Assessing the Quality of FTAs and Implications for East Asia

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I. Introduction

Free trade agreements (FTAs) are spreading over the world and most WTO member countries are on the bandwagon of regionalism. One of characteristics of current trend of regionalism is that East Asian countries actively try to establish regional trading blocs. Until the East Asian financial crisis, ASEAN Free Trade Area (AFTA) was the only FTA in East Asia. However, now China, Japan and Korea, in addition to ASEAN countries, are members of FTAs, and are officially negotiating several bilateral FTAs with trading partners.

Countries can collect economic gains from establishing FTAs, in that member countries can expand bilateral trade with lowered trade barriers, and induce more foreign direct investment (FDI) with improved trade rules and regimes. These benefits can be realized only when FTAs have wide ranges of liberalization measures in trade, investment and services, and achieve trade facilitation. Therefore, it can be said that the quality of FTAs is critical in determining the scale of economic gains.

Most countries that establish FTAs state that they are pursuing high quality FTAs, and plan to become FTA hubs by concluding many FTAs. A country will not become an FTA hub in a region automatically by establishing many FTAs. Rather, it will be necessary for a country to show strong willingness for trade liberalization and trade facilitation in FTAs by maximizing market access and harmonizing trade rules. In reality, market access is a core element for FTA negotiations. Market access in an FTA should be evaluated from several viewpoints, that is, tariff elimination, easing of non-tariff barriers (NTBs) such as customs clearance, simplicity of rules of origin, improvement of trade rules, and so on.

This paper tries to assess the quality of FTAs in terms of tariff elimination and rules of origin. Although the improvement of NTBs and trade rules should be dealt with higher importance, it is not easy to evaluate them quantitatively. This paper analyzes market access in NAFTA, EU-Mexico FTA, Australia-New Zealand Closer Economic Relations (ANZCER), AFTA, ASEAN-China FTA, Japan-Singapore Economic Partnership Agreement (JSEPA), and Chile-Korea FTA. Chapter II discusses tariff elimination in FTAs, followed by the evaluation on the stringency of rules of origin in

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Chapter III. In Chapter IV, the quality of FTAs is assessed, ranking ASEAN-China FTA and ANZCER to have the highest quality in terms of market access. Based on this assessment, the paper concludes that ASEAN-China FTA can be a strong candidate for a hub for economic integration in East Asia.

II. Tariff Elimination in Major FTAs

This section analyzes the coverage of tariff elimination in major FTAs. FTAs include the elimination of not only tariff barriers, but also non-tariff barriers. Moreover, some FTAs include more advanced trade rules than found under the multilateral trade system. There are many cases of member states taking conservative positions toward tariff elimination notwithstanding the recognition that trade liberalization will be beneficial to their economies. They have made exceptions in liberalizing sensitive items and have introduced a long-term implementation for tariff eliminations. On the other hand, ANZCER and the Singapore-Australia FTA stipulate complete tariff elimination. Both agreements indicate that each party shall eliminate all customs duties on goods originating in the territories of the other party that meet the requirements for the rules of origin specified in respective agreements. However, most of the agreements permit exceptions. This chapter analyzes the content of trade liberalization focusing on tariffs to provide implications for regionalism in East Asia.

● ANZCER

Australia and New Zealand have strengthened their economic relations with their bilateral FTA, which was signed on 14 December 1982 and entered into force on 1 January 1983. Although the ANZCER agreement now covers trade in all goods (Chapters 1-97 of the Harmonized System, HS), it had limited coverage when it was introduced in the early 1980s. Trade in goods was more liberalized with the 1988 Protocol on Acceleration of Free Trade in Goods (fully implemented on July 1990), and all tariffs and other duties and charges were removed under the ANZCER Agreement (with the exception of goods subject to excise). This provision is contained in Articles 4 and 5 of the 1983 ANZCER Agreement and Articles 1 and 2 of the 1988 ANZCER Protocol on the Acceleration of Free Trade in Goods, under which all transitional arrangements and temporary exceptions to the basic free trade rule were eliminated as of 1 July 1990.

Australia and New Zealand were able to achieve substantial bilateral trade liberalization in the early 1980s, as they had already activated the debate on preferential trade liberalization and there were fewer domestic obstacles to bilateral trade liberalization. Moreover, the two countries have similar trade systems, thus it was expected that intra-industry trade could be enlarged and trade liberalization was politically less sensitive. In addition, they adopted a step-by-step approach in liberalization. At first they permitted tariff concessions with many exceptions, and thereafter, they gradually elevated the degree of liberalization. Another reason the two

countries were able to facilitate an agreement with ease was their similarities in trade structure as well as their status as advanced countries.

● NAFTA

NAFTA has been effective since 1 January 1994 with the U.S. Congress approving the final agreement in November 1993. The United States, Canada and Mexico first started official negotiations for a trilateral FTA in North America in June 1991. Facilitating this trilateral cooperation, and thus promoting their respective national competencies, was the combination of U.S. capital, Mexican labor and resources, and Canada's resources and technology.

NAFTA has mainly been pushed by the United States, which is the strongest supporter of the multilateral trading system. The United States had wanted to build a fair and free trading environment under worldwide negotiations for trade liberalization but was not satisfied with the progress of the Uruguay Round, which was the last global round of negotiations under the GATT system.

Prior to the agreement's entry into force, the three countries were important trade partners for each other, with bilateral trade among them slightly higher than trade with any other single trading partner. NAFTA was the first comprehensive agreement to include not only tariff elimination among member countries, but also various economic issues such as services, investments, trade regulations, economic cooperation, environments and labor. Moreover, it also represents substantial liberalization in most traded goods. NAFTA classified almost all products into four categories, and the majority of these products were scheduled to be liberalized within 10 years, with a maximum 15 years for import-sensitive items.

Table 1. Market Access in NAFTA

Category	Share (%)	Tariff Elimination	Eligible Items by Country		
			United States	Canada	Mexico
A	50	1994.1.1 (Immediate tariff elimination)	Approx. 7,300 items - Computers, communication equipment, aviation equipment, medical supplies	Approx. 4,200	Approx. 5,900 - Machinery, electronic equipment, transportation machines (except automobiles)
B	15	1998.1.1 (4 years)	Approx. 1,200 - textiles, automobiles	Approx. 1,400	Approx. 2,500
C	35	2003.1.1 (10 years)	Approx. 700	Approx. 1,600	Approx. 3,300

C′		2008.1.1 (15 years)	Approx. 60 - ceramic tiles, glass, watch part, sugar, winter vegetables	Dairy products, poultry	Corn, edible beans, dairy products

Source: CBO (1993), *A Budgetary and Economic Analysis of the NAFTA*

According to CBO (1993), NAFTA seems to eliminate tariffs in all manufacturing products, but the agricultural sector was not fully covered by the agreement (contained in Chapter 7 of the agreement). Representing less than one percent of total intra-trade by volume, these exceptions were excluded from full elimination of tariffs under NAFTA. About 97 percent of the member countries' tariff lines (at the 8-digit level) were subject to full tariff elimination, representing more than 99 percent of intra-trade by volume.[1] NAFTA is an agreement that abolished tariffs, and removed quotas and the import permission system in principle; however, import restrictions are allowed when some measures deal with health, national security and environmental protection.

● EU-MEXICO FTA

The EU and Mexico started to negotiate a free trade agreement in late 1998 and concluded these negotiations in late 1999. The agreement came into effect July 1, 2000. The EU had tried to enlarge and deepen its economic integration within Europe before the agreement, and the EU-Mexico FTA offered the opportunity for the EU to expand its regionalism to non-European regions.

Regarding market access, Section 2 of Articles 5 and 6 of the FTA set out tariff elimination in the manufacturing sector category by category and Appendix I (EU) and Appendix II (Mexico) note tariff elimination categories for each item. In the EU-Mexico FTA, EU divided Mexican commodities into two groups, A and B. Mexican exports in Group A were to be tariff-free for the EU immediately at the effectuation of the agreement. Tariffs on Mexican exports in Group B would then be removed gradually over four years until January 1, 2003 (a quarter of applied tariff rates on imports from Mexico to be reduced in January 1, 1999), with 25 percentage points to be removed each subsequent year. Meanwhile, Mexico agreed to a longer period for implementation of its tariff liberalization. According to Appendix II of the agreement, the last day of complete elimination of tariffs is January 1, 2007. EU's exports are classified into four liberalization categories: A (immediate removal of tariffs upon effectuation of the agreement), B (removal of tariffs in four steps leading up to January 1, 2003), B+ (until January 1, 2005), and C (until January 1, 2007).

Consequently, Mexico abolished 46 percent of tariff lines right after the agreement came into effect and will completely remove tariffs on manufacturing sectors

[1] Based on the CRTA (2000).

on a gradual basis. The EU first removed 67.3 percent of all tariff lines and committed to removing all tariffs by 2003.

Table 2. Tariff Elimination on Manufacturing Goods in EU-Mexico FTA

(Unit: HS 8 digit, No. of items (%))

	EU	Mexico
Immediate elimination (A)	5,444 (67.3)	4,380 (46.0)
Step-by-step elimination (B)	2,626 (32.7)	1,054 (11.1)
Step-by-step elimination (C)	0 (0)	4,079 (42.9)
Number of total items	8,090 (100)	9,513 (100)

Source: Author's calculation from the EU-Mexico FTA Agreement.

Market access to agricultural products is presented in Section 3 of Articles 3, 8 and 9 of the EU-Mexico FTA agreement and the schedules for tariff elimination are relatively more complicated than those for manufacturing sectors. It introduces eight categories for agricultural products: categories 1-4 are for immediate or gradual tariff elimination, but items in categories 5-7 and category 0 are scheduled for tariff elimination after a certain period of time has passed (in the majority of cases, three years later or at the conclusion of the DDA negotiations).

As Table 3 shows,[2] the EU under the EU-Mexico FTA plans to liberalize tariffs for over 65 percent of agricultural items (1,659 items out of 2,560), yet the remaining items have been reserved for future discussions on liberalization. Mexico has committed to a similar rate, with 965 items, or 75 percent, of the total 1,302 agricultural tariff lines committed to tariff removal within 10 years after the effectuation of the agreement. However, the remaining 327 agricultural items are not scheduled for liberalization.

Table 3. Tariff Reduction on Agricultural Items in EU-Mexico FTA

(HS 8 digit, No. of items (%))

		EU	Mexico
Tariff Elimination in 10 Years	Category 1	586 (22.9)	529 (40.6)
	Category 2	437 (17.1)	214 (16.4)
	Category 3	152 (5.9)	136 (10.4)
	Category 4	484 (18.9)	96 (7.4)
Future Liberalization, Quarter, etc.	Category 5	650 (25.4)	319 (24.5)
	Category 6	5 (0.2)	4 (0.3)
	Category 7	145 (5.7)	4 (0.3)
	Category 0	101 (3.9)	0 (0.0)
	Total number of items	2,560 (100.0)	1,302 (100.0)

Note: Category 1: Immediate tariff elimination.

[2] Agriculture in this table includes marine and forestry products.

Category 2: Four-year elimination (25% per year).
Category 3: Nine-year elimination (11% per year).
Category 4: Eight-year elimination (beginning three years later after the effectuation of the agreement).
Category 5-7: Items for future review, allowances of quota, tariff quota system.
Source: Author's calculation from the EU-Mexico FTA Agreement.

Table 4 shows the outline of EU's tariff concessions by agricultural HS codes in the EU-Mexico FTA. The reservation (not included in the concession list) rates vary depending on agricultural items. For example, a small number of items are scheduled to liberalize, including meat, dairy products, raw grains, processed grains, processed meat and confectionery.

Table 4. EU's Agricultural Tariff Concessions in the EU-Mexico FTA

(Unit: EU's HS 8 digit)

HS	Items	Concession Categories									Note
		Total	1	2	3	4	5	6	7	0	
	Total	2,137	525	231	145	348	599	48	140	101	
1	Living animals	47	13	3	3	17	11	-	-	-	
2	Meat	233	40	18	15	42	118	-	-	-	
3	Fish and clams	-	-	-	-	-	-	-	-	-	Marine products (total 328)
4	Dairy products	175	4	-	-	1	139	7	14	10	
5	Products of animal origin	20	20	-	-	-	-	-	-	-	Exclude 2 marine products
6	Vegetable products	48	14	20	2	-	-	12	-	-	Seasonal flowers: seasonal tariffs
7	Edible vegetables	120	14	7	32	53	12	2	-	-	Many seasonal tariffs
8	Fruits and nuts	142	16	13	38	66	7	2	-	-	Multiple-stage seasonal tariffs
9	Coffee, tea	56	49	6	-	1	-	-	-	-	
10	Cereal	55	5	-	-	2	48	-	-	-	
11	Processed grains	83	-	-	8	4	71	-	-	-	
12	Oil seeds	80	75	3	2	-	-	-	-	-	
13	Vegetable juice	19	16	-	2	-	-	-	-	1	
14	Vegetable products	12	12	-	-	-	-	-	-	-	
15	Animal fat and	128	54	46	9	14	3	-	2	-	

	vegetable fat										
16	Processed meat and fisheries	48	2	2	3	14	27	-	-	-	Excluding 46 marine products
17	Sugar and sugar confectionery	47	-	-	-	-	30	1	16	-	
18	Cocoa	27	2	4	-	-	-	-	21	-	
19	Pastry products	47	1	-	-	1	-	-	45	-	Excluding 1 marine product
20	Vegetables fruits delicatessen	307	7	41	26	10 4	10 2	2 2	5	-	
21	Other delicatessen	42	9	8	-	1	3	-	21	-	
22	Beverages, alcoholic liquors, vinegar	176	35	26	-	1	17	-	7	90	
23	Processed feed	66	31	5	-	25	5	-	-	-	Excluding 1 marine product
24	Tobaccos	30	-	25	5	-	-	-	-	-	
29	Manitol, Sorbitol	5	-	-	-	-	-	-	5	-	
33	Aromatic cosmetics	33	33	-	-	-	-	-	-	-	
35	Albuminoidal substances, modified starches, glues	25	11	4	-	2	6	2	-	-	
38	Sorbitol products	4	-	-	-	-	-	-	4	-	
41	Raw hide and leather products	16	16	-	-	-	-	-	-	-	
43	Raw fur	13	13	-	-	-	-	-	-	-	
50	Raw silk and silk waste	4	4	-	-	-	-	-	-	-	
51	Wool and animal fur	16	16	-	-	-	-	-	-	-	
52	Raw cotton	6	6	-	-	-	-	-	-	-	
53	Raw flax and hemp	7	7	-	-	-	-	-	-	-	

Note: 1) Including marine products but excluding forest products (thus, differing from the number of agricultural products in this table that include forest products).
2) Refer to Table 3 for categories in the first row.
Source: Author's calculation based on the EU-Mexico FTA Agreement.

- **Tariff Elimination in FTAs by East Asian Countries**

Since the Asian financial crisis of 1998, it has become a trend for many East Asian countries to actively enter into FTA agreements. There are several examples of FTAs that can describe this trend best, with not only bilateral FTA agreements such as those between Korea-Japan, China-ASEAN and Korea-ASEAN, but also trilateral FTAs between Korea, China and Japan. Both Korea-Japan FTA and ASEAN-China FTA(ACFTA) are expected to become a significant and controversial issue within the near future. Even though the Korea-Japan FTA was initiated much earlier than the China-ASEAN FTA, the procedure of the latter has been pursuing a faster track.

ACFTA is expected to become one of the most prominent international agreements, forming a bloc composed of China, very potentially a giant economic power, and the 10 ASEAN countries. The FTA will make closer trade and investment relations between ASEAN and China. and China occupy 1.7 billion populations, GDP of about US$2 trillion and bilateral trade of US$55.2 billion in 2003. The FTA will make closer trade and investment relations between ASEAN and China. According to the agreement between ASEAN and China, the FTA is designed to eliminate tariffs for 99% or more of total items, including most agricultural products. However, Japan and Korea recorded lower liberalization ratios in their first FTAs, with Singapore and Chile respectively. Major portions of agricultural products are excluded from liberalization.

China first began to promote FTAs in 2002 after joining the WTO. Then Minister Ju Lungji proposed the China ASEAN FTA during the Leaders' Meeting in Singapore, November 2002. China became involved in FTAs for the following reasons: China's accession to the WTO; the development of a Korea-Japan FTA; the desire to prevent the proliferation of regionalism; and to take the initiative in regional integration. However, most importantly, a more fundamental question lied in the global strategy of China. In short, it seemed that China basically joined the WTO and wants to enter into a free trade agreement to participate in the stream of world economy.[3]

Table Numbers of Tariff Lines for Sensitive Items in ACFTA

Country	Total Number of Tariff Lines	Number of Sensitive Items	Number of Highly Senstiive Items
Brunei	66	66	34
Cambodia	350	350	150
China	161	161	100

[3] Refer to Cheong (2003) for detailed discussion.

Indonesia	349	349	50
Laos	88	88	30
Malaysia	272	272	96
Myanmar	271	271	-
Philippines	267	267	77
Singapore	1	1	1
Thailand	242	242	100

Source: ASEAN Secretariat (2004), *Modality for Tariff Reduction/Elimination for Tariff Lines Placed in the Sensitive Track*, Appendix 1 & 2

ASEAN and China signed the Agreement on Trade in Goods of the Framework Agreement on Comprehensive Economic Cooperation between two regions.[4] According to this agreement, China and six original ASEAN member countries will liberalize trade by 2010, and new ASEAN members (Cambodia, Lao PDR, Myanmar and Viet Nam) by 2015. The first tranche of tariff reduction under the Early Harvest Package (EHP) would commence starting 1 July 2005. Although certain products are categorized as the sensitive items and highly sensitive items which allow for longer time frame for tariff reduction/elimination. The sensitive items will be tariff-free by 2018 for ASEAN-6 and China and 2020 for CLMV. Tariffs for the highly sensitive items will be reduced to 50% by 2015 for ASEAN-6 and 2018 for CLMV. Although 50% of tariffs for highly sensitive items will remain after 2018, it can be said that 99% of tariffs will be liberalized in the ACFTA, including agricultural liberalization.

THE ASEAN FREE TRADE AREA (AFTA)

The agreement on AFTA was concluded in January 1992. The initial plan was to reduce tariffs of member countries on industrial products to 0-5% by 2008. However in 1994, the deadline for tariff reduction was moved forward to 2003 and coverage was expanded to include agricultural products. Due to the financial crisis in 1997, a few regressive measures were implemented such as tariff increase on Certain products and the introduction of an import license system in Thailand, the Philippines, and Malaysia. However, at the 6th ASEAN Summit in December 1998, all members agreed in principle that AFTA would become effective in 2002, which is 1 year before the date set 1994. Table 6 shows the current enforcement status of the CEPT scheme. Although the targeted tariff rates were 0-5% rather than zero tariffs, in the case of ASEAN-6 (old

[4] This is a part of the ASEAN-China FTA, defining market access in goods. It will be augmented by agreements on services and investments later.

members), 98% of the total items are included in the liberalization list.

A considerable part of the manufacturing sector was established through foreign direct investment and major components were brought in from parent companies located overseas. These characteristics made it difficult to satisfy the preferential rules of origin under AFTA. Currently, the volume of intra-regional trade is around 25% of AFTA's total exports, and 60% to 70% of that is composed of transactions between Singapore, Malaysia, and Indonesia. If trans-shipments from Singapore's free port are excluded, the volume of regional trade is only 5%. The only industries that benefited from AFTA were probably the oil and mining sectors. Even in Malaysia, where the volume of regional trade with other ASEAN countries amounts to 20% to 25%, only 3% of the goods exported to ASEAN are subject to AFTA's Common Effective Preferential Tariffs (CEPT). Thus, AFTA has failed to attract the interest and support of the private sector and its expansion to other regions such as Northeast Asia has been limited.

To be eligible, several criteria need to be fulfilled, namely, the product must already have been included in the 'Inclusion List' of the CEPT schemes of both the exporting and the importing countries. All other categories of products, including those in the 'Temporary Exclusion List,' will not be eligible. The tariff rate in the exporting country for the same product must be at or less than 20 percent. If the tariff in the exporting country is above 20 percent, concessions can only be given when the CEPT of the importing country is also above 20 percent. The product in question must be of ASEAN origin and it must have at least 40 percent domestic ASEAN content, which can be from a single country or cumulative ASEAN content.

Table 6. CEPT Product List for the Year 2002

Country	Inclusion List (IL)	Temporary Exception List (TEL)	General Exception List (TEL)	Sensitive List (SL)	Total
Brunei Darussalam	6276	0	202	14	6492
Indonesia	7176	21	68	4	7269
Malaysia	8867	233*	63	73	9236
Philippines	5606	35	16	62	5719
Singapore	5821	0	38	0	5859
Thailand	9104	0	0	7	9111
Total ASEAN 6	42850	289	387	160	43686

Percentage	98.09	0.66	0.89	0.37	100.00
New Members					
Cambodia	3115	3523	134	50	6822
Laos	1247	2142	74	88	3551
Myanmar	2387	3017	47	21	5472
Vietnam	3573	1007	196	48	4824
Total	10322	9689	451	207	20669
Percentage	49.94	46.88	2.18	1.00	100.00
Total ASEAN 10	53172	9978	838	367	64355
Percentage	82.62	15.50	1.30	0.57	100.00

Source: ASEAN Secretariat.

Table 7. Average Tariff Rates of Year 1999-2003

Country	Year 1999		Year 2001		Year 2003	
	Tariff Lines	Average	Tariff Lines	Average	Tariff Lines	Average
Brunei Darussalam	6264	1.55	6264	1.17	6273	0.96
Indonesia	6931	5.36	7176	4.36	7176	2.18
Malaysia	8374	3.22	8417	2.6	8417	2.06
Philippines	5431	7.36	5431	5.24	5431	3.79
Singapore	5739	0	5772	0	5772	0
Thailand	9062	9.58	9067	7.26	9067	4.63

ASEAN 6	41801	4.8	42127	3.67	42136	2.41
Cambodia	-	-	3115	10.39	3115	7.93
Laos	1247	7.54	1247	6.58	1247	5.66
Myanmar	2356	4.45	2356	3.32	2356	3.19
Vietnam	3570	7.09	-	-	-	-
ASEAN 4	7173	6.3	6718	7.2	6718	5.85
Total ASEAN 10	48974	5.02	48845	4.16	48854	2.88

● JSEPA

Japan concluded its first FTA with Singapore in January 2002. The agreement, officially entitled the Agreement between Japan and the Republic of Singapore for a New-Age Economic Partnership (JSEPA), targets a wide range of economic cooperation issues, including e-commerce, that are beyond tariff elimination. This agreement is expected to promote economic partnership and linkages of the two countries in a comprehensive manner not only in trade and investment, but also in such areas as financial services, information and communication technology and human resource development.

Singapore unilaterally liberalized its tariffs over all goods, except four processed foods including beer. In the agreement, only Japan reduced tariffs, and according to the government of Japan,[5] the agreement eliminated over 98 percent of tariffs on the items traded between the two countries (as of 2000, based on monetary value), and eliminated tariffs on approximately 94 percent of Japan's imports from Singapore.

In this agreement, Japanese tariff reductions are classified into five tariff concession categories. Tariffs in Category A were to be eliminated immediately, and tariffs under Category B are to be removed by 1 April 2006. Tariff for items under Categories C1-C3 and D will be eliminated step-by step in 2003, with different initial tariff rates for each. Japan excluded 629 items (HS 6 digit) from trade liberalization (Table 8).[6]

[5] Refer to Japan's Ministry of Foreign Affair's homepage. [http://www.mofa.go.jp/region/asia-paci/singapore/agree0201.html]

[6] JEPSA only presents items that are subject to tariffs elimination, not showing exceptions from liberalization. Thus, although these excepted items are not shown in the appendix of the agreement, the excluded items can be found by reviewing total HS codes of Japan.

Table 8. Tariff Concession in the JSEPA

	No. of HS 6 digit		Imports From Singapore (2003)	
	No.	Share (%)	Imports (mil. $)	Share (%)
A	4,586	87.80	4,338	96.22
C1	4	0.08	0	0.12
C2	1	0.02	0	0.00
C3	1	0.02	1	0.00
D	2	0.04	1	0.03
Exceptions	629	12.04	163	3.62
Total	5,223	100	4,508	100

Note: 1) Items under Category A immediately eliminate tariffs, Category B from 1 April 2006.

2) Items under Categories C1 – initial tariff rates of 2.8 percent when the agreement comes into effective, step-by step elimination from 2003 to 2010 (January 1). Items under C2 – initial tariff rates of 3.1 percent. Items under C3 initial tariff rates of 3.9 percent. Items under D – initial tariff rates of 6.5 percent.

Source: Author's calculation from the JSEPA Appendix.

According to a previous analysis using 2003 Japanese import data, 96 percent of total imports from Singapore are instantly liberalized. However, in the case of calculating the number of items under the HS 6 digit scheme, the share of liberalization decreases to 88 percent. Most exceptional items are agricultural products; some 384 items (HS 6 digit) that account for 58 percent of agricultural products are designated for exclusion from liberalization. While reckoned by the amount of imports, 90 percent of total agricultural imports from Singapore are excluded from liberalization. Singapore is not competitive in exports of agricultural products considering its economic structure, thus a great portion of these is not produced in Singapore. Nevertheless, the agreement implies that Japan wanted to prevent illegal imports of non-Singaporean agricultural products through Singapore. Such imports can be intercepted by applying the rules of origin specified in the agreement.

Table 9. Agricultural Tariff Concession in the JSEPA

	No. of HS 6 digit		Imports From Singapore	
	No.	Share (%)	Imports (mil. $)	Share (%)
Liberalization	281	42.25	17	10.12
Exception	384	57.74	151	89.88
	665	100	168	100

Source: Author's calculation from the JSEPA Appendix.

● **Korea-Chile FTA**

The Korean government has been searching for partners for FTAs since the late 1980s. It concluded its first FTA in October 2002 after several years of delay. The agreement was ratified by the national assemblies of the Chile and Korea in February 2004 and was implemented in April 2004.

The first FTA completion can also be seen as the starting point of Korea's FTA promotion policy, and it has established a base on which its economic integration into the Asia-Pacific region through bilateral FTAs with major trade partners such as Japan and Mexico, ASEAN and the United States can be promoted. The Korea-Chile agreement is a comprehensive FTA that covers liberalization of all sectors including agricultural, service investment, trade regulation, government procurement and intellectual property rights.

Korea and Chile share a similar liberalization ratio in that both countries have committed to eliminating tariffs over a 10-year period on 96 percent of items covered by the agreement. For a few sensitive items, however, tariff concessions will be applied flexibly to minimize the impact on Korea's weaker industries, especially agriculture. Korean tariff concession categories are more complex than Chile's, allowing a 16-year phase out at the most. Korea's tariff concessions are divided into 10 categories: immediate tariff elimination, five-year phase-out, seven-year, nine-year, 10-year, 16-year, seasonal tariffs, items that will be liberalized after the conclusion of the DDA, items given quarter, and exceptions. On the other hand, Chile's six concessions categories are: immediate tariff removal, five-year phase-out, seven-year, 10-year, and 13-year and exceptions.

Korea lifted tariff immediately on 9,740 items (87.2 percent, HS 10 digit) out of 11,170 items in total. Out of the 9740 items, 9,121 are industrial products, 224 agricultural products, 118 forestry products and 277 marine products. On the other hand, the ratio of items to be liberalized within 10 years is 96.3 percent, which includes all forestry and marine products and 70.7 percent (907 items) of agricultural products.

Table 10. Outline of Korea's Tariff Concessions

(Unit: HS 10 digit, (%))

Category	All	Manufacture	Agriculture	Forestry	Fishery	Examples (agricultural)
Immediate	9,740 (87.2)	9,122 (99.9)	224 (15.6)	118 (54.6)	277 (69.4)	Assorted feed
5-year	701 (6.3)	-	545 (38.0)	69 (31.9)	86 (21.5)	
7-year	41 (0.4)	1(0.01)	40 (2.8)	-	-	Fruit juice, chicken
9-year	1 (0.01)	-	1 (0.07)	-	-	Other juices
Seasonal tariff (10-year)	1 (0.01)	-	1 (0.06)	-	-	Grape
10-year	262 (2.34)	-	197 (13.76)	29 (13.43)	36 (9.02)	Tomato

16-year	12 (0.11)	-	12 (0.84)	-	-	Apple juice
TRQ+DDA	18 (0.16)	-	18 (1.3)	-	-	Beef, turkey
DDA	373 (3.3)	-	373 (26)	-	-	Garlic, dairy products
TRQ	24 (0.2)	-	24(1.7)	-	-	Beef, poultry
Exceptions	21 (0.2)	-	21 (1.4)	-	-	Rice, apple, pears
Total	11,170	9,123	1,432	216	399	

Source: Cheong (2003a)

Chile's immediate abolishment ratio is 41.4 percent and includes 2,422 items out of 5,854 items, which is lower than Korea's. The immediate liberalization ratio for manufacturing goods, for which Chile dose not have competitive advantage, is 30.6 percent, while those for agriculture and marine products are 98-100 percent.

Table 11. Chile's Concession Outline

(Unit: Chile's HS 8 digit, (%))

Category	All	Manufacture	Agriculture	Forestry	Fishery	Examples
Immediate	2,422 (41.4)	1,478 (30.6)	649 (89)	96 (100)	199 (99)	Color TVs, auto parts
5-year	2,018 (34.4)	1,992 (41.3)	24 (3.9)		2 (0.9)	Trucks, polyethylene
7-year	14 (0.2)	14 (1.92)				Rubber plates
10-year	1,194 (20.4)	1,180 (24.5)	14 (1.9)			Batteries
13-year[1)]	152 (2.7)	152 (3.2)				Steel, textiles and garments
Exception	54 (1)	12 (0.3)	42 (5.7)			Refrigerators, washers
Total	5,854	4,828	729	96	201	

Note: 1) Phase out from 6-13th year after the agreement goes into effect, with no tariffs to be reduced until the fifth year after the implementation of the FTA.

Source: Cheong (2003a)

III. Rules of Origin in Major FTAs

1. Theoretical Survey on ROO

One of the differences between Customs Union (CU) and a free trade agreement (FTA) is the authority of charging tariffs on the imports from non-member countries. CU member countries introduce common tariff rates against non-member countries. They cannot change tariff rates voluntarily without consultation with other member countries.[7] However, FTA member countries can set tariff rates (not higher than WTO bound rates) independently. Trade deflection can happen because tariff rates of the member countries of an FTA are different.[8] In order to prevent trade deflection, FTA member countries introduce specific rules, regulating that goods satisfying the rules be imported into FTA member countries with preferential treatments in terms of tariffs. These rules are called rules of origin (ROO).

There are 3 criteria (methods) for defining ROO in FTAs. One of criteria is Change in Tariff Classification (CTC) or "tariff shift." CTC is widely used in regional trading agreements (RTAs), and is preferred by the World Customs Organization (WCO), which promotes the simplification and harmonization of the ROO. CTC is based on the Harmonized System (HS), classifying goods at a two-digit chapter level, a four-digit heading level, a six-digit subheading level or an eight (ten)-digit level. The second rule is the requirement of Regional (local) Value Contents (RVC), which implies that the product should acquire a minimum regional value in exporting country or a region of a RTA.[9] The third rule is the requirement of Technical Process (TP), requiring specific production process for an item.

RVC can be calculated in two ways: Build-down or Build-up method.

Build-down method is:

$$RVC = \frac{AV - VNM}{AV} * 100$$

Build-up method is:

$$RVC = \frac{VOM}{AV} * 100$$

where RVC is the regional value content, expressed as a percentage; AV is the adjusted value; VNM is the value of non-originating materials that are acquired and used by the producer in the production of the good; VOM is the value of originating materials that are acquired or self-produced, and used by the producer in the production of the good.

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[7] CU also needs ROO during the transitional period toward the implementation of common external tariffs.

[8] Trade deflection means that a good imported via a low tariff FTA member country is re-exported into a country with high tariff without paying tariffs.

[9] The rule of regional value contents can be considered with various ways such as export values, import value, value of parts included in an article. However, we do not consider these separately, regarding all methods as regional value contents.

Most RTAs employ multiple criteria for setting ROOs, rather than applying a single rule. According to the WTO (2002), while ROOs in many FTAs are based on CTC, RVC and TP are also widely used. Combinations of three methods are widely used in an FTA rather than a single method.

Table 12. Frequencies of CTC, RVC and TP in RTAs

RTA (no. of RTAs)	CTC	RVC	TP
CU (6)	6	4(35-60%)	-
FTA and PTA (87)	83	75(35-60%)	74

Note: Numbers in parentheses imply the minimum requirement ratios.
Source: Modified from WTO (2002, p8)

Each criterion of defining ROO has advantages and disadvantages, and it is not easy to conclude which rule is most desirable.[10] However, even though a specific rule is used, the stringency of the criterion can be changed depending on a member country's position towards trade liberalization. For example, chapter change will be more stringent than changes in heading or subheading, when CTC method is employed. In case the RVC criterion is used, 60% regional value contents rate will be more stringent than 40%.

Some elements of ROOs are designed to promote intra-regional trade, although ROOs in general constitute protectionist practices. For example, Cumulation[11] and *De Minimis* are commonly introduced in RTAs in order to facilitate producers under certain conditions to use intermediate inputs from the region of another RTA or the 3rd country. *De Minimis* is called a tolerance rule in literature on the ROO and it is found in 88 out of 93 RTAs surveyed, according to the WTO (2002, p9). In most cases, the *De Minimis* rule is applied to less than 10% of total value of final products to be sourced from non-member countries.[12]

ROOs act like trade barriers, since they cause extra costs in production and management. Producers/exporters need to pay costs for calculating production costs and producing bookkeeping related documents.[13] Also, extra costs will incur in complying with technical and specific process and regional value contents as specified in the ROO protocol, and these costs will be added to prices of exporting goods.[14]

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[10] Parmeter (1997, p342) states that "although FTAs require rules of origin, there is a problem: there is no completely satisfactory rule of origin." Regarding merits and demerits of methods of setting ROO, refer to Parmeter (1997) and Essevadeordal (2003).

[11] Cumulation can be classified as bilateral cumulation, diagonal cumulation and full cumulation. Refer to Essevadeordal (2003) regarding the classification of cumulation.

[12] EC-South Africa FTA sets 15% *De Minimis* rule, but this is an exception.

[13] Regarding empirical researches on administrative costs in a FTA and costs of preparing documents for preferential treatment, refer to Koskinen (1983) and Herin (1986), respectively.

[14] Several empirical researches on the costs of stringent ROO under NAFTA show substantial costs to intra-regional traders and producers. For example, Cadot *et al* (2002) found that the utilization rate of NAFTA preferences is as low as 64% due to stringent ROO in part. Regarding more information on the costs of ROO, refer to Essevadeordal (2003, pp.8-9).

As ROOs become more stringent, the compliance costs will rise, undermining the gains in terms of trade creation that can be obtained from an FTA. APEC (2004, p76) states, "The complexity and stringency of ROO employed in RTAs has given rise to concerns over the diversionary effects that ROO may have on trade and investment flows."

2. Analysis of ROO in Major FTAs

This section provides an overview of ROOs in major FTAs focusing on assessing the stringency of ROOs in East Asian FTAs. Most FTAs have several hundred pages for the ROO protocol, and thus requires a large amount of time and effort to understand the structure and technical aspects of the ROO in an FTA. The existing literature on the topic is also limited.[15]

For the analysis of ROOs, several FTAs are chosen in this paper. They are NAFTA and the EU-Mexico FTA, which represent the first generation FTAs by the US and the EU. Examples of FTAs signed or under negotiation by East Asian countries are ASEAN Free Trade Area (AFTA) and China-ASEAN, Japan-Singapore (EPA), US-Singapore, Korea-Singapore, and Korea-Chile FTAs. In this section, we will compare the stringency of ROOs of East Asian FTAs with that of the US and EU FTAs. Before presenting the result, it is worth mentioning that the ROO in AFTA and China-ASEAN FTA, which specify 40% regional value contents across all items is the simplest ROO in the world.[16] The criterion of 40% regional value contents was introduced by AFTA, when the Common External Preferential Tariff (CEPT) scheme was agreed upon in 1992. During the negotiation for an FTA between China and ASEAN, China accepted the AFTA ROO and concluded the negotiation at the end of 2004.[17] But other FTAs by East Asian countries have chosen to introduce more complicated rules of origin.

● ROOs in the US and EU FTAs

NAFTA is the first FTA with comprehensive coverage including trade, investment, services, and trade rules. In promoting FTAs, the US has imposed quite stringent ROOs based on the change of heading, specific requirements for HS chapters, and complicated criteria for the regional value content. Essevadeordal (2003, p348) evaluated that the US specifies rules of origin of "substantial transformation" in its FTAs. CTC in chapter, heading and subheading is most widely used, with additional requirements of specific process and regional value contents. *De Minimis* rule is 7% in NAFTA, lower than in other FTAs.

Since then, several countries have followed the structure of NAFTA ROO with

[15] Comprehensive analysis of ROO in major RTAs can be found in Brenton (2003), Essevadeordal (2003), and WTO (2002).
[16] Similarly simple ROO can be found in ANZCER (Australia-New Zealand FTA), with 50% RVC rule. However, it specifies additional requirement that the last manufacturing process should be performed in the exporting territory for some items. However, 40% rule is applied in AFTA without extra requirements.
[17] China led the negotiation with ASEAN for a bilateral FTA. In 2003, China provided Early Harvest Package to ASEAN countries in order to attract ASEAN countries to the negotiation table.

minor modifications for some items.[18] A rigid ROO of "wholly obtained or produced entirely" is applied to primary industry, and each of non-originating materials used in the production of the good must undergo an applicable change in tariff classification set out in Annex 401 of the agreement. Technical processes are required for many items. Regional value contents ratios are as high as 50-60% depending on calculation methods.[19] The agreement specifies a more stringent rule for automobiles (HS8702-8704) with 62.5% under the net cost method.

In other FTAs, the US introduces a lower regional value contents ratio. For example, in the US-Chile FTA, 35% (Build-up) and 45% (Build-down) were adopted for some of HS34. A similar ROO is used for the US-Singapore FTA. However, a more stringent ROO was introduced in the US-Australia FTA, especially for textile and footwear. In case of footwear (HS64), the regional value contents ratio is set 55% (Build-down) with an additional requirement of subheading change. The US experience suggests that the stringency of ROO depends on FTA partners.

The EU's ROO heavily depends on PANEURO, which establishes a highly uniform ROO across EU's FTAs such as the EU-EFTA FTA and the EU-Mexico FTA. EU-Mexico FTA adopts a wide range of rules in defining the ROO. In general, EU ROOs are rather restrictive. The EU ROO is dominated by changes in heading, although regional value contents ratios range from 20% to 50%, with 20% for HS30. One problem with the EU ROO is that the agreement imposes complicated rules for producers. For example, special requirements are specified for sugar and cocoa in defining the ROO for HS 18-22.

● ROOs in East Asian FTAs

Singapore has been receptive to a loose ROO, while US has imposed a stringent ROO, as seen in the NAFTA agreement and in its recent FTAs with other countries. Singapore adopted the position of the US for the ROO in the bilateral FTA with the US. The US-Singapore FTA, which was concluded in 2003, basically follows the framework of the NAFTA ROO.

Chapter 3 of the US-Singapore FTA contains the rules of origin, and the requirements on specific items are given in Annex 3A. Heading changes are required for HS01-HS24, in addition to "wholly obtained or produced entirely" for primary products.[20] These are also applied to HS49-HS60, although subheading changes are specified for HS27-HS48. For apparel and clothing (HS61), a strong rule is adopted by specifying that apparel and clothing must be both formed from yarn and finished in the territory of a Party." For some HS chapters such as HS73, 78, 81, 84, 85, and 90, regional value contents ratios are required as 35% in the Build-up method and 45% in Build-down method. *De Minimis* is set as 10%.

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[18] The framework of the NAFTA ROO became the basis of ROOs in many FTAs, concluded by Canada, Chile, Mexico, Japan, Korea, and so on.

[19] NAFTA has two approaches for calculating the regional contents: One is the transaction value method, and the other is net cost method.

[20] This rule for primary products such as cattle, rice, etc. is widely accepted in RTAs.

Japan and Korea were predisposed to introduce a complex and stringent ROO to placate strong domestic opposition to trade liberalization.[21] However with mounting experience in FTA negotiations, they are likely to relax the stringency of their ROOs. Japan's first FTA - the Japan-Singapore EPA - specifies "wholly obtained or produced entirely" rule and products for preferential treatment in the FTA should have undergone sufficient transformation in a Party. Cumulation and *De Minimis* are accepted but the agreement specifies different shares of *De Minimis* with lower than or equal to 10 percent.

Heading changes are required for HS01-24, HS38 (chemical products), HS85 (machinery), with subheading changes or regional contents requirements (liquor and cordials). A regional contents requirement of 60% (with a combination of subheading changes) is required for other chapters of HS. For textile fabrics and articles (HS59), fabric should be made with yarn from a Party.

The Japan-Mexico FTA contains a better ROO than the Japan-Singapore EPA in several aspects. *De Minimis* is introduced at 10% for all items. Chapter, heading, and subheading changes are used for HS01-63. However, a stringent ROO is introduced for Mexico's major exports such as footwear (HS64) and natural resources like copper and zinc. The rule for these items specifies heading or subheading changes with a 50-55% regional contents requirement.

The ROO of the Korea-Chile FTA is also a variation on that of the NAFTA, with stringent and complex specifications for sensitive items. In particular, heading changes are required for HS01-HS10, which are agricultural and fishery products. In order to prevent transshipment of agricultural products, *De Minimis* is specified at 8%. A combination of heading change and regional value contents is used for several chapters such as HS19, 29, 30, 31, 38, and so on. In general, low regional contents ratios are given with 45% for Build-down method and 35% for Build-up. For some of HS84, a 30% of regional contents ratio is specified, when the Build-up method is used in calculating the regional contents ratio. However, an exceptionally high regional contents ratio is specified for HS200892-200899 (preparations of vegetables, fruits, nuts or other parts of plants). This is to curb the exportation of illegal juices and similar products.

Although it was announced that the Korea-Singapore FTA was concluded, there are still several issues to be resolved between the two countries. Detailed information on the agreement will not be available until both parties officially sign the agreement. According to mass media reports, both countries agreed for 10% *De Minimis* rule, with the exception for textile, which was dealt to be sensitive in the Japan-Singapore EPA. Unlike the FTA with Chile, the Build-down method is widely used with ratios of 45%, 50% and 55%.

[21] Esdevadeordal (2003, p12) states, "The ROO of Japan-Singapore EPA are complex, as evidenced by the more than 200-page ROO protocol." Similar comments can be found in Esdevadeordal (2003, p12) for Korea-Chile FTA.

IV. Overall Assessment

East Asian countries have a relatively short history of FTAs. They are facing strong domestic opposition mounted by sectors that are likely to be adversely affected by trade liberalization. Understandably their first FTAs allowed a broad range of goods for exemption from trade liberalization.

Trade deflection, which can occur in FTAs, distorts the trade pattern; ROOs could curb trade deflection. However, the compliance of stringent and complex ROOs increases costs for production and trade. Therefore those countries joining in FTAs would be better off by simplifying and harmonizing preferential ROOs.

Although the quality of FTAs can be evaluated with several criteria, the most important component will be the degree of market access. Market access is determined with coverage of tariff elimination, the improvement of non-tariff barriers (NTBs), simplicity of ROO, harmonization of trade rules, and so on. While some of these elements such as harmonization of trade rules are not easily measured quantitatively, coverage of tariff elimination and simplicity of ROO are quantitatively measurable, and thus, this paper tries to assess the quality of FTAs with these two elements.

Generally, it can be said that FTAs with wide coverage of tariff elimination and simple (less stringent) ROO will bring the most economic gains that are expected from a conclusion of an FTA. Although an FTA specifies tariff elimination for all goods, net impacts on trade will be reduced if exporters (manufacturers) are obliged to pay high costs in complying complex and stringent ROO in the FTA. If small portion of tariff lines are included in the list of trade liberalization and stringent ROO is applied, only limited impacts on trade can be expected.

Table 13. The Effects of Tariff Elimination and ROO on Trade

		Stringency of ROO	
		Less	More
Coverage of tariff elimination	Wide	High impact	Low impact
	Narrow	Low impact	Limited impact

Table 14 summarizes the coverage of tariff elimination in major FTAs in the Western hemisphere and East Asia. NAFTA, ANZCER, AFTA and China-ASEAN FTA have broad coverage of tariff elimination. It is worthy noting that although AFTA has high coverage of trade liberalization, the FTA does not target complete elimination of tariffs for sensitive items. Instead it tries to achieve low internal tariff rates such as 0-5%, depending on sensitivity of trade liberalization. Other FTAs allow wide ranges of exception for trade liberalization. Most of the excepted goods are agricultural products, which are most sensitive in Japan and Korea, although the coverage of market access in those countries may increase with the conclusion of more FTAs.

Table 14. Tariff Elimination in FTAs

	Coverage of Tariff Elimination	Remarks
ANZCER	Complete	Gradual liberalization (1983, 1988)
NAFTA	- 3%(HS8) of agriculture excluded	Quota for textiles is specified
EU-Mexico	- EU: 35.2%(HS8) of agriculture excluded	Mexico: 26.1% exception for agriculture
AFTA	- 98% of total tariff lines are included in liberalization package	- Intra-regional trade share: 20-25% - Utilization of CEPT is very low (3%)
China-ASEAN FTA	- Around 98% of tariff lines are liberalized	- Extremely sensitive items are excluded
JSEPA	- 58% of agricultural HS(6) excluded	Agriculture with positive tariffs are excluded
KCFTA	- 30% of agricultural HS(6) excluded	Additional liberalization will be discussed after the DDA

Source: Author's calculation based on tariff concessions in related FTAs

FTAs have quite different specifications for ROO, although all FTAs studied in this paper employ RVC ratio as one of criteria of ROO. Many FTAs such as NAFTA require substantial changes in tariff lines (CTC), making their ROO complex. ROO will become more complex and stringent when ROO specifies the combined requirement of CTC and RVC ratio. NAFTA, EU-Mexico FTA, and FTAs by Japan and Korea introduce this type ROO for sensitive items. However, AFTA and China-ASEAN FTA have a simple ROO, that is 40% RVC ratio. Although Table 15 does not show, ANZCER has a similar ROO like AFTA with some exception for sensitive items.

The EU and the US introduced stringent ROOs in their RTAs in 1990s. East Asian countries have heavily depended on the frameworks of existing FTAs, especially that of NAFTA. As a result, their ROOs include very restrictive elements. As seen in Table 15, ROOs in East Asian FTAs are similar to those of Western FTAs in terms of CTC, RVC ratio, Cumulation, and *De Minimis*. However, AFTA and the China-ASEAN FTA have a very simple and uniform format for the ROO. This is simpler than the WTO recommends and cannot be found in other RTAs. AFTA and the China-ASEAN FTA do not need CTC criterion since they require only one criterion of 40% RVC ratio. Korea and Japan are expected to improve their ROOs in terms of CTC, *De Minimis* and other production processes for some items. In negotiating FTAs with ASEAN, which proposes a simple ROO for bilateral FTAs, both Japan and Korea are likely to yield to ASEAN's demand.

Table 15. Summary of ROO in Major FTAs

	NAFTA	EU-Mexico FTA	AFTA	China-ASEAN FTA	Japan-Singapore FTA	Korea-Chile FTA
CTC	Yes	Yes	Not necessary	Not necessary	Yes	Yes
RVC Ratio	60-50%	50-30%	40%	40%	60-40%	45-30%
Cumulation	Yes	Yes	Yes	Yes	Yes	Yes
De Minimis	7%	10%	No mention	No mention	8-10%	8%

We try to assess market access in major FTAs using coverage of tariff elimination and stringency of ROO. More accurate assessments will require the consideration of more elements such as NTBs and harmonization of trade rules. Table 16 shows our tentative assessment result for market access in FTAs. It can be said that ANZCER and China-ASEAN FTA have high scores (Group I) in market access with wide coverage of tariff elimination and simple ROO. AFTA can be categorized into the same group but some reservation will be given for its quality of market access. In other words, the FTA is not targeting complete elimination of tariffs. AFTA, the first regional trade arrangement in East Asia, took recourse to the legal status of the Enabling Clause, which allows developing countries to establish RTAs without satisfying the requirements set in GATT Article 24. NAFTA can be evaluated to be inferior to FTAs in Group I in terms of market access, since it specifies complex and stringent ROO.

Table 16. Overall Assessment of Market Access in FTAs

		Stringency of ROO	
		Less	More
Coverage of tariff elimination	Wide	**Group I:** ANZCER CA FTA AFTA(?)	**Group II:** NAFTA
	Narrow	**Group III:**	**Group IV:** KCFTA EU-Mexico FTA JSEPA

Three FTAs can be categorized into Group IV with relatively narrow coverage of tariff elimination and stringent ROO. Korea-Chile FTA, Japan-Singapore FTA and EU-Mexico FTA can be categorized into this group. These FTAs allow substantial numbers of agricultural items to be excluded from tariff liberalization. Moreover, the FTAs adopt stringent ROO, benchmarking the NAFTA ROO.

V. Conclusion

Although East Asia has been regarded as one of the three economic collars in the world, the progress of economic integration has been slow unlike the progress in North America and Europe. There are many reasons behind this. One of reasons can be the lack of mutual trust in the region. After the East Asian financial crisis, countries in the region seemed to improve their relations. Regional efforts for closer relationship can be shown by the ASEAN+3 (China, Japan and Korea) process, which has provided various levels of meetings for the countries in East Asia, including official Leaders' meetings since 1998. Political Leaders began to discuss how to achieve closer economic relations in East Asia and they agreed to introduce the East Asian Vision Group (EAVG) and the East Asian Study Group (EASG), which were assigned to submit reports for drawing a roadmap for East Asian economic integration.

Reports by the EAVG and the EASG in 2001 and 2002 respectively set building the East Asian community as the goal of East Asian economic integration. As East Asian countries have shown concerns over establishing FTAs since the East Asian financial crisis, East Asian economic integration seems to have some concrete possibility. Naturally, a related question was raised; which country will lead economic integration in the region? This question gained added weight when China proposed an FTA to ASEAN countries, and the country led the negotiation with ASEAN. In fact, the ASEAN-China FTA could not be concluded without China's leadership (for example, Early Harvest Package), and this can be hinted from the quality of the ASEAN-China FTA, as shown in this paper.

Recently, an FTA map in East Asia becomes more complex because Japan and Korea are under negotiations with ASEAN for bilateral FTAs since early 2005. From the analysis of this paper, it can be inferred that it may not be possible for Japan and Korea to conclude high quality FTAs with ASEAN, unless those two countries change their approaches for market access in FTAs. This implies that these FTAs will have smaller chances for becoming a hub FTA for East Asian economic integration than the ASEAN-China FTA, since it is difficult for countries with low quality FTAs to embrace other neighboring countries for FTA partners.

It is worth mentioning two points regarding China's leading role in East Asian economic integration. First, it is pointed out that China's economic system can be a serious problem in leading East Asian economic integration. China will need to improve its economic rules and practices substantially in near future, and enlarge market economy in its territory. Second, without Japan's participation, East Asian economy can not be integrated in the genuine sense of term. Ohnishi and Yin (2002, 70) point out that building trust among the people in Northeast Asia is a critical pre-condition for economic integration. Border conflicts, distorted Japanese history textbooks, and the apparent pursuit of regional leadership by China and Japan damage the prospects for mutual trust among the three countries. The governments in the region must make an effort to resolve such political and social conflicts. Improving the relationship between

China and Japan could also be a decisive factor in achieving East Asia economic integration. Cheow (2001) asserts, “as long as relations between Asia’s two powers (China and Japan) are not clearly ironed out, it is almost impossible to envisage greater and further pan-Asian economic co-operation.” However, these political and social conflicts do not always act as obstacles to the development of FTAs. For example, it is well known that the EU was initiated with the purpose of preventing a war between Germany and France by strengthening economic cooperation. Unfortunately, East Asia did not have momentum to convert hostile relationship into more cooperative one.

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Text of FTA agreements:

- AFTA
- ANZCER
- NAFTA
- EU-Mexico FTA
- Chile-Mercosur
- Japan-Singapore EPA
- Korea-Chile FTA
- Korea-Singapore FTA
- US-Singapore FTA