Yetano for an outstanding analysis of services and investment provisions.

1. "Asia" and "East Asia" are used here interchangeably to refer to the Asian economies of the Pacific seaboard. RTAs here refer both to customs unions and free trade agreements (FTAs).

2. See Baldwin (1993; 2006) for domino theory, and Bergsten (1995) for competitive liberalization.

3. Early works on the welfare effects of RTAs and customs unions, in particular, such as Viner (1950), Meade (1955), Lipsey (1960), Johnson (1965), Mundell (1964), Corden (1972), and Kemp and Wan (1976), essentially reached both conclusions. In more recent studies, Deardorff and Stern (1994), Baldwin (1993, 2006), Wei and Frankel (1995), Bergsten (1995), Frankel, Stein, and Wei (1997), Ethier (1998), Cadot et al. (2001), Freund (2000), and Ornelas (2005), and, on the political science side, Oye (1992) and Kahler (1995) provide grounds for believing that RTAs can be ever expanding and propel strategic interactions conducive to global free trade. In contrast, Bhagwati (1993) argues that reduced protection between RTA members will be accompanied by increased protection vis-à-vis outsiders, with RTAs ultimately undermining multilateral liberalization. Aghion, Antràs, and Helpman (2006) arrive at two equilibria: one in which global free trade is attained only when preferential trade agreements are permitted to form (a building-block effect), and another in which global free trade is attained only when preferential trade agreements are forbidden (a stumbling-block effect). To be sure, while seeing RTAs as the second-best option to multilateral free trade, most analysts view them as superior to not liberalizing at all.

4. I draw in part on Estevadeordal, Suominen, and Teh (2009), which is the first comprehensive and detailed survey of RTAs' market access and other provisions. There are some prior, more limited studies. The World Trade Organization carries out an extensive inventory of the coverage and liberalization of tariff concessions in forty-seven RTAs of a total of 107 parties. The data cover tariff treatment of imports into parties to selected RTAs, tariff line treatment as obtained from individual countries' tariff schedules, and tariff dispersion for a number of countries. Scollay (2005) performs a similarly rigorous analysis of tariff concessions in a sample of eighteen RTAs. The IADB (2002) presents an exhaustive survey of market access commitments of RTAs in the Americas, while the World Bank carries out a more general mapping of the various disciplines in RTAs around the world. The tariff liberalization schedules were obtained from the Foreign Trade Information System at www.sice.oas.org/ and some national sources, including websites. Some tariff data were obtained from Trade Analysis and Information System (TRAINS).

5. The tariff liberalization schedules were obtained from the Foreign Trade Information System at www.sice.oas.org/ and some national sources, including websites. Some tariff data were obtained from TRAINS.

6. Because the entry into force dates differ between agreements, the actual calendar years of a given benchmark (e.g., agreement year 10) differ as well.

7. It should be noted, however, that these results do not necessarily reflect a definitive picture of regional liberalization efforts, as they are partially determined by the sample of agreements included in the aggregates.

8. As such, RoO are an inherent feature of free trade agreements (FTAs) where the member states' external tariffs differ as the members wish to retain their individual tariff policies vis-à-vis the rest of the world (ROW). Since a failure to meet the RoO disqualifies an exporter from the RTA-conferred pref-

erential treatment, RoO can and must be seen as a central market access instrument reigning over preferential trade.

9. For further disciplines and analysis, see, for instance, Estevadeordal, Suominen, and Teh (2009); and Baldwin, Evenett, and Low (2007).

10. This part draws on Estevadeordal and Suominen (2009). An FTA's investment provisions are coded when there is an investment chapter in an RTA or when the RTA refers to a bilateral investment treaty as the agreement applicable to the RTA. When no such mentioning is made, a zero value is assigned (even if the RTA partners were connected via a bilateral investment treaty).

11. There are already guidelines for customs procedures and trade facilitation provisions at the WCO (per the Revised Kyoto Convention). However, including these provisions in RTAs and in the WTO's legal framework could make them more binding.

12. For instance, CAFTA requires advance rulings be made within 150 days and goods be released within forty-eight hours. The customs procedure chapter also provides for specific transitional periods for the six Latin American parties.

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