

South-South Trade in Asia: the Role of Regional Trade Agreements



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FOREWORD

Since early 2000, the pace and scope of globalization has been unprecedented. Integral to the expansion of global trade and investment flows has been the rise of the dynamic South – a new breed of dynamically growing developing countries taking a more significant place in world trade and investment. This phenomenon has also led to a rapid expansion in trade among developing countries – South-South trade – especially in Asia.

The emergence of the dynamic South and the spectacular growth of South-South trade and investment flows – now seen as a corner stone of the new trade geography – present an important window of opportunity for all countries, regardless of their level of development. South-South regional trade agreements (RTAs), including bilateral, regional and interregional free trade agreements (FTAs), form part of an array of important instruments for trade creation, investment and regional development.

Policymakers in developing countries are increasingly giving priority attention to enhancing South-South trade through regional and interregional cooperation arrangements. In this context, the experience of Asia, where about 85 per cent of total South-South trade in goods is now concentrated, can be considered as of practical value and holds lessons for other developing countries and regions.

The publication *South-South Trade in Asia: The Role of Regional Trade Agreements* seeks to provide policymakers and decision-makers in government and in the private sector with an in-depth analysis of the dynamic trends of South-South trade in Asia and rapidly evolving RTAs in the region, including analysis of their scope and coverage, their impacts on global and regional production strategies, and assessment of their contribution to South-South trade growth in Asia.

This collaborative project between UNCTAD and JETRO is aimed at responding to the needs of not only policymakers, but also the private sector, particularly in developing countries. We, in UNCTAD, hope that this publication will open the way for further cooperation and collaboration on South-South trade.

Lastly, I would like to express my special appreciation to JETRO for its effective cooperation and support in this joint endeavour.



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ABBREVIATIONS

ADA	WTO Anti-dumping Agreement
ACFTA	ASEAN-China Free Trade Agreement
ACCSQ	ASEAN Consultative Committee for Standards and Quality
AFTA	ASEAN Free Trade Area
AJCEP	ASEAN-Japan Comprehensive Economic Partnership
ASEAN	Association of South-East Asian Nations
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
CECA	Comprehensive Economic Cooperation Agreement
CEPEA	Comprehensive Economic Partnership in East Asia
CEPT	Common Effective Preferential Tariff scheme
CGE	computable general equilibrium
CLMV	Cambodia, Lao People's Democratic Republic, Myanmar and Viet Nam
EAFTA	East Asia Free Trade Agreement
EH	Early Harvest (EH) programme.
EII	export intensity index
EPA	Economic Partnership Agreement
FOB	Free on board
FTA	Free Trade Agreement
FTAAP	APEC-wide Asia-Pacific Free Trade Area
GATT	General Agreement on Tariffs and Trade
GTAP	Global Trade Analysis Project
HS	Harmonized Commodity Description and Coding System
HSL	highly sensitive list
ITA	Information Technology Agreement (WTO)
MFN	most-favoured nation
MRA	mutual recognition agreement
NAFTA	North American Free Trade Agreement
NTBs	non-tariff barriers
NTMs	non-tariff measures
PTA	preferential trade agreement
RoO	Rules of Origin
RTA	regional trade agreement
SAFTA	South Asia Free Trade Area
SL	sensitive list items
SMART	software on market analysis and trade (UNCTAD)
SPS	Sanitary and Phytosanitary Measures
SSTIS	South-South Trade Information System (UNCTAD)
TRAINS	Trade Analysis and Information System (UNCTAD)
TBT	Technical Barriers to Trade
TCI	trade complementarity index

LIST OF REGIONAL BLOCS AND MEMBERSHIP

AFTA	ASEAN Free Trade Area ASEAN member States
ANCOM	Andean Community of Nations (Comunidad Andina de Naciones) Bolivia, Colombia, Ecuador, Peru, Venezuela (Bolivarian Republic of) (until 2006)
ASEAN	Association of Southeast Asian Nations Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand, Viet Nam
ASEAN+3	Association of Southeast Asian Nations +3 ASEAN plus China, Japan and the Republic of Korea
ASEAN+6	Association of Southeast Asian Nations +6 ASEAN plus Indonesia, Malaysia, Philippines, Singapore, Thailand and Viet Nam
CACM	Central American Common Market (Mercado Común Centroamericano) Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua
CARICOM	Caribbean Community Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago
CEMAC	Economic and Monetary Community of Central Africa (Communauté Economique et Monétaire de l'Afrique Centrale) Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea, Gabon
CFA franc zone	Coopération Financière en Afrique Centrale/Communauté Financière Africaine CEMAC and UEMOA member States
CIS	Commonwealth of Independent States Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Republic of Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine, Uzbekistan
CMA	Common Monetary Area Lesotho, Namibia, South Africa, Swaziland
COMESA	Common Market for Eastern and Southern Africa Angola, Burundi, Comoros, the Democratic Republic of the Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, the Libyan Arab Jamahiriya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, Zimbabwe
EAC	East African Community Kenya, the United Republic of Tanzania, Uganda
ECOWAS	Economic Community of West African States Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo

EU-15	European Union-15 Austria, Belgium, Denmark, Germany, Greece, France, Finland, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, the United Kingdom
EU-25	European Union-25 EU-15 plus Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia
EU	European Union EU-25 plus Bulgaria and Romania
GCC	Gulf Cooperation Council Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates
LAIA	Latin American Integration Association (Asociación Latinoamericana de Integración) Argentina, Bolivia, Brazil, Cuba, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela (Bolivarian Republic of)
MERCOSUR	Southern Common Market (Mercado Común del Sur) Argentina, Brazil, Paraguay and Uruguay
NAFTA	North American Free Trade Agreement Canada, Mexico, United States
OECS	Organisation of Eastern Caribbean States ECCU plus British Virgin Islands
SAARC	South Asian Association for Regional Cooperation Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka
SACU	Southern African Customs Union Botswana, Lesotho, Namibia, South Africa, Swaziland
SADC	Southern African Development Community Angola, Botswana, the Democratic Republic of the Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, the United Republic of Tanzania, Zambia, Zimbabwe
SAFTA	South Asian Free Trade Agreement SAARC member States
UEMOA	West African Economic and Monetary Union (Union Economique et Monétaire Ouest Africaine) Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, Togo
UMA	Arab Maghreb Union Algeria, the Libyan Arab Jamahiriya, Mauritania, Morocco, Tunisia
WAMZ	West African Monetary Zone Gambia, Ghana, Guinea, Nigeria, Sierra Leone

OVERVIEW

This publication has sought to present some of the salient aspects underpinning the rapid expansion of South-South trade in Asia. The discussion has highlighted some of the trends and impacts of South-South regional trade agreements (RTAs), including intraregional and interregional FTAs, as well as their role in trade and regional development. Sub-sections 1 to 7 below will summarize the key lessons and policy implications presented in the various contributions and will conclude with a summary (sub-section 8) of the lessons for developing countries in other regions.

1. Asia as a locomotive of South-South trade

South-South trade is playing an increasingly important role in international trade and its share in overall trade has increased dramatically, particularly in the past decade. In 2006, total exports from the South reached \$4.5 trillion, accounting for 37 per cent of world trade. In terms of geographical trade flows, South-South trade exhibits a “hub-and-spoke” pattern. Asia is incontestably the world’s most important trade hub, both in terms of exports and imports. In fact, in 2006 intra-Asian trade accounted for about 90 per cent of total South-South trade; trade among East Asian and South-East Asian countries represented the lion’s share and accounted for more than half of South-South trade in 2006.

2. Factors influencing the expansion of South-South trade in Asia

Expansion of South-South trade in Asia has been driven and supported by a number of factors, including:

- The substantial increase in demand for natural resources from rapidly growing developing countries in Asia;
- An increasing demand for new markets, particularly for exports of manufactured goods;
- Strategies for regional and global supply chains of transnational corporations from the North, as well as of those from the South;
- Growing interests across the South to integrate their economies through new bilateral, regional or interregional trade agreements; and
- Increased access to market information networks through, *inter alia*, access to the Internet.

3. Current status of regional trade agreements (RTAs) in Asia

There has been a rising trend in RTAs in Asia over the past decade. There are currently 47 existing RTAs in the region, and another 34 RTAs are at various stages of negotiation or ratification.

The “templates” (scope/coverage and comprehensiveness) of existing Asian South-South RTAs vary substantially, reflecting the level of economic development of participating countries. Asian developing countries are still in the process of finding their own “templates” and degree of sophistication in comparison with the scope and coverage of comprehensive existing North-North and North-South RTAs.

Liberalization of market access for goods is still the most dominant issue for the Asian South-South RTAs. Only about half of enforced RTAs currently cover services trade. Among “beyond-tariff” issues under the coverage of the WTO Agreements, rules of origin and contingency protection measures (i.e. anti-dumping, countervailing duties and safeguards) are covered by most of these RTAs; however, less than half of them include provisions on such issues as services, standards-related measures and intellectual property rights. With regard to the so-called “Singapore issues” (i.e. trade facilitation, investment, government procurement and competition policy), Asian developing countries are mostly focused on trade facilitation.

Although liberalization of goods is the priority issue for South-South RTAs in Asia, an analysis of the 15 RTAs highlighted in this report shows that: (i) the level of preferential trade liberalization is relatively modest; (ii) tariff lines coverage and preferential margins varies depending on the type of RTAs and signatory countries; and (iii) only a limited number of RTAs can be regarded as genuine “free trade agreements” at this stage. For example, in SAFTA, coverage remains below 10 per cent for all members, and preferential margin is below 3 per cent for all SAFTA members. However, in AFTA the average of coverage is 75 per cent and preferential margins are much larger than those of SAFTA. As far as bilateral South-South RTAs are concerned, preferential margins are higher than those applied by AFTA Members, while tariff lines coverage varies from 9 to 93 per cent, and 100 per cent for Singapore’s bilateral FTAs.

Among non-tariff issues, contingency protection measures, standards-related measures and intellectual property rights are playing a complementary role to similar provisions in WTO agreements. Thus, the relevant WTO Agreements are incorporated into RTA provisions – some of these provisions can be described as “WTO-plus” as they contain more detailed rules than the WTO Agreements. They also feature standards-related measures and intellectual property rights in that they foresee regulatory and institutional cooperation among RTA parties to facilitate trade and investment. Special attention needs to be paid to rules of origin as Asian South-South RTAs are using a variety of different rules of origin that might restrain regional trade and investment flows.

Trade in services provisions in Asian South-South RTAs are greatly influenced by the GATS in terms of their design, structure, approach to liberalization, rules and disciplines. Some can be regarded as “GATS-plus”, and include detailed rules in some areas.

As far as “Singapore issues” are concerned, Asian policymakers engaged in negotiating South-South RTAs are highly aware of the importance of trade facilitation, notably in the area of enhancing transparency, harmonization and simplification of procedures, as well as promoting cooperation among parties in order to achieve simplicity and efficiency.

4. Impacts of RTAs on trade

The main driver for export performance of developing Asian countries in recent decades appears to be improvement in their external market access, more than their increased internal supply capacity. China, the Philippines and the Republic of Korea are exceptions because their export growth resulted from production capacity increases.

Intra-Asian RTAs should contribute to regional integration and may also be a consequence of the process that started decades ago when the newly industrialized Asian countries searched for new markets for new products, and became dependent on foreign market access. Exports-oriented investors began to look for efficient and low-cost production sites, as well as increase the intensity and coverage of production-sharing schemes in Asia. However, it is unclear if observed gains in foreign market access are the true product of trade integration or the result of the deepening of the hollowing-out phases of production experienced by more developed Asian countries since the late 1980s.

5. South-South RTAs as a strategic scenario for development

The case study on India and South-South RTAs shows that the increase of India's RTAs with other Asian developing countries has expanded its exports and created a space for economic gains. Further gains are expected from India's further liberalization through South-South RTAs in Asia. However, it is also observed that gains from these RTAs would differ depending on the trading partner's differential level of relative factor endowments and production costs structures. Maximizing economic gains from RTAs, namely from trade relationships with Asian LDCs, it becomes evident that non-tariff constraints, such as NTBs, infrastructural deficiencies, lack of trade financing should be addressed on a priority basis.

The case study of ASEAN-related RTAs (i.e. ASEAN+6, ASEAN+3 and ASEAN itself) also shows that: (i) creation of these RTAs would bring about upward effects on GDP in all signatory countries; (ii) NTM reduction would bring greater effect on GDP than tariff elimination; and (iii) larger economic effects are expected as the number of signatory countries increases. It is estimated that the ASEAN+6 RTA would raise real GDP for its member countries by 2.0 per cent provided all tariffs were eliminated and non-tariff measures reduced by 75 per cent. The economic effect would be reduced to 1.3 per cent provided that non-tariff measures (NTMs) were reduced by 50 per cent. The result of tariff elimination without NTM reduction accounts only 0.2 per cent increase in GDP. It is also estimated that the GDP increase of ASEAN+6, ASEAN+3 and ASEAN would be 1.3, 1.0, 0.9 per cent, respectively, in the case of full tariff elimination with 50 per cent NTM reduction.

6. South-South RTAs in Asia and business strategies

There are three strong features of business strategies in the era of global competition. First, severe global competition drives companies in developed countries to step up their innovation strategies, which in turn enables them to create new technologies and profitable products on the global market. Second, these companies are trying to use outsourcing strategically, including offshoring and outsourcing, to maintain and expand their global competitiveness. Third, hiring local talent is important to promote the value of their products at the global market.

7. Utilization of existing South-South RTAs in Asia

Utilization rates of South-South RTAs in Asia are still limited, although rising. In the case of AFTA, utilization rates for all exports, for example from Thailand and Malaysia, accounted for only 23.5 per cent of exports in 2006, although the figure has been steadily rising as the coverage of preferential tariff items becomes wider in accordance with its tariff elimination and reduction schedules. Among ASEAN Members, Viet Nam holds the highest utilization rates because of its relatively high MFN tariffs. The Thailand-India FTA shows that utilization of preferential tariffs can sometime change the trade balance between signatory countries. Although utilization rates of Thai exports to India still remains low at 18 per cent (2006), exports of products, such as electrical and electronic goods from Thailand to India expanded dramatically since 2004, and the trade balance with India turned to surplus for the first time in 2005.

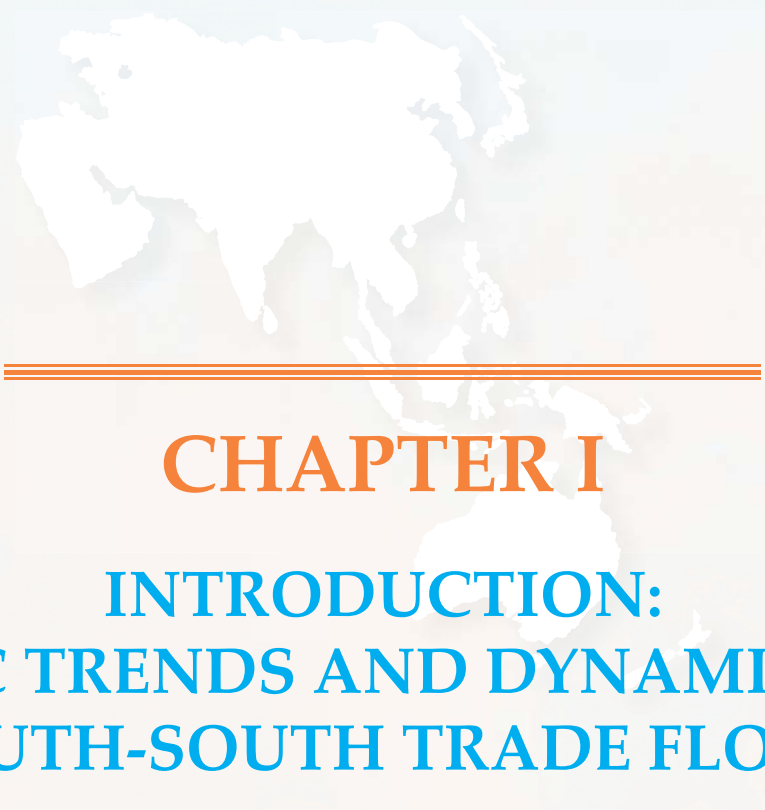
Utilization of existing South-South RTAs in Asia demonstrates several major features:

- Limited preferential coverage reduces the impact of RTAs. The lower the preferential tariff coverage of RTAs, the smaller the chances they will be utilized.
- Tariff concession schedules and their implementation have an impact on utilization. Since many South-South RTAs in Asia have engaged in step-by-step tariff elimination or reduction, high utilization cannot be expected until the envisaged tariff reductions fully take effect.
- The type of covered items has an impact on RTA utilization. When items of preferential tariffs match a company's regional and global strategies, RTAs would have more chances to be utilized, as can be demonstrated by the Thailand-India FTA.
- The difference between preferential rates under RTA and MFN tariffs also influence utilization.
- Transnational corporations of the North as well as those of the South are keen to make use of RTAs for their regional supply chain strategies.

8. Lessons and policy implications for developing countries in other regions

The experience of South-South trade and RTAs in Asia may have important lessons for developing countries in other regions.

- RTAs can be one of the strong facilitators of regional trade and economic integration and entry in global and regional value chains of production and trade. However, it should be highlighted that the growing interdependence of developing Asia is not solely a consequence of regional integration through RTAs. In actual terms, this integration was predominantly the result of intensified intra-industry linkages and cooperation.
- South-South RTAs can form part of a strategic scenario for enhancing intraregional cooperation and economic gains of developing countries. But it should be noted that the level of contribution is in large part due to clear objectives and policy targets, such as regional comparative specialization and complementarity.
- Gaining an understanding of the global strategies of transnational corporations of the North as well as those of the South is extremely important for policymakers when considering entering into an RTA.
- To maximize the benefits of RTAs, developing countries as a whole should also aim at facilitating trade in the region not only through tariff reduction/elimination but also through "beyond-tariff issues" (i.e. non-tariff measures, trade in services, trade facilitation and competition policy).



CHAPTER I

INTRODUCTION: BASIC TRENDS AND DYNAMICS OF SOUTH-SOUTH TRADE FLOWS

A. The growth of South-South trade

The share of exports of developing countries in international trade has been growing, particularly in the past decade. In 2006, total exports from the South reached \$4.5 trillion, accounting for 37 per cent of world trade.

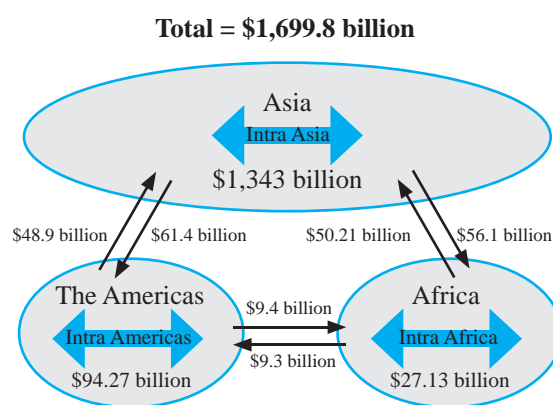
A large part of export growth from the South can be explained by an expansion of South-South trade, i.e. trade among developing countries. In 2006, total South-South exports amounted to over \$2 trillion, 17 per cent of world exports – a rise from 11 per cent in 1995. Total South-South exports accounted for 46 per cent of total developing countries' exports, increasing from 41 per cent in 1995. Exports from the rest of the world (RoW) to the South also increased to 25 per cent in 2005 from 23 per cent in 1995.

The existence of trade links with the South varies across developing regions. In the case of developing Asia, just over a half (51 per cent) of its exports went to the South. As for Africa and developing Americas, exports to the South accounted for 30 and 27 per cent of their total exports, respectively.

South-South exports have increased at a much faster pace than exports from developed countries to the South. While developed countries exports to the South increased by 140 per cent between 1995 and 2005, South-South exports increased almost by 200 per cent.

Among the developing regions, the highest growth of exports to the South was recorded by Africa, showing a 277 per cent increase; in the same period (1995 and 2005) exports to the rest of the world increased by 179 per cent. Asia's exports to the South also increased by a much greater rate than its exports to the rest of the world. The increase in exports from the Americas to the South was slightly lower than their exports to the rest of the world.

In terms of geographical trade flows, South-South trade exhibits a “hub-and-spoke” pattern, i.e. one region acts as the center of gravity for the majority of trade flows from other regions. Asia is incontestably the world's most important hub as it is both the largest exporter, as well as the largest importer in South-South trade.

Figure I.1. South-South exports in 2005

In 2005, Asia's exports (including intra-Asian exports) accounted for 85 per cent of total South-South exports. Exports from the Americas claimed the remaining 10 per cent and those from Africa 5 per cent. In 2005, Asia received 58 per cent of South-South exports from Africa and 32 per cent from the Americas. Trade between Africa and the Americas only accounted for a minor share (just over 1 per cent) of total South-South trade in 2005, but interregional trade levels between the two regions showed a sizeable increase since 1995.

The bulk of South-South trade occurs among countries within the same region. In Asia, intra-Asian South-South exports amounted to \$1.3 trillion

in 2005, accounting for over 90 per cent of its total South-South exports. Similarly, intraregional trade explains over 60 per cent of South-South exports from the Americas. For Africa, however, Asia represents the most important destination of its South-South export.

B. Sectoral specialization and geographical distribution of South-South trade

1. Sectoral specialization

When ranked according to trade values in 2005, manufacturing sectors claimed the largest share of products traded among countries in the South. The sector with the highest traded value was that of manufactured goods (e.g. electrical goods, machineries, mechanical appliances and computer equipments), which claimed 37 per cent of total South-South trade – an increase from 31 per cent in 1995. Fuel was the second-most traded sector: its share accounted for 21 per cent of total exports, and showed the highest increase as it rose from a level of 10 per cent in 1995. The textile, clothing and agricultural product sectors experienced the steepest declines in the overall share of South-South exports in 2005 as they decreased almost by half.

The overall ranking of exported sectors within the South, however, largely reflects exports from Asia, particularly from East Asia and South-East Asia. In fact, major export sectors to the South vary considerably across developing regions. In the case of Asia, manufacturing sectors accounted for nearly half of exports to the South, and its sectoral share substantially increased from 35 per cent in 1995 to 45 per cent in 2005.

In the case of the Americas, sectoral shares of exports to the South were less concentrated than other regions. Agriculture was the leading export sector in the Americas, accounting for 24 per cent of its total South-South exports – a lower level than in 1995. Three other sectors (fuels, natural resource-based products, base metals and metal articles) each accounted for about 13-15 per cent of exports, a significant increase from 1995. Two other sectors, manufactured goods and transport, each claimed about 10 per cent also with an increase from 1995.

As for Africa, its export to the South was heavily concentrated in fuels, accounting for almost 60 per cent of total exports to the South. The remaining share was taken up by three other sectors: agriculture, base metals and related articles, and natural resource-based products. Exports of manufacturing goods

accounted for a mere 4 per cent of Africa's total South-South exports in 2005, a decrease from 1995 levels.

The above suggests a high degree of regional specialization, which is more clearly manifested when we compare the top ten sectors in interregional South-South trade.

2. Geographical distribution

(a) Trade between Africa and Asia

Trade between Africa and Asia presents a particularly clear example of interregional specialization. Africa imports a wide range of manufacturing products from Asia, ranging from textiles and apparel articles to electronic good and vehicles. On the other hand, almost 80 per cent of Africa's exports to Asia are natural resources, including oil, mineral ores and base metal products.

(b) Trade between Asia and the Americas

A similar pattern is observed in trade between Asia and the Americas. Two major export sectors between the two regions were natural resource-based products and agriculture, with each claiming 46 and 34 per cent of exports, respectively. Asia's exports to the Americas largely consisted of products from the manufacturing sector. What is interesting in this trade relationship is that the export bundle from Asia to the Americas, e.g. electrical machineries, mechanical appliances and vehicles, were very similar to the export bundle from the Americas to the rest of the world. In other words, the Americas have the capacity to produce manufacturing goods for export to developed countries (particularly to the United States), as well as to developing countries within the Americas, but nonetheless import manufacturing goods from Asia. Further disaggregated studies on product groups presented in this study will shed more light on how this differentiation of export bundles comes about.

(c) South-South trade within Asia

Intra-Asian trade is dominated by manufactured goods of all factor intensities, most likely reflecting a regional division of labour across Asia. For instance, exports from South Asia show a high share of labour-intensive goods (e.g. textile, articles of stone and glasses), while those from East and South-East Asia largely consist of high-end manufacturing goods such as electronic/electrical goods, parts and components.

(d) Asia as a locomotive of South-South trade

Asia's dominance in South-South exports can be explained to a certain extent by its sheer economic size, as well as its greater participation in international trade than the other two regions. Asia is the largest of all developing regions in population and GDP, with its trade-per-GDP ratio being the highest (35.1 per cent), followed by Africa (21.1 per cent), and the Americas (15.8 per cent). However, as can be seen below, it is also due to a very high degree of regional integration, as well as the active participation of countries in the South in global/regional production-sharing schemes.

In 2005, East Asia, which includes export giants such as China, the Republic of Korea and Taiwan Province of China exported goods to the South worth \$768 billion, accounting for 45 per cent of total South-South exports of that year. South-East Asia, which includes ASEAN countries, claimed another 21 per cent of South-South exports. West Asia, South America 2 and South Asia also accounted for a relatively large share of South-South exports, claiming 16, 6 and 4 per cent, respectively.

East Asia and South-East Asia are also major destination for South-South exports, together absorbing 72 per cent of total exports from the South. Even when exports within and between these subregions are excluded, these subregions received 17 per cent of total South-South exports, which is almost twice as much as all the Americas imported from the South.

In terms of countries, China topped the ranking of the value of South-South exports in 2005. The top four Asian countries – China, Hong Kong China, the Republic of Korea and Singapore – together claimed almost half of total South-South exports. Fourteen of the top 20 countries in the ranking were from Asia. Asian tigers and dragons – China, Hong Kong China, Indonesia, Malaysia, the Philippines, Republic of Korea, Singapore, Taiwan Province of China and Thailand – claimed 65 per cent of total South-South exports in 2005.

C. Directions of trade flows and major sectors traded within Asia

1. Exports from Asian countries to the South

As noted above, Asian intraregional trade has become increasingly important in South-South trade over the past ten years. It has grown faster than interregional trade among countries in the South, as well as world trade. Intra-Asian exports rose on average by 17.9 per cent per year for the period between 1995 and 2005, against 15.6 per cent for the growth rate of Asian exports to the world (Annex table I.1). However, although intraregional trade has increased rapidly developed countries remained the main destination for Asian exports. Exports from Asia to the North accounted for 49.8 per cent of total Asian exports, while Africa and the Americas only accounted for 4.5 per cent of total Asian exports, and 9.3 per cent of exports to the South in 2005 (Annex table I.2).

Despite this dependency on developed markets, for countries such as Lebanon, Singapore, Taiwan Province of China and Hong Kong China, the South accounted for more than 60 per cent of their total exports' portfolio. Within South-South trade, high export concentration in Asian markets is a feature for most of the countries in the region; in 2005, 70 to 98 per cent of exports from these countries were to other developing countries in Asia.¹

Different factors can explain Asia's dynamism and trade performance. The rise of international demand and increasing international competition has pushed firms to re-organize their production chain and develop new production schemes. The trend toward vertical integration and specialization has created numerous opportunities for countries with low-labour costs. Asian developing countries have taken advantage of this trend and have now become part of global production chains.²

In addition to the change on global production' division, Asian dynamism has been accompanied by demand growth in developed markets and government export-promoting policies in specific industries, which have created a favourable and attractive investment environment in Asia. According to the World Bank's Ease of Doing Business (EDB) index, an indicator of a country's business regulatory environment and flexibility, Singapore took the leading position in the ranking out of 178 countries in 2007 and 2008.³ The EDB index accounts for a country's labour regulations, starting and closing business processes and

¹ Excluding the Islamic Republic of Iran, Mongolia, Nepal, Fiji and Cambodia.

² Strong supply-side capacities in many Asian countries should be noted in this context. Also, there is substantial degree of re-exports taking place in intra-Asian trade.

³ Available at: <http://www.doingbusiness.org/ExploreEconomies/?economyid=167>

trading across borders procedures. Other Asian countries that also performed well in 2006 were Hong Kong China in 4th place, Thailand in 15th place and Malaysia in 21st place.

China's spectacular growth has also contributed to the dynamism of intra-Asian trade, by increasing the demand for fuels, energy and agricultural commodities.

2. East Asia and South-East Asia: two major attraction poles

The most dynamic Asian regions in capturing the bulk of total Asian exports directed to the South were East Asia and South-East Asia, which accounted for 58.6 and 27 per cent, respectively (Annex table I.3). They were followed by West Asia (8.4 per cent) and South Asia (5.6 per cent), while the Pacific region only accounted for a marginal share in total Asian exports (with 0.4 per cent). Since 1995, South-East Asia as share in total exports to Asia decreased mainly in the benefit of East Asia, which went from 55.1 to 58.6 per cent.

The countries that attracted most Asian exports were China, Hong Kong China, and Taiwan Province of China. Other major destinations were Singapore, the Republic of Korea and Malaysia (Annex table I.4). India also captured the largest share of Asian exports from Nepal, Bangladesh, Jordan, Sri Lanka, Indonesia, the Islamic Republic of Iran and Qatar.

3. Main products traded within Asia

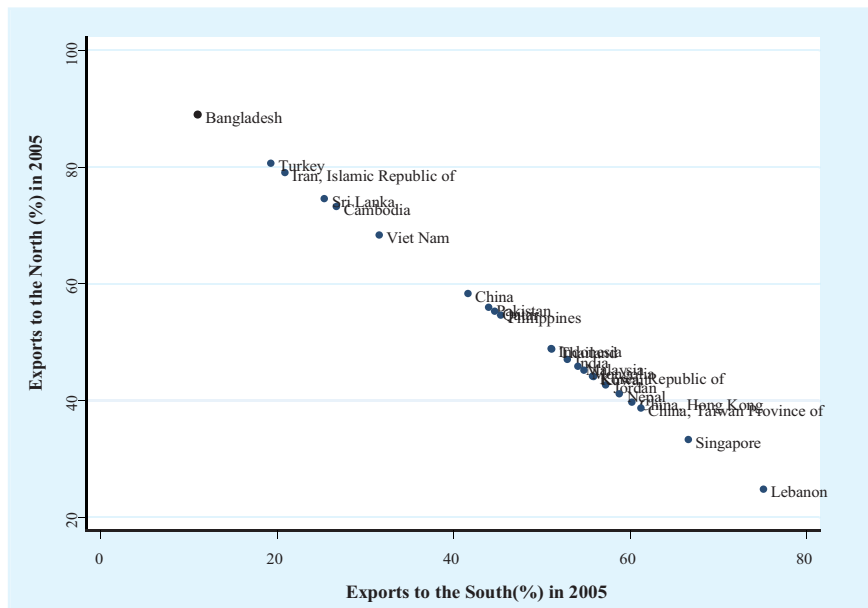
A production re-organization process has been underway in Asia since the 1990s, resulting in greater vertical integration and specialization among Asian economies. Delocalization has mainly affected the electronics industry, manufactures' components and precision goods; in this context intraregional trade in Asia is mainly an intra-industry phenomenon. This trend has particularly enhanced the trade linkages between East Asia and South-East Asia.

In 2005, exports from and to East Asia were particularly important. This accounted for 71 per cent of total exports from East Asia to Asia – 42 per cent of these products were electronics, machinery parts and components and precision goods. South-East Asia also captured 9 per cent of East Asia exports of electronics and precision goods. China, Hong Kong China, the Republic of Korea and to a lesser extent Taiwan Province of China, were the driving forces behind the rise of electronics and components intra-industry trade (Annex tables I.5, I.6 and I.7).

The main products exported by South-East Asian countries were also electronics, machinery parts and components; together, these products accounted for 46 per cent of the region's total exports to Asia. Singapore exported about 50 per cent of the total electronics exported from the region to the rest of Asia. Malaysia was the second major exporter in the region, followed by the Philippines and Thailand. These flows showed the magnitude that intra-industry trade has acquired in the region. Also important in South-East Asia's export basket were fuels and energy (16.6 per cent) and plastic, organic chemicals and vehicles (9 per cent). Singapore (37.3 per cent), Indonesia (20.5 per cent) and Malaysia (20.7 per cent) were the largest suppliers of energy and fuel to the subregion. Other goods ranked among the top 15 products were animal and vegetables products, precision goods and rubber.

Jewelry, mineral fuels, energy and ores were the main products exported from South Asia in 2005. India was by far the largest exporter in these product categories, the end destination for many of these products was East Asia. Cotton, chemicals, iron and steel were also main components in South Asia's export basket, with Pakistan accounting for around 50 per cent of the cotton exports. West Asia was the most important export market for South Asian exports, accounting for 33.6 per cent of exports, followed by East Asia (29 per cent), South-East Asia (20.7 per cent), and South Asia (16.5 per cent). Moreover, the export basket composition in 2005 showed that South Asia had diversified and moved from agricultural products and commodities to manufactures since 1995.

Figure I.2. Total exports to the world in 2005

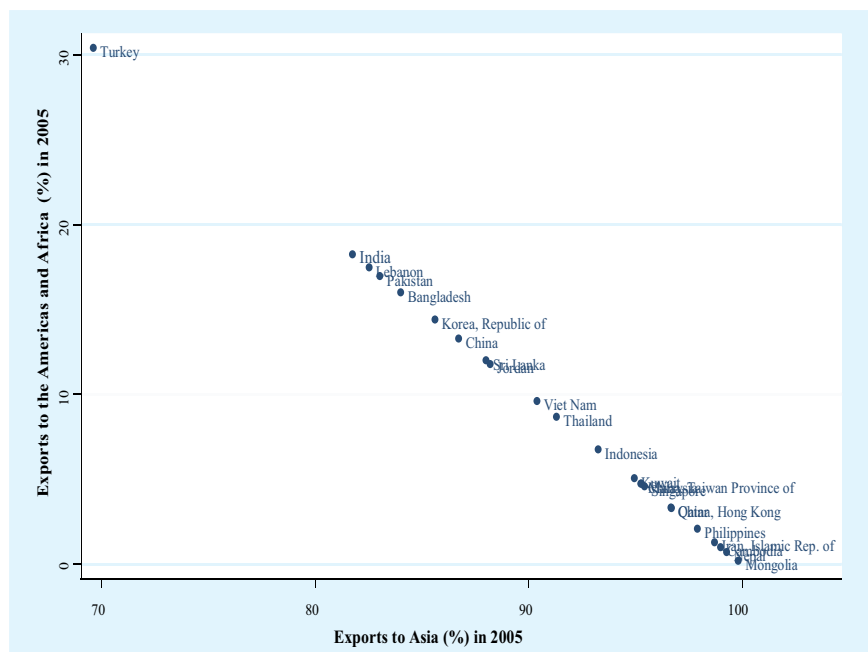


Source: South-South Trade Information System.

West Asia is by far the most important fuels and energy supplier for the Asian region. Minerals, fuels and energy products accounted for 73.5 per cent of its total exports to Asia in 2005, with 66 per cent being directed to East Asia. East Asia's demand for energy and fuels has risen sharply from 22 per cent in 1995 to 66 per cent to 2005, with Saudi Arabia, Qatar and the Islamic Republic of Iran ensuring most of Asia's energy supplies.

The main product exported from the Pacific region in 2005 was iron and steel and accounted for 27 per cent of its total exports to the region, followed by minerals and ores with 23.6 per cent of the exports. Fish and molluscs accounted for 11 per cent. Its main trade partners were located in East Asia, followed by South-East Asia.

Figure I.3. Total exports to the South in 2005



Source: South-South Trade Information System.

D. Increasing trade complementarity among countries in the South

Trade complementarity among countries in the South is increasing.⁴ Annex figure I.1 presents the trade complementarity between an Asian subregion and other subregions in the South. The value on the vertical axis gives the Trade Complementarity Index (TCI) in 2005, and that on the horizontal axis is the TCI in 1995. Partner subregions on the left-hand-side of the 45° degree line (i.e. the diagonal line from the bottom-left to the top-right) are the ones with which trade complementarity in 2005 was higher than in 1995.

We see that South Asia (largely represented by India) and South-East Asia have improved their trade complementarity with almost all developing subregions.

In most cases, partner subregions are spread along the 45° line, from the bottom-left corner to the top-right corner, indicating different degrees of trade complementarity with different partners. One exception is South Asia, whose graph reveals that its trading partners are largely concentrated at the TCI of 40.

In order to examine whether trade complementarity between two subregions are reflected on the actual trade flows between two subregions, we compare the TCI values between two trading partners to the intensity of trade between them, measured by the Export Intensity Index (EII) between two subregions.⁵

Annex figure I.2 maps the trade partners for each Asian subregion according to the TCI and the EII in 2005. The rest of the world (RoW) as a trading partner was included as a reference. The graph is divided into four quadrants:

- The bottom-left quadrant includes partners whose trade complementarity and export intensity are both low. For them, if the export portfolio of Country A does not match the demand portfolio of Country B, the trade potential between these two countries is expected to be low.
- The bottom-right quadrant includes partners with low trade complementarity but high export intensity. This can be the reflection of factors other than trade complementarity that are important to trade, including geographical proximity, cultural similarities, historical trading relationships, preferential trade agreements.
- The top-right quadrant includes partners with which both trade complementarity and export intensity is high. In this case, the existing trade complementarity has already been fully exploited.
- The top-left quadrant includes partners with high trade complementarity but low export intensity, i.e. trade complementarity has not yet been exploited.

⁴ The Trade Complementarity Index (TCI) measures potential trade between two trade partners, *i* and *j*, by comparing the export portfolio of country *i* to the import portfolio of country *j*. Using the TCI, we mapped the degree of bilateral trade complementarity among developing subregions in 1995 and 2005 (Annex figure I.1). A positive TCI value indicates a complementarity between two trading partners.

⁵ The Export Intensity Index (EII) measures whether exports from country *i* to country *j* is greater than the level expected from country *j*'s relative size in world imports. The index values ranges from zero to infinity. When the index value is greater than one, exports from *i* to *j* are considered to be more intense than otherwise expected.

Looking across the quadrant of all subregions, there seems to be further scope for exploiting interregional trade. For Asian subregions, partners in the top-left quadrant are all subregions of the Americas (Central America, South America 1 and 2).

1. Geographical and cultural proximity in South-South trade

The bottom-right quadrant shows partner subregions to which high intensity of exports is made despite relatively low trade complementarity. In most cases, partners in this quadrant are those with geographical proximity to the exporting subregion, representing intraregional trade. It also includes subregions with close cultural proximity, such as trade between North Africa and West Asia, or a traditional trading network, such as trade between South Asia and East Africa. This suggests the importance of logistics and cultural factors that ultimately contribute to reducing trading costs.

2. Dynamic and new sectors of exports from Asia to the South⁶

An UNCTAD study (UNCTAD 2002) developed a composite measure of export dynamism and found three product groups (electrical and electronic goods, goods that require high-R&D and high technological complexity, and labour intensive goods in particular clothing) are those which grew most dynamically, with least volatility, in terms of export values and market share. The dynamic growth of certain sectors, particularly those with high technological contents, is very much linked to the growth of international production sharing.

We have identified dynamic and new exports from the South with the following methodology. First, from the pool of data on exports from the South, we select products that pass through a growth filter, i.e. at least 500 per cent growth in export values between the period 1995 and 2005. We then eliminate those products whose dynamic increases in export values were due to a price surge.⁷

Second, we distinguish dynamic products and new products within the selected high-growth products, by looking into the market share, i.e. the share of a product's export value in total exports from the South in respective years. Dynamic products are those which already claimed a certain share (greater than 0.001 per cent) in the South's total export in 1995. New products are those which had insignificant share (equal or less than 0.001 per cent) in 1995, but claimed a significant share (reached at least 0.001 per cent) in 2005.⁸

⁶ This section is drawn from the UNCTAD Secretariat background note for the Intergovernmental Expert Meeting on New and Dynamic Sectors of Trade: the South-South Dimension (TD/B/COM.1/EM.34/2), held on 16-17 October 2007.

⁷ Products whose rate of unit price increase was greater than the rate of increase in export values were excluded.

⁸ Although products with a minute market share in 2005 were excluded, these product lines may contain valuable information when country groups are disaggregated.

How dynamic and new products are identified:

Dynamic products are those which grew by at least 500 per cent from their 1995 value, and whose market share in 1995 was more than 0.001 per cent.

New products are those which also grew by at least 500 per cent in the same period, and whose market share in 1995 was equal or less than 0.001 per cent, and its market share in 2005 was at least 0.001 per cent.

In the process of selecting new and dynamic products, products with volatile growth were eliminated.

Data on the value of exports from the South in 1995 and 2005 were drawn from the SSTIS (UNCTAD).

3. Dynamic export products in South-South trade

The top 50 dynamic export products from Asia between 1995 and 2005 are listed in Annex table I.8. Products are ranked according to the rate of increase in the percentage share in the South-South exports (i.e. increase in the share in the South's total exports to the South).⁹ The top 25 dynamic products account for 5.7 per cent of the total South-South exports in 2005, and the top 50 account for 23.7 per cent, indicating that dynamic export products constitute an important part of a rapid expansion of the South-South trade in the past decade. The share of top 25 (50) dynamic products from the South to the North account for 3.9 per cent (5.5 per cent) of the total South-North exports in 2005.

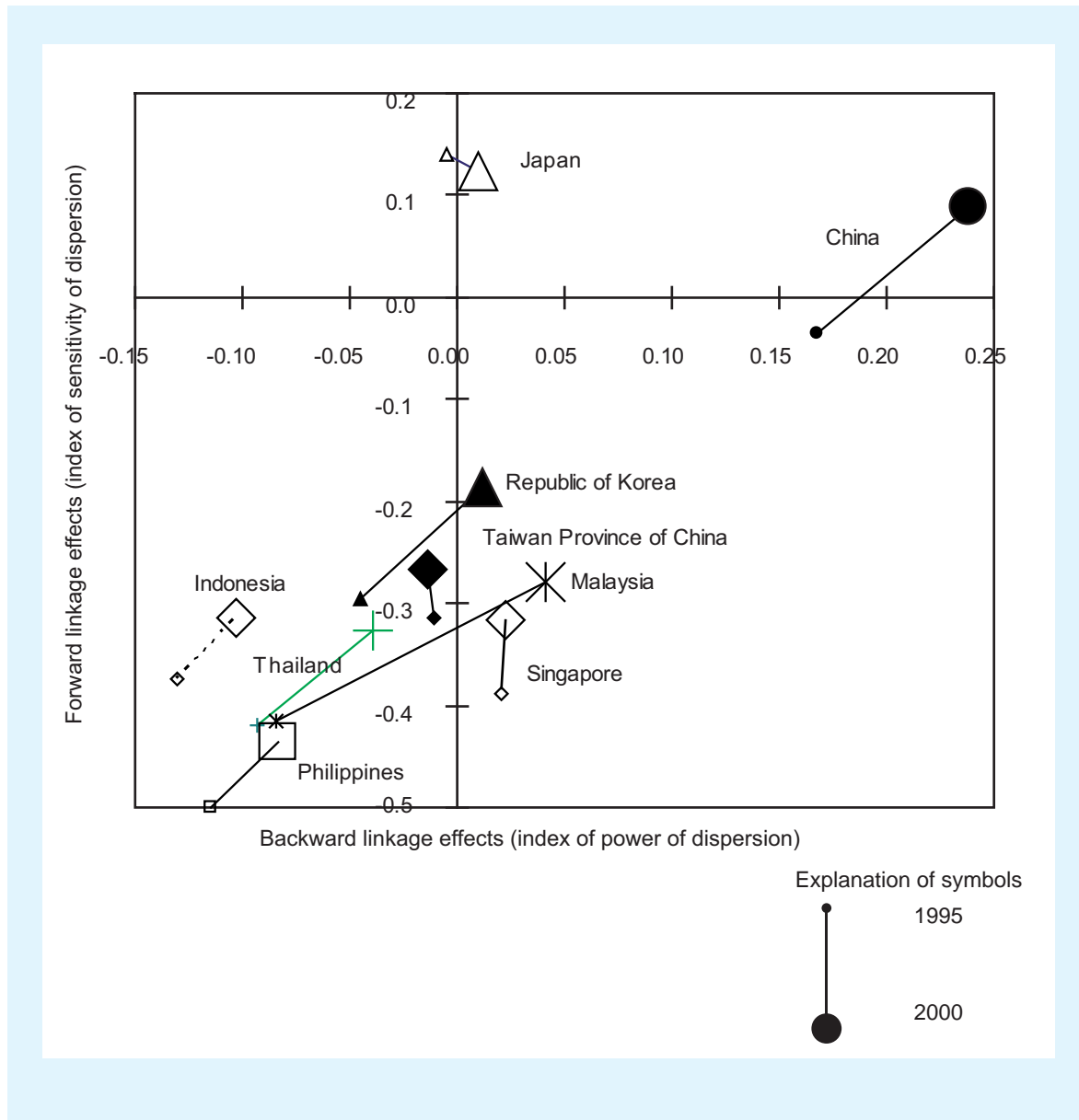
⁹ Note that the ranking based on the dynamic products given by the growth in the export values is almost identical to the ranking based on changes in the market share.

Increasing mutual dependency

The advancing regional specialization in production taking place in Asia has given rise not only to the growing vigour of intra-area trade, but also to an increasing mutual dependency among industries. The production incentives are examined by country and region on the basis of forward and backward international linkage effects, as calculated from Asian international input-output tables (1995 and 2000). Forward linkage effects (index of sensitivity of dispersion) measure the magnitude of production incentives resulting from the creation of demand in the industry of another country or region. Conversely, backward linkage effects (index of power of dispersion) measure the magnitude of the production inducement effect exerted on another country (region) or industry through the generation of additional demand in a specific country (region) or industry. Forward and backward linkage effects both form an index for the combined average sensitivity or power of dispersion for an entire region, or for all industries covered by an international input-output table. An increase in both the forward and backward linkage effects indicates a strengthening of mutual dependency among industries in a region.

Figure I.4 shows these factors as calculated for Asian countries and regions and plotted in contrast with the figures for the United States. Most of the major Asian countries and regions, led by China, show increased forward and backward linkage effects, in comparison with the United States. Whereas forward linkage effects (the magnitude of influence exerted in production inducements) in Japan are declining somewhat, the backward linkage effects (the magnitude of influence exerted by production inducements) are on the rise. In Taiwan Province of China, on the other hand, the backward linkage effects are declining as forward linkage effects rise, indicating that there is a certain amount of variation. Overall, however, it is apparent that mutual dependency among industries in the East Asia region is growing stronger. Between 1995 and 2000, the United States increased its influence on the world economy as a whole by leveraging the IT boom. In Asia, on the other hand, this period included a currency crisis, as well as a period of stagnant production. Even under these circumstances, however, links among industries in the Asian region grew stronger, in a movement that crossed national boundaries. When this trend is combined with recent conditions, including advances in the regional specialization (division of labour) systems and a rise in intra-area trade as a percentage of total trade, it can be assumed that the development of tighter economic ties through the deepening of mutual dependency is progressing further, even today.

Figure I.4. Forward and backward international linkage effects in major Asian countries and regions



Source: Institute of Developing Economies, JETRO, Asian International Input-Output Table.

Note: More information on the methods of computing forward and backward international linkage effects can be found in the *Handbook of Input-Output Analysis of International Industry in Asia: Methods of Compilation and Analysis*. JETRO, Institute of Developing Economies.

Major findings

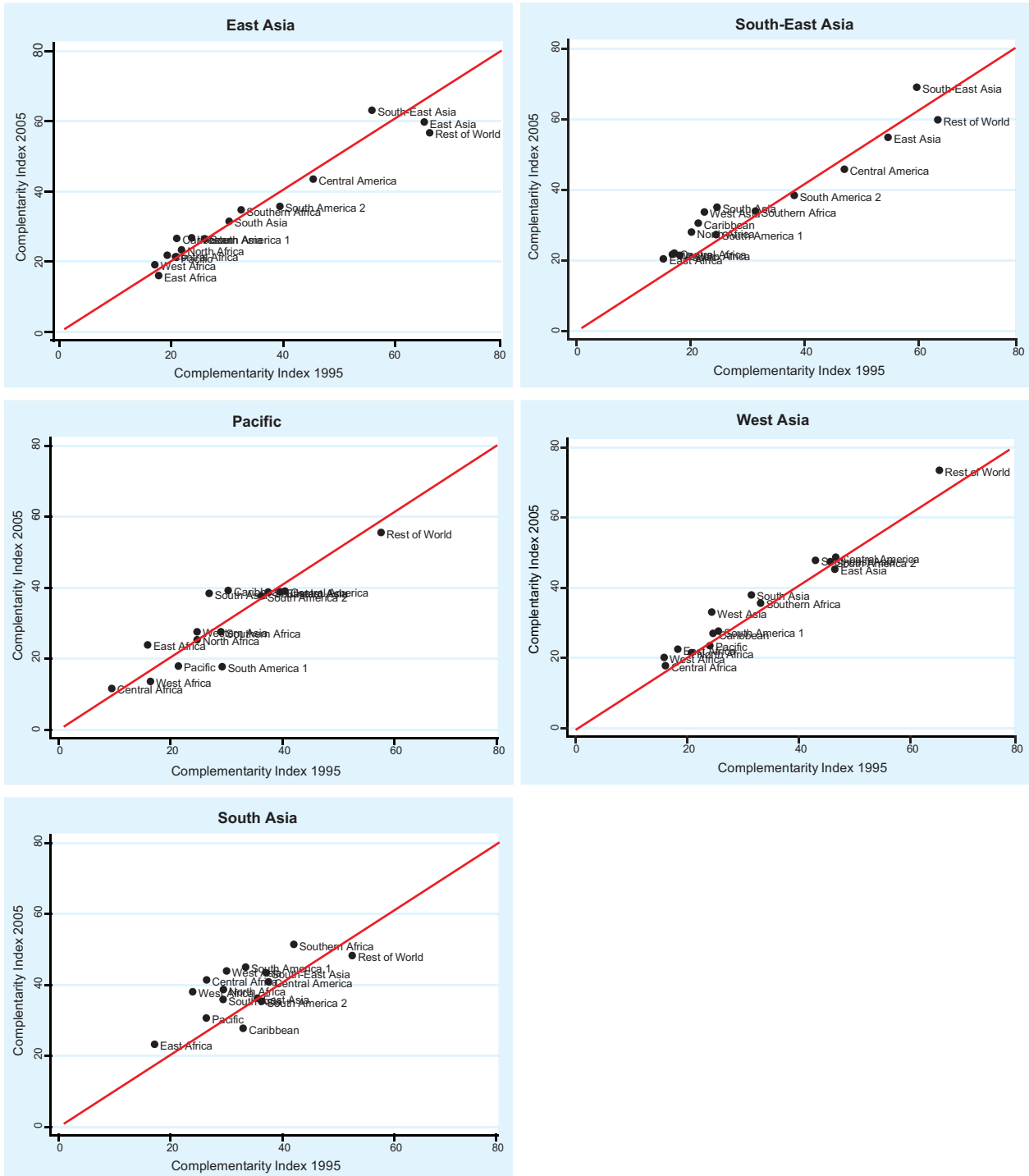
- UNCTAD's Trade and Development Report 2005 (UNCTAD 2005) argued that the most important reasons underpinning the rapid growth of South-South trade were explained by: (i) increased intraregional specialization and production sharing among emerging economies in East and South-East Asia, often as a part of triangular (South-South-North) trading pattern; and (ii) buoyant growth of these emerging Asian economies which increased demand for natural resource and resource-based commodities. In a number of Asian developing countries, a virtuous circle of development appears to be taking place, where the high velocity of their economic growth is leading to significant improvement of socio-economic infrastructure and institutional quality, which in turn enable them to further expand their production and export frontiers¹ (UNCTAD 2007a).
- Indeed, analysis of statistical data on South-South trade growth suggests that: (i) intra-Asia trade accounted for about 85 per cent of total South-South trade since 1995; and (ii) manufacturing parts and components traded among East Asia and South-East Asia were the most actively traded products in total South-South trade and still increasing. Natural resource-based products figured among the top South-South exports from Africa and to a lesser extent from the Americas as well.
- East Asia and South-East Asia have established themselves as prominent exporters of higher value-added manufacturing goods in world trade. It appears that a substantial proportion of market shares in manufacturing sectors in the South has shifted to East Asian suppliers from producers of the North. Trade among East Asia and South-East Asia captures a lion's share (54 per cent in 2005) in South-South trade. Their trade largely consists of manufacturing parts and accessories as well as final goods, reflecting an increase in production networking among producers in these regions over the course of the last decade.

Dynamic expansion in South-South trade over recent years reflects not only an increase in trade values between traditional partner countries but also the new trading patterns taking place between countries that have never traded before. The rise of new trade relationships is one of the drivers in the dynamics of South-South trade. Comparing trade between 1995 and 2005, over 20 per cent of increase in trade was due to new trade relationships. The countries which sought out new trading opportunities the most were Asian countries. But some countries, e.g. Mexico and South Africa, have begun to widen their trading networks and enter new markets in the South.

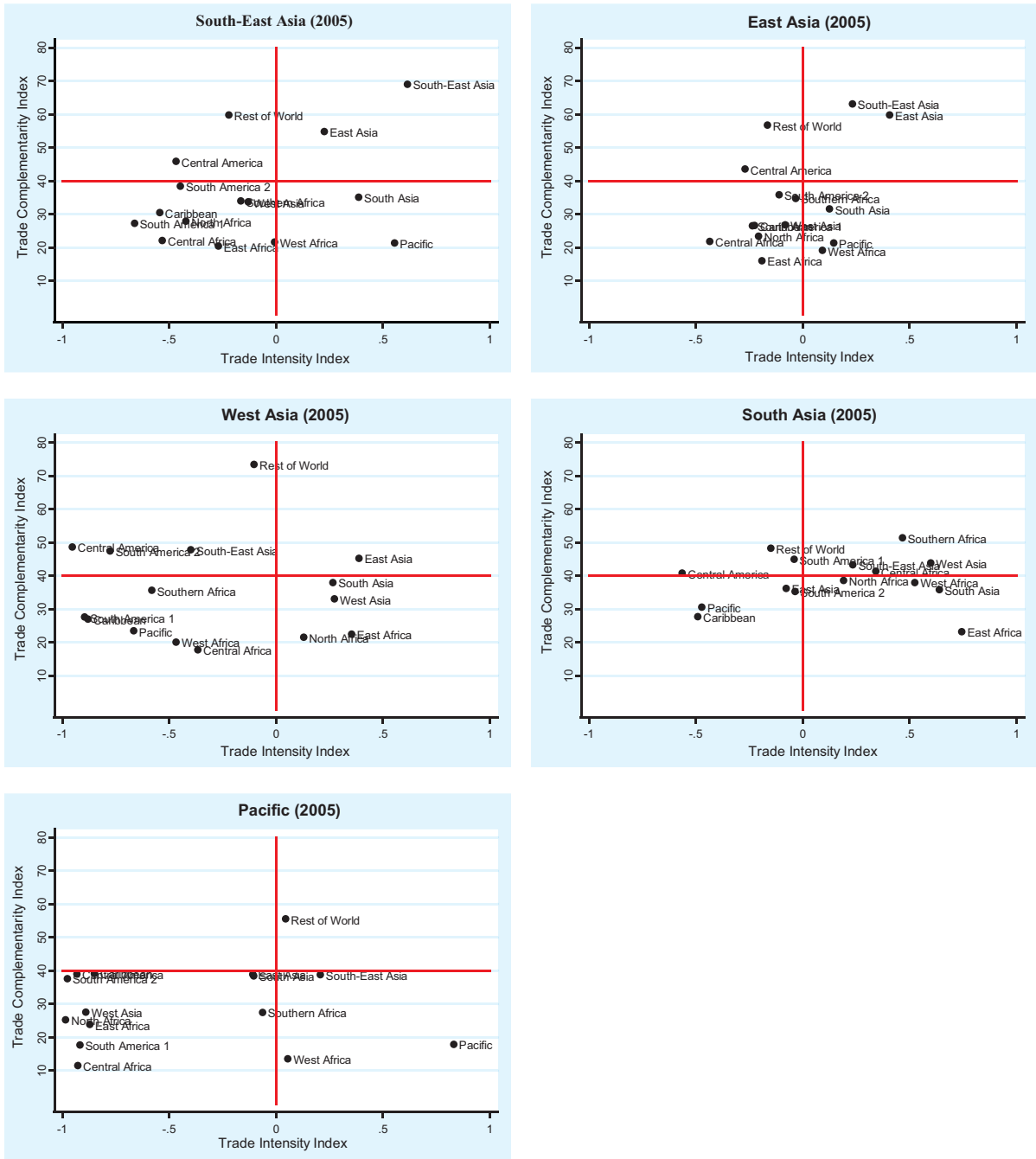
¹ UNCTAD's *Developing Countries in International Trade 2007: The Trade and Development Index* provides both a quantitative indicator and an analytical framework to measure how well trade is integrated into a country's development path by taking into account the interaction among structural, institutional, financial, trade and other development policies.

ANNEX

Annex figure I.1. Trade Complementarity Index in 1995 and 2005



Annex figure I.2. Trade Complementarity Index vs. Export Intensity Index, 2005



Annex table I.1. Average growth rate from selected countries in Asia, 1995-2005
(in per cent)

Export from	to Asia	to the South	to the rest of world
Bangladesh	2.04	1.70	9.40
Cambodia	23.19	22.10	82.93
China	33.54	36.12	41.27
Fiji	20.74	20.55	1.37
Hong Kong, China	10.39	9.38	6.80
India	34.20	35.08	22.62
Indonesia	14.32	14.21	8.86
Iran, Islamic Republic of	18.13	9.37	22.69
Jordan	10.90	11.60	14.19
Korea, Republic of	18.02	17.04	12.74
Kuwait	41.16	36.80	24.81
Lebanon	37.99	36.69	18.63
Malaysia	11.17	11.03	9.11
Mongolia	56.98	57.06	12.50
Nepal	75.23	75.41	14.68
Pakistan	15.74	16.96	9.67
Philippines	27.35	26.17	13.65
Qatar	100.81	102.62	62.42
Singapore	13.43	13.39	9.42
Sri Lanka	10.84	9.38	6.32
Taiwan Province of China	14.06	13.37	7.01
Thailand	12.93	13.30	9.51
Turkey	23.54	24.18	24.02
Viet Nam	70.25	69.94	52.19
Asia	17.89	17.82	15.59

Source: South-South Trade Information System.

Annex table I.2. Distribution of Asian exports to the world
(in per cent)

Export from	Exports share in South-South trade				Exports share in world trade			
	Asia		Africa+Americas		South		North	
	1995	2005	1995	2005	1995	2005	1995	2005
Bangladesh	81.67	84.02	18.33	15.98	18.31	11.04	81.69	88.96
Cambodia	95.72	98.99	4.28	1.01	77.43	26.74	22.57	73.26
China	91.88	86.74	8.12	13.26	46.32	41.67	53.68	58.33
Fiji	98.53	99.13	1.47	0.87	13.37	35.93	86.63	64.07
Hong Kong, China	91.86	96.67	8.14	3.33	52.25	60.25	47.75	39.75
India	83.39	81.77	16.61	18.23	38.33	52.96	61.67	47.04
Indonesia	92.83	93.26	7.17	6.74	39.79	51.08	60.21	48.92
Iran, Islamic Republic of	67.98	98.71	32.02	1.29	35.28	20.91	64.72	79.09
Jordan	91.14	88.22	8.86	11.78	64.16	57.29	35.84	42.71
Korea, Republic of	82.63	85.62	17.37	14.38	46.91	55.78	53.09	44.22
Kuwait	86.86	94.95	13.14	5.05	41.56	55.88	58.44	44.12
Lebanon	80.31	82.54	19.69	17.46	46.08	75.16	53.92	24.84
Malaysia	94.65	95.27	5.35	4.73	49.21	54.15	50.79	45.85
Mongolia	99.93	99.81	0.07	0.19	18.40	54.83	81.60	45.17
Nepal	99.49	99.28	0.51	0.72	17.00	58.85	83.00	41.15
Pakistan	87.01	83.05	12.99	16.95	32.13	44.03	67.87	55.97
Philippines	94.82	97.91	5.18	2.09	29.66	45.36	70.34	54.64
Qatar	98.26	96.68	1.74	3.32	28.76	44.73	71.24	55.27
Singapore	95.27	95.42	4.73	4.58	55.33	66.64	44.67	33.36
Sri Lanka	81.85	88.01	18.15	11.99	21.40	25.41	78.60	74.59
Taiwan Province of China	92.53	95.26	7.47	4.74	44.59	61.26	55.41	38.74
Thailand	92.77	91.32	7.23	8.68	42.86	51.19	57.14	48.81
Turkey	70.97	69.64	29.03	30.36	19.25	19.34	80.75	80.66
Viet Nam	90.05	90.40	9.95	9.60	30.81	39.60	69.19	60.40
Asia	90.71	90.93	9.29	9.07	46.17	50.19	53.83	49.81

Source: South-South Trade Information System.

Annex table I.3. Intraregional trade, 1995 and 2005
(in per cent)

Export from	East Asia		South-East Asia		South Asia		West Asia		Pacific	
	1995	2005	1995	2005	1995	2005	1995	2005	1995	2005
Bangladesh	39.91	32.10	24.29	18.93	16.00	25.14	19.49	23.61	0.31	0.22
Cambodia	7.54	87.68	92.23	11.52	0.14	0.23	0.09	0.53	0.00	0.03
China	74.39	65.05	16.52	20.11	3.97	5.80	5.06	8.88	0.07	0.17
Fiji	48.11	5.45	43.13	59.62	0.00	0.28	0.30	0.05	8.46	34.60
Hong Kong, China	80.39	85.43	14.36	10.14	2.20	2.36	2.95	1.99	0.10	0.09
India	28.46	30.81	26.95	23.34	17.12	12.44	27.43	33.31	0.03	0.10
Indonesia	48.20	43.44	38.62	38.78	4.16	10.40	8.88	7.03	0.14	0.35
Iran, Islamic Republic of	38.65	56.09	25.87	1.93	15.15	11.46	20.33	30.52	0.00	0.00
Jordan	5.63	3.06	8.85	2.74	18.31	17.22	67.21	76.98	0.00	0.00
Korea, Republic of	49.11	65.09	37.09	20.19	4.99	4.53	8.68	9.05	0.13	1.13
Kuwait	33.30	58.56	39.79	28.29	22.12	8.84	4.79	4.31	0.00	0.00
Lebanon	6.18	3.16	13.25	0.52	0.10	3.32	80.46	93.00	0.00	0.00
Malaysia	29.94	36.06	59.38	50.55	5.28	7.71	5.24	5.51	0.16	0.16
Mongolia	99.76	99.48	0.24	0.12	0.00	0.05	0.00	0.34	0.00	0.00
Nepal	17.23	6.40	8.59	0.78	72.28	92.17	1.90	0.65	0.00	0.00
Pakistan	55.52	21.99	14.70	5.93	12.79	30.61	16.99	41.40	0.00	0.07
Philippines	37.37	58.41	55.24	39.02	1.69	0.82	5.23	1.51	0.46	0.24
Qatar	34.29	47.68	45.26	26.89	11.13	10.20	9.32	15.23	0.00	0.00
Singapore	33.74	40.00	57.54	49.25	5.38	5.58	2.74	3.76	0.60	1.41
Sri Lanka	16.95	9.03	25.76	10.58	16.49	46.77	40.44	33.41	0.36	0.20
Taiwan Province of China	68.43	70.12	28.71	24.04	1.26	2.38	1.61	3.32	0.00	0.14
Thailand	30.12	39.67	54.66	46.58	4.72	5.48	10.26	7.90	0.24	0.37
Turkey	16.90	8.57	14.13	3.52	5.25	6.78	63.72	79.90	0.00	1.23
Viet Nam	46.43	44.80	51.45	49.55	1.03	1.60	1.09	3.89	0.00	0.17
Asia	55.09	58.61	33.93	26.97	4.56	5.60	6.24	8.37	0.18	0.45

Source: South-South Trade Information System.

Annex table I.4. Main export destinations, by country, 1995 and 2005 (in per cent)

2005 Exports from	China	Hong Kong, China	Taiwan Province of China	Singapore	Korea, Rep. of	Malaysia	Indonesia	Thailand	United Arab Emirates	India	Iraq	Turkey	Iran, Islamic Rep. of	Subtotal	Other destinations	Asia
Bangladesh	8.64	13.79	0.00	7.09	0.00	0.00	0.00	0.00	0.00	15.89	0.00	9.05	0.00	54.45	45.55	100
Cambodia	2.05	80.74	0.00	0.00	4.27	0.00	0.00	2.71	0.00	0.00	0.00	0.00	0.00	89.77	10.23	100
China	0.00	45.20	6.01	6.04	12.75	3.85	0.00	0.00	0.00	0.00	0.00	0.00	0.00	73.85	26.15	100
Fiji	0.00	0.00	0.00	57.16	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	57.16	42.84	100
Hong Kong, China	76.65	0.00	3.98	3.55	3.84	0.00	0.00	1.76	0.00	0.00	0.00	0.00	0.00	89.79	10.21	100
India	15.15	10.02	0.00	12.16	0.00	0.00	0.00	0.00	19.08	0.00	0.00	0.00	0.00	56.41	43.59	100
Indonesia	16.33	0.00	0.00	19.20	17.36	8.41	0.00	0.00	0.00	7.05	0.00	0.00	0.00	68.36	31.64	100
Iran, Islamic Republic of	3.99	0.00	49.50	0.00	0.00	0.00	0.00	0.00	11.73	5.17	7.41	0.00	0.00	77.81	22.19	100
Jordan	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7.91	16.02	33.90	0.00	0.00	57.83	42.17	100
Korea, Republic of	45.58	11.43	8.00	5.45	0.00	0.00	3.71	0.00	0.00	0.00	0.00	0.00	0.00	74.18	25.82	100
Kuwait	0.00	0.00	21.85	18.74	30.40	0.00	6.49	0.00	0.00	0.00	0.00	0.00	0.00	77.48	22.52	100
Lebanon	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	11.76	0.00	25.84	12.65	0.00	50.26	49.74	100
Malaysia	12.79	11.33	0.00	30.26	6.52	0.00	0.00	10.43	0.00	0.00	0.00	0.00	0.00	71.33	28.67	100
Mongolia	87.96	0.31	0.00	0.10	11.17	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	99.55	0.45	100
Nepal	5.88	0.00	0.00	0.36	0.00	0.00	0.00	0.00	0.00	89.63	0.00	0.00	0.00	95.88	4.12	100
Pakistan	7.42	10.20	0.00	0.00	0.00	0.00	0.00	0.00	21.41	0.00	0.00	0.00	0.00	39.04	60.96	100
Philippines	22.25	18.23	10.30	14.77	0.00	13.42	0.00	0.00	0.00	0.00	0.00	0.00	0.00	78.98	21.02	100
Qatar	0.00	0.00	6.16	18.95	36.43	0.00	0.00	0.00	10.55	8.04	0.00	0.00	0.00	80.14	19.86	100
Singapore	13.53	14.74	0.00	0.00	0.00	20.81	15.13	6.44	0.00	0.00	0.00	0.00	0.00	70.64	29.36	100
Sri Lanka	0.00	0.00	0.00	5.18	0.00	0.00	0.00	0.00	10.51	40.56	0.00	0.00	5.38	61.63	38.37	100
Taiwan Province of China	36.99	27.80	0.00	6.93	5.04	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	76.75	23.25	100
Thailand	17.75	11.91	0.00	14.49	0.00	11.05	7.69	0.00	0.00	0.00	0.00	0.00	0.00	62.89	37.11	100
Turkey	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	16.93	0.00	27.79	0.00	9.22	53.94	46.06	100
Viet Nam	27.95	0.00	8.05	16.50	0.00	8.85	0.00	7.43	0.00	0.00	0.00	0.00	0.00	68.78	31.22	100
Asia	25.58	18.79	14.47	8.01	6.14	4.67	2.84	1.82	1.27	0.51	0.41	0.02	0.09	84.60	15.40	100

Annex table I.4. Main export destinations, by country, 1995 and 2005 (in per cent) (continued)

1995 Exports from	China	Hong Kong, China	Taiwan Province of China	Singapore	Korea, Rep. of	Malaysia	Indonesia	Thailand	United Arab Emirates	India	Iraq	Turkey	Iran, Islamic Rep. of	Subtotal	Other destinations	Asia
Bangladesh	9.34	23.05	0.00	11.85	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	5.84	50.09	49.91	100
Cambodia	2.39	5.15	0.00	17.62	0.00	6.00	0.00	66.77	0.00	0.00	0.00	0.00	0.00	97.93	2.07	100
China	0.00	56.83	4.89	5.53	10.55	0.00	0.00	2.75	0.00	0.00	0.00	0.00	0.00	80.55	19.45	100
Fiji	15.43	7.72	0.00	0.00	24.96	38.92	0.00	0.00	0.00	0.00	0.00	0.00	0.00	87.03	12.97	100
Hong Kong, China	69.35	0.00	5.56	5.93	3.38	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	84.21	15.79	100
India	0.00	17.92	0.00	8.87	0.00	0.00	6.52	0.00	14.06	0.00	0.00	0.00	0.00	47.37	52.63	100
Indonesia	10.38	9.88	10.53	22.45	17.39	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	70.62	29.38	100
Iran, Islamic Republic of	0.00	0.00	0.00	12.29	32.46	0.00	6.63	0.00	0.00	15.01	0.00	17.78	0.00	84.17	15.83	100
Jordan	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	6.49	15.75	29.16	0.00	0.00	51.41	48.59	100
Korea, Republic of	18.86	22.04	8.01	13.80	0.00	0.00	6.10	0.00	0.00	0.00	0.00	0.00	0.00	68.81	31.19	100
Kuwait	3.38	0.00	0.00	31.71	29.00	0.00	5.32	0.00	0.00	22.09	0.00	0.00	0.00	91.51	8.49	100
Lebanon	0.00	3.38	0.00	0.00	0.00	0.00	0.00	11.39	0.00	0.00	0.00	10.21	0.00	24.99	75.01	100
Malaysia	0.00	11.49	6.75	43.62	5.99	0.00	0.00	8.42	0.00	0.00	0.00	0.00	0.00	76.28	23.72	100
Mongolia	77.86	8.63	0.38	0.24	12.88	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	100.00	0.00	100
Nepal	5.48	9.29	0.00	6.42	0.00	0.00	0.00	0.00	0.00	67.86	0.00	0.00	0.00	89.04	10.96	100
Pakistan	10.93	30.70	0.00	0.00	13.67	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	55.30	44.70	100
Philippines	7.59	15.43	0.00	19.86	0.00	9.96	0.00	17.92	0.00	0.00	0.00	0.00	0.00	70.76	29.24	100
Qatar	9.33	0.00	0.00	30.36	23.94	0.00	0.00	9.29	0.00	11.13	0.00	0.00	0.00	84.05	15.95	100
Singapore	0.00	16.25	7.73	0.00	5.21	36.38	0.00	10.95	0.00	0.00	0.00	0.00	0.00	76.52	23.48	100
Sri Lanka	0.00	0.00	0.00	15.56	7.74	0.00	0.00	0.00	12.64	0.00	0.00	0.00	0.00	35.94	64.06	100
Taiwan Province of China	29.51	33.49	0.00	10.26	0.00	7.93	0.00	6.85	0.00	0.00	0.00	0.00	0.00	88.04	11.96	100
Thailand	7.31	13.01	6.03	35.29	0.00	6.93	0.00	0.00	0.00	0.00	0.00	0.00	0.00	68.57	31.43	100
Turkey	0.00	7.34	0.00	0.00	0.00	0.00	0.00	0.00	6.39	0.00	0.00	0.00	0.00	22.73	77.27	100
Viet Nam	22.04	11.53	0.00	29.82	12.85	0.00	10.41	0.00	0.00	0.00	0.00	0.00	0.00	86.65	13.35	100
Asia	20.71	20.59	5.39	12.47	5.18	6.90	1.05	3.83	0.59	0.57	0.07	0.20	0.07	77.63	22.37	100

Source: South-South Trade Information System.

Annex table I.5. Top 15 sectors, by subregion in 1995

Exports	HS2	HS Chapter description	East Asia	South-East Asia	South Asia	West Asia	Pacific	Grand total
East Asia	85	Electrical mchy equip parts thereof/ sound recorder etc	13.21	6.38	0.29	0.64	0.00	20.53
	84	Nuclear reactors, boilers, mchy & mech appliance/ parts	6.71	3.22	0.36	0.42	0.00	10.71
	39	Plastics and articles thereof	5.56	0.80	0.17	0.11	0.00	6.65
	54	Man-made filaments	3.50	0.45	0.14	0.47	0.00	4.55
	72	Iron and steel	2.48	1.06	0.08	0.09	0.00	3.70
	55	Man-made staple fibres	2.09	0.40	0.19	0.19	0.00	2.88
	52	Cotton	2.08	0.40	0.24	0.08	0.00	2.81
	62	Art of apparel & clothing access, not knitted/crocheted	2.22	0.15	0.01	0.21	0.00	2.59
	29	Organic chemicals	1.61	0.43	0.21	0.04	0.00	2.31
	27	Mineral fuels, oils & product of their distillation/etc	1.77	0.39	0.05	0.02	0.00	2.23
	87	Vehicles o/t railw/tramw roll-stock, pts & accessories	1.16	0.47	0.08	0.34	0.01	2.06
	60	Knitted or crocheted fabrics	1.57	0.35	0.08	0.03	0.01	2.04
	71	Natural/cultured pearls, prec stones & metals, coin etc	1.03	0.67	0.11	0.03	0.00	1.84
	41	Raw hides and skins (other than furskins) and leather	1.49	0.23	0.01	0.01	0.00	1.74
	48	Paper & paperboard/ art of paper pulp, paper/paperboard	1.37	0.22	0.05	0.04	0.00	1.69
		East Asia Sub-total	47.86	15.63	2.08	2.72	0.04	68.32
		East Asia Total	70.27	22.17	3.06	4.42	0.08	100.00
Pacific	44	Wood and articles of wood/ wood charcoal	31.64	1.81	1.01	0.01	0.20	34.68
	26	Ores, slag and ash	13.92	0.00	0.00	0.00	0.00	13.92
	27	Mineral fuels, oils & product of their distillation/etc	8.44	1.54	0.00	0.00	0.40	10.38
	17	Sugars and sugar confectionery	4.60	4.59	0.00	0.00	0.13	9.33
	03	Fish & crustacean, mollusc & other aquatic invertebrate	1.83	5.25	0.00	0.01	0.01	7.09
	72	Iron and steel	5.67	0.00	0.15	0.00	0.00	5.83
	71	Natural/cultured pearls, prec stones & metals, coin etc	2.41	1.75	0.00	0.00	0.07	4.22
	18	Cocoa and cocoa preparations	0.00	3.70	0.00	0.00	0.00	3.70
	12	Oil seed, oleagi fruits/ miscell grain, seed, fruit etc	0.01	1.56	1.30	0.00	0.05	2.92
	09	Coffee, tea, mati and spices	0.56	0.45	0.00	0.09	0.01	1.10
	89	Ships, boats and floating structures	0.00	0.98	0.00	0.00	0.08	1.05
	15	Animal/veg fats & oils & their cleavage products/ etc	0.00	0.89	0.00	0.00	0.01	0.90
	25	Salt/ sulphur/ earth & ston/ plastering mat/ lime & cem	0.72	0.01	0.00	0.00	0.00	0.73
	84	Nuclear reactors, boilers, mchy & mech appliance/ parts	0.05	0.38	0.00	0.00	0.05	0.48
	99	Reserved for special uses by Contracting Parties	0.01	0.08	0.00	0.00	0.29	0.38
		Pacific Sub-total	69.85	22.99	2.46	0.10	1.30	96.70
		Pacific Total	70.73	24.10	2.51	0.15	2.52	100.00

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Annex table I.5. Top 15 sectors, by subregion in 1995 (continued)

Exports	HS2	HS Chapter description	East Asia	South-East Asia	South Asia	West Asia	Pacific	Grand total
South Asia	52	Cotton	9.94	1.89	3.31	2.19	0.00	17.34
	71	Natural/cultured pearls, prec stones & metals, coin etc	9.29	2.82	0.03	0.89	0.00	13.03
	10	Cereals	0.17	2.33	2.84	2.83	0.00	8.16
	23	Residues & waste from the food indust/ prepr ani fodder	0.89	2.73	0.31	0.50	0.00	4.43
	84	Nuclear reactors, boilers, mchy & mech appliance/ parts	0.25	1.75	0.67	0.63	0.00	3.31
	72	Iron and steel	0.94	1.25	0.65	0.39	0.00	3.22
	09	Coffee, tea, mati and spices	0.10	0.19	0.62	2.31	0.01	3.22
	87	Vehicles o/t railw/tramw roll-stock, pts & accessories	0.46	0.37	1.34	0.40	0.00	2.58
	85	Electrical mchy equip parts thereof/ sound recorder etc	0.47	1.08	0.33	0.48	0.00	2.36
	29	Organic chemicals	1.18	0.66	0.15	0.36	0.00	2.35
	03	Fish & crustacean, mollusc & other aquatic invertebrate	0.68	0.63	0.12	0.83	0.00	2.26
	41	Raw hides and skins (other than furskins) and leather	1.75	0.31	0.06	0.07	0.00	2.19
	54	Man-made filaments	0.15	0.31	0.13	1.40	0.00	2.00
	26	Ores, slag and ash	1.29	0.11	0.05	0.37	0.00	1.82
	62	Art of apparel & clothing access, not knitted/crocheted	0.32	0.29	0.03	0.95	0.00	1.59
			South Asia Sub-total	27.88	16.72	10.64	14.60	0.02
		South Asia Total	32.65	24.41	17.28	25.61	0.05	100.00
South-East Asia	85	Electrical mchy equip parts thereof/ sound recorder etc	8.40	18.61	0.47	0.89	0.03	28.40
	84	Nuclear reactors, boilers, mchy & mech appliance/ parts	3.85	9.25	0.52	0.40	0.04	14.07
	27	Mineral fuels, oils & product of their distillation/etc	5.45	4.83	0.54	0.01	0.08	10.91
	44	Wood and articles of wood/ wood charcoal	2.37	0.98	0.07	0.27	0.00	3.70
	39	Plastics and articles thereof	0.88	1.96	0.30	0.07	0.01	3.22
	15	Animal/veg fats & oils & their cleavage products/ etc	1.03	0.77	0.90	0.50	0.01	3.20
	40	Rubber and articles thereof	0.90	0.85	0.12	0.19	0.01	2.07
	71	Natural/cultured pearls, prec stones & metals, coin etc	0.56	0.88	0.09	0.16	0.00	1.70
	29	Organic chemicals	0.61	0.81	0.16	0.02	0.00	1.61
	87	Vehicles o/t railw/tramw roll-stock, pts & accessories	0.21	1.00	0.04	0.03	0.02	1.30
	90	Optical, photo, cine, meas, checking, precision, etc	0.36	0.77	0.09	0.02	0.00	1.24
	48	Paper & paperboard/ art of paper pulp, paper/paperboard	0.36	0.62	0.07	0.18	0.01	1.24
	10	Cereals	0.44	0.52	0.03	0.20	0.00	1.20
	74	Copper and articles thereof	0.53	0.54	0.06	0.01	0.00	1.15
	55	Man-made staple fibres	0.32	0.48	0.16	0.17	0.01	1.13
			South-East Asia Sub-total	26.28	42.87	3.63	3.13	0.22
		South-East Asia Total	34.15	55.27	4.96	5.25	0.36	100.00

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Annex table I.5. Top 15 sectors, by subregion in 1995 (concluded)

Exports	HS2	HS Chapter description	East Asia	South-East Asia	South Asia	West Asia	Pacific	Grand total
West Asia	27	Mineral fuels, oils & product of their distillation/etc	22.19	19.51	6.80	5.66	0.00	54.16
	72	Iron and steel	1.16	1.12	0.34	1.82	0.00	4.45
	76	Aluminium and articles thereof	1.66	0.99	0.16	1.38	0.00	4.18
	39	Plastics and articles thereof	1.11	0.50	0.80	1.44	0.00	3.85
	29	Organic chemicals	1.34	1.27	0.76	0.25	0.00	3.63
	87	Vehicles o/t railw/tramw roll-stock, pts & accessories	1.58	0.07	0.06	1.00	0.00	2.71
	31	Fertilisers	0.98	0.40	1.10	0.17	0.00	2.64
	84	Nuclear reactors, boilers, mchy & mech appliance/ parts	0.09	0.16	0.08	1.11	0.00	1.43
	15	Animal/veg fats & oils & their cleavage products/ etc	0.00	0.00	0.01	1.36	0.00	1.37
	85	Electrical mchy equip parts thereof/ sound recorder etc	0.14	0.18	0.23	0.76	0.00	1.31
	25	Salt/ sulphur/ earth & ston/ plastering mat/ lime & cem	0.05	0.08	0.58	0.58	0.00	1.30
	71	Natural/cultured pearls, prec stones & metals, coin etc	0.03	0.14	0.34	0.60	0.00	1.11
	73	Articles of iron or steel	0.04	0.07	0.04	0.91	0.00	1.06
	24	Tobacco and manufactured tobacco substitutes	0.05	0.02	0.00	0.95	0.00	1.02
	08	Edible fruit and nuts/ peel of citrus fruit or melons	0.04	0.03	0.08	0.85	0.00	1.01
		West Asia Sub-total	30.46	24.52	11.40	18.85	0.00	85.23
	West Asia Total	31.82	25.64	12.83	29.70	0.00	100.00	

Source: South-South Trade Information System.

Annex table I.6. Top 15 products, by country in 2005

Exports	HS2	HS Chapter description	East Asia	South-East Asia	South Asia	West Asia	Pacific	Grand total
Bangladesh	41	Raw hides and skins (other than furskins) and leather	110 057.01	14 811.79	1 999.42	105.82	95.38	127 069.42
	53	Other vegetable textile fibres/ paper yarn & woven fab	18 066.38	6 107.20	41 077.09	56 672.29	57.16	121 980.12
	3	Fish & crustacean, mollusc & other aquatic invertebrate	11 341.76	6 373.30	9 642.23	7 782.88	0.00	35 140.17
	28	Inorgn chem/ compds of prec mtl, radioact elements etc	5 721.09	5 932.75	18 522.16	0.93	0.00	30 176.94
	27	Mineral fuels, oils & product of their distillation/etc	0.00	20 062.50	3 753.09	0.00	0.00	23 815.60
	84	Nuclear reactors, boilers, mchy & mech appliance/ parts	4 166.60	13 861.43	3 853.74	1 500.48	0.00	23 382.25
	56	Wadding, felt & nonwoven/ yarns/ twine, cordage, etc	173.75	74.74	2 345.58	19 349.11	32.37	21 975.55
	62	Art of apparel & clothing access, not knitted/crocheted	7 589.38	1 413.52	2 696.64	9 188.24	158.33	21 046.11
	31	Fertilisers	0.00	8 937.10	10 732.95	0.00	0.00	19 670.05
	7	Edible vegetables and certain roots and tubers	105.09	813.62	129.54	15 498.63	5.37	16 552.25
	72	Iron and steel	3 098.14	6 541.36	6 255.89	190.18	0.00	16 085.57
	63	Other made up textile articles/ sets/ worn clothing etc	277.48	6 197.19	3 784.15	4 824.37	695.13	15 778.33
	9	Coffee, tea, mati and spices	97.25	11.82	14 288.36	1 037.74	0.00	15 435.17
	61	Art of apparel & clothing access, knitted or crocheted	5 269.21	1 848.74	207.23	7 804.62	98.92	15 228.72
	39	Plastics and articles thereof	7 717.64	447.83	2 236.89	453.10	0.00	10 855.46
		Bangladesh Sub-total	173 680.77	93 434.90	121 524.98	124 408.39	1 142.66	514 191.70
		Bangladesh Total	196 817.64	116 086.12	154 135.66	144 757.47	1 325.05	613 121.94
Cambodia	49	Printed books, newspapers, pictures & other product etc	655 187.74	1 821.93	0.00	0.00	0.00	657 009.67
	40	Rubber and articles thereof	1 478.01	39 057.06	15.46	0.00	0.00	40 550.53
	97	Works of art, collectors' pieces and antiques	32 299.90	30.11	0.00	2.69	0.00	32 332.70
	55	Man-made staple fibres	12 234.91	2 513.15	43.51	0.00	0.00	14 791.56
	61	Art of apparel & clothing access, knitted or crocheted	4 568.45	1 635.76	96.55	3 623.97	152.26	10 076.98
	44	Wood and articles of wood/ wood charcoal	3 290.62	5 612.27	0.00	0.00	0.00	8 902.89
	84	Nuclear reactors, boilers, mchy & mech appliance/ parts	903.49	5 970.61	256.94	15.52	0.00	7 146.57
	12	Oil seed, oleagi fruits/ miscell grain, seed, fruit etc	1 286.70	4 897.91	0.00	0.00	0.00	6 184.61
	10	Cereals	747.61	5 380.80	0.00	0.00	0.00	6 128.41
	87	Vehicles o/t railw/tramw roll-stock, pts & accessories	0.00	3 760.29	993.03	0.00	0.00	4 753.33
	24	Tobacco and manufactured tobacco substitutes	189.37	4 400.45	0.00	0.00	68.46	4 658.29
	73	Articles of iron or steel	0.01	2 669.08	12.68	0.00	0.00	2 681.77
	11	Prod.mill.indust/ malt/ starches/ inulin/ wheat gluten	3.05	2 370.41	0.00	0.00	0.00	2 373.46
	63	Other made up textile articles/ sets/ worn clothing etc	323.34	1 941.15	27.93	42.66	0.00	2 335.07
	39	Plastics and articles thereof	55.62	2 224.82	47.32	0.00	0.00	2 327.76
		Cambodia Sub-total	712 568.82	84 285.82	1 493.41	3 684.84	220.72	802 253.60
		Cambodia Total	717 179.00	94 259.67	1 901.08	4 369.05	245.06	817 953.88

Annex table I.6. Top 15 products, by country in 2005 (continued)

Exports	HS2	HS Chapter description	East Asia	South-East Asia	South Asia	West Asia	Pacific	Grand total
China	85	Electrical mchy equip parts thereof/ sound recorder etc	56 516 472.09	14 205 993.62	2 803 096.90	3 800 780.79	16 050.01	77 342 393.40
	84	Nuclear reactors, boilers, mchy & mech appliance/ parts	32 758 490.18	10 238 393.73	2 466 148.88	3 702 460.92	19 995.47	49 185 489.18
	90	Optical, photo, cine, meas, checking, precision, etc	10 263 250.05	1 848 024.57	249 682.93	355 353.19	1 224.39	12 717 535.12
	27	Mineral fuels, oils & product of their distillation/etc	5 107 066.93	4 399 240.00	576 106.41	390 465.94	7 463.99	10 480 343.25
	72	Iron and steel	6 129 211.82	3 406 432.05	347 932.17	325 254.12	3 376.61	10 212 206.79
	61	Art of apparel & clothing access, knitted or crocheted	4 716 953.41	1 185 597.26	120 671.81	1 371 577.09	7 017.49	7 401 817.05
	62	Art of apparel & clothing access, not knitted/crocheted	4 943 563.46	721 175.20	80 007.12	858 571.62	3 776.86	6 607 094.27
	39	Plastics and articles thereof	3 482 749.17	907 655.53	337 585.32	661 771.62	9 383.89	5 399 145.52
	52	Cotton	3 246 315.20	984 091.62	792 249.75	198 446.76	1 007.50	5 222 110.83
	73	Articles of iron or steel	1 972 134.11	1 287 569.93	368 192.14	970 538.07	10 590.18	4 609 024.43
	29	Organic chemicals	1 685 753.09	927 632.32	1 352 344.43	336 213.38	1 408.20	4 303 351.43
	95	Toys, games & sports requisites/ parts & access thereof	3 634 929.48	211 600.47	62 424.50	229 739.52	1 855.54	4 140 549.51
	87	Vehicles o/t railw/tramw roll-stock, pts & accessories	938 387.15	1 222 082.73	358 862.73	1 202 596.02	11 941.43	3 733 870.07
	94	Furniture/ bedding, mattress, matt support, cushion etc	2 165 100.54	367 714.04	111 031.30	706 232.57	4 381.83	3 354 460.28
	71	Natural/cultured pearls, prec stones & metals, coin etc	2 948 519.43	244 732.00	93 119.57	29 109.63	71.81	3 315 552.44
		China Sub-total	140 508 896.10	42 157 935.06	10 119 455.96	15 139 111.24	99 545.19	208 024 943.55
	China Total	179 135 760.00	55 368 472.00	15 960 892.00	24 462 372.00	460 505.44	275 388 000.00	
Hong Kong, China	85	Electrical mchy equip parts thereof/ sound recorder etc	62 442 271.32	6 438 460.84	657 679.83	875 105.64	3 212.99	70 416 730.61
	84	Nuclear reactors, boilers, mchy & mech appliance/ parts	27 210 004.78	3 890 302.21	271 999.27	705 151.15	4 036.35	32 081 493.75
	39	Plastics and articles thereof	9 346 591.63	311 517.35	82 249.67	46 841.54	3 680.47	9 790 880.67
	90	Optical, photo, cine, meas, checking, precision, etc	6 509 761.04	508 955.65	56 638.49	57 852.89	490.02	7 133 698.09
	71	Natural/cultured pearls, prec stones & metals, coin etc	2 069 610.04	773 333.31	1 630 727.82	390 062.74	7 599.98	4 871 333.89
	52	Cotton	3 860 458.09	578 018.60	350 022.09	47 028.89	1 105.38	4 836 633.04
	41	Raw hides and skins (other than furskins) and leather	2 914 158.53	109 308.44	4 574.64	95.96	0.00	3 028 137.57
	72	Iron and steel	2 915 923.58	12 265.30	4 220.69	1 438.27	1 768.62	2 935 616.45
	60	Knitted or crocheted fabrics	1 407 019.41	667 980.38	239 051.53	145 036.72	56 103.40	2 515 191.43
	61	Art of apparel & clothing access, knitted or crocheted	1 789 520.61	364 783.99	22 998.72	123 108.66	16 761.97	2 317 173.95
	91	Clocks and watches and parts thereof	993 485.87	349 904.74	55 830.49	306 319.72	10 064.94	1 715 605.76
	74	Copper and articles thereof	1 635 079.00	35 633.40	2 000.13	1 006.23	93.44	1 673 812.20
	54	Man-made filaments	1 487 624.79	57 814.61	17 736.33	3 878.08	867.34	1 567 921.15
	62	Art of apparel & clothing access, not knitted/crocheted	1 128 215.91	245 914.40	32 650.58	139 345.65	5 293.50	1 551 420.05
	87	Vehicles o/t railw/tramw roll-stock, pts & accessories	1 303 987.13	148 394.76	1 671.97	4 970.93	129.91	1 459 154.69
		Hong Kong, China Sub-total	127 013 711.73	14 492 587.98	3 430 052.23	2 847 243.05	111 208.30	147 894 803.30
	Hong Kong, China Total	145 354 720.00	17 245 342.00	4 018 931.50	3 379 266.50	155 198.17	170 153 456.00	

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Annex table I.6. Top 15 products, by country in 2005 (continued)

Exports	HS2	HS Chapter description	East Asia	South-East Asia	South Asia	West Asia	Pacific	Grand total
India	71	Natural/cultured pearls, prec stones & metals, coin etc	3 378 196.97	1 595 034.78	5 314.21	2 667 354.83	6 891.05	7 652 791.84
	27	Mineral fuels, oils & product of their distillation/etc	646 085.04	2 472 398.81	1 181 037.34	2 126 694.37	20.55	6 426 236.10
	26	Ores, slag and ash	3 763 424.63	13 849.80	32 486.98	60 235.46	0.00	3 869 996.86
	29	Organic chemicals	767 349.56	837 590.64	277 590.09	388 547.54	696.08	2 271 773.91
	72	Iron and steel	677 630.73	539 347.70	293 423.82	496 182.97	494.02	2 007 079.24
	52	Cotton	917 966.97	165 656.18	469 954.45	238 521.88	839.98	1 792 939.45
	84	Nuclear reactors, boilers, mchy & mech appliance/ parts	211 023.04	349 890.61	176 562.69	685 156.12	1 641.89	1 424 274.35
	74	Copper and articles thereof	278 498.38	291 657.71	57 662.54	629 270.23	127.31	1 257 216.17
	85	Electrical mchy equip parts thereof/ sound recorder etc	272 159.83	280 979.85	123 668.66	436 663.83	975.44	1 114 447.61
	87	Vehicles o/t railw/tramw roll-stock, pts & accessories	69 571.64	240 857.61	446 268.39	333 466.15	854.84	1 091 018.63
	73	Articles of iron or steel	37 835.69	138 361.81	98 659.12	766 078.65	1 126.19	1 042 061.46
	10	Cereals	943.33	42 925.22	336 167.47	639 881.90	45.53	1 019 963.45
	39	Plastics and articles thereof	350 228.77	149 095.49	146 332.20	351 453.61	843.11	997 953.18
	23	Residues & waste from the food indust/ prepr ani fodder	306 217.84	529 080.91	113 539.87	28 112.52	12.33	976 963.45
	62	Art of apparel & clothing access, not knitted/crocheted	27 359.82	73 656.62	65 559.02	517 545.45	5 542.76	689 663.67
			India Sub-total	11 704 492.22	7 720 383.72	3 824 226.85	10 365 165.49	20 111.07
		India Total	13 797 615.00	10 450 086.00	5 568 918.00	14 917 794.00	45 604.69	44 780 016.00
Indonesia	27	Mineral fuels, oils & product of their distillation/etc	9 425 680.11	1 859 604.78	515 002.55	28 117.93	12 305.79	11 840 711.16
	85	Electrical mchy equip parts thereof/ sound recorder etc	688 163.88	2 969 639.18	45 476.66	305 098.03	11 061.95	4 019 439.69
	15	Animal/veg fats & oils & their cleavage products/ etc	782 954.96	640 374.31	1 628 176.34	359 648.25	4 845.46	3 415 999.32
	84	Nuclear reactors, boilers, mchy & mech appliance/ parts	343 755.41	2 213 485.12	80 245.05	79 364.41	6 806.83	2 723 656.82
	26	Ores, slag and ash	676 596.62	366 379.31	657 291.20	88.00	49.91	1 700 405.03
	48	Paper & paperboard/ art of paper pulp, paper/paperboard	419 857.29	509 885.97	109 680.08	299 566.31	5 492.63	1 344 482.28
	29	Organic chemicals	695 268.60	327 321.08	61 592.06	9 140.04	280.70	1 093 602.48
	74	Copper and articles thereof	415 448.71	650 190.99	2 772.60	227.09	29.61	1 068 669.01
	40	Rubber and articles thereof	502 331.79	294 063.27	55 958.81	157 573.35	6 607.04	1 016 534.25
	44	Wood and articles of wood/ wood charcoal	651 697.08	101 063.07	8 347.87	246 691.47	2 351.06	1 010 150.54
	80	Tin and articles thereof	50 475.30	829 291.11	1 562.97	421.88	0.00	881 751.27
	87	Vehicles o/t railw/tramw roll-stock, pts & accessories	79 907.26	662 951.81	23 162.79	57 622.69	5 065.39	828 709.93
	47	Pulp of wood/of other fibrous cellulosic mat/ waste etc	678 337.60	32 318.70	49 554.39	5 461.46	0.00	765 672.15
	39	Plastics and articles thereof	191 287.93	383 425.10	80 593.93	74 082.42	11 930.77	741 320.15
	54	Man-made filaments	65 808.38	200 420.42	132 826.97	269 417.67	1 686.30	670 159.73
			Indonesia Sub-total	15 667 570.91	12 040 414.21	3 452 244.25	1 892 520.99	68 513.43
		Indonesia Total	17 728 022.00	15 824 919.00	4 242 945.00	2 868 496.50	142 351.09	40 806 732.00

Annex table I.6. Top 15 products, by country in 2005 (continued)

Exports	HS2	HS Chapter description	East Asia	South-East Asia	South Asia	West Asia	Pacific	Grand total
Iran, Islamic Republic of	27	Mineral fuels, oils & product of their distillation/etc	6 156 448.08	91 579.56	206 903.57	571 406.60	0.00	7 026 337.81
	8	Edible fruit and nuts/ peel of citrus fruit or melons	235 783.25	10 830.40	56 470.34	537 635.94	41.70	840 761.64
	72	Iron and steel	80 236.37	26 627.57	170 359.64	429 037.19	0.00	706 260.77
	29	Organic chemicals	174 118.82	74 124.11	168 791.66	160 059.46	0.00	577 094.05
	39	Plastics and articles thereof	69 838.84	2 120.36	52 578.33	122 315.12	0.47	246 853.12
	76	Aluminium and articles thereof	37.56	0.20	68 646.53	173 644.32	0.00	242 328.61
	57	Carpets and other textile floor coverings	946.39	5 433.37	62 999.32	162 253.36	0.00	231 632.44
	25	Salt/ sulphur/ earth & ston/ plastering mat/ lime & cem	37 519.95	657.04	19 670.37	96 904.37	0.00	154 751.74
	87	Vehicles o/t railw/tramw roll-stock, pts & accessories	222.99	685.29	24 786.35	111 008.96	0.00	136 703.59
	1	Live animals	0.00	0.00	140.79	135 253.15	0.00	135 393.94
	26	Ores, slag and ash	98 671.12	120.00	7 592.61	27 193.85	0.00	133 577.58
	38	Miscellaneous chemical products	2 143.65	6 639.61	13 551.16	101 642.20	0.00	123 976.61
	84	Nuclear reactors, boilers, mchy & mech appliance/ parts	699.95	2 425.97	21 601.55	97 444.46	0.00	122 171.93
	28	Inorgn chem/ compds of prec mtl, radioact elements etc	22 717.62	198.74	79 905.42	17 723.28	0.00	120 545.06
	7	Edible vegetables and certain roots and tubers	2.94	2.77	36 253.63	70 420.19	0.00	106 679.53
		Iran, Islamic Republic of, Sub-total	6 879 387.53	221 445.01	990 251.28	2 813 942.43	42.17	10 905 068.41
		Iran, Islamic Republic of, Total	6 947 921.50	238 917.55	1 419 241.00	3 779 922.75	107.82	12 386 110.00
Jordan	31	Fertilisers	49 323.05	51 741.19	172 037.35	81 415.40	0.00	354 516.99
	7	Edible vegetables and certain roots and tubers	0.00	0.00	0.76	198 334.53	0.00	198 335.30
	30	Pharmaceutical products	56.99	279.94	993.71	155 295.95	0.00	156 626.59
	25	Salt/ sulphur/ earth & ston/ plastering mat/ lime & cem	4 810.68	4 170.95	101 263.80	38 187.03	0.00	148 432.46
	85	Electrical mchy equip parts thereof/ sound recorder etc	240.70	440.87	21.80	145 821.92	0.00	146 525.30
	28	Inorgn chem/ compds of prec mtl, radioact elements etc	14.07	212.29	80 266.40	36 309.05	0.00	116 801.81
	15	Animal/veg fats & oils & their cleavage products/ etc	0.00	0.00	0.00	113 210.10	0.00	113 210.10
	84	Nuclear reactors, boilers, mchy & mech appliance/ parts	392.89	96.68	1 187.21	95 609.80	0.00	97 286.59
	39	Plastics and articles thereof	155.52	203.21	94.52	89 272.14	0.00	89 725.38
	4	Dairy prod/ birds' eggs/ natural honey/ edible prod nes	0.00	0.00	0.00	70 156.98	0.00	70 156.98
	48	Paper & paperboard/ art of paper pulp, paper/paperboard	3.91	42.59	452.02	58 967.77	0.00	59 466.29
	76	Aluminium and articles thereof	440.30	147.76	1 765.93	45 695.33	0.00	48 049.33
	22	Beverages, spirits and vinegar	0.00	0.71	0.00	42 836.40	0.00	42 837.11
	34	Soap, organic surface-active agents, washing prep, etc	0.00	145.41	150.53	41 328.81	0.00	41 624.75
	94	Furniture/ bedding, mattress, matt support, cushion etc	55.32	82.18	708.30	36 802.89	0.00	37 648.70
		Jordan Sub-total	55 493.43	57 563.78	358 942.34	1 249 244.11	0.00	1 721 243.66
		Jordan Total	66 232.16	59 260.39	372 320.00	1 664 479.75	0.00	2 162 292.25

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Annex table I.6. Top 15 products, by country in 2005 (continued)

Exports	HS2	HS Chapter description	East Asia	South-East Asia	South Asia	West Asia	Pacific	Grand total
Korea, Republic of	85	Electrical mchy equip parts thereof/ sound recorder etc	29 683 056.91	8 709 510.26	1 590 096.15	1 994 754.73	10 095.83	41 987 513.88
	84	Nuclear reactors, boilers, mchy & mech appliance/ parts	12 959 379.22	3 133 802.55	848 855.57	2 173 848.05	17 634.68	19 133 520.07
	87	Vehicles o/t railw/tramw roll-stock, pts & accessories	3 538 914.53	1 497 744.16	568 155.24	2 965 447.45	60 482.44	8 630 743.81
	39	Plastics and articles thereof	6 049 907.68	1 367 906.76	417 271.51	686 557.63	9 008.55	8 530 652.14
	29	Organic chemicals	7 426 874.88	607 156.76	177 179.46	138 342.44	3.12	8 349 556.66
	72	Iron and steel	4 984 195.50	1 832 094.03	548 243.52	818 897.93	18 256.95	8 201 687.93
	27	Mineral fuels, oils & product of their distillation/etc	4 157 602.63	3 491 190.35	231 702.30	55 996.42	174 604.58	8 111 096.28
	90	Optical, photo, cine, meas, checking, precision, etc	6 388 854.33	234 686.33	49 432.54	239 705.71	762.34	6 913 441.25
	89	Ships, boats and floating structures	318 711.53	759 538.99	176 411.76	389 084.53	1 140 739.89	2 784 486.70
	54	Man-made filaments	935 784.07	408 813.97	177 047.26	533 836.37	1 505.38	2 056 987.06
	74	Copper and articles thereof	1 444 861.27	304 797.80	74 952.33	54 999.31	106.80	1 879 717.50
	73	Articles of iron or steel	668 645.25	384 529.12	107 506.07	455 698.74	4 767.30	1 621 146.47
	60	Knitted or crocheted fabrics	768 761.50	552 020.19	67 759.22	169 069.74	51 629.88	1 609 240.54
	48	Paper & paperboard/ art of paper pulp, paper/paperboard	569 244.15	285 624.65	200 596.73	143 757.06	2 161.52	1 201 384.11
	76	Aluminium and articles thereof	774 821.97	281 494.49	43 842.17	45 859.27	231.14	1 146 249.05
		Korea, Republic of, Sub-total	80 669 615.43	23 850 910.41	5 279 051.82	10 865 855.40	1 491 990.40	122 157 423.46
		Korea, Republic of, Total	88 405 128.00	27 425 916.00	6 153 687.00	12 293 681.00	1 541 313.00	135 819 728.00
Kuwait	27	Mineral fuels, oils & product of their distillation/etc	13 506 000.94	6 492 209.70	1 680 653.30	448 575.63	0.00	22 127 439.56
	39	Plastics and articles thereof	305 688.93	110 151.02	60 307.38	167 024.90	0.00	643 172.23
	29	Organic chemicals	119 979.39	87 921.04	175 518.80	22 985.86	0.00	406 405.09
	72	Iron and steel	478.98	0.00	75 335.98	28 647.94	0.00	104 462.89
	31	Fertilisers	52.45	59 409.62	5 604.70	8.84	0.00	65 075.61
	25	Salt/ sulphur/ earth & ston/ plastering mat/ lime & cem	23 049.96	5 785.02	22 051.15	635.70	0.00	51 521.83
	1	Live animals	0.82	0.00	0.70	47 446.78	0.00	47 448.30
	48	Paper & paperboard/ art of paper pulp, paper/paperboard	2.74	603.89	3 816.69	38 366.35	0.00	42 789.67
	28	Inorgn chem/ compds of prec mtl, radioact elements etc	0.00	185.29	29 614.05	12 453.95	0.00	42 253.29
	73	Articles of iron or steel	11.38	176.00	478.95	40 331.92	0.00	40 998.26
	70	Glass and glassware	123.33	1 421.94	5 193.30	32 384.36	0.00	39 122.93
	87	Vehicles o/t railw/tramw roll-stock, pts & accessories	4 006.46	464.99	36.73	27 661.42	0.00	32 169.60
	74	Copper and articles thereof	8 000.57	576.88	10 231.64	12 876.20	0.00	31 685.30
	76	Aluminium and articles thereof	5 192.16	522.00	18 579.90	1 062.99	0.00	25 357.06
	20	Prep of vegetable, fruit, nuts or other parts of plants	0.73	0.00	54.57	22 491.96	0.00	22 547.26
			Kuwait Sub-total	13 972 588.84	6 759 427.40	2 087 477.85	902 954.79	0.00
		Kuwait Total	13 999 520.00	6 762 660.00	2 112 716.00	1 031 194.38	2.05	23 906 092.00

Annex table I.6. Top 15 products, by country in 2005 (continued)

Exports	HS2	HS Chapter description	East Asia	South-East Asia	South Asia	West Asia	Pacific	Grand total
Lebanon	85	Electrical mchy equip parts thereof/ sound recorder etc	1 429.12	794.50	1 104.85	156 685.12	0.00	160 013.58
	25	Salt/ sulphur/ earth & ston/ plastering mat/ lime & cem	1 202.71	8.80	258.87	121 999.99	0.00	123 470.38
	72	Iron and steel	512.59	76.68	14 501.78	104 673.10	0.00	119 764.16
	84	Nuclear reactors, boilers, mchy & mech appliance/ parts	391.13	85.09	331.88	61 476.25	6.29	62 290.63
	71	Natural/cultured pearls, prec stones & metals, coin etc	2 743.39	1 574.67	474.02	55 355.61	0.00	60 147.69
	48	Paper & paperboard/ art of paper pulp, paper/paperboard	0.00	59.08	639.55	50 499.32	0.00	51 197.96
	31	Fertilisers	0.00	0.00	0.00	40 177.15	0.00	40 177.15
	94	Furniture/ bedding, mattress, matt support, cushion etc	0.00	0.00	137.03	34 885.75	0.00	35 022.78
	28	Inorgn chem/ compds of prec mtl, radioact elements etc	0.00	0.00	4 078.52	28 345.13	0.00	32 423.65
	8	Edible fruit and nuts/ peel of citrus fruit or melons	0.00	795.75	22.63	28 383.82	1.26	29 203.46
	62	Art of apparel & clothing access, not knitted/crocheted	0.00	118.86	0.00	28 807.36	0.00	28 926.23
	68	Art of stone, plaster, cement, asbestos, mica/sim mat	101.83	0.00	0.00	27 515.71	0.00	27 617.54
	39	Plastics and articles thereof	1 933.22	35.78	627.30	23 522.88	0.00	26 119.18
	74	Copper and articles thereof	12 188.29	105.66	9 534.11	3 389.63	0.00	25 217.70
	73	Articles of iron or steel	21.37	37.71	196.11	22 749.52	0.00	23 004.71
		Lebanon Sub-total	20 523.64	3 692.60	31 906.64	788 466.35	7.54	844 596.78
	Lebanon Total	36 840.11	6 012.36	38 653.07	1 083 595.75	10.06	1 165 111.25	
Malaysia	85	Electrical mchy equip parts thereof/ sound recorder etc	11 249 781.25	12 177 392.65	542 877.05	591 422.19	5 130.05	24 566 603.19
	27	Mineral fuels, oils & product of their distillation/etc	3 414 387.41	6 517 082.74	1 963 448.16	62 792.80	1 981.14	11 959 692.25
	84	Nuclear reactors, boilers, mchy & mech appliance/ parts	2 797 949.01	6 156 889.57	497 347.50	407 273.78	25 306.19	9 884 766.05
	15	Animal/veg fats & oils & their cleavage products/ etc	1 585 262.17	668 307.51	961 296.67	640 488.05	5 041.10	3 860 395.50
	39	Plastics and articles thereof	1 183 113.49	1 215 505.72	136 552.34	90 408.03	7 157.81	2 632 737.38
	44	Wood and articles of wood/ wood charcoal	1 006 307.39	487 613.28	235 131.09	259 672.37	692.82	1 989 416.95
	29	Organic chemicals	481 713.98	899 272.99	347 173.04	14 565.08	174.33	1 742 899.42
	40	Rubber and articles thereof	832 144.50	224 676.72	52 201.12	160 927.26	1 575.87	1 271 525.48
	90	Optical, photo, cine, meas, checking, precision, etc	514 041.03	639 945.76	49 360.01	19 439.83	1 623.75	1 224 410.37
	99	Reserved for special uses by Contracting Parties	262 140.08	792 261.08	59 822.32	85 078.02	7 079.48	1 206 380.97
	71	Natural/cultured pearls, prec stones & metals, coin etc	137 529.47	318 597.43	160.70	699 161.49	0.00	1 155 449.09
	73	Articles of iron or steel	117 487.98	716 806.41	38 274.86	70 317.92	15 899.25	958 786.41
	72	Iron and steel	287 493.55	455 165.31	69 823.40	34 699.33	7 218.06	854 399.65
	76	Aluminium and articles thereof	146 678.52	314 842.10	29 749.00	34 241.74	1 007.42	526 518.78
	54	Man-made filaments	115 058.43	82 673.12	96 471.66	228 500.70	0.00	522 703.91
		Malaysia Sub-total	24 131 088.26	31 667 032.39	5 079 688.92	3 398 988.59	79 887.25	64 356 685.40
	Malaysia	26 224 624.00	36 768 028.00	5 610 967.50	4 006 319.25	118 989.40	72 728 928.00	

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Annex table I.6. Top 15 products, by country in 2005 (continued)

Exports	HS2	HS Chapter description	East Asia	South-East Asia	South Asia	West Asia	Pacific	Grand total
Mongolia	26	Ores, slag and ash	373 587.04	0.00	0.00	0.00	0.00	373 587.04
	71	Natural/cultured pearls, prec stones & metals, coin etc	52 794.97	0.00	0.00	0.00	0.00	52 794.97
	51	Wool, fine/coarse animal hair, horsehair yarn & fabric	52 212.97	0.00	292.17	0.00	0.00	52 505.14
	27	Mineral fuels, oils & product of their distillation/etc	36 912.50	0.00	0.00	0.00	0.00	36 912.50
	41	Raw hides and skins (other than furskins) and leather	28 854.83	0.45	0.00	0.00	0.00	28 855.28
	74	Copper and articles thereof	8 477.43	0.33	0.00	0.00	0.00	8 477.77
	72	Iron and steel	6 982.43	0.00	0.00	0.00	0.00	6 982.43
	84	Nuclear reactors, boilers, mchy & mech appliance/ parts	1 895.32	541.84	11.66	0.00	0.00	2 448.82
	5	Products of animal origin, nes or included	2 032.17	0.00	0.00	244.31	0.00	2 276.47
	73	Articles of iron or steel	1 864.47	3.13	0.00	0.33	0.00	1 867.93
	25	Salt/ sulphur/ earth & ston/ plastering mat/ lime & cem	1 773.19	3.07	0.00	0.02	0.00	1 776.28
	1	Live animals	0.23	0.00	0.00	1 656.00	0.00	1 656.23
	87	Vehicles o/t railw/tramw roll-stock, pts & accessories	1 402.06	58.07	0.00	0.00	0.00	1 460.14
	44	Wood and articles of wood/ wood charcoal	1 175.28	0.00	0.00	0.00	0.00	1 175.28
	39	Plastics and articles thereof	1 106.89	0.00	0.00	0.00	0.00	1 106.89
		Mongolia Sub-total	571 071.77	606.89	303.83	1 900.66	0.00	573 883.15
	Mongolia Total	579 504.38	707.72	303.86	2 007.37	0.00	582 523.31	
Nepal	15	Animal/veg fats & oils & their cleavage products/ etc	4 113.80	0.00	72 349.64	0.00	0.00	76 463.44
	33	Essential oils & resinoids/ perf, cosmetic/toilet prep	1 920.55	5.41	35 357.16	38.64	0.00	37 321.76
	72	Iron and steel	0.00	0.00	36 705.53	0.00	0.00	36 705.53
	54	Man-made filaments	1 513.08	0.00	30 484.41	0.00	0.00	31 997.49
	62	Art of apparel & clothing access, not knitted/crocheted	470.90	782.57	27 707.18	268.97	0.00	29 229.61
	74	Copper and articles thereof	2 799.97	36.79	20 633.60	314.44	0.00	23 784.80
	39	Plastics and articles thereof	100.56	0.00	22 493.09	14.69	0.00	22 608.34
	55	Man-made staple fibres	890.17	0.00	18 903.43	0.00	0.00	19 793.60
	9	Coffee, tea, matī and spices	315.42	826.80	17 773.44	446.68	0.00	19 362.34
	7	Edible vegetables and certain roots and tubers	1 923.12	0.00	16 791.48	0.00	0.00	18 714.60
	23	Residues & waste from the food indust/ prepr ani fodder	0.00	0.00	14 348.01	0.00	0.00	14 348.01
	73	Articles of iron or steel	0.00	0.00	10 327.91	0.00	0.00	10 327.91
	19	Prep.of cereal, flour, starch/milk/ pastrycooks' prod	3 741.69	14.82	5 501.62	65.44	0.00	9 323.58
	25	Salt/ sulphur/ earth & ston/ plastering mat/ lime & cem	137.80	0.00	8 965.13	0.00	0.00	9 102.93
	48	Paper & paperboard/ art of paper pulp, paper/paperboard	49.21	61.65	8 419.01	32.64	0.00	8 562.52
		Nepal Sub-total	17 976.28	1 728.04	346 760.64	1 181.50	0.00	367 646.46
	Nepal Total	30 768.66	3 727.81	442 919.88	3 147.05	0.00	480 563.38	

Annex table I.6. Top 15 products, by country in 2005 (continued)

Exports	HS2	HS Chapter description	East Asia	South-East Asia	South Asia	West Asia	Pacific	Grand total
Pakistan	52	Cotton	917 924.85	136 273.61	309 227.86	421 799.18	595.92	1 785 821.41
	27	Mineral fuels, oils & product of their distillation/etc	2 911.96	13 908.15	405 048.72	250 761.35	0.00	672 630.18
	10	Cereals	9 813.93	20 817.10	47 556.33	488 868.84	44.49	567 100.69
	63	Other made up textile articles/ sets/ worn clothing etc	7 764.64	23 228.60	17 530.84	177 654.92	1 859.82	228 038.82
	41	Raw hides and skins (other than furskins) and leather	140 082.87	24 023.02	8 317.46	11 922.58	0.00	184 345.94
	42	Articles of leather/ saddlery/harness/ travel goods etc	8 344.85	2 600.70	1 772.52	161 348.10	92.43	174 158.60
	62	Art of apparel & clothing access, not knitted/crocheted	2 597.78	3 899.22	3 958.61	147 285.97	161.67	157 903.25
	39	Plastics and articles thereof	5 203.44	614.13	122 274.60	28 498.74	0.00	156 590.91
	3	Fish & crustacean, mollusc & other aquatic invertebrate	44 990.57	26 795.46	7 459.00	30 503.60	0.00	109 748.62
	25	Salt/ sulphur/ earth & ston/ plastering mat/ lime & cem	2 088.59	278.26	85 734.75	20 809.83	0.00	108 911.43
	11	Prod.mill.indust/ malt/ starches/ inulin/ wheat gluten	303.67	9.01	101 779.08	1 674.47	0.00	103 766.23
	7	Edible vegetables and certain roots and tubers	189.18	3 436.13	82 541.91	16 373.96	0.00	102 541.18
	15	Animal/veg fats & oils & their cleavage products/ etc	98.95	0.00	96 853.50	184.76	0.00	97 137.21
	85	Electrical mchy equip parts thereof/ sound recorder etc	2 182.01	1 324.83	8 479.20	81 152.71	0.00	93 138.75
	64	Footwear, gaiters and the like/ parts of such articles	611.12	229.25	21 231.52	69 618.36	47.91	91 738.16
			Pakistan Sub-total	1 145 108.42	257 437.46	1 319 765.90	1 908 457.36	2 802.23
		Pakistan Total	1 290 812.00	348 047.72	1 796 818.25	2 429 925.25	4 218.58	5 869 822.00
Philippines	85	Electrical mchy equip parts thereof/ sound recorder etc	6 421 055.55	3 795 442.53	10 356.94	18 184.54	1 668.56	10 246 708.12
	84	Nuclear reactors, boilers, mchy & mech appliance/ parts	2 493 624.71	1 221 192.31	14 091.14	30 013.59	6 656.46	3 765 578.21
	87	Vehicles o/t railw/tramw roll-stock, pts & accessories	55 382.73	608 557.43	24 441.69	3 547.04	402.64	692 331.53
	27	Mineral fuels, oils & product of their distillation/etc	194 465.82	313 264.29	6 954.09	22 397.10	968.11	538 049.40
	74	Copper and articles thereof	345 703.87	76 675.77	613.67	28.51	157.41	423 179.23
	90	Optical, photo, cine, meas, checking, precision, etc	186 601.94	73 529.70	4 032.36	4 587.43	202.14	268 953.56
	8	Edible fruit and nuts/ peel of citrus fruit or melons	132 950.80	12 217.66	419.70	74 909.96	1 235.47	221 733.59
	72	Iron and steel	95 480.87	85 433.49	11 536.16	194.52	203.22	192 848.26
	39	Plastics and articles thereof	68 027.96	58 026.80	3 059.01	3 171.89	640.14	132 925.80
	24	Tobacco and manufactured tobacco substitutes	24 650.17	91 477.67	38.42	1 451.79	219.45	117 837.49
	48	Paper & paperboard/ art of paper pulp, paper/paperboard	35 388.24	35 658.73	21 957.46	875.03	509.04	94 388.49
	3	Fish & crustacean, mollusc & other aquatic invertebrate	71 543.98	15 738.68	8.05	921.58	4 698.44	92 910.73
	15	Animal/veg fats & oils & their cleavage products/ etc	44 835.23	46 747.29	450.05	737.20	19.02	92 788.78
	89	Ships, boats and floating structures	838.70	88 548.13	0.00	17.58	0.00	89 404.41
	31	Fertilisers	7 027.12	77 983.64	1 509.55	0.00	12.71	86 533.02
			Philippines Sub-total	10 177 577.67	6 600 494.10	99 468.30	161 037.74	17 592.79
		Philippines Total	10 702 762.00	7 150 284.00	149 787.28	277 300.13	43 508.66	18 323 642.00

Annex table I.6. Top 15 products, by country in 2005 (continued)

Exports	HS2	HS Chapter description	East Asia	South-East Asia	South Asia	West Asia	Pacific	Grand total
Qatar	27	Mineral fuels, oils & product of their distillation/etc	4 837 466.37	2 668 675.07	831 000.21	52 243.91	0.00	8 389 385.57
	99	Reserved for special uses by Contracting Parties	277 763.82	138 551.07	149 858.07	1 064 049.63	0.00	1 630 222.60
	39	Plastics and articles thereof	164 336.33	43 636.13	64 689.45	209 823.19	93.36	482 578.46
	31	Fertilisers	19 730.65	129 747.50	57 851.50	12 317.03	0.00	219 646.68
	87	Vehicles o/t railw/tramw roll-stock, pts & accessories	706.66	2 600.27	461.69	110 324.51	0.00	114 093.13
	84	Nuclear reactors, boilers, mchy & mech appliance/ parts	67.23	4 164.22	2 092.56	62 778.48	0.00	69 102.48
	73	Articles of iron or steel	0.00	498.14	12 172.61	54 925.39	0.00	67 596.13
	25	Salt/ sulphur/ earth & ston/ plastering mat/ lime & cem	3 371.80	2.66	10 222.23	7 764.38	0.00	21 361.07
	88	Aircraft, spacecraft, and parts thereof	7 429.17	2 877.58	728.53	9 374.04	0.00	20 409.32
	1	Live animals	0.00	0.00	0.28	16 373.97	0.00	16 374.25
	85	Electrical mchy equip parts thereof/ sound recorder etc	10.33	93.18	1 120.15	12 615.15	0.00	13 838.81
	76	Aluminium and articles thereof	0.00	0.00	1 327.08	9 168.88	0.00	10 495.96
	71	Natural/cultured pearls, prec stones & metals, coin etc	26.68	0.00	18.52	8 461.20	0.00	8 506.40
	63	Other made up textile articles/ sets/ worn clothing etc	147.26	954.95	3 380.43	3 250.03	0.00	7 732.66
	72	Iron and steel	0.00	45.28	155.06	6 079.83	0.00	6 280.16
		Qatar Sub-total	5 311 056.28	2 991 846.05	1 135 078.37	1 639 549.60	93.36	11 077 623.66
		Qatar Total	5 311 853.50	2 996 192.25	1 136 443.00	1 696 206.88	93.36	11 140 789.00
Singapore	85	Electrical mchy equip parts thereof/ sound recorder etc	29 195 700.13	25 743 431.12	1 404 109.53	1 028 553.39	26 791.26	57 398 585.43
	84	Nuclear reactors, boilers, mchy & mech appliance/ parts	9 400 859.51	13 582 715.78	2 505 873.71	902 777.79	54 944.60	26 447 171.39
	27	Mineral fuels, oils & product of their distillation/etc	7 174 244.12	11 644 955.54	973 153.57	260 778.46	1 462 900.10	21 516 031.78
	39	Plastics and articles thereof	2 488 156.44	2 657 526.35	344 463.70	113 849.43	12 310.85	5 616 306.77
	29	Organic chemicals	2 017 747.03	2 640 394.59	563 041.27	58 460.62	2 148.79	5 281 792.31
	90	Optical, photo, cine, meas, checking, precision, etc	1 346 447.86	1 798 379.24	322 791.01	68 334.03	1 648.09	3 537 600.23
	99	Reserved for special uses by Contracting Parties	900 614.49	999 805.29	229 124.64	227 039.44	286 372.52	2 642 956.38
	71	Natural/cultured pearls, prec stones & metals, coin etc	300 258.96	422 192.13	44 486.19	1 741 615.57	2 988.41	2 511 541.25
	87	Vehicles o/t railw/tramw roll-stock, pts & accessories	504 862.51	1 199 239.89	112 516.49	120 206.75	27 550.87	1 964 376.51
	73	Articles of iron or steel	146 948.53	1 218 232.74	62 513.34	106 565.18	15 615.19	1 549 874.98
	38	Miscellaneous chemical products	612 268.87	708 179.57	125 922.92	19 924.10	2 852.70	1 469 148.15
	72	Iron and steel	151 417.32	833 624.43	121 630.30	20 477.66	4 847.24	1 131 996.94
	32	Tanning/dyeing extract/ tannins & derivs/ pigm etc	445 984.86	476 842.62	165 076.42	14 823.80	670.44	1 103 398.14
	33	Essential oils & resinoids/ perf, cosmetic/toilet prep	381 329.15	498 084.25	51 489.18	74 213.34	7 008.38	1 012 124.29
	88	Aircraft, spacecraft, and parts thereof	359 633.44	210 492.26	116 102.02	23 145.28	5 977.73	715 350.73
		Singapore Sub-total	55 426 473.20	64 634 095.81	7 142 294.28	4 780 764.82	1 914 627.17	133 898 255.27
		Singapore Total	58 420 920.00	71 928 944.00	8 151 135.00	5 488 274.00	2 053 645.88	146 042 912.00

Annex table I.6. Top 15 products, by country in 2005 (continued)

Exports	HS2	HS Chapter description	East Asia	South-East Asia	South Asia	West Asia	Pacific	Grand total
Sri Lanka	9	Coffee, tea, mati and spices	18 391.19	5 298.25	42 324.01	361 697.23	1 238.18	428 948.84
	74	Copper and articles thereof	784.00	101.43	155 043.91	96.81	0.00	156 026.14
	15	Animal/veg fats & oils & their cleavage products/ etc	0.00	39.30	146 635.83	81.98	0.00	146 757.11
	85	Electrical mchy equip parts thereof/ sound recorder etc	7 981.87	6 282.94	30 697.28	8 329.63	1.84	53 293.56
	71	Natural/cultured pearls, prec stones & metals, coin etc	15 337.04	28 461.14	3 256.27	2 745.81	0.00	49 800.26
	40	Rubber and articles thereof	9 927.31	7 676.40	19 680.00	10 259.49	246.70	47 789.90
	76	Aluminium and articles thereof	11.85	10.85	45 419.19	59.59	0.00	45 501.49
	84	Nuclear reactors, boilers, mchy & mech appliance/ parts	812.50	21 985.79	9 533.24	700.31	3.61	33 035.44
	8	Edible fruit and nuts/ peel of citrus fruit or melons	42.91	68.88	5 205.24	21 559.70	0.00	26 876.74
	29	Organic chemicals	287.87	10.52	24 815.04	0.66	48.11	25 162.20
	11	Prod.mill.indust/ malt/ starches/ inulin/ wheat gluten	102.48	16 057.09	2 352.25	2 879.87	57.13	21 448.82
	44	Wood and articles of wood/ wood charcoal	23.55	350.26	14 216.27	5 322.02	0.58	19 912.68
	26	Ores, slag and ash	14 869.61	277.33	2 609.51	13.52	0.00	17 769.96
	12	Oil seed, oleagi fruits/ miscell grain, seed, fruit etc	569.73	68.44	13 886.76	223.56	0.00	14 748.49
	23	Residues & waste from the food indust/ prepr ani fodder	2 915.23	8 007.27	2 696.13	1 035.22	0.00	14 653.86
			Sri Lanka Sub-total	72 057.14	94 695.87	518 370.94	415 005.38	1 596.14
		Sri Lanka Total	124 418.67	145 826.38	644 422.81	460 281.38	2 821.55	1 377 770.75
Taiwan Province of China	85	Electrical mchy equip parts thereof/ sound recorder etc	27 287 191.26	9 287 220.33	264 043.55	832 894.80	6 118.12	37 677 468.06
	84	Nuclear reactors, boilers, mchy & mech appliance/ parts	7 817 190.23	2 737 469.00	441 741.97	873 909.36	7 898.33	11 878 208.89
	90	Optical, photo, cine, meas, checking, precision, etc	10 485 999.28	350 994.28	23 125.88	150 647.84	1 601.09	11 012 368.37
	39	Plastics and articles thereof	7 301 385.25	1 130 303.53	368 515.58	369 203.29	6 716.72	9 176 124.37
	72	Iron and steel	4 580 390.69	1 395 199.30	85 071.02	186 630.17	2 097.81	6 249 388.99
	27	Mineral fuels, oils & product of their distillation/etc	1 167 986.06	4 114 742.35	296 244.55	50 425.83	6 140.42	5 635 539.20
	29	Organic chemicals	3 897 852.30	766 860.03	197 046.01	61 388.13	286.58	4 923 433.05
	54	Man-made filaments	1 779 299.58	585 133.35	173 691.00	133 563.95	1 529.54	2 673 217.43
	74	Copper and articles thereof	1 860 676.49	253 256.33	9 767.45	9 274.49	605.74	2 133 580.50
	60	Knitted or crocheted fabrics	576 328.78	653 116.92	138 294.12	95 474.92	5 180.61	1 468 395.34
	59	Impregnated, coated, cover/laminated textile fabric etc	850 303.30	329 297.71	95 540.64	19 409.36	379.40	1 294 930.40
	87	Vehicles o/t railw/tramw roll-stock, pts & accessories	541 099.60	515 782.73	30 133.16	190 125.27	4 310.93	1 281 451.69
	55	Man-made staple fibres	708 484.42	372 754.90	105 115.00	69 216.53	432.68	1 256 003.53
	73	Articles of iron or steel	696 567.53	378 718.25	36 955.57	117 657.71	3 990.69	1 233 889.75
	38	Miscellaneous chemical products	724 213.17	270 420.50	29 231.10	6 876.01	268.90	1 031 009.67
			Taiwan Province of China Sub-total	70 274 967.92	23 141 269.51	2 294 516.59	3 166 697.67	47 557.55
		Taiwan Province of China Total	77 500 280.00	26 568 990.00	2 635 646.50	3 664 459.50	154 753.25	110 524 128.00

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Annex table I.6. Top 15 products, by country in 2005 (continued)

Exports	HS2	HS Chapter description	East Asia	South-East Asia	South Asia	West Asia	Pacific	Grand total
Thailand	84	Nuclear reactors, boilers, mchy & mech appliance/ parts	4 586 776.39	4 264 684.19	396 923.79	648 866.61	4 009.23	9 901 260.21
	85	Electrical mchy equip parts thereof/ sound recorder etc	4 548 079.58	3 629 544.54	266 825.71	270 797.79	2 845.23	8 718 092.84
	27	Mineral fuels, oils & product of their distillation/etc	1 119 530.88	2 839 038.54	185 179.15	65 257.60	5.18	4 209 011.35
	87	Vehicles o/t railw/tramw roll-stock, pts & accessories	139 455.86	2 428 355.15	271 400.04	1 017 796.31	55 479.68	3 912 487.03
	39	Plastics and articles thereof	1 970 103.71	1 261 384.98	367 574.72	201 056.34	15 356.56	3 815 476.30
	40	Rubber and articles thereof	1 553 355.35	1 121 541.66	109 690.94	169 155.61	1 569.74	2 955 313.30
	29	Organic chemicals	809 147.42	849 300.94	93 081.83	3 438.58	31.15	1 754 999.92
	72	Iron and steel	405 627.85	469 829.61	94 018.31	57 064.86	1 559.52	1 028 100.15
	10	Cereals	392 712.03	309 335.89	2 429.01	271 194.05	17 924.73	993 595.71
	55	Man-made staple fibres	174 446.17	203 528.05	152 409.39	206 400.89	30 688.25	767 472.75
	99	Reserved for special uses by Contracting Parties	269 897.11	340 086.70	13 886.33	62 149.44	1 084.52	687 104.09
	17	Sugars and sugar confectionery	159 352.46	478 208.09	29 425.05	3 896.79	288.65	671 171.03
	71	Natural/cultured pearls, prec stones & metals, coin etc	407 942.25	99 678.50	43 326.68	104 940.45	494.59	656 382.47
	48	Paper & paperboard/ art of paper pulp, paper/paperboard	274 395.74	292 288.61	18 637.29	53 563.20	2 891.65	641 776.49
	73	Articles of iron or steel	78 956.79	402 483.99	59 167.18	90 545.73	6 370.80	637 524.49
		Thailand Sub-total	16 889 779.58	18 989 289.43	2 103 975.41	3 226 124.25	140 599.47	41 349 768.14
	Thailand Total	20 419 180.00	23 971 142.00	2 819 067.00	4 065 947.00	192 302.20	51 467 640.00	
Turkey	72	Iron and steel	125 320.67	10 388.35	139 745.64	1 631 598.39	174.20	1 907 227.24
	27	Mineral fuels, oils & product of their distillation/etc	124.24	12 359.34	3 073.21	903 029.88	0.00	918 586.66
	84	Nuclear reactors, boilers, mchy & mech appliance/ parts	50 698.56	20 591.93	111 952.26	467 409.36	391.32	651 043.43
	85	Electrical mchy equip parts thereof/ sound recorder etc	18 964.04	24 224.65	45 718.33	472 952.62	70.42	561 930.07
	87	Vehicles o/t railw/tramw roll-stock, pts & accessories	29 576.89	41 979.65	8 877.58	432 399.77	496.71	513 330.60
	73	Articles of iron or steel	5 838.56	4 474.67	37 987.54	369 072.67	35.97	417 409.40
	25	Salt/ sulphur/ earth & ston/ plastering mat/ lime & cem	96 839.65	7 210.32	8 538.60	242 441.48	0.00	355 030.04
	11	Prod.mill.indust/ malt/ starches/ inulin/ wheat gluten	888.90	10 549.67	49 151.95	253 943.31	0.00	314 533.83
	71	Natural/cultured pearls, prec stones & metals, coin etc	13 850.90	6 418.38	1 126.68	281 591.17	286.62	303 273.74
	99	Reserved for special uses by Contracting Parties	123 687.73	21 081.21	20 326.33	72 170.06	1 677.24	238 942.56
	39	Plastics and articles thereof	12 240.00	3 707.09	15 191.47	204 074.63	58.92	235 272.11
	94	Furniture/ bedding, mattress, matt support, cushion etc	1 097.85	1 612.03	22 087.22	176 520.01	98.05	201 415.15
	57	Carpets and other textile floor coverings	2 466.68	6 735.99	8 158.24	151 622.34	0.00	168 983.25
	89	Ships, boats and floating structures	5 650.80	11.24	543.30	33 050.28	115 591.98	154 847.60
	15	Animal/veg fats & oils & their cleavage products/ etc	8 133.78	1 318.60	2 095.89	110 559.17	0.00	122 107.44
		Turkey Sub-total	495 379.24	172 663.11	474 574.21	5 802 435.14	118 881.42	7 063 933.12
	Turkey Total	847 708.38	347 884.66	671 159.56	7 907 989.00	122 132.00	9 896 873.00	

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Annex table I.6. Top 15 products, by country in 2005 (concluded)

Exports	HS2	HS Chapter description	East Asia	South-East Asia	South Asia	West Asia	Pacific	Grand total
Viet Nam	27	Mineral fuels, oils & product of their distillation/etc	1 716 901.85	3 128 607.27	13 113.73	1 344.11	0.00	4 859 966.96
	10	Cereals	13 276.86	629 832.15	922.23	77 686.40	8 413.14	730 130.77
	84	Nuclear reactors, boilers, mchy & mech appliance/ parts	124 239.97	565 140.37	5 772.73	10 946.60	143.65	706 243.31
	40	Rubber and articles thereof	619 461.74	31 627.31	8 016.13	13 602.38	0.00	672 707.56
	3	Fish & crustacean, mollusc & other aquatic invertebrate	415 971.68	115 867.48	1 269.31	9 519.69	1 911.05	544 539.21
	85	Electrical mchy equip parts thereof/ sound recorder etc	211 682.17	171 123.06	14 256.83	43 762.30	4 216.97	445 041.33
	8	Edible fruit and nuts/ peel of citrus fruit or melons	202 183.80	16 071.99	3 514.72	5 348.05	22.28	227 140.85
	9	Coffee, tea, matí and spices	60 348.50	46 483.05	61 479.78	42 644.98	74.10	211 030.40
	64	Footwear, gaiters and the like/ parts of such articles	143 986.41	32 339.27	2 664.58	27 573.27	135.24	206 698.76
	62	Art of apparel & clothing access, not knitted/crocheted	147 046.90	24 651.33	639.85	9 289.16	121.51	181 748.75
	72	Iron and steel	19 323.73	148 434.56	248.84	1 027.32	0.00	169 034.45
	39	Plastics and articles thereof	58 533.43	79 399.36	7 492.22	8 917.36	195.44	154 537.81
	94	Furniture/ bedding, mattress, matt support, cushion etc	97 032.18	28 859.39	1 437.91	10 815.95	511.66	138 657.09
	99	Reserved for special uses by Contracting Parties	114 195.80	22 201.57	33.79	55.63	0.67	136 487.45
	87	Vehicles o/t railw/tramw roll-stock, pts & accessories	59 189.25	68 407.41	382.51	1 949.97	0.00	129 929.14
		Viet Nam Sub-total	4 003 374.26	5 109 045.57	121 245.15	264 483.15	15 745.70	9 513 893.84
		Viet Nam Total	5 203 707.50	5 755 874.00	185 590.70	451 436.22	19 796.52	11 616 405.00

Source: South-South Trade Information System.

Annex table I.7. Top 15 sectors, by subregion in 2005 (concluded)

Exports	HS2	HS Chapter description	East Asia	South-East Asia	South Asia	West Asia	Pacific	Grand total
East Asia	85	Electrical mchy equip parts thereof/ sound recorder etc	25.37	5.58	0.77	1.08	0.01	32.81
	84	Nuclear reactors, boilers, mchy & mech appliance/ parts	11.66	2.88	0.58	1.08	0.01	16.21
	90	Optical, photo, cine, meas, checking, precision, etc	4.85	0.42	0.05	0.12	0.00	5.45
	39	Plastics and articles thereof	3.78	0.54	0.17	0.25	0.00	4.75
	72	Iron and steel	2.69	0.96	0.14	0.19	0.00	3.99
	27	Mineral fuels, oils & product of their distillation/etc	1.64	1.73	0.16	0.07	0.03	3.63
	29	Organic chemicals	1.99	0.34	0.25	0.08	0.00	2.66
	87	Vehicles o/t railw/tramw roll-stock, pts & accessories	0.91	0.49	0.14	0.63	0.01	2.18
	52	Cotton	1.12	0.28	0.18	0.04	0.00	1.62
	61	Art of apparel & clothing access, knitted or crocheted	0.97	0.23	0.02	0.22	0.00	1.44
	54	Man-made filaments	0.72	0.24	0.14	0.28	0.00	1.38
	71	Natural/cultured pearls, prec stones & metals, coin etc	0.79	0.18	0.25	0.07	0.00	1.29
	62	Art of apparel & clothing access, not knitted/crocheted	0.93	0.16	0.02	0.15	0.00	1.25
	60	Knitted or crocheted fabrics	0.69	0.34	0.10	0.08	0.02	1.23
	73	Articles of iron or steel	0.54	0.30	0.08	0.23	0.00	1.15
			East Asia Sub-total	58.66	14.66	3.05	4.57	0.09
		East Asia Total	70.92	18.27	4.15	6.32	0.33	100.00
Pacific	72	Iron and steel	26.33	0.02	0.38	0.00	0.24	26.97
	27	Mineral fuels, oils & product of their distillation/etc	0.10	10.70	0.00	0.00	2.20	13.00
	03	Fish & crustacean, mollusc & other aquatic invertebrate	1.38	8.40	0.00	0.00	1.02	10.80
	26	Ores, slag and ash	5.75	2.97	1.92	0.00	0.00	10.64
	44	Wood and articles of wood/ wood charcoal	7.42	0.88	0.10	0.00	0.35	8.76
	71	Natural/cultured pearls, prec stones & metals, coin etc	4.63	0.56	0.01	0.00	0.12	5.33
	18	Cocoa and cocoa preparations	0.23	4.65	0.03	0.00	0.01	4.92
	89	Ships, boats and floating structures	0.08	0.02	1.83	0.76	0.07	2.76
	09	Coffee, tea, mati and spices	0.15	2.13	0.16	0.01	0.14	2.59
	73	Articles of iron or steel	0.02	1.07	0.01	0.00	0.39	1.49
	84	Nuclear reactors, boilers, mchy & mech appliance/ parts	0.14	0.57	0.03	0.01	0.41	1.16
	88	Aircraft, spacecraft, and parts thereof	0.00	0.21	0.41	0.00	0.20	0.82
	17	Sugars and sugar confectionery	0.18	0.37	0.00	0.00	0.26	0.81
	19	Prep of cereal, flour, starch/milk/ pastrycooks' prod	0.00	0.00	0.00	0.00	0.78	0.78
	25	Salt/ sulphur/ earth & ston/ plastering mat/ lime & cem	0.33	0.00	0.00	0.00	0.42	0.75
			Pacific Sub-total	46.75	32.55	4.88	0.78	6.62
		Pacific Total	47.81	34.45	5.21	0.86	11.68	100.00

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Annex table I.7. Top 15 sectors, by subregion in 2005 (continued)

Exports	HS2	HS Chapter description	East Asia	South-East Asia	South Asia	West Asia	Pacific	Grand total
South Asia	71	Natural/cultured pearls, prec stones & metals, coin etc	6.36	3.04	0.02	5.00	0.01	14.42
	27	Mineral fuels, oils & product of their distillation/etc	1.21	4.68	2.97	4.51	0.00	13.38
	26	Ores, slag and ash	7.11	0.03	0.07	0.11	0.00	7.32
	52	Cotton	3.44	0.57	1.48	1.24	0.00	6.72
	29	Organic chemicals	1.53	1.60	0.59	0.73	0.00	4.45
	72	Iron and steel	1.28	1.02	0.77	0.93	0.00	4.00
	10	Cereals	0.02	0.12	0.72	2.11	0.00	2.98
	84	Nuclear reactors, boilers, mchy & mech appliance/ parts	0.41	0.73	0.40	1.38	0.00	2.92
	74	Copper and articles thereof	0.54	0.55	0.53	1.19	0.00	2.80
	85	Electrical mchy equip parts thereof/ sound recorder etc	0.57	0.55	0.31	0.99	0.00	2.42
	39	Plastics and articles thereof	0.68	0.28	0.57	0.71	0.00	2.25
	73	Articles of iron or steel	0.08	0.26	0.35	1.45	0.00	2.14
	87	Vehicles o/t railw/tramw roll-stock, pts & accessories	0.14	0.45	0.87	0.64	0.00	2.10
	23	Residues & waste from the food indust/ prepr ani fodder	0.58	1.01	0.25	0.06	0.00	1.89
	62	Art of apparel & clothing access, not knitted/crocheted	0.08	0.15	0.19	1.27	0.01	1.70
		South Asia Sub-total	24.01	15.03	10.08	22.31	0.04	71.48
		South Asia Total	28.92	20.75	16.57	33.66	0.10	100.00
South-East Asia	85	Electrical mchy equip parts thereof/ sound recorder etc	15.11	14.02	0.66	0.65	0.01	30.46
	27	Mineral fuels, oils & product of their distillation/etc	6.95	8.05	1.09	0.13	0.43	16.65
	84	Nuclear reactors, boilers, mchy & mech appliance/ parts	5.71	8.11	1.01	0.60	0.03	15.46
	39	Plastics and articles thereof	1.72	1.63	0.27	0.14	0.01	3.78
	29	Organic chemicals	1.17	1.37	0.31	0.02	0.00	2.87
	87	Vehicles o/t railw/tramw roll-stock, pts & accessories	0.28	1.51	0.14	0.36	0.03	2.33
	15	Animal/veg fats & oils & their cleavage products/ etc	0.71	0.45	0.75	0.30	0.00	2.22
	40	Rubber and articles thereof	1.10	0.60	0.07	0.15	0.00	1.93
	90	Optical, photo, cine, meas, checking, precision, etc	0.66	0.83	0.12	0.03	0.00	1.64
	99	Reserved for special uses by Contracting Parties	0.45	0.63	0.09	0.11	0.09	1.36
	71	Natural/cultured pearls, prec stones & metals, coin etc	0.27	0.29	0.03	0.74	0.00	1.33
	44	Wood and articles of wood/ wood charcoal	0.66	0.26	0.13	0.16	0.00	1.22
	72	Iron and steel	0.33	0.63	0.10	0.05	0.01	1.11
	73	Articles of iron or steel	0.12	0.77	0.05	0.10	0.01	1.06
	48	Paper & paperboard/ art of paper pulp, paper/paperboard	0.28	0.46	0.06	0.11	0.00	0.91
		South-East Asia Sub-total	35.52	39.62	4.88	3.65	0.63	84.31
		South-East Asia Total	40.65	47.40	6.25	4.96	0.74	100.00

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Annex table I.7. Top 15 sectors, by subregion in 2005 (concluded)

Exports	HS2	HS Chapter description	East Asia	South-East Asia	South Asia	West Asia	Pacific	Grand total
West Asia	27	Mineral fuels, oils & product of their distillation/etc	66.06	4.47	1.60	1.41	0.00	73.53
	71	Natural/cultured pearls, prec stones & metals, coin etc	0.21	0.03	2.25	0.45	0.00	2.93
	39	Plastics and articles thereof	1.75	0.07	0.11	0.46	0.00	2.39
	29	Organic chemicals	1.64	0.08	0.16	0.13	0.00	2.01
	72	Iron and steel	0.30	0.02	0.26	1.07	0.00	1.65
	99	Reserved for special uses by Contracting Parties	0.27	0.11	0.13	1.10	0.00	1.61
	87	Vehicles o/t railw/tramw roll-stock, pts & accessories	0.38	0.04	0.09	0.95	0.00	1.46
	84	Nuclear reactors, boilers, mchy & mech appliance/ parts	0.28	0.04	0.13	0.99	0.00	1.43
	85	Electrical mchy equip parts thereof/ sound recorder etc	0.26	0.03	0.10	1.01	0.00	1.41
	76	Aluminium and articles thereof	0.29	0.10	0.09	0.41	0.00	0.89
	73	Articles of iron or steel	0.25	0.01	0.06	0.37	0.00	0.69
	08	Edible fruit and nuts/ peel of citrus fruit or melons	0.13	0.01	0.05	0.37	0.00	0.56
	31	Fertilisers	0.19	0.11	0.17	0.07	0.00	0.53
	25	Salt/ sulphur/ earth & ston/ plastering mat/ lime & cem	0.13	0.01	0.08	0.28	0.00	0.50
	48	Paper & paperboard/ art of paper pulp, paper/paperboard	0.18	0.00	0.01	0.14	0.00	0.34
		West Asia Sub-total	72.31	5.13	5.27	9.20	0.00	91.93
	West Asia Total	74.21	5.34	6.09	14.30	0.05	100.00	

Source: South-South Trade Information System.

Annex table I.8. Top 50 dynamic exports from Asia to the South, 1995 and 2005
(percentage share in total exports from Asia to the South)

Rank	HS code	Description	Share value in 1995 (%)	Share value in 2005 (%)	Share increase
1	9013	Liquid crystal devices	0.133	2.222	15.759
2	7112	Waste, scrap of precious metal	0.003	0.026	7.055
3	2843	Colloidal precious metals	0.007	0.048	5.935
4	2910	Epoxides	0.004	0.023	5.123
5	8411	Turbo-jets, turbo-propellers	0.020	0.116	4.849
6	8525	Transmission apparatus for radio,TV	0.324	1.805	4.577
7	9002	Lenses, prisms, mirrors	0.018	0.100	4.462
8	9406	Prefabricated buildings	0.006	0.035	4.432
9	2601	Iron ores and concentrates	0.079	0.425	4.372
10	9001	Optical fibres, optical fibre bundles	0.036	0.185	4.169
11	1005	Maize (corn)	0.022	0.087	3.044
12	2515	Marble, travertine	0.006	0.022	2.686
13	8531	Electric sound/visual signalling apparatus	0.096	0.334	2.494
14	2613	Molybdenum ores and concentrates	0.009	0.032	2.422
15	4005	Compounded rubber, unvulcanized	0.010	0.030	2.070
16	7206	Iron, non-alloy steel in ingots	0.015	0.042	1.800
17	8507	Electric accumulators	0.138	0.383	1.784
18	3908	Polyamides in primary forms	0.025	0.070	1.770
19	3817	Mixed alkylbenzenes	0.008	0.023	1.763
20	6907	Unglazed ceramic flags, paving	0.009	0.023	1.609
21	2903	Halogenated derivatives	0.038	0.098	1.607
22	8908	Vessels and other floating structures	0.004	0.011	1.567
23	7220	Flat-rolled products of stainless steel	0.020	0.050	1.560
24	2907	Phenols; phenol-alcohols	0.024	0.060	1.531
25	2916	Unsaturated acyclic	0.033	0.082	1.473
26	9033	Parts, accessories for the instruments	0.011	0.026	1.454
27	3915	Waste, parings and scrap, of plastics	0.042	0.100	1.385
28	8412	Other engines and motors	0.007	0.016	1.303
29	2931	Other organo-inorganic compounds	0.009	0.021	1.289
30	7303	Tubes, pipes and hollow profiles	0.012	0.028	1.223
31	9030	Oscilloscopes, spectrum analysers	0.055	0.121	1.222
32	8708	Parts and accessories of the motor vehicles	0.244	0.534	1.189
33	8529	Accessory parts	0.978	2.134	1.183
34	8905	Navigation vessels	0.090	0.195	1.168
35	6908	Glazed ceramic flags and paving	0.033	0.072	1.164
36	2942	Other organic compounds, nes	0.012	0.025	1.158
37	6815	Articles of stone or of other miner	0.005	0.011	1.131
38	9022	Apparatus based on the use of X-rays	0.009	0.020	1.113
39	7020	Other articles of glass	0.013	0.028	1.111
40	8542	Electronic integrated circuits	5.666	11.872	1.095
41	7014	Signalling glassware and optical elements	0.006	0.012	1.088
42	8543	Electrical machines, apparatus	0.153	0.318	1.081
43	2707	Products of the distillation of coal tar	0.038	0.079	1.050
44	8534	Printed circuits	0.524	1.061	1.025
45	3910	Silicones in primary forms	0.016	0.032	0.998
46	8502	Electric generating sets and rotary	0.046	0.093	0.997
47	9029	Revolution counters, mileometers	0.010	0.019	0.995
48	7304	Tubes, pipes and hollow profiles	0.059	0.117	0.988
49	8471	Automatic data processing, magnetic	1.688	3.348	0.983
50	9031	Measuring, checking instruments	0.057	0.112	0.973



CHAPTER II

REGIONAL TRADE AGREEMENTS IN ASIA

A. Global trends in RTAs

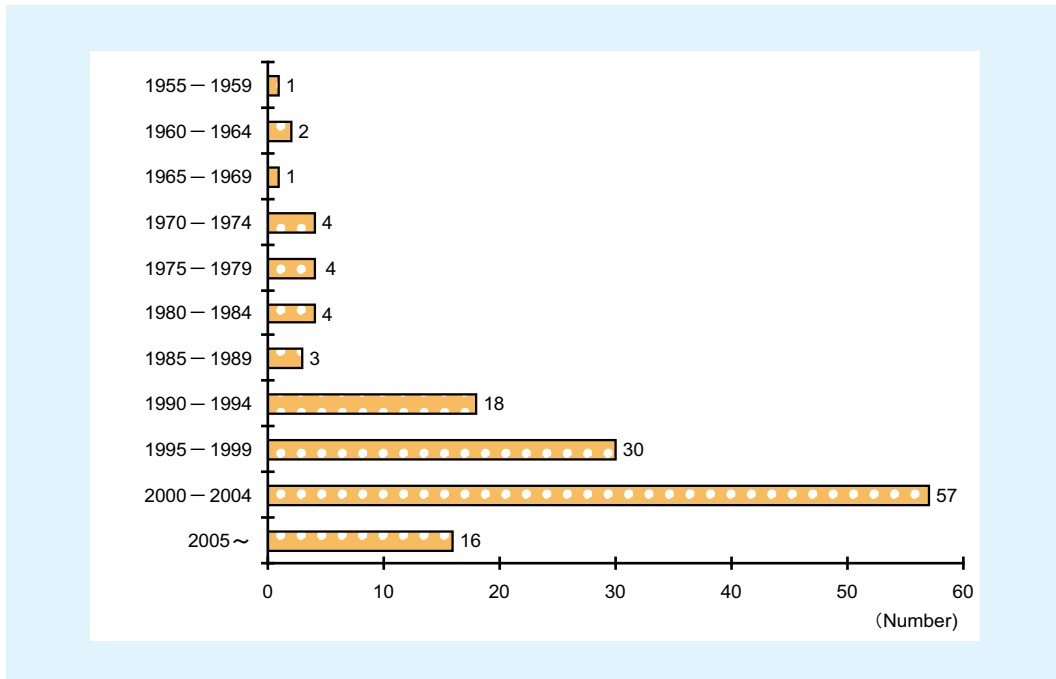
1. Rise in RTAs accelerated by the lagging Doha Round

As of July 2007, there were 140 regional trade agreements (RTAs) in effect worldwide.¹ This stands in contrast with the situation in 1989 when there were only 19 RTAs; however, the number began to increase dramatically in the 1990s. During this decade, 48 agreements were concluded, and 76 new agreements have been created since 2000 (figure II.1).

Factors behind this sudden acceleration in new RTAs may include the fact that as the multilateral trade negotiations in the previous Uruguay Round (1986-1994) and the current Doha Round have been slow to bear fruit, more countries started to pursue RTAs in order to promote trade through trade liberalization. The number of WTO members has increased (to 151 in 2007), and RTA negotiations are going beyond tariffs to include many areas such as services and trade remedy measures (table II.1). In other words, the current WTO demands a much larger number of countries to reach consensus in multilateral negotiations than was the case under GATT. Consequently, many countries often find it more reasonable and/or beneficial to pursue the bilateral/regional RTAs, which can be concluded with a more limited number of counterparts than in the context of the Doha Round, and in relatively shorter time period. The shift toward RTAs by the major trading countries such as the United States, which has also driven other countries to turn to RTAs, is believed to be another reason for this acceleration. In other words, as the recent trade policy environment clearly demonstrates, each new RTA spurs the creation of yet more RTAs.

¹ According to the WTO, regional trade agreements (RTAs) include free trade agreements (FTAs) and custom unions, regardless of whether they are bilateral, subregional or regional in nature. Framework agreements and other trade agreements, such as preferential trade agreements and economic framework agreements, are regarded as precursors leading potentially to RTAs.

Figure II.1. Worldwide growth of RTAs



Source: WTO.

Notes:

1. Of the 194 RTAs listed on the WTO website (listing signifies that GATT or the WTO has been notified of the agreement and that these RTAs are enforced), we have excluded 54 as duplicates due to new participants in existing FTAs.
2. The period is based on the date of the agreement. If that is unclear, the date of notification to the GATT or the WTO is used.

Table II.1. Overview of past WTO rounds of multilateral negotiations

Year	Negotiation	Number of years	Number of participant countries
1947	Round 1	1	23
1949	Round 2	1	13
1951	Round 3	1	38
1956	Round 4	1	26
1960-1961	Dillon Round	2	26
1964-1967	Kennedy Round	4	62
1973-1979	Tokyo Round	7	102
1986-1994	Uruguay Round	9	123
2001-Present	Doha Round	7+	150

Longer negotiation periods

Increase in number of participant countries

Source: Data from WTO Website.

2. Interregional RTAs and North-South RTAs

In the past, RTAs would normally be formed between neighbouring countries and subregions as they may already have strong economic or political ties and may wish to further deepen their trade and economic relationships (table II.2).

The EU, which was founded by the Treaty of Rome in 1957 and is now the centre of economic integration in Europe, is embracing more and more peripheral countries since its inception, to become a huge common market. In 2004, ten countries in Eastern Europe joined the EU, and the EU now has 27 member countries after the accession of Romania and Bulgaria in 2007. There have also been moves to form RTAs between the EU and Middle Eastern and African countries. As of July 2007, the number of RTAs in Europe, the Russian Federation and the CIS, the Middle East and Africa exceeded 81, accounting for 57.9 per cent of the total number of RTAs worldwide. In the Western Hemisphere, NAFTA in North America, the Central American Common Market (CACM), the Caribbean Community (CARICOM), the Andean Community of Nations (CAN) and Mercosur in South America are among the RTAs that have been formed. The number of RTA in this region has currently risen to 19, accounting for 13.6 per cent of the total. RTAs in the Asia-Pacific region include the ASEAN Free Trade Area (AFTA), and further RTA networks are being formed between ASEAN and other countries in the region, e.g. the ASEAN-China FTA (ACFTA) and the ASEAN-Japan Comprehensive Economic Partnership (AJCEP). There are currently 22 RTAs in the Asia-Pacific region, accounting for 15.7 per cent of the total.

Table II.2. FTAs by region

Year	Europe, Russia and the CIS, Middle East, Africa	Western Hemisphere	Asia-Pacific	Interregional	Total
1955-1959	1				1
1960-1964	1	1			2
1965-1969				1	1
1970-1974	1	1		2	4
1975-1979	2		2		4
1980-1984	1	1	2		4
1985-1989		1		2	3
1990-1994	13	2	3		18
1995-1999	24	4	1	1	30
2000-2004	32	8	8	9	57
2005-	6	1	3	6	16
Total	81	19	19	21	140

Source: Data from WTO Website.

There has also been an increase in interregional RTAs in recent years. The United States-Australia FTA and the Japan-Mexico EPA belong to this category. Twenty-one RTAs, 15.0 per cent of the total, fall into the category of interregional RTAs.

North-South RTAs are also on the rise. This new type of RTAs represented about 30 per cent of all RTAs prior to the year 2004, but the figure has increased to more than 50 per cent in mid-2007 based on the notification to the WTO.

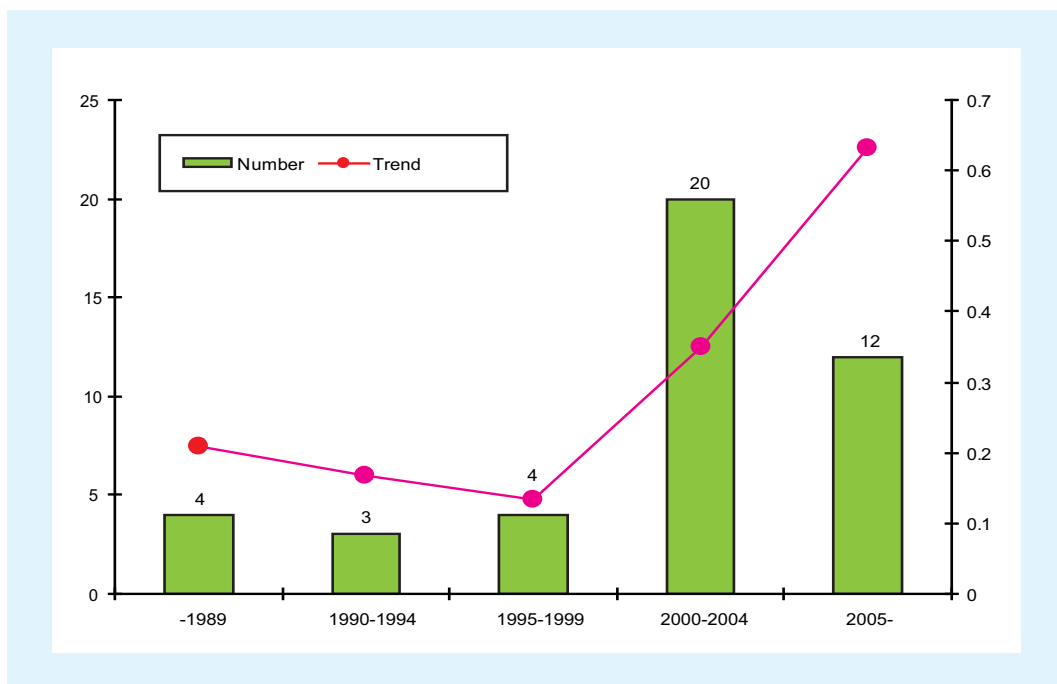
3. Going beyond tariffs

Many of the past RTAs aimed at liberalizing trade in goods through the elimination of tariff. Recent RTAs go beyond the reduction and/or elimination of tariffs to cover a wide range of fields, including non-tariff barriers, services, investments, intellectual property rights, competition policy and

dispute settlement. WTO data indicates that there were only 11 RTAs that included services until 1999, but by July 2007 that figure increased to 43.² Particularly noteworthy is the fact that more than 63 per cent of RTAs concluded since 2005 included services (figure II.2).

As a growing number of companies extend their global operations, at the policy level, countries are also increasingly placing new issues in a negotiating context. Such issues include, among others, regulations on foreign investment in manufacturing industries and services sectors, as well as protection of intellectual property rights caused by the increasing flood of counterfeit products entering many markets. Thus, the concept of RTAs has changed rather dramatically to extend beyond its traditional scope of trade in goods and address beyond border domestic policy issues of RTA partner countries.

Figure II.2. Number and proportion of FTAs including services



Source: WTO.

Note: Based on the data reported by member countries to GATS.

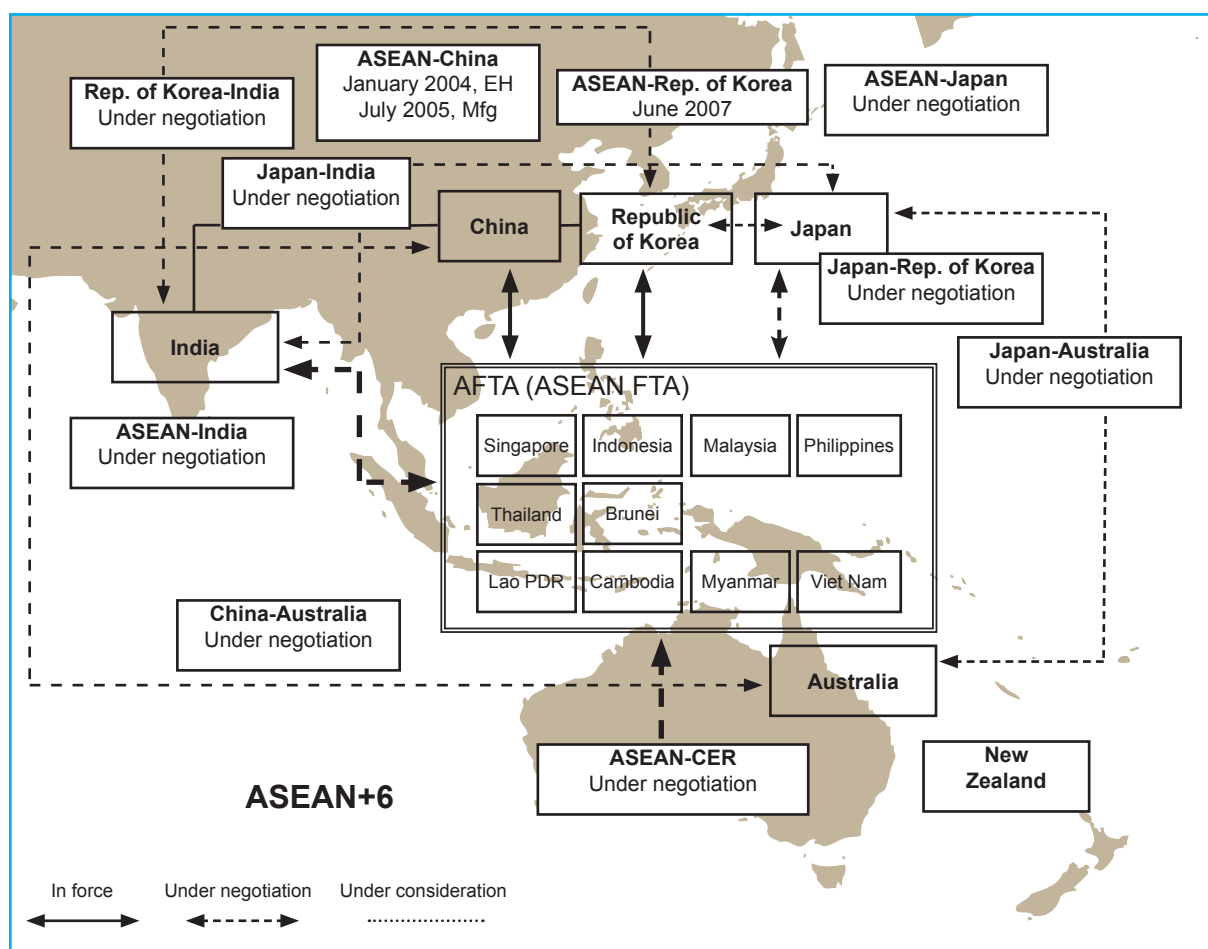
B. RTA trends in Asia

The number of RTAs in Asia has increased steadily over the last few decades. The countries making up ASEAN+6 (ASEAN, Australia, China, India, Japan, New Zealand and Republic of Korea) participate in as many as 14 RTAs (including Early Harvest programmes). Japan's EPAs with Singapore and Malaysia went into effect in November 2002 and July 2006, respectively. In May 2007, Japan also reached the agreement with ASEAN on major issues, such as the percentages of tariff items subject to liberalization, on sensitive items and other matters. Apart from negotiations with ASEAN as a whole, Japan has also signed EPAs with Thailand, the Philippines and Brunei that are expected to become effective in the near future.

² See WTO website: http://www.wto.org/english/tratop_e/region_e/region_e.htm

China and the Republic of Korea have also been actively pursuing negotiations of RTAs. The ASEAN-China FTA went into effect in July 2003, and China is currently negotiating with Australia, New Zealand and Singapore. The Republic of Korea, following its "multiple simultaneous" RTA strategy, has focused its efforts on concluding RTAs with countries and regions; this strategy is aimed at transforming the Republic of Korea into a trade hub for North-East Asia. The Republic of Korea's RTAs with other countries in the Asia-Pacific region include an FTA with Singapore, signed in March 2006, and with the United States, signed in July 2007, as well as the FTA with ASEAN that went into effect in June 2007. At present, RTA negotiations are underway between the Republic of Korea and India.

Figure II.3. ASEAN+1 FTAs continue to expand to form an East-Asian FTA



Source: JETRO.

The centre of RTA networks covering the Asia-Pacific region is ASEAN. In addition to promoting the liberalization of trade and investment within itself, ASEAN has actively sought to conclude RTAs with other countries in the Asia-Pacific region in order to become the trade hub for this region. Japan, the Republic of Korea, China, Australia, New Zealand, and India have all either concluded or are currently negotiating RTAs with ASEAN (figure II.3).

Other potential RTA frameworks in the Asia-Pacific region includes the initiatives on the Comprehensive Economic Partnership in East Asia (CEPEA) framework comprising ASEAN, Australia, China, India, Japan, New Zealand and Republic of Korea; the East Asia Free Trade Agreement (EAFTA) by ASEAN+3 countries (Japan, China, Republic of Korea); and a possible future APEC-wide Asia-Pacific Free Trade Area (FTAAP). All of these three initiatives are now in different stages of study and discussion.

C. Japan's RTA Strategy

Japan has supported the GATT/WTO multilateral trade system for a considerable time. However, with the difficulties emerging in the multilateral trade negotiations, Japan began actively working on RTAs as a complement to the WTO. Its first RTA – an EPA with Singapore came into being in November 2002, and was followed by the conclusion of further RTAs with Mexico and Malaysia. As of July 2007, Japan has also signed RTAs with the Philippines, Chile, Thailand, and Brunei; and reached an agreement in principle on major issues with Indonesia.³ An agreement in principle was also reached with ASEAN in May 2007; this agreement is aimed at the adoption of cumulative rules of origin to stimulate intraregional trade of ASEAN by Japanese companies that are located there. The latter two agreements have not yet been signed.

Table II.3. Japan's EPAs: enforced, signed, being negotiated

Country/Region	Consideration →	Negotiation →	Agreement in principle, signed, in effect		
Singapore		Joint study group, March-Sept. 2000	Negotiations from Jan. 2001	Signed in Jan. 2002	In effect November 2002
Mexico		Japan-Mexico joint study group, Sept. 2001-July 2002	Negotiations from Nov. 2002	Signed in Sept. 2004	In effect April 2005
Malaysia	Intergovernmental working group, May-July 2003	Joint study group, Sept.-Nov. 2003	Negotiations from Jan. 2004	Signed Dec. 2005	In effect July 2006
The Philippines	Intergovernmental working group, Oct. 2002-July 2003	Joint coordinating team, Sept.-Nov. 2003	Negotiations from Feb. 2004	Signed in Sept. 2006	
Chile		Joint study group, Jan.-Sept. 2005	Negotiations from Feb. 2006	Signed in March 2007	
Thailand	Intergovernmental working group, Sept. 2002-May 2003	JTEPA Task Force, July-Nov. 2003	Negotiations from Feb. 2004	Signed in April 2007	
Brunei		Intergovernmental preparatory meetings, Feb.-April 2006	Negotiations from June 2006	Signed in June 2007	
Indonesia	Preparatory meeting, Sept.-Dec. 2003	Joint study group, Jan.-April, 2005	Negotiations from July 2005	Agreement in principle reached on Nov. 2006	
ASEAN	Intergovernmental committee, March-Oct. 2003	Intergovernmental preparatory meeting, Jan.-Dec. 2004	Negotiations from April 2005	Framework agreement signed in May 2007	
Republic of Korea		Joint study group July 2002-Oct. 2003	Negotiations from Dec. 2003		
Gulf Cooperation Council		Intergovernmental preparatory meeting, May 2006	Negotiations from Sept. 2006		
Viet Nam		Intergovernmental joint discussion group, Feb.-April 2006	Negotiations begin Jan. 2007		
India		Joint study group, July 2005-June 2006	Negotiations begin Jan. 2007		
Australia	Intergovernmental preparatory meeting, Sept. 2002-July 2003	Joint study group, Nov. 2005-Dec. 2006	Negotiations begin April 2007		
Switzerland		Joint governmental study group, Oct. 2005-Nov. 2006	Negotiations begin May 2007		

Source: Ministry of Foreign Affairs, and Ministry of Economy, Trade and Industry of Japan.

³ The Japan-Chile RTA came into effect in September 2007 and the Japan-Thailand RTA in November 2007. These RTAs have not been reported to WTO as of January 2008. Moreover, Japan signed an EPA with Indonesia in August 2007.

In 2007, negotiations have also begun with India, Australia and Viet Nam and Switzerland. The conclusion of RTAs with these countries, as well as with ASEAN will constitute a major step toward the realization of the economic partnerships that Japan is seeking to build with countries in the Asia-Pacific region.

In general, Japan has sought by means of EPAs to secure overseas markets for Japanese companies and to reduce their costs of doing business overseas. It has therefore given top priority to concluding EPAs primarily with the East Asia region – particularly with the ASEAN countries, which have both recorded significant growth and are integrated in manufacturing chains of Japanese companies. On the other side, the concern for Japan is that ASEAN countries still have relatively high MFN import tariffs on mining and manufacturing products, as well as a number of barriers in investment and services sectors. Japan consequently seeks to improve the environment for trade and investment by concluding EPAs with these countries.

Japan is also promoting EPAs to resolve the disadvantages and discrimination arising from not being parties to other RTAs. Mexico and Chile, for example, have concluded numerous FTAs, including those with the United States and the European Union putting Japanese companies in a disadvantageous position. Moreover, Japanese companies are unable to qualify for the Mexican government procurement market, which European and American companies are qualified to participate in; Japanese companies have therefore been unable to participate in contracts for oil, electric power and other large-scale projects sponsored by the Mexican government. To ease this situation, Japan has concluded an EPA with Mexico and signed an EPA with Chile.

Promotion of structural reforms in Japan and partner countries is another important reason for concluding EPAs. Although some consideration is required in the fields of agriculture, forestry and fisheries, the conclusion of EPAs is intended to promote domestic structural reform, at the same time while contributing to the economic growth and effectiveness.

D. Comparative analysis of scope and coverage of RTAs in Asia

The number of RTAs in Asia has risen over the past decade. The proliferation of such RTAs highlights an important and perhaps strategic policy trend in the region, calling for an in-depth analysis of the trade, economic and development implications. As compared to the multilateral trade liberalization under the WTO, RTAs can potentially achieve deeper integration by promoting regulatory cooperation and wider convergence among contracting parties. Furthermore, while multilateral trade liberalization generally enables market access for the most competitive suppliers, RTAs may also offer additional benefits for less competitive exporters through a multiplier effect of reduction/elimination of tariff barriers and significant reduction of non-tariff barriers (NTBs).

This section provides an overview of the typology and “templates” of existing and unfolding RTAs in Asia with special emphasis on South-South RTAs in order to facilitate an understanding of likely impacts of RTAs on trade and investment in the region. Specifically, it focuses on how non-tariff and rule-making areas are treated in these RTAs.

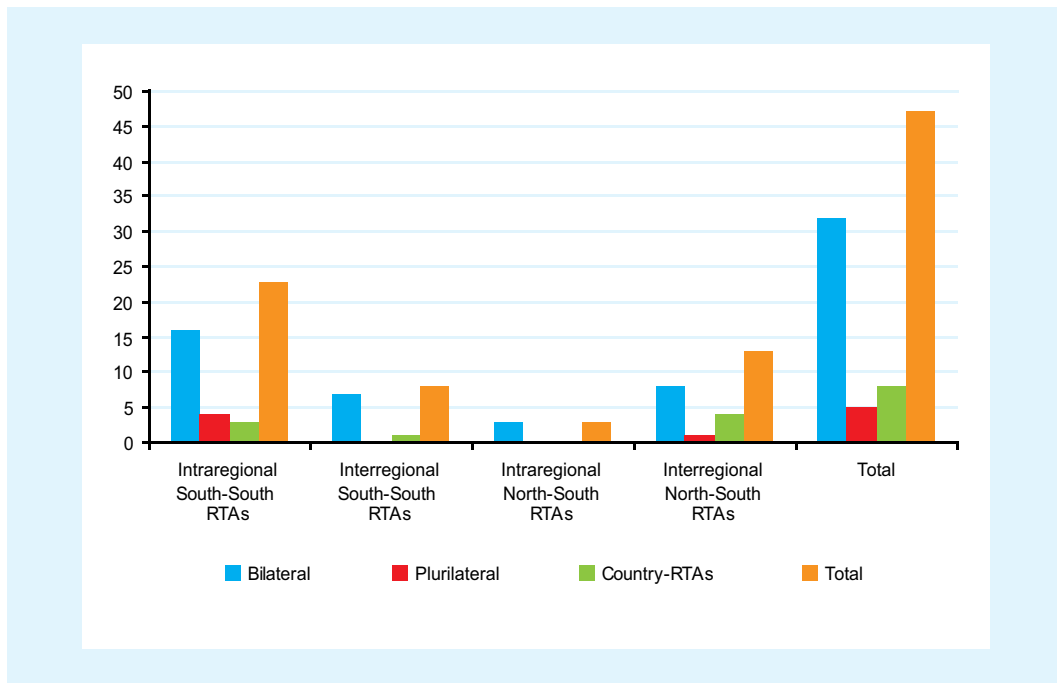
1. Typology and RTA “templates” in Asia

RTAs⁴ are categorized into four types: (i) Intra-Asian South-South RTAs; (ii) Interregional South-South RTAs; (iii) Intra-Asian North-South RTAs; and (iv) Interregional North-South RTAs. These RTAs are further divided into: (a) bilateral; (b) plurilateral; (c) country-RTA; and (d) RTA-RTA.

⁴ See Annex II.3 for a list of developing countries in Asia involved in South-South trade and RTAs.

There are currently 47 RTAs in force in Asia (as of 31 December 2007). These RTAs represent the total number of Free Trade Agreements, Preferential Trade Agreements, and Economic Framework Agreements (see figures II.4, II.5 and II.6),⁵ and consist of: intra-Asian South-South RTAs (23); interregional North-South RTAs (13), interregional South-South RTAs (8); and intra-Asian North-South RTAs (3). The major type of intra-Asian South-South RTAs are bilateral RTAs (16). It is observed that developing countries in Asia are primarily enhancing regional cooperation among themselves through bilateral frameworks (see figure II.4).

Figure II.4. Number of RTAs enforced in Asia



Source: UNCTAD.

It is expected that in the next two to three years, the number of RTAs in Asia is likely to almost double. There are currently 34 FTAs under negotiation or ratification in Asia (see figure II.7) comprising: interregional North-South RTAs (13); intra-Asian South-South RTAs (7); interregional South-South RTAs (7); and intra-Asia North-South RTAs (7). Most of the FTAs currently under negotiations or ratification are bilateral FTAs. What is more interesting is that 16 of the 28 bilateral FTAs under ratification/negotiation are bilateral interregional FTAs, including North-South FTAs (10) and inter-South-South FTAs (6). This suggests that Asian developing countries are evolving intraregional networks in Asia, as well as interregional networks through bilateral trade legal frameworks.

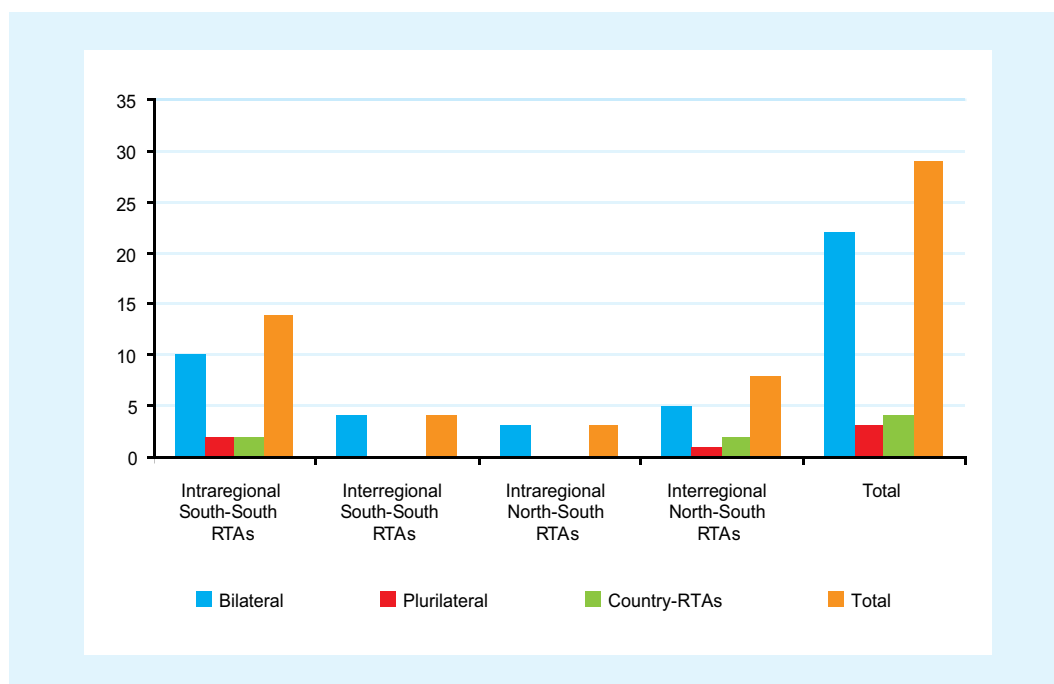
While developing countries in Asia are adopting a bilateral agreement approach, there is the possibility that this can be expanded into “country-RTA”⁶ agreements in the future. Currently, eight “country-RTA” agreements are in force and eight such RTAs are under negotiation or ratification. ASEAN currently holds a dominant position of “country-RTA” agreements. It has five RTAs in force

⁵ Source: UNESCAP’s Asia-Pacific Trade and Investment Agreements database (November 2007) and publicly available information as of November 2007. RTAs which were not notified to the WTO are also included. The term “South” in the context of Asia refers to developing countries in Asia based on the UN classification (see Annex II.2).

⁶ Country-bloc RTAs indicate that a country or countries create a RTA with existing plurilateral RTAs. Examples of country-bloc RTAs include ASEAN, EU, MERCOSUR and SACU.

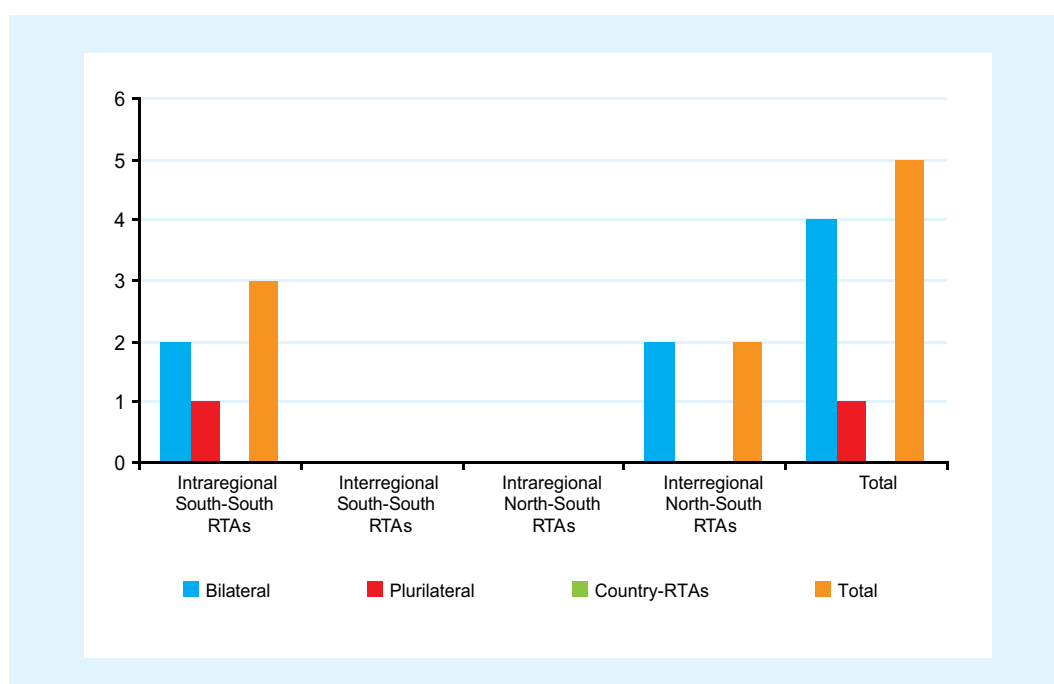
(i.e. ASEAN-China FTA, ASEAN-Republic of Korea FTA, ASEAN-India Economic Framework Agreements and ASEAN-United States Economic Framework Agreements), and three RTAs under negotiation or ratification (i.e. ASEAN-India FTA, ASEAN-Australia-New Zealand FTA and ASEAN-Japan FTA).

Figure II.5. Number of FTAs enforced in Asia

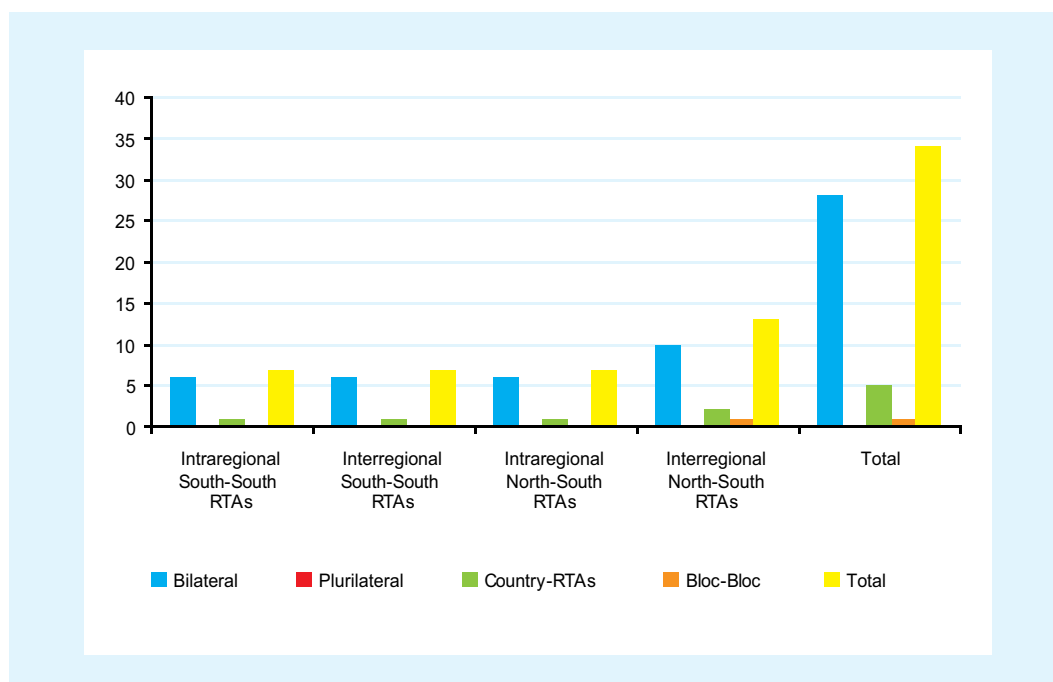


Source: UNCTAD.

Figure II.6. Number of PTAs enforced in Asia



Source: UNCTAD.

Figure II.7. Number of FTAs under negotiation/ratification in Asia

Source: UNCTAD.

To understand the potential economic and developmental impacts of FTAs in Asia, quality analysis of the agreements is imperative, primarily in terms of their scope and coverage.

Tables II.4 to II.7 show the scope and coverage of various RTAs in Asia.⁷ They differ in scope and coverage of tariff reductions, trade in services, rules of origin, trade contingency measures, standards-related measures (TBT/SPS), intellectual property rights, trade facilitation, competition, investment, government procurement, dispute settlement, environment standards, labour mobility, technology transfer and capacity-building provisions. The level of scope and coverage of RTAs in Asia also varies depending whether it is a South-South or North-South FTA. However, it is observed that RTAs in Asia, especially among developing countries, are still in the process of finding their own “templates” and degree of sophistication in comparison with the scope and coverage of comprehensive RTAs, such as the European Customs Union, NAFTA, or the most recent generation of RTAs between the United States and Peru, Panama, Colombia and the Republic of Korea.

As can be seen below, the four types of Asian FTAs, i.e. intra-Asian South-South RTAs, interregional South-South RTAs, intra-Asian North-South RTAs, interregional North-South RTAs, have their own distinct features.

(a) *Intra-Asian South-South FTAs*

Bilateral South-South RTAs, such as those between the Republic of Korea and Singapore, as well as plurilateral RTAs (e.g. ASEAN Free Trade Agreement and SAFTA) have a wider scope and coverage. They include not only tariff reductions, but also address non-tariff and other trade policy measures, such as services, rules of origin, contingency measures, standards-related measures, intellectual property rights, trade facilitation, investment, government procurement and labour mobility.

⁷ Economic framework agreements and preferential trade agreements are not included in these tables.

Liberalization of market access for goods is still the most dominant issue for intra-Asian South-South RTAs. Only about half of these RTAs cover services trade. Among non-tariff issues under the coverage of the WTO Agreements, rules of origin and contingency measures (i.e. anti-dumping, countervailing duties and safeguards) are covered by most RTAs, while issues such as standards-related measures and intellectual property rights, are taken up by less than half of them. On the other hand, bilateral South-South RTAs of South Asian countries, as well as those involving China, focus on more traditional trade issues such as tariff reductions.

Among the so-called “Singapore issues” (i.e. trade facilitation, investment, government procurement and competition policy),⁸ trade facilitation and investment are covered by more than half of intra-Asian South-South RTAs.

These RTAs in general do not establish dispute settlement mechanisms. Only seven of these RTAs contain dispute settlement provisions. Labour standards and environment standards are not covered, except for Republic of Korea-Singapore FTA.

(b) Interregional South-South RTAs

There are four bilateral interregional South-South FTAs, involving China, the Republic of Korea and Singapore. Coverage of these FTAs also varies, even with the same interregional partner. For example, the coverage of the Republic of Korea-Chile FTA is wider than that of China-Chile FTA. In fact, the Republic of Korea-Chile FTA can be called a “WTO-plus” FTA as it includes all the “Singapore issues” and labour/environment provisions. In contrast, the Singapore-Jordan FTA and Singapore-Panama FTA focus only on tariffs, services, rules of origin and dispute settlement.

(c) Intra-Asian North-South RTAs

Intra-Asian North-South FTAs, involving Japan and some of ASEAN Members achieve a comprehensive coverage, including all the “Singapore issues”, dispute settlement and labour/environment provisions, as well as labour mobility issues.

(d) Interregional North-South RTAs

There are currently eight interregional North-South FTAs in existence. Brunei, Republic of Korea, Singapore and Thailand are associated with these interregional North-South FTAs. Partners of these FTAs are Australia, EFTA, New Zealand and the United States. These FTAs attain relatively comprehensive coverage in the same way as intra-Asian North-South FTAs, and “Singapore issues” are covered by most of these FTAs.⁹ In addition, labour/environment standards, as well as labour mobility are covered by three such FTAs.

⁸ Trade facilitation, trade and investment, trade and competition, transparency in government procurement are known as “Singapore Issues” as they were introduced into the WTO work programme following the Singapore Ministerial Conference in December 1996.

⁹ The Thailand-Australia and Thailand-New Zealand FTAs do not cover government procurement, and the Singapore-EFTA and Republic of Korea-EFTA FTAs do not cover trade facilitation.

Table II.4. Scope and coverage of agreements: Intra-Asian South-South RTAs
(Framework agreements and preferential agreements are not included)

	Tariff reduction (year: year of tariff elimination)	Services	Rules of origin	Contingency measures (AD, CVD and SG) ¹	Standards- related measures (TBT, SPS)	Intellectual property rights	Trade facilitation	Competition	Investment	Government procurement	Dispute settlement	Labour standards	Environment standards	Labour mobility	Technology transfer	Capacity- building	
Bilateral	Republic of Korea- Singapore FTA	Yes Positive list, 2016	Yes	Yes: AD, CVD, SG	Yes (TBT, SPS)	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	No	No	Yes	
	Malaysia-Pakistan FTA ²	Yes	Yes	No	No	No	No	No	No	No	No	No	No	No	No	No	No
	Pakistan-Sri Lanka FTA	Yes Negative list	Yes	Yes: SG	No	No	No	No	No	No	Yes	No	No	No	No	No	No
	India-Sri Lanka FTA	Yes Pos/Neg list	Yes	Yes: SG	No	No	No	No	No	No	Yes	No	No	No	No	No	No
	India-Bhutan FTA	? List not available	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No
	India-Singapore FTA	Yes	Yes	Yes: AD, CVD, SG	Yes (TBT, SPS)	Yes	Yes	No	Yes	No	Yes	No	No	Yes	No	No	No
	China-Thailand FTA	Limited to 188 agriculture products	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	?	?	?	?	?	?
	China-Pakistan	Yes	No	Yes	Yes: AD, CVD, SG	Yes (TBT, SPS)	No	Yes	Yes	No	No	Yes	No	No	No	No	No
	China-Hong Kong, China	Yes Positive list	Yes	Yes	Yes: AD, CVD, SG	No	No	Yes	No	No	No	No	No	No	No	No	No
	China-Macao, China	Yes Positive list	Yes	Yes	Yes: AD, CVD, SG	No	No	Yes	No	No	No	No	No	No	No	No	No
Plurilateral	ASEAN Free Trade Agreement	Yes Positive/nega- tive list 2010	Yes	Yes: SG	Yes	Yes	Yes	No	Yes	No	Yes	No	No	No	No	No	No
	SAFTA (South Asia Free Trade Agreement)	Yes 2013-2016	Yes	Yes: SG	n.a.	No	Yes	Yes	Yes	Yes	Yes	No	No	Yes	No	No	No
Country-RTA³	China-ASEAN FTA	Yes 2010-2015	Yes	Yes: SG	No	Yes	No	No	Yes	No	No	No	No	No	No	No	No

Notes:

Yes: covered,

No: no coverage

¹ AD: Anti-dumping, CVD: Countervailing duties, SG: Safeguard.

² The Malaysia-Pakistan FTA is an Agreement on the Early Harvest Programme for FTA.

³ The Republic of Korea-ASEAN FTA enforced in 2007 is not covered in this table.

Table II.5. Scope and coverage of agreements: Interregional South-South RTAs
(Framework agreements and preferential agreements are not included)

	Tariff reduction (year: year of tariff elimination)	Services	Rules of origin	Contingency measures (AD, CVD, SG)	Standards- related measures (TBT, SPS)	Intellectual property rights	Trade facilitation	Competition	Investment	Government procurement	Dispute settlement	Labour standards	Environment standards	Labour mobility	Technology transfer	Capacity- building
Bilateral	China-Chile	Yes	No	Yes: AD, CVD, SG	Yes (TBT, SPS)	Yes (only GI)	No	No	No	No	Yes	No	No	No	No	No
	Rep. of Korea-Chile	Yes Positive list	Yes	Yes: AD, CVD, SG	Yes (TBT, SPS)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No	No
	Singapore-Jordan	Yes Positive list	Yes	Yes: AD, CVD, SG	No	Yes	No	No	Yes	No	Yes	No	No	No	No	No
	Singapore-Panama	n.a.	Yes	n.a.	n.a.	No	No	No	No	No	Yes	No	No	No	No	No

Table II.6. Scope and coverage of agreements: Intra-Asian North-South RTAs
(Framework agreements and preferential agreements are not included)

	Tariff reduction (year: year of tariff elimination)	Services	Rules of origin	Contingency measures (AD, CVD and SG)	Standards- related measures (TBT, SPS)	Intellectual property rights	Trade facilitation	Competition	Investment	Government procurement	Dispute settlement	Labour standards	Environment standards	Labour mobility	Technology transfer	Capacity- building
Bilateral ¹	Japan-Malaysia	Yes Positive list	Yes	n.a.	n.a.	Yes	No	Yes	Yes	No	Yes	Yes	Yes	No	No	No
	Japan-Singapore	Yes Positive list	Yes	Yes: CVD, SG	Yes: CVD, SG	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No

Notes:

AD: Anti-dumping, CVD: Countervailing duties, SG: Safeguard

¹ The Japan-Thailand FTA enforced in 2007 is not covered in this table.

Table II.7. Scope and coverage of agreements: Interregional North-South RTAs
(Framework agreements and preferential agreements are not included)

	Tariff reduction (year: year of tariff elimination)	Services	Rules of origin	Contingency measures (AD, CVD and SG)	Standards- related measures (TBT, SPS)	Intellectual property rights	Trade facilitation	Competition	Investment	Government procurement	Dispute settlement	Labour standards	Environment standards	Labour mobility	Technology transfer	Capacity- building
Bilateral	Singapore- New Zealand	Yes	Yes	Yes: AD, CVD and SG	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No	No	Yes
	Singapore-Australia	Yes Negative list	Yes	Yes: AD, CVD	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	Yes	No	No
	Singapore- United States	Yes Positive list	Yes	Yes: AD, CVD and SG	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No
	Thailand-Australia	Yes Positive list	Yes	Yes: AD, CVD and SG	Yes	Yes	Yes	Yes	Yes	No	Yes	No	No	Yes	No	No
Plurilateral	Thailand-New Zealand	Yes Positive list	Yes	Yes: AD, CVD and SG	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	No	No	No
	TRANS-PACIFIC Strategic Economic Partnership Agreement	Yes Negative list	Yes Nega- tive list	Yes: AD, CVD and SG	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	No	No	Yes
Country-RTA	Singapore-EFTA	Yes Positive list	Yes	Yes: AD and SG	Yes	Yes	No	Yes	Yes	Yes	Yes	No	No	No	No	No
	Rep. of Korea-EFTA	Yes Positive list	Yes	Yes: AD and SG	Yes	Yes	No	Yes	Yes	Yes	Yes	No	No	No	No	No

2. Tariff treatment in selected Asian South-South RTAs

This sub-section looks at tariff elimination and/or reductions under the selected 15 RTAs (see Table II.8) by analysing (as far the data availability allows): (a) the specific schedules of tariff elimination or reductions of FTAs' participants, including treatment of sensitive products and sectors; and (b) the coverage of these FTAs to identify whether they cover "substantially all trade" in goods. According to GATT Article XXIV, customs unions and free trade areas can be regarded as consistent if an agreement can satisfy the "substantially all trade" rule. However, there is no clear criteria for this rule. There are two ways of approaching this criterion. One is a quantitative approach which uses value of total trade as criteria. It is generally understood among WTO Members that 80-90 per cent of total trade is presumed to be consistent with the "substantially all trade" criterion. The other is a qualitative approach which considers sectoral coverage. It is assumed that all goods sectors must be covered to satisfy the "substantially all trade" criterion. Furthermore, GATT XXIV: 8(b) describes not only "duties" but also "other restrictive regulations of commerce". There is also no consensus on the definition and coverage of "other restrictive regulations of commerce" among WTO Members. Further research is needed on the methodology to analyse "substantially all trade" coverage, including the definition of "other restrictive regulations of commerce". Another important caveat is the right of developing countries to conclude RTAs, without adhering to GATT Article XXIV provisions in accordance with the Enabling Clause.¹⁰ Nevertheless, this study is trying to identify whether the selected South-South RTAs can potentially cover "substantially all trade" in goods. Finally, the issue of preferential tariff utilization is also important in order to evaluate the quality of these RTAs. Analysis and examples on RTA utilization are contained in Chapter IV.

(a) Republic of Korea-Singapore FTA

Schedule of tariff elimination/reduction

- Imports from the Republic of Korea to Singapore: Duty free access to all imports from the Republic of Korea is granted.
- Imports from Singapore to the Republic of Korea: There are: (i) products which are subject to tariff elimination; and (ii) products which are not subject to tariff elimination (sensitive products). 59.7 per cent of total tariff lines were granted duty free access in 2006. Seventy-five per cent of imports from Singapore to the Republic of Korea enjoyed preferential tariffs in 2006.¹¹

(i) Products which are subject to tariff elimination: There are products which are subject to tariff elimination within five years and within 10 years. Tariff elimination is to be completed in 2016 (10 years after the Agreement entered into force).

¹⁰ "Differential and More Favourable Treatment Reciprocity and Fuller Participation of Developing Countries" Paragraph 1 (c) stipulates that "regional or global arrangements entered into amongst less-developed contracting parties for the mutual reduction or elimination of tariffs and, in accordance with criteria or conditions which may be prescribed by the contracting parties, for the mutual reduction or elimination of non-tariff measures, on products imported from one another"

¹¹ Source: Singapore government website: <http://www.iesingapore.gov.sg>

Table II.8. Intra-Asian South-South RTAs and interregional South-South RTAs¹²

- Republic of Korea-Singapore, FTA, 2006
- Malaysia-Pakistan, FTA, 2007
- Pakistan-Sri Lanka, FTA, 2005
- India-Sri Lanka FTA, 2001
- India-Bhutan FTA, 2006
- India-Singapore, 2005
- China-Pakistan, FTA, 2007
- China-Hong Kong, China, FTA, 2004
- China-Macao, China, FTA, 2004
- AFTA (ASEAN Free Trade Agreement)
Goods, 1993
Services, 1996
- SAFTA (South Asia Free Trade Agreement: Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka), FTA, 2006
- ACFTA: China-ASEAN FTA, 2005
China-ASEAN FTA: Trade in Goods, 2004
China-ASEAN FTA: Trade in Services, 2007

- China-Chile, FTA, 2006
- Republic of Korea-Chile, FTA, 2004
- Singapore-Jordan, FTA, 2005

Table II.9. Timetable of products that are subject to tariff elimination/reduction (in per cent)

Category	Entry into force	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10 (2016)
Year 5	16.7	33.3	50.0	66.7	83.3	100					
Year 10	9.1	18.2	27.3	36.4	45.5	54.5	63.6	72.7	81.8	90.9	100

Source: Government of Singapore.

(ii) Products which are not subject to tariff elimination: 946 tariff items are phased out from tariff elimination over a period of five or ten years. It is estimated that these items account for 9.4 per cent of the Republic of Korea's imports from Singapore in 2004. Example of these excluded tariff items are: agriculture (427 items), fishery (190 items), chemicals (166 items), mineral (48 items), forestry (42 items), prepared food and tobacco (35 items).¹³

When can “substantially all trade” coverage be achieved?

- Imports from the Republic of Korea to Singapore: 100 per cent of total merchandise trade was fully liberalized.
- Imports from Singapore to the Republic of Korea: Under the Republic of Korea-Singapore FTA, 91.6 per cent of tariff items and 90.6 per cent (2004) of imports from Singapore to the Republic of Korea are covered. The Republic of Korea is expected to achieve “substantially all trade” in 2016 when its tariff reduction except sensitive items is completed.

¹² The years indicated in table II.8 are the years these RTAs were enforced.

¹³ See the study carried out by the Korea Institute of International Economic Policy (2006).

(b) Republic of Korea-Chile FTA**Schedule of tariff elimination/reduction**

- Imports from Republic of Korea to Chile: There are (i) products which are subject to tariff elimination and (ii) products which are not subject to tariff elimination (sensitive products). Chile eliminated tariffs on 2,450 products from the Republic of Korea in 2006.

(i) Products which are subject to tariff elimination: Tariff elimination will be accomplished in 2017.

Table II.10. Tariff elimination: Chile

	Number of Tariff lines	Percentage
2004 (Year 0)	2 450	41.8
2009 (Year 5)	1 994	34.1
2011 (Year 7)	14	0.2
2014 (Year 10)	1 190	20.3
2017 (Year 13)	152	2.6
Exclusion	54	1.0

Source: Hae-Kwan (2003).

(ii) Products which are not subject to tariff elimination: 54 items (1.0 per cent) are excluded from tariff elimination, such as electronic products, including washing machines and refrigerators.

- Imports from Chile to the Republic of Korea: There are (i) products which are subject to tariff elimination and (ii) products which are not subject to tariff elimination (sensitive products). The Republic of Korea eliminated tariffs on 9,740 products from Chile in 2006

(i) Products which are subject to tariff elimination: Major tariff elimination is expected to be accomplished in 2020 (see table II.11).

(ii) Products which are not subject to tariff elimination: 21 items (0.2 per cent) are excluded from tariff elimination, such as agricultural products (i.e. rice, apples and pears). The items categorized in the liberalization with tariff quota and schedule negotiated after the end of the Doha Round are also agricultural products.

Table II.11. Tariff elimination: Republic of Korea

	Number of Tariff lines	Percentage
2004 (Year 0)	9 740	87.2
2009 (Year 5)	701	6.3
2011 (Year 7)	41	0.4
2013 (Year 9)	1	0.001
2014 (Year 10)	262	2.3
2014 (transitional period of 10 years on seasonal basis)	1	0.01
2020 (Year 16)	12	0.1
Liberalization with tariff quota (schedule will be negotiated after the end of Doha Round)	18	0.15
Schedule negotiated after the end of Doha Round	373	3.3
Exclusion	21	0.2

Source: Hae-Kwan (2003).

When can “substantially all trade” coverage be achieved?

According to their tariff elimination schedule, Chile will cover 99.0 per cent in terms of tariff line in 2017. Likewise, the Republic of Korea will cover 96.3 per cent in 2020. Looking at current

preferential coverage of the Republic of Korea, it covered 93 per cent of tariff lines under preferential tariffs in 2006. Average rate of preferential tariff was 1.0 per cent (see Annex B.2.1). Therefore, by 2017 this FTA is expected to achieve “substantially all trade” coverage in terms of tariff lines.

(c) Singapore-Jordan FTA

Schedule of tariff elimination/reduction

- Imports from Jordan to Singapore: Duty-free access to all imports from Jordan is granted.
- Imports from Singapore to Jordan: 48 per cent of imports from Singapore had a duty free access at the time of entry into force in 2005.¹⁴ There are: (i) products which are subject to tariff elimination; and (ii) products which are not subject to tariff elimination (sensitive products).

(i) Products which are subject to tariff elimination: There are products which are subject to tariff elimination within five years and within 10 years. Tariff elimination is completed in 2015 (10 years after the Agreement entered into force) for these products. One tariff item (HS code 2203.00: beer made from malt) is subject to annual tariff reduction of 5 per cent for 10 years from 2005.

(ii) Products which are not subject to tariff elimination (sensitive products): 29 items (i.e. fruits, vegetables, alcohol beverages, and motor cars and other motor vehicles) are listed.

When can “substantially all trade” coverage be achieved?

- Imports from Jordan to Singapore: 100 per cent of total merchandise trade was fully liberalized.
- Imports from Singapore to Jordan: All of Singapore exports to Jordan at the time of entry (2005) were covered by tariff elimination. It is estimated that 92.6 per cent of Singapore exports to Jordan will enjoy duty free access when Jordan’s tariff elimination is completed in 2015.¹⁵

(d) ASEAN Free Trade Area (AFTA)

Schedule of tariff elimination/reduction

Ten AFTA member countries reduce/eliminate their tariffs according to the Common Effective Preferential Tariff (CEPT) which came into effect in 1993 and amended in 2003. There are: (i) “Inclusion List” (IL); and (ii) Sensitive track which consist of “Highly Sensitive List” (HSL) and General Exception (GE). Items in the sensitive track (HSL and GE) are exempted from CEPT.

(i) CEPT: one target was set for ASEAN+6 (Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand), while new ASEAN members (CLMV: Cambodia, Lao PDR, Myanmar and Vietnam) were treated separately (see table II.12). In addition, flexibility to exempt some products deemed “sensitive and highly sensitive” in the IL and put these in the different tariff elimination schedule until January 2018 was allowed to new ASEAN members (CLMV). Each country has different tariff concession schedule based on the target set under CEPT timetable below.

¹⁴ Source: Singapore government website: <http://www.iesingapore.gov.sg>

¹⁵ *Ibid.*

Table II.12. CEPT timetable of products that are subject to tariff elimination/reduction

	By January 2003	By January 2010	By January 2015	By January 2018
ASEAN+6	Elimination: 60 per cent of products in the inclusion list	Elimination: the rest (40 per cent) of products in the inclusion list		
CLMV			Elimination: 100 per cent of products in the inclusion list	*Exemption Elimination completed for some sensitive products

Source: Protocol to Amend the Agreement on the Common Effective Preferential Tariff (CEPT) Scheme for the ASEAN Free Trade Area (AFTA) for the Elimination of Import Duties, 2003.

(ii) Sensitive track (HSL and GE): HSL and GE of each country are described in their country's tariff structure in the consolidated CEPT Package.¹⁶ It is observed that agriculture is sensitive sector for most of ASEAN members. Looking at ASEAN+6, Singapore and Thailand do not have any HSL and GE. The Philippines maintains a little (0.2 per cent), followed by Malaysia (0.7 per cent), Indonesia (1.1 per cent) and Brunei (7.3 per cent).

Table II.13. Tariff structure of ASEAN+6 in 2006

	Tariff items (number)	Inclusion list (IL) (in per cent)	Highly sensitive list (HSL) (in per cent)	General exception (GE) (in per cent)
Singapore	10 705	100.0	0	0
Malaysia	12 591	99.3	0	0.7
Brunei	10 702	92.7	0	7.3
Philippines	11 091	99.6	0.2	0.2
Thailand	11 030	100.0	0	0
Indonesia	11 153	98.9	0.2	0.9

Source: KIEP (2006) calculations on the Consolidated 2006 CEPT Package.

When can “substantially all trade” coverage be achieved?

In terms of tariff lines and rates, AFTA's preferential coverage can be considered as substantial. Coverage rates of effective preferential tariffs of ASEAN+6 in 2006 are: Singapore (100 per cent), the Philippines (91.5 per cent), Thailand (89.7 per cent), Indonesia (84.6 per cent), Malaysia (84.2 per cent) and Brunei (54.1 per cent). Except for Brunei, five countries show high coverage of preferential tariffs. The similar figures for new members are: Lao PDR (91.2 per cent), Viet Nam (72.2 per cent), Cambodia (36.6 per cent) and Myanmar (28.3 per cent). The range of simple average of preferential duties of ASEAN+6 is relatively low, between 0 per cent (Singapore) and 4.2 per cent (Malaysia and Brunei). In comparison, these rates for new members are higher, between 3 per cent (Lao PDR) and 10.4 per cent (Cambodia).¹⁷

ASEAN+6 are expected to cover “substantially all trade” in 2010 and CLMV in 2015 (or 2018 at the latest) with regard to tariff lines. For example, ASEAN+6 are expected to cover more than 90 per cent of tariff lines at zero level (see table II.12) in 2010.

¹⁶ The consolidated CEPT Package (from 2001 to 2007) is available at: <http://www.aseansec.org/12025.htm>.

¹⁷ See Annex II.1.

*(e) ASEAN-China FTA**Schedule of tariff elimination/reduction*

There are three categories in the tariff-elimination/reduction schedules: (i) “Early Harvest Programme”, which consist of three product categories for elimination/reduction (category 1, 2, and 3 in table II.14); (ii) “Normal Track”; and (iii) “Sensitive Track” which consist of “Sensitive List” and “Highly Sensitive List”. Each country has different tariff concession schedule based on the targets of these three categories provided under the Agreements.¹⁸

(i) Early Harvest Programme: There are different tariff-elimination/reduction schedule for:
 (a) ASEAN+6 and China; (b) Viet Nam; (c) Lao PDR and Myanmar; and (d) Cambodia in accordance with each product category.

- ASEAN+6 and China

ASEAN and China have to eliminate all tariffs not later than January 2006 for Category 1 January 2005 for Category 2, and January 2004 for Category 3.

Table II.14. Timetable of Early Harvest Programme: ASEAN and China
 (in per cent)

Product category	Not later than 1 January 2004	Not later than 1 January 2005	Not later than 1 January 2006
Category 1 5 per cent < MFN tariff	10	5	0
Category 2 5 ≤ MFN tariff ≤ 15	5	0	0
Category 3 MFN tariff < 5 per cent	0	0	0

Source: Framework Agreement on Comprehensive Economic Cooperation between ASEAN and the People’s Republic of China (2002), Annex 2.

- New ASEAN members (CLMV)

Tariff elimination is scheduled to be completed in 2010 for all new ASEAN members, but modalities are different.

- Category 1 (30 per cent < MFN tariff): Viet Nam has to eliminate all tariffs not later than January 2007, 2008 for Lao PDR and Myanmar, and 2010 for Cambodia.
- Category 2 (15 ≤ MFN tariff < 30): Vietnam has to eliminate all tariffs not later than January 2008, 2009 for Lao PDR and Myanmar, and 2010 for Cambodia.
- Category 3 (MFN tariff < 15 per cent): Vietnam has to eliminate all tariffs not later than January 2008, 2009 for Lao PDR and Myanmar, and 2010 for Cambodia.

(ii) Normal Track: ASEAN+6 and China are expected to eliminate all tariffs in the Normal Track by 2010, CLMV by 2015. There are three type of schedules: (a) ASEAN+6 and China; (b) Viet Nam; and (c) Cambodia, Lao PDR and Myanmar.

¹⁸ These are: (i) Framework Agreement on Comprehensive Economic Cooperation between ASEAN and the People’s Republic of China (2002) and Annex 1 and Annex 2; (ii) Protocol to Amend the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and the People’s Republic of China (2003) and Appendix 1 and Appendix 2; and (iii) Second Protocol to Amend the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and the People’s Republic of China (2006).

Table II.15. Timetable of normal track: ASEAN+6 and China

X = Applied MFN Tariff Rate	ACFTA Preferential Tariff Rate (Not later than 1 January)			
	2005	2007	2009	2010
$X \geq 20\%$	20	12	5	0
$15\% \leq x < 20\%$	15	8	5	0
$10\% \leq x < 15\%$	10	8	5	0
$5\% < x < 10\%$	5	5	0	0
$X \leq 5\%$	Standstill		0	0

Source: Framework Agreement on Comprehensive Economic Cooperation between ASEAN and the People's Republic of China (2002), Annex 3.

Note: The first date of implementation was 1 July 2005.

Table II.16. Timetable of normal track: Viet Nam

X = Applied MFN Tariff Rate	ACFTA Preferential Tariff Rate (Not later than 1 January)							
	2005*	2006	2007	2008	2009	2011	2013	2015
$X \geq 60\%$	60	50	40	30	25	15	10	0
$45\% \leq X < 60\%$	40	35	35	30	25	15	10	0
$35\% \leq X < 45\%$	35	30	30	25	20	15	5	0
$30\% \leq X < 35\%$	30	25	25	20	17	10	5	0
$25\% \leq X < 30\%$	25	20	20	15	15	10	5	0
$20\% \leq X < 25\%$	20	20	15	15	15	10	0-5	0
$15\% \leq X < 20\%$	15	15	10	10	10	5	0-5	0
$10\% \leq X < 15\%$	10	10	10	10	8	5	0-5	0
$7\% \leq X < 10\%$	7	7	7	7	5	5	0-5	0
$5\% \leq X < 7\%$	5	5	5	5	5	5	0-5	0
$X < 5\%$	Standstill							0

Source: Framework Agreement on Comprehensive Economic Cooperation between ASEAN and the People's Republic of China (2002), Annex 3.

Note: * The first date of implementation was 1 July 2005.

Table II.17. Timetable of normal track: Cambodia, Lao PDR and Myanmar

X = Applied MFN Tariff Rate	ACFTA Preferential Tariff Rate (Not later than 1 January)							
	2005*	2006	2007	2008	2009	2011	2013	2015
$X \geq 60\%$	60	50	40	30	25	15	10	0
$45\% \leq X < 60\%$	40	35	35	30	25	15	10	0
$35\% \leq X < 45\%$	35	35	30	30	20	15	5	0
$30\% \leq X < 35\%$	30	25	25	20	20	10	5	0
$25\% \leq X < 30\%$	25	25	25	20	20	10	5	0
$20\% \leq X < 25\%$	20	20	15	15	15	10	0-5	0
$15\% \leq X < 20\%$	15	15	15	15	15	5	0-5	0
$10\% \leq X < 15\%$	10	10	10	10	8	5	0-5	0
$7\% \leq X < 10\%$	7**	7**	7**	7**	7**	5	0-5	0
$5\% \leq X < 7\%$	5	5	5	5	5	5	0-5	0
$X < 5\%$	Standstill							0

Source: Framework Agreement on Comprehensive Economic Cooperation between ASEAN and the People's Republic of China (2002), Annex 2.

Note: The first date of implementation was 1 July 2005. Myanmar shall be allowed to maintain ACFTA Rates at no more than 7.5 per cent until 2010.

(iii) Sensitive Track (Sensitive List and Highly Sensitive List): three types of schedules are set for the Sensitive Track for sensitive products (see table II.18). In the case of China, 277 items are listed in the Sensitive List (139 items: Sensitive List and 138 items: Highly Sensitive List). Chemicals (84 items), agriculture (36 items), electronics (29 items), and automobiles (22 items) are major sensitive industries for China.

Table II.18. Timetable of sensitive track

		by 2012	by 2015	by 2018	by 2020
ASEAN+6 and China	Sensitive products	20(%)		0-5(%)	
Viet Nam			Rate determined by 2004		0-5(%)
Cambodia, Lao PDR and Myanmar			20(%)		0-5(%)
ASEAN-6 and China	Highly Sensitive Products		<50(%)		
Viet Nam				<50(%)	
Cambodia, Lao PDR and Myanmar				<50(%)	

Source: Annex 2 of the modality for tariff reduction and elimination for tariff lines places in the sensitive track of the Protocol to Amend the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and the People's Republic of China (2003).

When can “substantially all trade” coverage be achieved?

It is estimated that ASEAN+6 and China are expected to eliminate tariffs on 90 per cent of their total tariff lines by 2010. New ASEAN Members (CLMV) are expected to do so by 2015.¹⁹

KIEP (2006) studied “substantially all trade” in terms of volume of trade. China covers 91.4 per cent of imports of ASEAN to China in 2004 under the Early Harvest Programme and Normal Track. Indonesia covers 87.6 per cent of imports of China to Indonesia in 2004. Provided that duty-free access is achieved in accordance with the schedule, elimination of tariffs in these products will be completed in 2012. Therefore, it can be regarded that China would fulfill “substantially all trade” in terms of volume of trade between ASEAN. Likewise, Indonesia would fulfill “substantially all trade” in terms of volume of bilateral trade between China. On the other hand, Cambodia covers only 32.7 per cent of Imports from China to Cambodia under the Early Harvest Programme and Normal Track. The study shows imbalance in terms of “substantially all trade” among the Parties of the Agreement.

(f) China-Chile FTA

Schedule of tariff elimination/reduction

- Imports from China to Chile: There are: (i) products which are subject to tariff elimination; and (ii) products which are not subject to tariff elimination (sensitive products). Chile eliminated tariffs on 5,891 products from China in 2006.

(i) Products which are subject to tariff elimination:

Tariff elimination is expected to be accomplished in 2015.

¹⁹ The estimate was made by the Government of Singapore (<http://www.iesingapore.gov.sg>).

Table II.19. Timetable of products of Chile that are subject to tariff elimination
(in per cent)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Category Year 5	20	40	60	80	100					
Category Year 10	10	20	30	40	50	60	70	80	90	100

Source: Free Trade Agreement between the Government of the People's Republic of China and the Government of the Republic of Chile, Annex I, Schedule of Chile.

(ii) Products which are not subject to tariff elimination:

There are some products which are not subject to tariff elimination.²⁰ These products include: rubber parts for vehicles; used tires; wool; certain artificial yarns or staple fibers and some staple fiber fabrics; certain garments especially those made of natural yarn; some stainless steel wires and iron tool; domestic cooking appliances; refrigerators; clothes driers; and household washing machines.

- Imports from Chile to China: There are: (i) products which are subject to tariff elimination; and (ii) products which are not subject to tariff elimination (sensitive products). China eliminated tariffs on 2,834 products from Chile in 2006.

(i) Products which are subject to tariff elimination: Tariff elimination will be accomplished in 2015.

Table II.20. Timetable of products of China that are subject to tariff elimination

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Category Year 2	50	100								
Category Year 5	20	40	60	80	100					
Category Year 10	10	20	30	40	50	60	70	80	90	100

Source: Free Trade Agreement between the Government of the People's Republic of China and the Government of the Republic of Chile, Annex I, Schedule of China.

(ii) Products which are not subject to tariff elimination: There are some products which are not subject to tariff elimination (i.e. agricultural products, chemical products, and paper/wood related products).

When can “substantially all trade” coverage be achieved?

In terms of tariff lines coverage, this can be expected by 2015.

(g) India-Singapore FTA

Schedule of tariff elimination/reduction

- Imports from India to Singapore: Duty-free access to all imports from India is granted.
- Imports from Singapore to India: There are: (i) products which are subject to tariff elimination; and (ii) products which are not subject to tariff elimination (sensitive products). Immediate tariff

²⁰ See Chile's schedule at: http://www.direcon.cl/pdf/CHILES_OFFER_TO_CHINA.pdf

elimination (duty free access) for 506 items was enabled under the Early Harvest Programme in 2005, at the time of entry into force of this FTA.

(i) Products which are subject to tariff elimination: There are: (i) 2,327 items subject to a phased tariff elimination from 2005-2009 and (ii) 2,292 products destined for a phased tariff reduction from 2005-2009.²¹

Table II.21. Timetable of products that are subject to tariff elimination/reduction
(in per cent)

Category	Entry into force	2006	2007	2008	2009
Goods qualifying for phased tariff elimination	10	25	50	75	100
Goods qualifying for phased tariff reduction	5	10	20	35	50

Source: Government of Singapore.

(ii) Products which are not subject to tariff elimination: Information not publicly available

When can “substantially all trade” coverage be achieved?

- Imports from India to Singapore: 100 per cent of total merchandise trade was fully liberalized at the time of entry into force.
- Imports from Singapore to India: It is estimated that approximately 75 per cent of domestic exports from Singapore will be eliminated or substantially reduced within 5 years time frame which will be terminated in 2009.²²

(h) India-Sri Lanka FTA

Schedule of tariff elimination/reduction

- Imports from Sri Lanka to India: Zero duty access for some items was ensured upon entering into force of the Agreement.²³

There are products which are subject to tariff elimination and products which are not subject to tariff elimination.

(i) Products which are subject to tariff elimination are categorized into: (a) items under 50 per cent margin of preference; and (b) items under 25 per cent margin of preference. Margin was scheduled to increase to 100 per cent within three years (2004) from the coming into force of the Agreement (2001).

(ii) Products which are not subject to tariff elimination: Although official information is not available,²⁴ it seems that textile and textile articles and plastics and rubber were identified as sensitive for India in terms of imports from Sri Lanka. Preferential tariff coverage of textile and textile articles was 74.9 per cent and that of plastics and rubber was 56.3 per cent in 2005.

²¹ Source: Singapore government website: <http://www.iesingapore.gov.sg>

²² *Ibid.* The Government of Singapore used 2003 data from International Enterprise Singapore.

²³ As for elimination of tariff, only Annexes A and B are available from the official site (<http://commerce.nic.in/ilfta.htm>). Annex E (list of items granted duty free access) is not available.

²⁴ Annex D (exception items) is not accessible from the official site (<http://commerce.nic.in/ilfta.htm>).

- Imports from India to Sri Lanka: Zero duty access for the items in Annex F-I of the India-Sri Lanka FTA was ensured upon entering into force of the Agreement.²⁵ There are also products which are subject to tariff elimination and products which are not subject to tariff elimination (sensitive products).

(i) Products which are subject to tariff elimination: They are categorized into two groups: (a) items under 50 per cent margin of preference (Annex F-II). The margin is scheduled to increase to 70 per cent (2002), 90 per cent (2003), and 100 per cent within three years (2004) from the coming into force of the Agreement (2001); and (b) items (the rest of the items which are not listed Annex F-I, F-II and Annex D) under reduction of not less than 35 per cent (2004), 70 per cent (2007) and 100 per cent (2009).

(ii) For products which are not subject to tariff elimination, information²⁶ is not available.

When can “substantially all trade” coverage be achieved?

After initial tariff elimination was completed in 2004, India’s simple average of preferential duties was 1.5 per cent and effective preferential tariffs coverage was 92.7 per cent in 2005 (four years after entry into force).²⁷ With the exception of textile and textile articles, 11.2 per cent of which is reflected in average preferential tariff, all items under preferential treatment were granted duty-free access.²⁸ Therefore, it is observed that India fulfils “substantially all trade” coverage in terms of tariff lines. Given the lack of information on Sri Lankan commitments, the percentage of duty-free tariffs at the time of entry into force and ultimately, in 2009, is not clear.

(i) Pakistan-Sri Lanka FTA

Schedule of tariff elimination/reduction

- Imports from Sri Lanka to Pakistan: There are: (i) products which are subject to tariff elimination; and (ii) products which are not subject to tariff elimination. 206 tariff lines at six-digit level were granted duty free access in 2005, at the time of entry into force of the Agreement.

(i) Products which are subject to tariff elimination:

(a) Products which are under modality of tariff elimination/reduction;

Table II.22. Pakistan’s schedule of tariff elimination/reduction
(in per cent)

Year of entry into force (2005)	34
Second year (2007)	67
Third year (2008)	100

Source: Government of Pakistan.

(b) Products which are granted preferential duty margin of 20 per cent on the applied MFN tariffs without quantitative restrictions which covers 5 tariff lines at six-digit level, including ceramic, tableware & kitchenware; and

²⁵ Annex F is not accessible.

²⁶ These products are included in Annex D (list of sensitive products).

²⁷ See Annex II.1.

²⁸ See Annex II.1.

(c) Products which are granted either duty-free access or preferential duty with tariff rate quotas, including tea, betel leaves and garments.²⁹

(ii) Products which are not subject to tariff elimination: 540 tariff lines at six-digit level (i.e. agricultural products, beverages, chemicals, and textile & clothing articles).

- Imports from Pakistan to Sri Lanka: There are: (i) products which are subject to tariff elimination; and (ii) products which are not subject to tariff elimination. 102 tariff lines at six-digit level are granted duty free access in 2005, at the time of entry into force of the FTA.

(i) Products which are subject to tariff elimination/reduction:

(a) The percentage of such products as per tariff lines are reproduced in the table below.

Table II.23. Sri Lanka's schedule of tariff elimination/reduction
(in per cent)

Year of entry into force (2005)	20
First year (2006)	30
Second year (2007)	40
Third year (2008)	60
Fourth year (2009)	80
Fifth year (2010)	100

Source: Government of Sri Lanka.

(b) Products which are granted either duty-free access or preferential duty with seasonal tariff rate quotas, including basmati rice and potatoes.³⁰

(ii) Products which are not subject to tariff elimination: 697 tariff lines at six-digit level (i.e. agricultural products, chemicals, wood & fats and oils, plastics and rubber, and textile and textile articles).

When can “substantially all trade” coverage be achieved?

- Imports from Sri Lanka to Pakistan: The effective preferential coverage rate covered 89.4 per cent of tariff lines in 2006.³¹ However, preferential rates are fairly high (simple average is 8.2 per cent). Provided that tariff elimination is completed in 2008, duty-free access would mark relatively high percentage.
- No information was available on imports from Pakistan to Sri Lanka.

²⁹ Tea: granting duty-free access for a total quantity of 10,000 MT of tea for every financial year. Betel leaves: granting preferential market access of 35 per cent on the applied MFN rate for a quantity of 1,200 MT for every financial year. Garments: granting preferential margin of 35 per cent on the applied MFN rate for a quantity of 3 million pieces of garments for every financial year for 21 tariff lines at six-digit level.

³⁰ Basmati rice: granting duty-free access for a total quantity of 6,000 MT of Basmati rice for every calendar year. Potatoes: granting duty-free access for a total quantity of 1,000 MT of potatoes for every calendar year (imports of potatoes is permitted only during Sri Lanka's off-season).

³¹ See also Annex II.1.

*(j) Malaysia-Pakistan FTA**Schedule of tariff elimination/reduction*

- Under the Early Harvest Programme which came into force in 2007, there are two categories of tariff elimination: (i) MFN tariff less than 5 per cent is scheduled to be eliminated; and (ii) MFN tariffs at 10 per cent are accorded a margin of preference of 50 per cent. Under this programme, Malaysia committed 114 tariff lines at six-digit level (mostly yarn, clothing and textile products),³² while Pakistan included 125 tariff lines at six-digit level (covering electrical appliances and machinery, plastics, chemicals, rubber and timber products).

When can “substantially all trade” coverage be achieved?

It is not yet clear since the Malaysia-Pakistan FTA was signed only in November 2007.³³

*(k) China-Pakistan FTA**Schedule of tariff elimination/reduction*

There are: (i) products which are subject to tariff elimination; and (ii) products which are not subject to tariff elimination.

(i) Products which are subject to tariff elimination.

- Imports from Pakistan to China: China will eliminate/reduce tariffs by 2012 for four categories (from Category I to IV in table II.25).

Table II.24. Modality of China

Category number	Track	Number of tariff lines	Percentage of tariff lines at 8-digits
I	Elimination of tariff (2010)	2 681	35.5
II	0-5 per cent (2012)	2 604	34.5
III	Reduction on Margin of Preference of 50 per cent (2012)	604	8.0
IV	Reduction on Margin of Preference from 20 per cent (2012)	529	7.0
V	No Concession	1 132	15.0

Source: Annex I: Elimination of Import Custom Duties, Free Trade Agreement between the Government of the People's Republic of China and the Government of the Islamic Republic of Pakistan.

³² Source: Government of Pakistan. Available at: <http://www.commerce.gov.pk/PMEHP.asp>.

³³ The Comprehensive Free Trade Agreement (FTA) for Closer Economic Partnership between Pakistan and Malaysia was signed in November 2007. The analysis covers the Agreement on the Early Harvest Programme concluded in 2006.

Table II.25. Timetable of Chinese products that are subject to tariff elimination/reduction (in per cent)

Category	Entry into force	01.01.08	01.01.09	01.01.10	01.01.11	01.01.12
I	25	50	75	100		
II	$\frac{X-5}{6X}$	$\frac{2(X-5)}{6X}$	$\frac{3(X-5)}{6X}$	$\frac{4(X-5)}{6X}$	$\frac{5(X-5)}{6X}$	$\frac{6(X-5)}{6X}$
III	8	16	25	33	41	50
IV	3	6	10	13	16	20

Source: Annex I: Elimination of Import Custom Duties, Free Trade Agreement between the Government of the People's Republic of China and the Government of the Islamic Republic of Pakistan.

- Imports from China to Pakistan: Pakistan will eliminate/reduce tariff by 2012 in accordance with four categories (from Category I to IV in table II.27).

Table II.26. Modality of Pakistan

Category number	Track	Number of tariff lines	Percentage of tariff lines at 8-digits
I	Elimination of tariff (Three years)	2 423	35.6
II	0-5 per cent (five years)	1 338	19.9
III	Reduction on Margin of Preference from 50 per cent (five years)	157	2.0
IV	Reduction on Margin of Preference from 20 per cent (five years)	1 768	26.1
V	No concession	1 025	15.0
VI	Exclusion	92	1.4

Source: Annex I: Elimination of Import Custom Duties, Free Trade Agreement between the Government of the People's Republic of China and the Government of the Islamic Republic of Pakistan.

Table II.27. Timetable of products from Pakistan that are subject to tariff elimination/reduction (in per cent)

Category	Entry into force	01.01.08	01.01.09	01.01.10	01.01.11	01.01.12
I	25	50	75	100		
II	$\frac{X-5}{6X}$	$\frac{2(X-5)}{6X}$	$\frac{3(X-5)}{6X}$	$\frac{4(X-5)}{6X}$	$\frac{5(X-5)}{6X}$	$\frac{6(X-5)}{6X}$
III	8	16	25	33	41	50
IV	3	6	10	13	16	20

Source: Annex I: Elimination of Import Custom Duties, Free Trade Agreement between the Government of the People's Republic of China and the Government of the Islamic Republic of Pakistan.

(ii) Products which are not subject to tariff elimination/reduction:

- China: 15 per cent of total tariff lines in Category V (no concessions) of the Modality of China is not subject to cuts. These include sectors, such as agriculture sector, chemical sector and electronic sector.
- Pakistan: 16.4 per cent of total tariff lines in Categories V and VI of the Modality of Pakistan is not subject to concessions. These include agricultural products, energy resources and some manufacturing goods.

When can “substantially all trade” coverage be achieved?

It is expected that both China and Pakistan would endeavour to eliminate the tariffs of no less than 90 per cent of products, both in terms of tariff lines and trade volume within a reasonable period of time.³⁴ According to the FTA modalities, 85 per cent of tariff lines will be covered under preferential treatment in the case of China and 83.6 will be covered in the case of Pakistan in 2012. As for duty-free access, China will cover 70 per cent at most and Pakistan will cover 55.5 per cent at most in 2012.

(I) China-Hong Kong China FTA*Schedule of tariff elimination/reduction*

- Imports from China to Hong Kong, China: Duty-free access to all imports from China is granted.
- Imports from Hong Kong, China to China: There are: (i) products which are subject to tariff elimination; and (ii) products which are not subject to tariff elimination/reduction. 273 items (i.e. electrical and electronic products, plastic articles, textiles and clothing, chemical products, pharmaceutical products, clocks and watches, jewelry, and cosmetics and metal products) were granted duty-free access in 2004, at the time of entry into force of the Agreement.³⁵

(i) Products which are subject to tariff elimination: A schedule of tariff elimination/reduction does not exist in the Agreement. Based on consultation among two parties³⁶, 529 additional items were included for tariff elimination in 2005.

(ii) Products which are not subject to tariff elimination/elimination: The list of sensitive products is not publicly available. It is assumed that MFN tariffs were applied to the products, except for 802 items under preferential tariffs. Some sectors, such as fats and oils, wood and wood articles and works of art, were not covered by preferential tariffs at all in 2006.³⁷

When can “substantially all trade” coverage be achieved?

Imports from China to Hong Kong, China fully satisfies “substantially all trade”. With regard to imports from Hong Kong, China to China, coverage of effective preferential tariffs was only 19.3 per cent in 2006.³⁸ Due to lack of modality of staged tariff elimination/reduction, it is difficult to identify when China would satisfy “substantially all trade” in terms of tariff line coverage as well as volume of trade.

³⁴ See Annex I of the Agreement.

³⁵ Items have to fulfill criteria for “Imported goods of Hong Kong origin”. See Annex 1 (Arrangements for Implementation of Zero Tariff on Trade in Goods) and Annex 2 (Rules of Origin for Trade in Goods) of the Closer Economic Partnership Arrangement between China and Hong Kong, China. Criteria of “imported goods of Hong Kong origin” are prescribed in Sections 2 to 5 of Annex 2.

³⁶ Annex 1 of CEPA II, “The Second Batch of Hong Kong Origin Products for Implementation of Zero Import Tariff by the Mainland”.

³⁷ Coverage rate of effective preferential tariffs marked zero per cent.

³⁸ See Annex II.1.

*(m) China-Macao, China FTA***Schedule of tariff elimination/reduction**

- Imports from China to Macao, China: Duty-free access to all imports from China is granted.
- Imports from Macao, China to China: There are: (i) products which are subject to tariff elimination; and (ii) products which are not subject to tariff elimination/reduction. As in the case of Hong Kong, China, 273 items (i.e. electrical and electronic products, plastic articles, textiles and clothing, chemical products, pharmaceutical products, clocks and watches and jewelry) were granted duty-free access in 2004, at the time of entry into force of the Agreement.³⁹

(i) Products which are subject to tariff elimination: No tariff elimination/reduction exists for the Agreement. Further elimination of tariffs is based on annual consultations among two parties.

(ii) Products which are not subject to tariff elimination/reduction: Sectors which are scarcely covered by the Agreement are: live animals & products (0.62 per cent), vegetable products (0.73 per cent), fats and oils (0 per cent), base metals & products (0 per cent), transport equipment (per cent) and works of art (0 per cent).

When can “substantially all trade” coverage be achieved?

Imports from China to Macao, China fully satisfies “substantially all trade. With regard to imports from Macao, China to China, coverage of effective preferential tariffs was only 8.6 per cent in 2006.⁴⁰ Due to lack of modality of staged tariff elimination/reduction, it is difficult to identify when China would satisfy “substantially all trade” in terms of tariff line coverage.

*(n) South Asia Free Trade Agreement (SAFTA)***Schedule of tariff elimination/reduction**

In SAFTA, there are: (i) products which are subject to tariff reduction; and (ii) sensitive products.

(i) Products which are subject to tariff reduction: Modality of tariff reductions differs between non-LDCs Members (Pakistan, India, Sri Lanka) and LDCs Members (Bangladesh, Bhutan, Maldives and Nepal). Elimination of tariffs is not scheduled.

Table II.28. Modality of tariff reduction

	Phase I (2006-2008)	Phase II (2008-2013) for non-LDCs	Phase II (2008-2016) for LDCs
Non-LDCs (Pakistan, India, Sri Lanka)	20 per cent < MFN tariff → 20 per cent	0-5 per cent	
	MFN tariff < 20 per cent → margin of preference basis of 10 per cent per year		
LDCs (Bangladesh, Bhutan, Maldives and Nepal)	30 per cent < MFN tariff → 20 per cent		0-5 per cent
	MFN tariff < 30 per cent → margin of preference basis of 5 per cent per year		

Source: Agreement on South Asian Free Trade Area, Article 7.

³⁹ Items have to fulfil criteria for “Imported goods of Macao origin”.

⁴⁰ See Annex II.1.

(ii) Sensitive products: Non-LDCs Members have two types of sensitive lists, one for LDCs Members and the other for non-LDCs Members while LDCs Members have one type of sensitive list which apply to all Members. Sensitive products of Bhutan holds only 3 per cent of tariff lines where these of LDCs members mark relatively high, between 16 and 23 per cent.

Table II.29. Coverage of products under preferential tariffs and sensitive products

	Number of tariff lines	Preferential tariffs (percentage of total lines)	Sensitive products (percentage of total lines)
Bangladesh	1 254	76.0	24.0
Bhutan	157	96.0	3.0
India	884	83.1	16.9
Maldives	671	87.2	12.8
Nepal	1 310	75.5	25.5
Pakistan	1 183	77.4	22.6
Sri Lanka	1 065	79.7	20.3

Source: Agreement on South Asian Free Trade Area. Sensitive list of each SAFTA Member.

When can “substantially all trade” coverage be achieved?

In terms of tariff lines, current coverage rates of SAFTA members are low. Coverage rate of effective preferential tariffs in 2006 are: Sri Lanka (3.4 per cent), Pakistan (5.5 per cent), Bangladesh (7.1 per cent), Maldives (7.1 per cent), India (15.3 per cent) and Nepal (42.2 per cent).⁴¹ It should be noted that non-LDCs members, such as Pakistan and Sri Lanka do not reach even 10 per cent coverage. Tariff reductions of Non-LDCs will be accomplished by 2013 and those of LDCs by 2016. In terms of tariff lines, still Bangladesh (76 per cent), Nepal (75.5 per cent), Pakistan (77.4 per cent) and Sri Lanka (79.7 per cent) do not reach 80 per cent in 2016 (see table II.29).

Above all, there is a gap between the current preferential tariff coverage and targeted preferential tariffs among SAFTA members. Hence, it would be difficult to satisfy ‘substantially all trade’ in terms of tariff lines. What is more important is that there is a basic question as to whether SAFTA can be called a free trade agreement (rather than a preferential trade agreement) given the fact that SAFTA does not aim at tariff elimination but only tariff reduction among members.

(o) India-Bhutan FTA

Free movement of “substantially all goods” between two countries is basically ensured. The way to treat flow of goods of third countries origin through either of FTA parties would be consulted on an annual basis.⁴²

⁴¹ See Annex II.1.

⁴² See Article IV of Agreement on Trade, Commerce and Transit between the Government of the Republic of India and the Royal Government of Bhutan.

Major findings

The preceding analysis shows that the selected South-South RTAs are not homogeneous in terms of both tariff lines coverage and preferential margins.¹ For example, in SAFTA, coverage remains below 10 per cent for all members, except India (15 per cent) and Nepal (42 per cent), while the preferential margin is below 3 per cent for all SAFTA members. The highest preferential margin is observed for India and is equal to 2.5 per cent. In AFTA, the coverage is much larger than in SAFTA. It goes from about 30 per cent of tariff lines for Myanmar to 92 per cent for the Philippines and 100 per cent for Singapore, which is a quasi duty-free economy in any case, with an average of around 75 per cent. Preferential margins are also much larger than those observed in SAFTA, both in absolute and relative terms. In absolute terms, preferential margin goes from 6 per cent to more than 17 per cent. With respect to the MFN rate applied on tariff lines with a preferential rate, the preferential margin represents on average more than 67 per cent of the latter.

The differences found at the aggregate level reflect rather substantial variations in coverage and preferential margins within each country preferential scheme. The implications of AFTA and SAFTA are not fully clear in the absence of full data, which would give a clearer pattern across members in their preferential schemes. This is likely to be in part a consequence of the possibility given to each party to the agreement to choose a list of sensitive products. In general, AFTA covers more sectors than SAFTA. Moreover, in those sectors where preferential rates are applied, AFTA is much closer to duty-free trade than SAFTA. The only exception is India and Pakistan, for which coverage is high in terms of both sectors and lines. Preferential margins are still modest if compared to those applied by AFTA members.

As far as bilateral Asian South-South FTAs are concerned, the preferential margins appear to be higher even compared with those applied by AFTA members. Tariff lines coverage varies from about 9 to 93 per cent and 100 per cent for Singapore's FTAs.

The only two examples of genuine free trade agreements among the selected RTAs are the FTAs between the Republic of Korea and Chile and between India and Sri Lanka. In the former, the average coverage at the sectoral level is above 90 per cent, and preferential margins are 100 per cent in relative terms (duty free), except for agricultural products for which the respective figure is nonetheless close to 75 per cent. In the latter, coverage is, or close to, 100 per cent in all sectors, except for textiles, plastics and rubber products. Access for Sri Lanka exports is duty free for almost all tariff lines covered by the agreement. Only textiles are not granted duty free at all tariff lines.

¹ The difference between the average MFN rate and preferential rate applied tariff lines covered by the preferential agreement

3. Beyond tariffs issues treatment in selected Asian South-South RTAs⁴³

Among existing South-South RTAs in Asia, 15 FTAs (12 intra-Asian South-South FTAs and three interregional South-South FTAs, see table II.8) were selected to analyse their “beyond-tariffs” provisions. The analysis that follows focuses on the relevant chapters/provisions relating to non-tariff issues, including: (1) rules of origin; (2) trade remedies; (3) standards-related measures; and (4) intellectual property rights. In addition, provisions on services trade, “Singapore issues” (i.e. trade facilitation, competition, investment and government procurement), and non-trade matters (i.e. environment and labour standards) are examined.

(a) Rules of origin

Rules of origin (RoO) are disciplines and procedures established to identify whether goods are products of an agreement signatory country, particularly in terms of the applicability of the RTA tariff rate to those goods. The substance of RoO determine the applicability of the agreement tariff rate, and are a major factor in deciding the effectiveness of RTAs for the private sector.

The WTO Agreement on Rules of Origin established a work programme of establishing common RoO (harmonization of RoO) among all WTO Members.⁴⁴ The programme was aimed at concluding a single set of RoO to be applied under non-preferential conditions to all WTO Members by July 1998. However, substantially delayed negotiations on RoO harmonization have become a major “left-over” issue from the Uruguay Round. In the absence of an agreement on RoO harmonization, the proliferation RTAs across the world has led to the creation of various RoO and has led to an unnecessarily complex situation. It is likely that the situation will become more complicated in new RTAs as the variety of RoOs will have a negative impact on the flow of international trade. In other words, the complexity of RoO could potentially decrease the free trade economic effects of RTAs.

In general, RoOs falls into three categories: (1) value-added criteria; (2) manufacturing process criteria; and (3) changes in tariff classification criteria. Value-added criteria evaluate the percentage of the total value of the good which occurred in the country exporting the good, particularly when the good is subject to preferential tariff treatment. The manufacturing process criteria recognizes the country of origin as the country where certain specific processes (“transformation”) took place on the product, thereby increasing its value-added; these criteria are, for example, commonly applied to textile products. The change in tariff classification criteria (as a result of transformation) provides for the country of origin of the goods to be recognized according to whether the tariff classification (HS code) assigned to the final goods produced in that country show a change from the tariff classification of the input goods. Cumulation rules⁴⁵ are also an important part of rules of origin. Under cumulation, all the countries that are party to the agreement are considered to form a single region, and the added value that is added in that region is treated as an originating product.

⁴³ “Beyond tariffs” refers to non-tariff issues included for formation of an FTA. According to Article XXIV 5. (b) of the GATT, “duties” and “other regulations of commerce” shall not be higher or more restrictive than the corresponding “duties” and “other regulations of commerce” existing in the same constituent territories prior to the formation of the FTA. However, the coverage of “other regulations of commerce” has not been clarified.

⁴⁴ Free trade areas are allowed to use deferent RoOs as exception.

⁴⁵ In the case of AFTA, the rules of origin in principle require 40 per cent or more of added value. If the cumulative added value that was added within the ASEAN area amounts to 40 per cent or more, then that product can be certified as of ASEAN origin.

Major findings

- The rules of origin in the RTAs which have been reviewed fall into five general categories: (1) Value-added criteria; (2) change in tariff classification criteria; (3) a selection type allowing the choice to be of either value added or change in tariff classification; (4) a dual criteria rules of origin requiring value added criteria and change in tariff classification criteria;¹ and (5) manufacturing process criteria.
- The value-added criteria is applied in several FTAs, such as AFTA and ASEAN-China FTA. Forty per cent or more of cumulative added value is required for certification as the country of origin.
- The change in the criteria for tariff classification and “selection type” is adopted in a few FTAs. The latter requires either a change in tariff classification at the four-digit or six-digit level of the product’s HS code or cumulative added value of 40 per cent or more for certification as the country of origin.
- Some of the reviewed FTAs, such as the Singapore-India CECA and other FTAs involving India, adopt the dual criteria. These require both a cumulative added value of 40 per cent or more and a change in tariff classification.
- The manufacturing process criteria are mainly applied in the China-Hong Kong, China FTA and the China-Macao, China FTA.

¹ Ordinarily, the dual criteria rules of origin are the strictest of these five types, while the selection type allows the greatest flexibility.

Table II.30. Rules of origin in major RTAs in the Asia-Pacific region

Type of criteria	FTA	Rules of origin
Value-added criteria	ASEAN Free Trade Agreement (AFTA)	40 per cent or more of cumulative added value. For iron and steel products and some other categories, the change in tariff classification criteria is applied.
	China-ASEAN	40 per cent or more of cumulative added value.
	Singapore-New Zealand	40 per cent or more of cumulative added value.
	Singapore-Australia	50 per cent or more of cumulative added value. (For some categories, 30 per cent or more.)
	Australia-New Zealand	50 per cent or more of cumulative added value.
Change in tariff classification criteria	Japan-Singapore	Change in tariff classification criteria (at 4-digit HS level) But for 264 categories, the choice of a change in tariff classification or 60 per cent or more of cumulative added value applies (to be reduced to 40 per cent in the future).
	Thailand-Australia	Change in tariff classification criteria (at 4-digit or 6-digit HS level) But for some categories, a cumulative added value criteria also applies.
	Thailand-New Zealand	Change in tariff classification criterion (at 4-digit or 6-digit HS level) But for some categories, a cumulative added value criteria also applies.
	Singapore-Republic of Korea	Change in tariff classification criteria (at 4-digit or 6-digit HS level) But for some categories, a cumulative added value criteria also applies.
	Japan-Malaysia	Either the 40 per cent or more of cumulative added value criteria or the change in tariff classification (at 4-digit or 6-digit HS level) criteria.
	ASEAN-Republic of Korea	Either the 40 per cent or more of cumulative added value criteria or the change in tariff classification (at 4-digit HS level) criteria.
Dual criteria	Thailand-India (only the 82 Early Harvest Programme items)	Both the 40 per cent or more of cumulative added value criteria and the change in tariff classification (at 6-digit HS level) criteria must be met. But for some items only the change in tariff classification (at 4-digit or 6-digit HS level) or only the added value criteria applies.
	Singapore-India	Both the 40 per cent or more of cumulative added value criteria and the change in tariff classification (at 4-digit or 6-digit HS level) criteria must be met. For a fairly large number of items, however, only the change in tariff classification criteria is applied.
Manufacturing process criteria	China-Hong Kong, China	The manufacturing process criteria applies in a majority of cases, but the change in tariff classification (at 4-digit HS level) and 30 per cent or more added value criteria are applied to some categories.
	China-Macao, China	The manufacturing process criteria applies in a majority of cases, but the change in tariff classification (at 4-digit HS level) and 30 per cent or more added value criteria are applied to some categories.

Source: FTA agreements.

Note: The above rules of origin are those provided in the FTA to apply to a majority of categories; there are exceptions, depending on category.

Intermediary trade also involves differing criteria

Issues involved in rules of origin also include re-invoicing, back-to-back certificates and other aspects of intermediary trade (see figure. II.8), thus adding to their complexity.

Re-invoicing occurs in a commercial flow in which invoices are issued from a home office or regional headquarters in a third country other than the country of origin. It is common for invoices to be issued from Singapore, where many regional headquarters are located, or from head offices in Japan. An example of re-invoicing, a common practice in Asia, occurs when products from Malaysia are exported to Indonesia in AFTA, even though the products and country of origin certificates are sent directly to Indonesia, the invoices show that the regional headquarters in Singapore bought the products from its subsidiary in Malaysia, and the invoices are issued from Singapore to Indonesia. Physical distribution is by direct shipping, but the commercial flow is through a third country.

Back-to-back certification is a phenomenon that occurs in FTAs concluded by three or more countries. In addition to re-invoicing, both the goods and the country of origin certificates are shipped through a third country. In AFTA, for example, there are cases in which products from Malaysia are aggregated first at a distribution centre in Singapore for a time, and then shipped to Indonesia. Where AFTA is involved, products produced in Malaysia will have the AFTA Form D certificate of origin issued in Malaysia, and the Government of Singapore, which is an AFTA signatory, will issue a new, separate certificate of origin based on the above certificate of origin.

Trade conducted on patterns like these is termed intermediary trade, and is an increasingly common form of trade in Asia. The background to trade conducted by enterprises through third countries using re-invoicing and back-to-back certification is thought to include such factors as the occurrence of substantive transactions at regional headquarters and through head offices, and the implementation of comprehensive exchange risk control and improvements in physical distribution efficiency through head offices and regional headquarters.

The question of whether an importing country will accept back-to-back certificates, or re-invoicing from a country other than the country of origin, becomes an issue in RTAs. AFTA explicitly provides for re-invoicing and back-to-back certification.¹ AFTA recognizes these practices, and the FTA agreed tariff rate is applied even on transactions that are routed through a regional headquarters in Singapore, for example. The Japan-Malaysia EPA, the ASEAN-Republic of Korea FTA, and other such agreements similarly recognize re-invoicing. On the other hand, the ASEAN-China FTA does not expressly provide for re-invoicing or back-to-back certification. Re-invoicing is therefore accepted or not according to the understanding of each country's own customs service, and it has been pointed out that every country's understanding differs. Apparently, the FTAs that India is connected with do not accept re-invoicing.

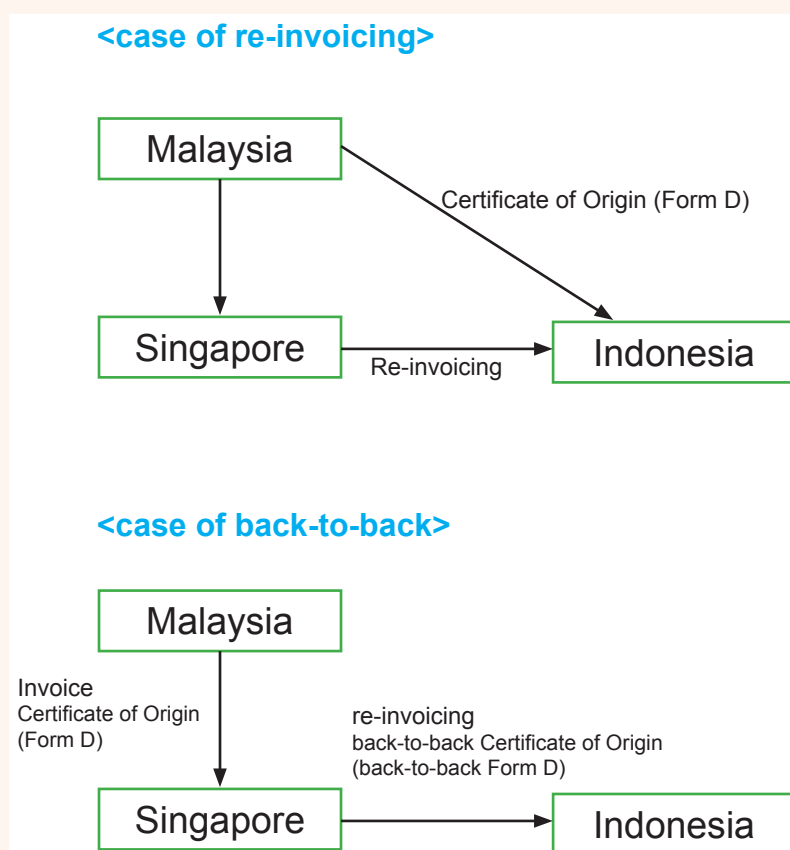
There is a growing demand for such rules of origin that would fit according to the actual business practice. Given these circumstances, it would appear that recognition of intermediary trade, which has become a general pattern for transactions, would also improve RTA utilization rates.

¹ Articles 10 and 21 of AFTA Operational Certificate Procedures (OCP) for the Rules of Origin.

(continued)

In fact, many Asian enterprises that make use of RTAs have expressed the view that rules of origin should be common and unified to recognize: (1) the most flexible of the five types of rules of origin, the choice of criteria type, as well as universal cumulation criteria; and (2) intermediary trade using re-invoicing and back-to-back certification. Other issues that need to be addressed in a more effective manner include: the occurrence of differences in how exporting and importing countries interpret the HS codes; the appearance of FOB prices on certificates of origin in some FTAs so that the factory selling price becomes known; and technological/technical innovations in physical distribution that have reduced lead times, and have led to calls for increased speed and computerization of procedures for issuing certificates of origin.

Figure II.8. Re-invoicing and back-to-back certification in the case of AFTA



Source: JETRO.

(b) Trade remedies

Trade remedies are comprised of anti-dumping measures, countervailing measures and safeguards. At the multilateral level, anti-dumping is covered by Article VI of GATT 1994 and the WTO Agreement on Anti-dumping, which are disciplining the process of applying anti-dumping measures. Countervailing measures are covered by Article VI of GATT 1994 and the WTO Agreement on Subsidies and Countervailing Measures discipline countervailing duties. Safeguards are covered by Article XIX

of GATT 1994 and the Agreement on Safeguards. This sub-section looks at anti-dumping measures, countervailing duty measures and safeguards separately, and focuses on the issues of applicability of trade remedies, rules and related dispute settlement.

(i) Anti-dumping measures

Applicability

Eight FTAs⁴⁶ out of 15 RTAs under consideration have anti-dumping provisions, allowing application of anti-dumping measures among their parties. Five RTAs⁴⁷ refer to provision on anti-dumping measures under the WTO Anti-dumping Agreement (ADA). Two FTAs do not refer to the WTO Agreement.⁴⁸

Rules

The WTO Anti-dumping Agreement contains specific rules regulating the determination of dumping, determination of material injury, evidence and causality, provisional measures, price undertakings, duration and review of anti-dumping duties and price undertakings, and notification and consultation. Three Asian South-South FTAs⁴⁹ include implementation-related provisions. The Singapore-Jordan FTA takes a WTO-plus approach and introduces stricter criteria for applying anti-dumping measures, while retaining rights and obligations under the WTO ADA.⁵⁰ The India-Singapore FTA consists of notification and information for investigation provisions. As for determination of dumping and its margins, this FTA only refers to the WTO Agreement Articles 2.3 and 2.4 (determination of dumping). The Republic of Korea-Singapore FTA simply sets out transparency provision in the implementation of the WTO Anti-dumping Agreement, such as calculation of anti-dumping margins and application of the ‘lesser duty’ rule (Article 9.1 of the WTO Anti-dumping Agreement).

Dispute settlement

Four FTAs⁵¹ specify that anti-dumping measures shall not be subject to the dispute settlement system under these agreements, but will take place under the WTO Dispute Settlement Understanding provisions.

⁴⁶ Republic of Korea-Singapore, Republic of Korea-Singapore, India-Singapore, China-Pakistan, China-Hong Kong China, China-Macao China, China-Chile, Republic of Korea-Chile and Singapore-Jordan FTAs.

⁴⁷ Republic of Korea-Singapore, China-Pakistan, China-Chile, Republic of Korea-Chile, and Singapore-Jordan FTAs. The WTO Anti-dumping Agreement is partially referred to for determination of dumping in the case of the India-Singapore FTA.

⁴⁸ China-Hong Kong China and China-Macao China FTAs: These agreements simply stipulate that FTA parties shall apply anti-dumping measures against imported and originated goods from the other Party.

⁴⁹ Republic of Korea-Singapore, India-Singapore and Singapore-Jordan FTAs.

⁵⁰ See Article 2.8: (a)-(h) of Singapore-Jordan FTA: “In order to bring greater discipline to anti-dumping investigations and to minimize the opportunities to use anti-dumping in an arbitrary or protectionist manner”, stricter criteria to apply anti-dumping in terms of implementation of the WTO Anti-dumping Agreement are made. These include: de minimis margin, volume of dumped imports normally regarded as negligible, prohibition of third country dumping, criteria of determination of material injury, and calculation of the margin of dumping and the resulting dumping duty based on such margin).

⁵¹ Republic of Korea-Singapore, China-Pakistan, China-Chile, and Republic of Korea-Chile FTAs.

*(ii) Countervailing measures****Applicability***

Eight FTAs⁵² have countervailing measures provisions. Among these, six of them confirm that countervailing measures are applicable under Article VI of GATT 1994 and the WTO Agreement on Subsidies and Countervailing Measures. Two FTAs⁵³ undertake not to apply countervailing measures among their parties, while at the same time reiterating their observance of the GATT 1994 and the WTO Agreement on Subsidies and Countervailing Measures. Six FTAs have no specific countervailing measures provisions and their position of applicability is not clear.

Rules

None of the reviewed FTAs specifically provides detailed rulings on countervailing measures going beyond the respective WTO provisions.

Dispute settlement

Three FTAs specifically point out that countervailing measures will not be subject to the dispute settlement system under these agreements.

(iii) Safeguards

RTAs in general identify “bilateral safeguard measures” and “global safeguard measures”.⁵⁴ “Bilateral safeguard measures” is applied if an increase of imports from other RTA parties as a result of tariff reduction/elimination causes serious injury to a domestic industry. “Global safeguard measures” indicate multilateral safeguard actions disciplined by the Article XIX of GATT1994 and the WTO Agreement on Safeguards.

Applicability

Most of 15 reviewed RTAs⁵⁵ incorporate safeguard provisions and confirm applicability of safeguard measures. Among these, some⁵⁶ identify “bilateral safeguard measures” (i.e. those among their parties) and provide detail rules on “bilateral safeguard measures”. Six FTAs⁵⁷ do not use the term, either “bilateral safeguard measures” or “global safeguard measures”, but their provisions deal only with “bilateral safeguard measures”.⁵⁸ The Republic of Korea-Chile FTA solely refers to rights and obligations under the Article XIX of GATT 1994 and the Agreement on Safeguards without any additional mention of “bilateral safeguard measures” and/or “global safeguard measures”.

⁵² Republic of Korea-Singapore, India-Singapore, China-Pakistan, China-Hong Kong China, China-Macao China, China-Chile, Republic of Korea-Chile, and Singapore-Jordan FTAs.

⁵³ China-Hong Kong China, China-Macao China FTAs.

⁵⁴ See Teh. R, and Budetta. M (2007).

⁵⁵ Republic of Korea-Singapore, India-Singapore, Pakistan-Sri Lanka, China-ASEAN, India-Sri-Lanka, China-Pakistan, China-Hong Kong China, China-Macao China, ASEAN, SAFTA, China-Chile, Korea-Chile, and Singapore-Jordan FTAs.

⁵⁶ Republic of Korea-Singapore, India-Singapore, China-Pakistan, China-Chile, and Singapore-Jordan FTAs.

⁵⁷ Pakistan-Sri Lanka, India-Sri-Lanka, China-Hong Kong China, China-Macao China FTAs, ASEAN, and SAFTA.

⁵⁸ The safeguard measures in the provisions apply only to FTA parties.

Rules

➤ **“Bilateral safeguard measures”**

Twelve FTAs⁵⁹ provide for “bilateral safeguard measures” among their participants. Two types of safeguard measures are identified in these FTAs. If increased imports from the other FTA party constitute a substantial cause of serious injury or threat to a domestic industry producing a like or directly competitive good, such party may: (i) suspend further reduction of any rate of preferential duties; (ii) increase the rate of preferential duties, but not to exceed the lesser of MFN applied rate of duty in effect at the time the measure is taken; and (iii) increase the rate of preferential duties not to exceed the lesser of MFN applied rate of duty in effect on the day immediately preceding the date of entry into force of the Agreement. These safeguards are alternatively applied. Some FTAs⁶⁰ exercise these three types of measures, while others⁶¹ exercise only one type of safeguards (i.e. suspension of further reduction of preferential duties).

As for rules on application of bilateral safeguard measures, most of the FTAs include provisions, such as definition, notification, investigation, determination, application, duration, compensation, and review and termination. These FTAs with detailed rules on application of safeguards⁶² partially refer to Articles 3 and 4.2 of the WTO Agreement on Safeguards for investigation and determination of serious injury or threat. Some of the FTAs without detailed rules on safeguards simply affirm that application of safeguard measures will be consistent with the relevant provisions of the WTO Agreement on Safeguards.⁶³ Other FTAs⁶⁴ make no reference to the WTO Agreement and do not provide any rules on safeguards.

Five FTAs⁶⁵ specifically provide for notification and consultation mechanisms under their frameworks. For example, under the Pakistan-Sri Lanka FTA, a party applying safeguard measures will notify them to a “Joint Committee” established at the Ministerial level. The Committee will enter into consultations to reach a mutually acceptable remedy. If consultations do not reach a compromise, a Party can apply safeguards.

➤ **“Global safeguard measures”**

Five FTAs⁶⁶ stipulate that rights and obligations under Article XIX of GATT 1994 and the WTO Agreement on Safeguards are maintained under the specific clause of “global safeguard measures”. What is interesting is that the India-Singapore and Singapore-Jordan FTAs enable exclusion of FTA parties from “global safeguard measures”, while at the same time maintaining their rights and obligation under Article XIX of GATT 1994 and the Agreement on Safeguards, i.e. they can apply safeguard measures against other WTO Members.⁶⁷

⁵⁹ Republic of Korea-Singapore, India-Singapore, Pakistan-Sri Lanka, China-ASEAN, India-Sri-Lanka, China-Pakistan, China-Hong Kong China, China-Macao China, ASEAN, SAFTA, China-Chile, and Singapore-Jordan FTAs.

⁶⁰ Republic of Korea-Singapore, India-Singapore, China-Pakistan, and Singapore-Jordan FTA.

⁶¹ Pakistan-Sri Lanka, India-Sri Lanka, China-Hong Kong China, China-Macao China FTAs, ASEAN and SAFTA.

⁶² For example, Republic of Korea-Singapore, China-Pakistan, China-Chile, and Singapore-Jordan FTAs provide detail provisions on application of safeguard measure.

⁶³ China-ASEAN, Pakistan-Sri Lanka FTA, and SAFTA.

⁶⁴ India-Sri-Lanka, China-Hong Kong China, China-Macao China FTAs and ASEAN.

⁶⁵ India-Sri-Lanka, Pakistan-Sri Lanka, China-Hong Kong China, China-Macao China FTAs and ASEAN.

⁶⁶ Republic of Korea-Singapore, India-Singapore, China-Pakistan and Singapore-Jordan FTAs.

⁶⁷ See Article 2.9.5 of the India-Singapore Agreement which stipulates that: “a Party taking a safeguard

Dispute settlement

Three FTAs⁶⁸ provide that safeguards will not be subject to the dispute settlement system under their frameworks.

Major findings

Trade remedies are an important area for Asian South-South RTAs. Of the three trade remedies (anti-dumping measures, countervailing measures and safeguards) safeguards are the source of greatest concern as 13 FTAs incorporate safeguard provisions.

These FTAs confirm applicability of trade remedies against FTA partners. Eight FTAs allow anti-dumping against their parties. While six FTAs allow countervailing measures against their parties, two FTAs specially undertake not to apply these measures against their parties. In the case of safeguards, 13 FTAs allow safeguards against their parties. This implies that Asian developing countries consider safeguard measures as an important trade policy tool which gives domestic industries some breathing space to adjust themselves to regional trade liberalization, if required and under rules which are consistent with those of the WTO.

While South-South Asian FTAs provisions on countervailing measures appear to simply reiterate the commitments contained in the WTO Agreement on Subsidies and Countervailing Measures, those on anti-dumping measures and safeguards also contain some specific rules, which may go beyond the respective WTO agreements.

(c) Standards-related measures

Standards-related measures deal with technical regulations and standards, conformity assessment procedures and associated legal methodology, such as mutual recognition and harmonization. TBT and SPS are covered in such measures. In most of the reviewed FTAs, TBT and SPS-related measures are treated separately in accordance with the WTO Agreements. TBT-related measures in the selected FTAs⁶⁹ are analysed below according to their: (a) principles and approach (i.e. objective, approach and coverage); (b) transparency; (c) equivalence; (d) mutual recognition of product norms and testing (mutual recognition agreements – MRAs); (e) harmonization of product norms and testing; (f) facilitation of certification process (i.e. accreditation bodies); (g) institutional arrangements and cooperation (e.g. regional consultation mechanisms, mechanisms for implementation and enforcement, and joint bodies for harmonization/MRAs); (h) dispute settlement; and (i) future cooperation arrangements.

measure under Article XIX and the Agreement on Safeguards may, to the extent consistent with the obligations under the WTO Agreements, exclude imports of an originating good from the other Party if such imports are not a substantial cause of serious injury or threat thereof". Singapore-Jordan FTA includes the same provision as India-Singapore FTA.

⁶⁸ China-Pakistan, China-Chile, and Republic of Korea-Chile FTAs.

⁶⁹ Only provisions of TBT-related measures are discussed. Provisions of SPS-related measures are not included in the detailed analysis here but are included in the findings.

Principles and approach

- **Objective:** Many of the reviewed RTAs aim at improving the business climate through the reduction of standards-related barriers. Some more specifically mention the achievement of economic rationale, such as reduction of unnecessary transaction costs. Among those, one FTA⁷⁰ pro-actively uses harmonization and MRAs as a tool to achieve closer economic integration, as well as a contributor for forming stronger segments of global supply chains. While economic rationale is emphasized, the legitimate objectives for protecting human, animal or plant life or health are endorsed in most of the reviewed Asian FTAs.
- **Approach:** Most of the reviewed FTAs place the WTO TBT Agreement as an integral part of the text. Full implementation of the WTO TBT Agreement, including the decisions and recommendations adopted by the TBT Committee, is emphasized.
- **Coverage:** Coverage relates to technical regulations, standards and conformity assessment procedures that may directly or indirectly affect trade. One FTA uses wider coverage than others by using the concept of ‘standards-related measures’ affecting trade of goods, which also literally embraces private sector standards.⁷¹

Transparency

Transparency requirements are explicitly provided for in most of the reviewed RTAs. These provisions mostly incorporate the transparency articles of the WTO TBT Agreement, such as Article 2.9 (notification where a relevant international standard does not exist) and Article 5.6 (conformity assessment where a relevant guide or recommendation issued by an international standardizing body does not exist), Article 2.10 and Article 5.7 (exceptional case for notification). Some FTAs have more stringent transparency obligations than the WTO Agreement. For instance, one FTA⁷² requires transparency for ‘standards-related measures’ in which non-governmental actors are involved, being a ‘WTO-plus’ provision.

Equivalence

‘Equivalence’ relates to unilateral recognition. In general, parties to reviewed Asian FTAs recognize different terms of their technical specifications as equivalent when they do not conclude mutual recognition agreements. FTAs which focus more on promotion of MRAs, such as ASEAN, do not include the equivalence clause. Only a few of the reviewed FTAs mention the term "equivalence" in their TBT chapter. In the equivalence provisions, "legitimate reasons" are highlighted. If a party does not accept equivalence, the clause states that the party should provide legitimate reasons with the other party concerned.

⁷⁰ The ASEAN Policy Guideline on Standards and Conformance prioritizes five areas: (i) harmonization of national standards; (ii) active participation in international standard setting in the sectors that are potential for ASEAN trade; (iii) adopting conformity assessment procedures that are consistent with international standards; (iv) develop and implement sectoral MRAs in the ASEAN region; and (v) encourage cooperation amongst national accreditation bodies and national metrology institutes in the ASEAN region.

⁷¹ See Chapter 9 of the China-Chile FTA.

⁷² See Article 9.8 of the Republic of Korea-Chile FTA. When a party allows nongovernmental persons in its territory to participate in the process of preparation of standards-related measures, it shall also allow non-governmental persons from the territory of the other party to participate.

Mutual recognition

Some of the reviewed FTAs⁷³ contain mutual recognition provisions. In most cases, they integrate the WTO TBT Agreement, as well as a sectoral Annex containing information on mandatory requirements, designating authorities and establish registered conformity assessment bodies. Two FTAs⁷⁴ cover mutual recognition for product norms (technical regulations and standards) and testing (conformity assessment); one FTA⁷⁵ covers MRAs in the case of testing. Among Asian FTAs, ASEAN is practically and institutionally the only FTA that is sufficiently well established to promote MRAs.

ASEAN and the use of mutual recognition arrangements (MRAs)

ASEAN considers that MRAs and harmonization as strategic tools for the elimination of technical barriers to trade within the region. ASEAN rules MRAs in the "ASEAN Framework Agreement on Mutual Recognition Arrangements" and the "Interpretative Notes" of the Agreement stipulate:

- Elements of sectoral MRA;
- Joint Sectoral Committee;
- The listing of conformity assessment bodies in a sectoral MRA;
- Verification of technical competence and compliance of conformity assessment bodies;
- Monitoring of conformity assessment bodies;
- Consultations, implementation and settlement of dispute.

Highlighting several points from above, mutual recognition is promoted on a sector-by-sector basis. Implementation is ensured by Conformity Assessment Bodies of each Member State at the national level. At the regional level, the Joint Sectoral Committees review the implementation of the Agreement with support of the ASEAN Consultative Committee for Standards and Quality (ACCSQ).¹ As for dispute settlement, amicable solution between member States or within the relevant Joint Sectoral Committee, should first take place. If solution cannot be found, the dispute will be dealt with in ASEAN's Dispute Settlement Mechanism.

ASEAN's Policy Guidelines on Standards and Conformance state that harmonization that covers: (a) harmonization of standards and implementation of the relevant conformity assessment schemes; and (b) adoption and use of technical regulation. The Guidelines prioritizes five areas, namely: (i) harmonization of national standards; (ii) active participation in international standard-setting in the sectors that have a potential for ASEAN trade; (iii) adoption of conformity assessment procedures that are consistent with international standards; (iv) development and implementation of ASEAN sectoral MRAs; and (v) cooperation amongst national accreditation bodies and national metrology institutes (NMIs) in ASEAN countries.

¹ The ASEAN Consultative Committee on Standards and Quality (ACCSQ) implements MRAs on conformity assessment and harmonizes national standards with international standards.

⁷³ See Republic of Korea-Singapore, India-Singapore, ASEAN and China-Chile FTAs. The China-Chile FTA remains stating inauguration of a MRA feasibility study referring to APEC framework.

⁷⁴ See India-Singapore FTA, ASEAN.

⁷⁵ See the Republic of Korea-Singapore FTA.

Harmonization

Only a few of the reviewed FTAs⁷⁶ contain specific harmonization provisions. In these provisions, the WTO TBT Agreement (i.e. Article 2.5 and Annex 3) is incorporated. These FTAs commit themselves to using international standards, or the relevant parts of international standards, as a basis for technical regulations and conformity assessment procedures.⁷⁷ Two FTAs⁷⁸ have more detailed harmonization clauses than the WTO TBT Agreement.⁷⁹

Facilitation of certification process

Several mechanisms to facilitate conformity assessment procedures, such as non-discrimination on acceptance of the conformity assessment procedures, designation of conformity assessment bodies, obligation of competent body or authority, and fee for certification, are prescribed in two FTAs.⁸⁰

Institutional arrangement and cooperation

Several types of institutional arrangement for implementation of the TBT provisions can be found in the reviewed FTAs. They establish a joint committee to review enforcement of the TBT provisions and effective implementation of MRAs, and discuss standards and harmonization.

Dispute settlement

No FTA, with the exception of ASEAN, provides dispute settlement clause solely for the TBT issues. In the case of the India-Singapore FTA, a TBT joint committee is entitled to provide an amicable solution when TBT-related problems arise among parties.

Future cooperation

Some of reviewed FTAs have a provision on technical cooperation to strengthen capacities in the TBT-related policy area. They are particularly aimed at achieving full and effective compliance of obligations as set out in the WTO TBT Agreement (i.e. participation and use of international standards, strengthening institutions, and bilateral coordination by appropriate agencies to strengthen capacities in the area).

⁷⁶ See, for example, the ASEAN and Republic of Korea-Chile FTAs.

⁷⁷ In the case of the Republic of Korea-Chile, use of international standards is obliged, except in cases where such standards would be an ineffective means to fulfill its legitimate objectives.

⁷⁸ ASEAN and Republic of Korea-Chile FTA.

⁷⁹ For example, Republic of Korea-Chile FTA provides a list of international standardizing body (i.e. ISO, the International Electrotechnical Commission, Codex Alimentarius Commission, World Health Organization, the UN Food and Agriculture Organization, and the International Telecommunications Union), whereas the WTO TBT Agreement does not obtain a specific list.

⁸⁰ See the China-Chile and Republic of Korea-Chile FTAs.

Major findings

- Six FTAs¹ out of 15 reviewed have a TBT or SPS chapter, and all (with one exception²) treat TBT and SPS in a separate chapter.
- Incorporation of the WTO TBT Agreement and SPS Agreement into the standards-related measures clauses are observed in the reviewed FTAs. In this regard, they ensure their commitment to the Agreements and underline implementation of these WTO Agreements.
- Asian South-South FTAs recognize the important objective of facilitating the elimination of TBT and SPS-related barriers among FTA parties by enhancing information exchanges, as well as regulatory and institutional cooperation among partners. On regulatory and institutional cooperation, the reviewed FTAs include several methods to facilitate standards-related trade between parties. For example, enhancing transparency (e.g. prior notification of new norms, sometimes with a right to comment on the norm before it is adopted) is the method which the WTO TBT and SPS Agreements say should be applied. Establishing criteria for equivalence is also used. At a more advanced level, mutual recognition agreements and harmonization are often used to promote trade.
- ASEAN has adopted a practical approach to promote trade through harmonization and MRAs by means of horizontal and sectoral agreements, policy guidelines and interpretative notes on harmonization and MRAs, which provide detailed rulings and describes the implementation process. No FTA other than ASEAN has established such a detailed ruling and institutions.
- China, India, Republic of Korea, Pakistan, Singapore have at least one bilateral FTA which includes chapters on standards-related measures.
- Part of the standards-related measures provisions in some Asian FTAs³ can be considered as “WTO-plus” because they contain more detailed rules (e.g. list of standard-setting bodies, institutional arrangement and special dispute settlement provisions) than the WTO TBT/SPS Agreements.

¹ Republic of Korea-Singapore, India-Singapore, China-Pakistan, ASEAN, China-Chile and Republic of Korea-Chile FTAs.

² The India-Singapore FTA deals with the TBT and SPS-related measures together in Chapter 5 of the Agreement.

³ See the Republic of Korea-Singapore, ASEAN and Republic of Korea-Chile FTAs.

(d) Intellectual property rights

The WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) establishes intellectual property rules and disciplines at the multilateral level. Under the Agreement, time-limited transitional arrangements were given to developing countries until 2000 and to LDCs until 2016 (with some exceptions). However, the recent proliferation of a new generation of RTAs also included a notion of establishing extensive “TRIPS-plus” provisions, especially in North-South RTAs. This notion has been widely discussed in the literature.⁸¹

⁸¹ See, for example, Luis Agugattas Mailuf (2004) and Trade and Development Report, 2007.

In the context of this study, among 15 selected RTAs, only five FTAs⁸² have intellectual property rights (IPRs) provisions. This section looks at these provisions by examining: (i) coverage; (ii) general obligations; (iii) basic principles; (iv) the IPR protection regime; (v) extensive protection; (vi) enforcement; (vii) cooperation; and (viii) dispute settlement.

Coverage

While one FTA⁸³ covers only geographical indications, three FTAs⁸⁴ horizontally cover IPRs, including copyright and related rights, trademarks, geographical indications, industrial designs, patents, layout-designs (topographies) of integrated circuits and rights in undisclosed information.⁸⁵

General obligations

Two FTAs⁸⁶ reaffirm the obligations under the international IPR conventions and the TRIPS Agreement. These FTAs also note that measures to enforce IPRs should not themselves become unnecessary barriers to legitimate trade.

Basic principles

The TRIPS Agreement assures three basic principles: national treatment, MFN and effective protection of IPRs. These principles cover the acquisition, maintenance and exhaustion of protection, promotion of public interest, enforcement measures and procedures, such as border enforcement, administrative and criminal legal enforcement provisions, and settlement of disputes. No FTA under consideration specifically includes such basic principles.

IPR protection

Part II of the TRIPS agreement ensures protection of different types of IPRs in the field of copyright, trademarks, geographic indications, industrial designs, patents, integrated circuit designs, undisclosed information and controlling anti-competitive licensing.⁸⁷ Four Asian FTAs⁸⁸ include a specific protection clause. China-Chile FTA covers only geographical indications ensuring protection of geographical indications for several national products in a manner that is consistent with the TRIPS Agreement (paragraph 1 of Article 22).⁸⁹ The Republic of Korea-Chile FTA deals with protection of trademarks and geographical indications. On protection of trademarks, application of Article 6 bis of the Paris Convention is particularly emphasized. As regards protection of geographical indications, the provisions of this FTA basically reiterate Articles 22, 23 and 24 of the TRIPS Agreement (i.e. definition of geographical indications, and their protection), while also providing the lists of protected geographical

⁸² Republic of Korea-Singapore, India-Singapore, ASEAN, China-Chile, Republic of Korea-Chile FTAs.

⁸³ China-Chile FTA.

⁸⁴ Republic of Korea-Singapore, ASEAN, Republic of Korea-Chile FTAs.

⁸⁵ The India-Singapore FTA only contains a cooperation clause and does not mention coverage.

⁸⁶ Republic of Korea-Singapore and Republic of Korea-Chile FTAs.

⁸⁷ Some WIPO conventions such as the Paris Convention for the Protection of Industrial Property, the Bern Convention for the Protection of Literary and Artistic Works are used as the basis.

⁸⁸ ASEAN, Republic of Korea-Singapore, China-Chile, Republic of Korea-Chile FTAs.

⁸⁹ Lists of geographical indications of both countries are attached to the Agreement. Geographical indications of China is: Shaoxing and Anxi Teguanyin (tea). Geographical indications of Chile is Chilean Pisco. See Annex 2A and Annex 2B of the Agreement.

indications for a number of national products of both countries.⁹⁰ Consultations regarding protection of additional geographical indications are also foreseen.

Extensive protection

Two FTAs⁹¹ endeavour to strengthen IPR protection by including an extensive protection clause (i.e. granting more extensive protection of intellectual property rights within their national legal systems than foreseen in the TRIPS Agreement). Both FTAs allow their parties to implement extensive protection of IPRs under their domestic laws as far as it is not inconsistent with the WTO TRIPS Agreement.

Enforcement

Only one FTA⁹² includes an enforcement clause by referring to consistency with the TRIPS Agreement and enforcement of their domestic IPR laws.

Cooperation

All of reviewed FTAs have undertakings on cooperation among their parties on IPRs. For example, the India-Singapore FTA highlights cooperation in organizing symposiums, workshops, training programmes and promotion of effective use and application of IPRs. ASEAN includes enforcement and protection, enhancement of intellectual property administration and legislation, human resources development on IPRs, exchange of intellectual property experts, promotion of private sector cooperation, improvement of social awareness and information exchange. In addition to these areas, the Republic of Korea-Singapore FTA includes provisions on facilitation of international patenting process, promotion of mutual understanding of the other party's IPR policies; improvement of patent technology, licensing and market intelligence.

Institutional arrangements

A Joint Committee on Intellectual Property was established in the case of the Republic of Korea-Singapore FTA.

Dispute settlement

Two FTAs have a dispute settlement clause. In the case of ASEAN, there is a provision on consultations on any differences between member States concerning the interpretation or application of the Agreement that should be normally settled amicably. If such differences cannot be settled amicably, the ASEAN Senior Economic Officials Meeting and finally ASEAN Economic Ministers Meeting would deal with such disputes. In the case of the Republic of Korea-Chile FTA, there is a provision that any consultations with respect to the implementation or interpretation of the FTA chapter on IPRs would be carried out under the general dispute settlement procedures of this FTA.⁹³

⁹⁰ Geographical indications of the Republic of Korea is: Korean Ginseng (for Ginseng), Korean Kimchi (for Kimch), and Boseong (for tea). Geographical indications of Chile is: Wines originating in Chile (i.e. Viticole Region of Atacama, Viticole Region of Coquimbo, Viticole Region of Aconcagua, Viticole Region of Valle Central, Viticole Region of the South/Sur). See Annex 16.4.3 and Annex 16.4.5 of the Agreement.

⁹¹ Republic of Korea-Singapore and Republic of Korea-Chile FTAs.

⁹² Republic of Korea-Singapore FTA.

⁹³ The issue of Dispute settlements is provided in Chapter 19 of the Agreement.

Major findings

- Among 15 RTAs, only five contain the IPR provisions. These primarily focus on enhancing cooperation in the area of IPRs among parties of the FTA.
- Four FTAs¹ basically affirm consistency with the WTO TRIPS Agreement.
- Only the Republic of Korea-Singapore FTA contains provisions going beyond the TRIPS Agreement by focusing more on protection/enforcement of IPRs, facilitation of patenting process, and cooperation among the two countries in this area.
- On the other hand, the India-Singapore FTA does not mention the TRIPS Agreement. It simply provides a legal framework for cooperation in the area of IPRs among the two countries.
- ASEAN, in its turn, contains specific cooperation arrangements in the field of intellectual property, such as the establishment of an ASEAN patent system and ASEAN trademark system.² It also endeavours to facilitate the pace and scope of IP asset creation, commercialization and protection of IPRs.³
- The China-Chile FTA singles out protection of geographical indications and does not cover other IPR issues.
- The Republic of Korea-Chile FTA focuses on protection of trademarks and geographical indications.

The general conclusion is that Asian South-South FTAs, which have IPR provisions, do not go much beyond the TRIPS Agreement, in contrast to some North-South FTAs.

¹ ASEAN, Republic of Korea-Singapore, China-Chile, Republic of Korea-Chile FTAs.

² See ASEAN Framework Agreement on Intellectual Property Cooperation in 1995.

³ See ASEAN Intellectual Property Right Action Plan 2004-2010.

(e) Trade in services

The analysis of services trade examines four broad issues: (a) approach of services trade liberalization (i.e. disciplines, structure and modalities); (b) coverage (i.e. modes and sectors); (c) rules (i.e. domestic regulation, safeguards, subsidies, and government procurement); and (d) rules of origin. This section does not contain a detailed analysis of liberalization commitments made in each FTA. The reason is that the depth of liberalization of commitments/level of restrictiveness is not easy to evaluate due to lack of information and complexities of services provisions in the Asian RTAs, especially in terms of comparing them with existing commitments under the General Agreement on Trade in Services (GATS) and services offers submitted in the Doha Round.⁹⁴

Approach to services trade liberalization (structure and disciplines)

Most of the reviewed FTAs which entered into force after 1995 follow the GATS type approach, and adopt a similar structure which consists of a main body stipulating disciplines and rules and schedule

⁹⁴ Some studies analysed the schedule of commitments of services trade in RTAs. See World Bank (2007) and Marchetti, M. *et al* (2006).

of commitments. Some of reviewed FTAs⁹⁵ aim at more detailed rules than the GATS, and others remain at the same level, or have more simple rulings and disciplines than the GATS. As for the commitments, most of selected FTAs opt for a positive list approach for their schedule of commitments.⁹⁶ In most of the selected FTAs, periodic progressive liberalization negotiations are scheduled.⁹⁷ For example, ASEAN has held four rounds of negotiations so far (initial Package of Commitments in 1997, Second Package of Commitments in 1998, Third Package of Commitments in 2001, and Fourth Package of Commitments in 2006). This indicates that the level of commitments, such as the depth and scope of commitments, has become or would become higher in the future than the ones already undertaken under the GATS in 1995.

As for national treatment and market access provisions, most of selected FTAs incorporate the GATS provisions on market access (GATS Article XVI) and national treatment (GATS Article XVII). Referring to MFN, there are three types of provisions in the FTAs under analysis, namely: (1) Third-party MFN on a reciprocal basis (third-party MFN is treated no less favourably as it accords to like services and service suppliers of Parties of the FTAs); (2) “hard third-party MFN” or no MFN (most-preferred-access is accorded only to like services and service suppliers of Parties of the FTAs); and (3) non-party MFN (any preference given to a third party by a partner in an FTA, under a different FTA framework, is to be extended to the other FTA partners in the first FTA).⁹⁸ Among these, “hard third-party MFN” is obviously the most discriminatory. Most FTAs in Asia mostly take the form of ‘third-party MFN’ or ‘non-party MFN’. Therefore, liberalization under FTAs can be extended to non-parties. The exceptions to this are the China-Hong Kong Closer Economic Partnership Arrangement and China-Macao, China Closer Economic Partnership Arrangement which accord “hard third-party MFN”, requiring strict condition for service supplier.⁹⁹

Coverage (modes and sectors) and level of commitments

Most of reviewed FTAs cover four modes (cross-border trade, consumption abroad, commercial presence, and presence of natural persons) in line with the GATS. When an RTA has an independent investment chapter, commercial presence normally is not covered in the services trade chapter or only covered partially.¹⁰⁰ Many of reviewed FTAs focus on promoting temporary movement of natural persons in an independent chapter or annex to promote mutual recognition on qualifications and license procedures.

Services sectors are universally covered with some exceptions, such as carve-outs of core air transport services as provided in the GATS. Some FTAs have independent chapter for telecommunication services based on the GATS telecom reference paper. There is also an independent electronic commerce chapter in some FTAs.¹⁰¹ Although the level of openness varies across FTAs and requires careful

⁹⁵ See the Republic of Korea-Singapore, China-ASEAN and India-Singapore FTAs.

⁹⁶ Some exceptions exist, for example, the Republic of Korea-Singapore FTA adopts a negative list approach. Although the negative list approach offers a wider coverage of commitments, the depth of liberalization critically depends on the content of the commitments and disciplines.

⁹⁷ See ASEAN, China-ASEAN, India-Singapore and Republic of Korea-Chile FTAs.

⁹⁸ For example, the India-Singapore Economic Cooperation Agreement stipulates that when “a Party enters into any agreement on trade in services with a non-Party, it shall give consideration to a request by the other Party for the incorporation herein of treatment no less favourable than that provided under the aforesaid agreement”.

⁹⁹ More information is available in the sub-section on rules of origin.

¹⁰⁰ When Mode 3 is extended to investment provisions, the quality is likely to be GATS-plus as it includes detailed rules, such as minimum standard of treatment, expropriation and investor-state dispute settlement procedures.

¹⁰¹ These are: Republic of Korea-Singapore FTAs and India-Singapore Economic Cooperation Agreement.

analysis, some are more than GATS commitment and others reproduce in part or in full its GATS commitments.¹⁰²

Rules

Multilateral rules in the area of domestic regulation (GATS Article VI. 4), safeguard (GATS Article X), government procurement (GATS Article XIII), and subsidies (GATS Article XV) are currently under the GATS negotiations. The potential outcome of these negotiations (if achieved after many delays) is likely to affect Asian South-South RTAs. In the case of domestic regulation, some of the selected FTAs take the GATS approach and make reference to the anticipated results of multilateral negotiations that would be incorporated into that agreement in the future.¹⁰³ Other rule-making areas (i.e. safeguards, government procurement and subsidies) vary according to the agreement. Some provide minimum provisions with the view of integrating future results of the WTO negotiations on safeguard and subsidies.¹⁰⁴ On the other hand, there is only one government procurement related clauses in the reviewed FTAs.¹⁰⁵ It stipulates that market access and national treatment do not apply to government procurement.

Recognition is an issue of interest in Asian South-South FTAs in relation to domestic regulation. These recognition-related clauses are mostly based on the GATS (Article VII) and are more specific in the context of promoting mutual recognition among RTA parties. For example, developing mutual recognition of qualifications and licences in the professional services (i.e. accountancy, medical doctor, dentists and nursing) are at the centre of their attention. Mutual recognition agreements in other areas, such as education, engineering, architecture, surveying and tourism are also a priority. What is interesting is that the non-party MFN principle¹⁰⁶ is used as a tool for expanding web of recognition through FTAs.

Rules of origin (RoO)

Similar to trade in goods, the role of rules of origin in services trade is critically important as the choice of rule of origin determines who benefits from an FTA. While liberal rules of origin extend preferential benefits to a third party services suppliers, restrictive rules of origin stringently limit preferential benefits only to parties to an FTA.

Rules of origin in South-South FTAs in Asia are generally liberal, except for some cases¹⁰⁷ with regard to the definition of the origin of a service and service supplier. The criteria often used for Mode 3 (commercial presence and investment) are: domestic ownership and control (i.e. majority or full national ownership); substantial business operations (i.e. minimum capitalization, profits tax, and minimum number of years of establishment); and domestic employees. For example, the definition of ‘ownership

Discussions on whether electronic commerce can be categorized in goods or services have been controversial under the WTO.

¹⁰² Some ASEAN countries have bilateral FTAs with the US which contain high level of liberalization in services trade (Fink and Nikomborirak, 2007). This is not the case of South-South FTAs in Asia.

¹⁰³ Under the Republic of Korea-Singapore FTAs, China-ASEAN FTA, India-Singapore Economic Cooperation Agreement, Singapore-Jordan FTA, the results of the GATS negotiations on Article VI.4 (disciplines on measures relating to qualification requirements and procedures, technical standards and licensing requirements) is scheduled to be incorporated in the future.

¹⁰⁴ See the China-ASEAN FTA, India-Singapore FTA, and Singapore and Jordan FTA.

¹⁰⁵ See the India-Singapore FTA.

¹⁰⁶ For example, a mutual recognition agreement concluded between an FTA party and third countries shall be autonomously accorded to the other Party of the FTA concerned.

¹⁰⁷ See the India-Singapore FTA, China-Hong Kong China Closer Economic Partnership Arrangement, and China-Macao China Closer Economic Partnership Arrangement.

and control” is not clear in some of reviewed FTAs. Some consider more than 50 per cent of the equity interest as “ultimately owned”, and others do not indicate any specific percentage. Stringent criteria for substantive business operations are also found in some FTAs.¹⁰⁸

Major findings

- Eight out of 15 selected FTAs in Asia¹ have services trade provisions and schedule of commitments.
- These FTAs are greatly influenced by the GATS in terms of their design, structure, approach to liberalization, rules and disciplines.
- Some FTAs² encompass more advanced features than the GATS, the so-called “GATS-plus”, including detailed rules in some areas, such as professional services, mutual recognition, and temporary movement of natural persons. They also aim at higher level of commitments by expanding the depth and scope beyond commitments undertaken by the members of these FTAs under the GATS.
- Services trade is not included in the bilateral FTAs among South Asian countries or FTAs which South Asian countries are involved. These FTAs are solely focusing on trade in goods.
- Some FTAs, for example the ones involving the Republic of Korea, Singapore and ASEAN, have high-standard services trade provisions in line with the GATS (or “GATS-plus”). For instance, ASEAN is promoting GATS value-added liberalization through ASEAN Framework Agreement on Services.
- Generally, APEC member countries established more comprehensive agreement on services in their FTAs than non-APEC member States.³

¹ Republic of Korea-Singapore FTA, China-Hong Kong Closer Economic Partnership Arrangement, and China-Macao China Closer Economic Partnership Arrangement, ASEAN, China-ASEAN, India-Singapore, Republic of Korea-Chile and Singapore-Jordan FTAs.

² See the Republic of Korea-Singapore, China-ASEAN and India-Singapore FTAs.

³ APEC’s Best Practice Principles for Free Trade and Regional Trade Agreements, adopted in 2004, now forms the base for negotiations when APEC member States create FTAs.

(f) Investment

The WTO TRIMs (Trade-Related Investment Measures) Agreement and Mode 3 (commercial presence) of the GATS cover part of investment rules at the multilateral level. In this study, we endeavour to analyse investment provisions of selected Asian RTAs by looking at: (i) structure, scope and coverage (including definitions); (ii) disciplines at the pre-establishment and post-establishment phases; (iii) investment regulations; (iv) investment promotion and co-operation; (v) general exceptions; and (vi) dispute settlement. The level of commitments of each FTA is not analysed.

Structure, scope and coverage (including definition)

Most of investment chapters of reviewed FTAs consist of a main body supplemented by liberalization commitments. The scope of investment covers direct and indirect investments, such as

¹⁰⁸ See, for example, Article 12 of the China-Hong Kong Closer Economic Partnership Arrangement.

the commitment of capital or other resources, the expectation of gains or profits and the assumption of risks, including: enterprise shares, stocks and other forms of equity participation; bonds, debentures, loans, and other debt instruments of an enterprise; rights under contracts; claims to money; IPRs; rights conferred pursuant to domestic law or contract; other tangible or intangible, and movable or immovable property. The scope differs depending on the agreements. Only ASEAN covers only direct investments and exclude indirect ones, such as portfolio investments.

Disciplines on the pre-establishment and post-establishment phases

Some of reviewed FTAs contain national treatment provisions and others do not.¹⁰⁹ In cases where the national treatment provision is included, it is accorded to investors or investment of third Parties “in like circumstances” at the pre-establishment and/or post-establishment phases, including in the establishment, acquisition, expansion, management, conduct, operation and sale or other disposition of investments. Some FTAs accord national treatments under limited condition. For example, in the India-Singapore FTA, national treatment is expressly limited to sectors in the schedule of commitments and there are general exceptions to the national treatment.

MFN: Except ASEAN and Republic of Korea-Chile FTA, there is no specific MFN provision. ASEAN accord MFN both at the pre-establishment and post-establishment phases. But waiver of MFN is possible and concessions are available. In the case of Republic of Korea-Chile FTA, there are three types of investment-related MFN in Asian FTAs: (1) In like circumstances, an FTA party (for example, member country A) shall accord treatment no less favourable to investors/investments of other party of a FTA (for example, member country B) than it accords to investors/investment by a third party (for example, non-member Country C); (2) if a party (country A) accords more favourable treatment to investors/investments of a third party (country C), a party (member country A) is not obliged to accord its favourable treatment to other Party of the FTA (member Country B); (3) if a party (country A) accords more favourable treatment to investors/investments of a third party (country C), a party (member country A) is not obliged to accord its favourable treatment to other party of the FTA (member country B) in accordance with further liberalization of investment under the FTA.

Investment regulations

Prohibition of performance requirements

The WTO TRIMs Agreement illustrates five types of performance requirements which are inconsistent with the Agreement, including: (1) requirements on purchase or use of products of domestic origin or any domestic source; (2) requirements of limiting enterprise’s purchase or use of imported products to an amount related to the volume or value of local products that the enterprise exports; (3) importation restriction of products used or related to its local production to an amount related to the volume or value of local production that enterprise exports; (4) import restrictions of products used in or related to its local production by restricting its access to foreign exchange to an amount related to the foreign exchange inflows attributable to the enterprise; and (5) restriction on exportation or sale for exports.¹¹⁰

Three types of performance requirement clauses are found in selected Asian FTAs. The first type consists of "TRIMs-plus" performance requirements¹¹¹, the second incorporates the indicative

¹⁰⁹ National Treatment is included in the FTAs between the Republic of Korea-Singapore, India-Singapore, China-Pakistan, ASEAN and Republic of Korea-Chile.

¹¹⁰ See the illustrative list of the TRIMs Agreement.

¹¹¹ For example, in the Republic of Korea-Singapore and Republic of Korea-Chile FTAs.

list of performance requirements of the TRIMs Agreement.¹¹² “TRIMs-plus” type provisions prohibit requirements such as: export requirement in goods and services produced in a Party; local content requirements of goods and services; control over the amount of foreign exchange inflows or volume or value of imports and exports; technology transfer requirements; and supply destination requirements. Prohibition of performance requirements covers pre- and post-establishment phases (i.e. the establishment, acquisition, expansion management, conduct, operation, and sale or other disposition of investments). The third type consists of FTAs without any performance requirement provisions.¹¹³

Fair and equitable treatment

Only two FTAs specifically stipulate ‘fair and equitable treatment’.¹¹⁴ Based on customary international law, minimum standard of treatment of aliens, including ‘fair and equitable treatment’ and ‘full protection and security’, is ensured.

Free transfers of investment-related transactions and capital movements

Two FTAs fully ensure free transfers of investment-related transactions and capital movements and one has a simple clause.¹¹⁵ The India-Singapore FTA only accords free transfer of repatriation with some exceptions.

Expropriation and compensation for losses

The prohibition of expropriation and condition of compensation for losses appear to be important components of South-South FTAs as they have to consider unstable economy or emergency situation of the investment partner. FTA with investment provisions contain clauses for expropriation and compensation for losses.

Senior management and boards of directors

Only one FTA fully prohibits appointing senior management provisions of any particular nationality.¹¹⁶ Conditional permission can be found in two FTAs, which enable requirement by a party of ‘a majority of the board of directors or any committee’ of an investor of the other party if ‘the requirement does not materially impair the ability of the investor to exercise control over the investment’.

Safeguard measures

Safeguard measures are applicable under some conditions in some FTAs.¹¹⁷ For example, if an investment by other party causes or threatens to cause serious difficulties for the operation of monetary policy or exchange rate movements, safeguard measures with regard to capital movements is allowed.

Investment promotion and cooperation

Most reviewed Asian FTAs commit investment promotion and future cooperation among parties, and schedule periodical negotiations on liberalizations through reduction or elimination of restrictive measures. Periodical review of implementation of the agreements is also planned. The ASEAN Investment Area Council was established to periodically review implementation of each country’s action plan.

¹¹² India-Singapore FTA.

¹¹³ China-Pakistan FTA and ASEAN.

¹¹⁴ Republic of Korea-Singapore and Republic of Korea-Chile FTAs.

¹¹⁵ Republic of Korea-Singapore and Republic of Korea-Chile FTAs.

¹¹⁶ Republic of Korea-Singapore FTA.

¹¹⁷ Republic of Korea-Singapore, ASEAN and Republic of Korea-Chile FTAs.

General exceptions

All selected RTAs have a general exception clause in the independent provision or incorporated in national treatment. A party has the right not to permit the establishment, acquisition, expansion or retention for non-trade issue, such as protection on health, safety, environment, national security and public morals.

Dispute settlement

Most selected Asian FTAs have an independent understanding of dispute settlement between a party and an investor from another party. However, comprehensiveness of understandings of dispute settlement procedure differs among FTAs. Some¹¹⁸ have explicit rules including: (1) consultations and negotiations between the parties; and (2) dispute settlement under the courts or administrative tribunals of the disputing party, ICSID and UNCITRAL and others provide an outline. In the case of ASEAN, there is no specific understanding covering investment-related dispute settlements. The ASEAN Protocol on Dispute Settlement Mechanism also applies to investment-related dispute settlements as well.

Major findings

- Five FTAs¹ contain investment chapters. The investment provisions of these FTAs reflect the level of economic development of participating countries.
- For example, the structure and design of investment chapters of some FTAs are simple.² The agreements ensure minimum protection of investors but are not designed for investment promotion or liberalization. While investment protection, such as prohibition of expropriation and national treatment for compensation for damages and losses, is emphasized, nothing or little is provided with regard to performance requirements. An FTA³ currently under negotiation only pledges negotiations on investment rules and liberalization.
- FTAs in which the Republic of Korea, Singapore are involved⁴ consist of substantive and wide coverage investment provisions, such as coverage of definition of investment, detailed ruling of investment regulation and investment promotion and cooperation among parties.
- ASEAN's "Framework Agreement on the ASEAN Investment Area" was established as an institution to promote internal investment. On the other hand, substantive rules, such as investment regulation related provisions, seem to be left for future negotiations.

¹ ASEAN, Republic of Korea-Singapore, India-Singapore, China-Pakistan and Republic of Korea-Chile FTAs.

² For example, India-Singapore and China-Pakistan FTAs.

³ China-ASEAN FTA.

⁴ Republic of Korea-Singapore and Republic of Korea-Chile FTAs.

¹¹⁸ Republic of Korea-Singapore, India-Singapore, China-Pakistan and Republic of Korea-Chile FTAs.

(g) Trade facilitation

Trade facilitation involves improvement of procedures and controls which influence the movement of goods in international trade to reduce costs and maximize efficiency gains. We observe the following trade facilitation-related chapters/provisions in the selected FTAs: transparency; harmonization and simplification of procedures; avoidance of unnecessary restrictiveness; and application of new technologies.

Transparency

In the selected FTAs, prompt collection, publication and dissemination of all relevant laws, regulations, administrative procedures and administrative rulings of general application on respective customs matters are described. The provisions apply GATT Article X (Publication and Administration of Trade Regulations) as a base.

Harmonization and simplification of procedures

Some of reviewed FTAs¹¹⁹ promote harmonization, mutual recognition and simplification of procedures according to GATT Article VII (valuation for customs purposes) and WCO Kyoto Convention. The objective is to reduce administrative costs and compliance costs (i.e. customs procedures, customs tariff classification and valuation, data requirements for import and export procedures). ASEAN specifically promotes the harmonization of traffic regulations in the ASEAN Framework Agreement on the Facilitation of Goods in Transit, and signed the Agreement on Recognition of Commercial Vehicle Inspection Certificates for Goods Vehicles and Public Service Vehicles in 1998.

Simplification and avoidance of unnecessary restrictiveness

The ASEAN Framework Agreement on the Facilitation of Goods in Transit provides detailed provisions on trade facilitation. Major principles, such as MFN, national treatment, transparency, consistency, simplicity and efficiency, are emphasized in this Agreement. The agreement also promotes harmonization and mutual recognition of road transport-related measures, harmonization and simplification of customs procedures. The National Transit Transport Coordination Committee was established for this purpose.

Application of new technologies

Most reviewed RTAs promote paperless custom clearance through electronic documents and electronic data interchange between respective customs administrations and their trading communities.

Cooperation

Some of selected FTAs¹²⁰ encompass cooperation clauses in the trade facilitation provisions, for example: sharing best practices and information between custom authorities for efficient customs procedures; and cooperation for developing risk management techniques and exchanging the information. In the case of SAFTA, there is a special clause of technical assistance to members from least developed countries.

¹¹⁹ See the Republic of Korea-Singapore, India-Singapore and Republic of Korea-Chile FTAs.

¹²⁰ Republic of Korea-Singapore, India-Singapore, ASEAN and Republic of Korea-Chile FTAs.

Major findings

- Developing Asian countries are aware of the importance of trade facilitation. In fact, nine out of 15 selected FTAs include trade facilitation chapters or provisions.¹ In most cases, trade facilitation provisions are found in the chapter for custom procedures (e.g. Republic of Korea-Singapore FTA, India-Singapore FTA and Republic of Korea-Chile FTA), instead of providing an independent chapter for trade facilitation.
- Many of them use the existing multilateral agreements/arrangements on trade facilitation (e.g. WCO Kyoto Convention, Arusha Declaration and UN/EDIFACT initiative).
- Some FTAs only refer to future plans with regard to trade facilitation-related measures (i.e. simplification and harmonization of customs clearance procedure, customs cooperation to resolve dispute at customs entry points, and simplification and harmonization of import licensing and registration procedures).²

¹ Republic of Korea-Singapore, India-Singapore, China-Pakistan, China-Hong Kong, China-Macao, ASEAN, SAFTA, ASEAN-China and Republic of Korea-Chile FTAs.

² See the China-Hong Kong, China-Macao, ASEAN-China FTAs and SAFTA.

(h) Competition

One of the prerequisites for trade liberalization aimed at increasing exports and growth is a properly functioning market. The objective of the competition-related chapters or provisions of selected FTAs is to prevent market power and other distortions of competition and promote effective competition to achieve a more efficient allocation of resources in liberalized markets.

Putting aside the fact that competition-related elements can be partially found in the trade in services chapters of some selected FTAs, such as the clauses based on the GATS telecom reference paper, this section simply looks at the exclusive competition-related chapters or provisions in the selected Asian FTAs.

Major findings

Among the reviewed South-South FTAs, only three FTAs have competition-related provisions, namely the Republic of Korea-Singapore FTA, SAFTA (South Asia Free Trade Agreement) and the Republic of Korea-Chile FTA.

This indicates that competition-related regional cooperation under FTAs has not been mainstreamed in intra-Asian South-South FTAs, as well as in the interregional Asian South-South FTAs at this stage. And it is not yet clear whether Asian South-South FTAs would encompass the competition-related chapters and provisions in the future.

SAFTA: Two provisions of this Agreement relate to competition; Article 3 (Objective and Principles of the Agreement) mentions promotion of fair competition. In addition, adoption of rules for fair competition and the promotion of venture capital is provided in Article 8. These provisions are basically declarative, but open a way to adopt competition-related provisions in the future.

The FTAs between the Republic of Korea and Singapore and Chile adopt a coordination and cooperation approach in same manner as the RTAs of North/South American countries. They especially focus on implementation of their domestic competition laws and cooperation between competition authorities of the concerned parties. In the case of the Republic of Korea-Chile FTA, the provisions cover anti-competitive agreements, concerted practices and abusive behaviour which may affect trade in goods and services. The chapter for competition consists of provisions, including definitions, objectives, notifications, coordination of enforcement, consultations when the important interests of a party are adversely affected in the territory of the other party, exchange of information and confidentiality, technical assistance, public or private monopolies and exclusive rights, and dispute settlement.

(i) Government procurement

At the multilateral level, there is the WTO Agreement on Government Procurement (GPA) which is a plurilateral agreement applying to 27 WTO Members. Among Asian developing members, only Hong Kong China, Republic of Korea and Singapore are parties of the GPA. The GPA covers government purchasing contracts for goods, services and construction at the level of central government, state or provincial governments and utilities above a certain size. It is based on principles, such as national treatment, MFN treatment, transparency and openness.

Major findings

- Only two FTAs (Republic of Korea-Singapore and Republic of Korea-Chile) have government procurement provisions among the selected FTAs. None of Asian developing countries which are not parties to the WTO GPA have government procurement provisions in their FTAs.
- The Republic of Korea-Singapore FTA incorporates GPA provisions. In other words, this FTA enhances implementation of the GPA and partially provides more specific rules by attaching an Annex for some of the GPA provisions.¹
- Although Chile is not a party to the GPA, the Republic of Korea-Chile FTAs uses principles and substantive provisions of the GPA without reference.

¹ The Republic of Korea-Singapore FTA also provides detailed clauses, such as qualification of suppliers and information technology and cooperation.

Annex II.1. Major tariff statistics on selected Asian South-South RTAs

		All tariff lines				Tariff lines covered by the agreement					Effective Pref. Agreement Coverage Rate (%)
		"MFN duties Simple average**"	Number of lines	"Number of lines MFN duty-free"	"Number of lines with a non-advalorem duty"	"MFN duties-Simple average**"	Number of lines	"Preferential duties - Simple average**"	Number of lines with a non-advalorem preferential duty"	"Number of lines with a non-advalorem MFN duty"	
Bangladesh	2006	SAFTA	6 637	496	1	16.8	15.1	433	0	0	7.05
Brunei Darussalam	2006	AFTA	10 689	7 272	131	18.2	4.2	1 850	0	0	54.14
Myanmar	2006	AFTA	10 689	366	0	15.8	8.8	2 917	0	0	28.26
Cambodia	2005	AFTA	10 689	631	0	20.1	10.4	3 716	0	0	36.95
Sri Lanka	2006	SAFTA	6 411	671	91	12.1	10.8	193	0	0	3.36
China	2006	FTA with Hong Kong, China	7 605	665	44	11.6	0.0	1 337	0	3	19.27
China	2006	FTA with Macao, China	7 605	665	44	13.8	0.0	595	0	4	8.57
India	2005	SAFTA	11 693	287	2	16.9	14.5	1 744	0	0	15.29
India	2005	FTA with Sri Lanka	11 693	287	2	18.9	1.5	10 576	0	2	92.72
Indonesia	2006	AFTA	11 153	2 333	43	12.6	2.0	7 464	0	0	84.63
Republic of Korea	2006	FTA with Chile	11 261	1 498	1	8.6	1.0	9 076	0	1	92.96
Lao PDR	2006	AFTA	10 690	0	15	9.7	3.0	9 747	0	0	91.18
Malaysia	2006	AFTA	12 583	6 148	105	21.6	4.2	5 418	31	31	84.20
Maldives	2006	SAFTA	8 995	8	9	19.7	18.3	638	0	0	7.10
Nepal	2006	SAFTA	5 341	4	34	13.4	12.2	2 250	0	0	42.16
Pakistan	2006	FTA with Sri Lanka	6 336	0	48	13.1	8.2	5 668	20	20	89.46
Pakistan	2006	SAFTA	6 336	0	48	9.4	8.4	345	3	3	5.45
Philippines	2006	AFTA	11 091	432	0	8.0	2.3	9 748	0	0	91.45
Singapore	2005	FTA with Jordan	10 687	10 681	6	-	0.0	6	0	6	100.00
Singapore	2006	AFTA	10 687	10 681	6	-	0.0	6	0	6	100.00
Viet Nam	2006	AFTA	10 689	3 078	0	30.1	7.0	5 491	0	0	72.15
Thailand	2006	AFTA	5 504	233	87	13.2	1.9	4 727	0	79	89.68

Source: TRAINS database.

* Non-advalorem duties were excluded from the calculation of the averages

** Proportion of tariff lines with a preferential duty in all tariff lines

Annex II.2. List of developing countries in Asia involved in South-South trade and RTAs

East Asia

China
China, Hong Kong
China, Macao
Taiwan Province of China
Korea, Democratic People's Republic of
Korea, Republic of
Mongolia

South Asia

Afghanistan
Bangladesh
Bhutan
India
Iran, Islamic Republic of
Maldives
Nepal
Pakistan
Sri Lanka

South-East Asia

Brunei Darussalam
Cambodia
Indonesia
Lao People's Democratic Republic
Malaysia
Myanmar
Philippines
Singapore
Thailand
Timor-Leste
Viet Nam

Source: Based on UNCTAD Country Classification: Geographical groupings and South-South trade database.

Annex II.3. RTAs in Asia

The following updated the Asia-Pacific Trade and Investment Agreements Database¹²¹ with publicly available information as of November 2007. These include RTAs which have not been notified to the WTO.

‘‘South’’ indicates developing countries in Asia based on the UN classification (see Annex II.2)

Number of RTAs Enforced in Asia

	Bilateral	Plurilateral	Country-RTAs	Total
Intraregional South-South RTAs	16	4	3	23
Interregional South-South RTAs	7	0	1	8
Intraregional North-South RTAs	3	0	0	3
Interregional North-South RTAs	8	1	4	13
Total	32	5	8	47

RTAs in the chart include: FTAs, Economic Framework Agreements and Preferential Trade Agreements

121 More information on this database is available at: <http://www.unescap.org/tid/aptiad/>

Number of FTAs Enforced in Asia

	Bilateral	Plurilateral	Country-RTAs	Total
Intraregional South-South RTAs	10	2	2	14
Interregional South-South RTAs	4	0	0	4
Intraregional North-South RTAs	3	0	0	3
Interregional North-South RTAs	5	1	2	8
Total	22	3	4	29

List of FTAs enforced in Asia

➤ Intraregional South-South FTAs

[Bilateral]

- Republic of Korea-Singapore, FTA, 2006
- Malaysia-Pakistan, FTA, 2006
- Pakistan-Sri Lanka, FTA, 2005
- India-Sri Lanka FTA, 2001
- India-Bhutan FTA, 2006
- India-Singapore FTA, 2005
- China-Thailand, FTA, 2006
- China-Pakistan, FTA, 2007
- China-Hong Kong SAR, FTA, 2004
- China-Macao SAR, FTA, 2004

[Plurilateral]

- AFTA (ASEAN Free Trade Agreement)
Goods, 1993
Services, 1996

- SAFTA (South Asia Free Trade Agreement: Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka), FTA, 2006

[Country-RTAs]

- ACFTA: China-ASEAN FTA, 2005
- Republic of Korea-ASEAN, 2007

➤ Interregional South-South FTAs

[Bilateral]

- China-Chile, FTA, 2006
- Republic of Korea-Chile, FTA, 2004
- Singapore-Jordan, FTA, 2005
- Singapore-Panama, FTA, 2006

[Plurilateral]

[Country-RTAs]

➤ **Intraregional North-South FTAs**

[Bilateral]

- Japan-Malaysia FTA, 2006
- Japan-Singapore FTA, 2002
- Japan-Thailand, FTA, 2007

[Plurilateral]

[Country-RTAs]

➤ **Interregional North-South FTAs**

[Bilateral]

- Singapore-New Zealand FTA, 2001
- Singapore-Australia FTA, 2003
- Singapore-United States FTA, 2004
- Thailand-Australia FTA, 2005
- Thailand-New Zealand FTA, 2005

[Plurilateral]

-TRANS-PACIFIC Strategic Economic Partnership Agreement (Brunei, Singapore, New Zealand and Chile), FTA, 2006

[Country-RTAs]

- Republic of Korea-EFTA FTA, 2006
- Singapore-EFTA FTA, 2003]

Number of FTAs under negotiations/ratification

	Bilateral	Plurilateral	Country-RTAs	Bloc-Bloc	Total
Intraregional South-South RTAs	6	0	1	0	7
Interregional South-South RTAs	6	0	1	0	7
Intraregional North-South RTAs	6	0	1	0	7
Interregional North-South RTAs	10	0	2	1	13
Total	28	0	5	1	34

*1: Preferential trade agreements have not been included.

*2: Some of FTAs under negotiation/ratification are also in the list of economic framework agreements.

List of FTAs under negotiations/ratification

➤ Intraregional South-South FTAs

[Bilateral]

- China-Pakistan, FTA
- China-Republic of Korea, FTA
- Malaysia-Republic of Korea, FTA
- Singapore-India, FTA
- Singapore-Pakistan, FTA
- India-Thailand, FTA

[Plurilateral]

[Country-RTAs]

- ASEAN-India, FTA

➤ Interregional South-South RTAs

[Bilateral]

- Singapore-Kuwait, FTA
- Singapore-Mexico, FTA
- Singapore-Peru, FTA
- Singapore-Qatar, FTA
- Singapore-Bahrain, FTA
- Singapore-Egypt, FTA

[Plurilateral]

[Country-RTAs]

- India-GCC, FTA

➤ **Intraregional North-South RTAs**

[Bilateral]

- Japan-Indonesia, FTA
- Japan-Republic of Korea, FTA
- Japan-Philippines, FTA
- Japan-India
- Japan-Vietnam
- Japan-Brunei

[Plurilateral]

- - -

[Country-RTAs]

- ASEAN-Japan FTA

➤ **Interregional North-South RTAs**

[Bilateral]

- China-Australia, FTA
- China-New Zealand, FTA
- Malaysia-Australia, FTA
- Malaysia-New Zealand, FTA
- Republic of Korea-Canada, FTA
- Republic of Korea-United States, FTA
- Singapore-Canada, FTA
- Thailand-United States, FTA
- Indonesia-United States, FTA
- Philippines-United States, FTA

[Plurilateral]

- - -

[Country-RTAs]

- ASEAN-Australia-New Zealand FTA
- Japan-GCC FTA

[RTA-RTA]

- ASEAN-CER: ASEAN-ANZCERTA FTA]

Number of Existing Preferential Trade Agreements in Asia

	Bilateral	Plurilateral	Country-RTAs	Total
Intraregional South-South RTAs	2	1	0	3
Interregional South-South RTAs	0 (1)	0	0(2)	0 (3)
Intraregional North-South RTAs	0	0	0	0
Interregional North-South RTAs	2	0	0	2
Total	4(1)	1	0 (2)	5(3)

(): Agreements under negotiations/ pending ratification.

List of Preferential Trade Agreements

➤ Intraregional South-South RTAs

[Bilateral]

India-Afghanistan, 2003

India-Nepal, 1991

[Plurilateral]

Asia Pacific Trade Agreement (Bangkok Agreement), 1976

[Country-RTAs]

➤ Interregional South-South RTAs

[Bilateral]

India-Chile, pending country ratification

[Plurilateral]

[Country-RTAs]

India-SACU, under negotiation

India-MERCOSUR, pending country ratification

➤ Intraregional North-South RTAs

➤ Interregional North-South RTAs

[Bilateral]

United States-LAO PDR, 2005

United States- Viet Nam, 2001

[Plurilateral]

[Country-RTAs]



CHAPTER III

IMPACTS OF REGIONAL TRADE AGREEMENTS ON TRADE

A. Economic analysis of RTAs

Export performance in Asia has been remarkable since the early 1990s. No other region in the world had experienced the same levels of export growth as some Asian countries, such as China, the Republic of Korea, Malaysia, Singapore and Thailand. The Asian experience has often been cited as a success, both for its own characteristics and its development implications.¹

This chapter analyses the reasons underpinning this export performance. It shows how relevant and critical it has been for Asian countries to gain access to markets, regardless of whether this was achieved through RTAs, or through unilateral trade liberalization. It also shows how supply capacity conditions reacted to the evolution of the regional organization of production.

Determinants of export performance can be split into external and internal components. External components include market access/entry conditions, as well as a country's location in relation to international markets. Internal components are related to supply-side conditions.

Foreign demand for products is influenced by various elements. First of all, it is strongly linked to geography (the structural component). Typically, countries at the centre of a fast growing region are more likely to benefit, *ceteris paribus*, than countries situated on the rim or outside the region. Second, it is also likely to be related to competition and trade policy (the market access/entry component), which could in principle, have a similar impact on trade as the geographical setting. Finally, both the quantity and quality of physical infrastructures (the development component) are expected to play an important role.

RTAs in principle offer preferential entrance to expanded markets; an expected consequence of this is that exports would be driven by this increase in market access. Since Asian countries have entered into numerous RTAs in recent years, exports are expected to grow accordingly, but only if new market access opportunities are utilized.

¹ See for instance Rodrik (1994) and the World Bank (1993) for early references on the Asian experience.

Results show that market access growth accelerated in the late period of analysis, namely the period between 2001-2005. However, utilization rates of trade preferences remained relatively low. This could suggest that economic relationships related to the very organization of the industry production processes still largely explained the regional integration that took place over that period. Changes in market access would thus reflect a relocation of demand due to the geographical dispersion of production. The predominance of economic relationships started in the 1990s. Over the decade Asia mostly consolidated its way to trade liberalization without binding tariffs multilaterally. Liberalization led to the growth of “Factory Asia”, as described by Baldwin (2006)²; however, Asian countries did not always profit from preferential tariffs. In fact, trade among Asian countries did not always use preferential tariffs, but indeed the MFN tariff was used, since there was often only a marginal difference between them.

The regional re-organization of production that characterized the 1990s should be reflected in changes in supply capacity conditions. A country’s size (usually captured by the GDP and population) and internal geography determine the size of the internal market. They are structural variables that can have an effect on its supply capacity. Economic policy can also be expected to influence supply capacity by affecting factor prices. The significant rise in income and wages in the 1980s and 1990s observed in Japan has dramatically weakened the country’s comparative advantage in manufacturing. This pushed Japanese companies to offshore labour intensive stages of production to neighbouring East Asian economies with an increasing hosting role played by China.

1. Theory, data and empirical strategy

Recently developed trade models offer a possible support for investigating drivers of a country’s export performance. In particular, the Krugman and Venables (1995) model identifies an empirically assessable decomposition of bilateral trade into market access and supply capacity. The theoretical framework³ is essentially a standard new trade theory model based on product differentiation derived from a constant elasticity of substitution demand structure. This theoretical framework and empirical strategy used builds on the models developed by Redding and Venables (2003a), which in turn rests on research conducted by Krugman and Venables (1995).

Bilateral trade flows for 108 countries are obtained from the UN COMTRADE database for period between 1990 and 2005. Data are deflated by the US GDP deflator in order to obtain real values, using the year 2000 as the base year.

Yearly data are averaged over 4-year periods as bilateral trade flows are usually characterized by high year-to-year fluctuations and the need to establish medium- to long-term determinants of export performance. This study looks into export performance over the period between 1990 and 2005, which gives four periods of analysis.

Total export growth can be decomposed into supply capacity and foreign market access growth. The approach consists of estimating a gravity model equation for each period where the dependent variable is exports (logarithm) from country i to country j , and the dependent variables are bilateral distance (logarithm) – an indicator of the existence of a common border, exporter-country and importer-partner dummies. Then, for each period under consideration:

² “East Asia, like some gigantic, impossibly complex and wonderfully efficient factory, the region churns out millions of different products with world-beating price-quality ratios. It does this by sourcing billions of different parts and components from plants spread across a dozen nations. East Asian corporations set up “Factory Asia” and they are running it now”. Similar analysis and conclusions can also be found in Ando (2004), Ando and Kimura (2005), Ng and Yeats and Fukao, Ishito and Ito (2003).

³ A heuristic sketch is provided in Annex III.1.

$$\begin{aligned}
\underbrace{\ln(X_{ij})}_{\text{Value of Exports from i to j}} &= \underbrace{\lambda \text{imp}_j}_{\text{Export partner Market Capacity}} + \underbrace{\beta \text{exp}_i}_{\text{Supply Capacity}} \\
+ \underbrace{\gamma_1 \ln(\text{dist}_{ij}) + \gamma_2 \text{bord}_{ij}}_{\text{Bilateral Trade Costs}} &+ \underbrace{u_{ij}}_{\text{Stochastic error}}
\end{aligned} \quad (1)$$

Bilateral distance dist_{ij} and the border dummy bord_{ij} are assumed to capture geographical bilateral trade costs. This makes it possible to establish geographical bilateral costs or their monotonic transformation.

The fixed effects of exporters (exp_i) and importer partners (imp_j) are introduced to control for supplier capacity and market capacity. They can also be expected to control for institutions and policy-related trade costs. In fact, these variables account for all observed and unobserved characteristics of the exporting country affecting its bilateral trade on the one hand, and characteristics of the importing country partner, on the other hand.

Estimates are used to construct supply capacity and foreign market access series.

The supply capacity estimate is given by the exponential of exporter country dummy times its coefficient. That is:

$$SC_i = \exp(\hat{\beta} \text{count}_i) \quad (2)$$

Foreign market access estimate takes the form

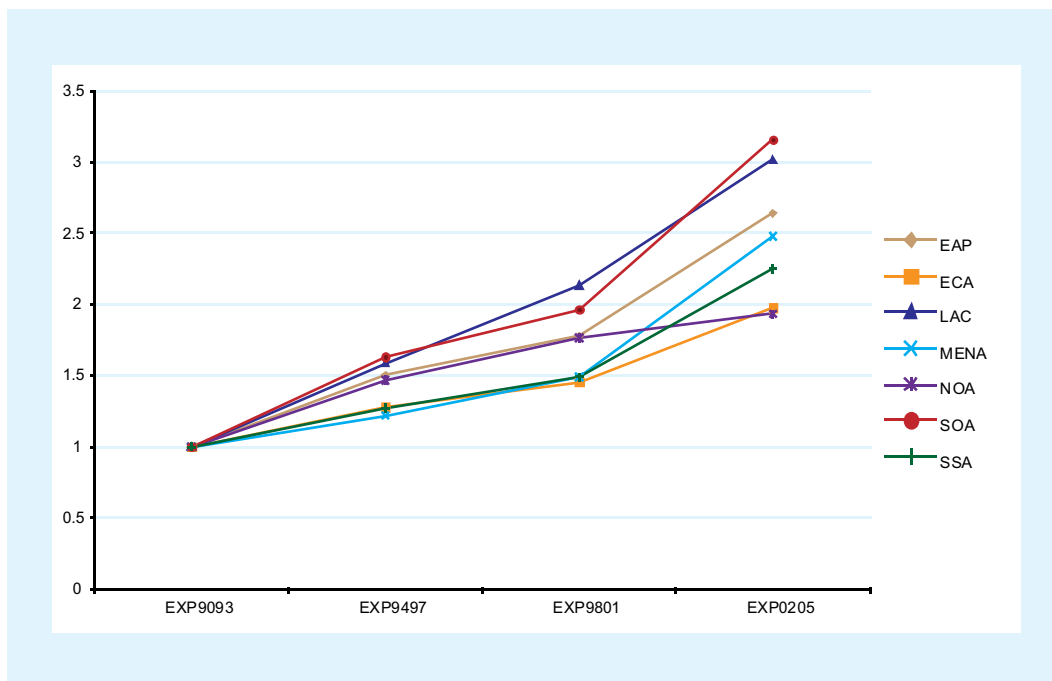
$$FMA_i = \sum_{i \neq j} \exp(\hat{\lambda} \text{partn}_j) \text{dist}_{ij}^{\hat{\gamma}_1} \exp(\hat{\gamma}_2 \text{bord}_{ij}) \quad (2')$$

2. Results

Results aggregated to the regional level are illustrated in figures III.1 to III.3. Figure III.1 shows the evolution of real export value, figure III.2 that of foreign market access, and figure III.3 that of supply capacity with respect to the level prevailing in each region at the starting period of the analysis. This gives us a decomposition of export growth over the last 15 years. Results for the Asia-Pacific countries are summarized in tables III.1 to III.3.

The overall trend in export performance is upward over the period between 1990 and 2005. For most regions this upward trend is driven essentially by a rise in foreign market access. This is not the case, however, for both European and North American country groups. In their case, supply capacity developments appear to be the main driver of their export performance. The export performance of South Asian countries improves significantly more than export performance of East Asian and Pacific countries. The difference is mainly explained by soaring foreign market access for South Asia countries over the period between 1998 and 2005. On the other hand, supply capacity has increased slightly more for East Asian and Pacific countries than for South Asian countries. Relative improvements in supply capacity remain modest in relation to those observed for foreign market access.

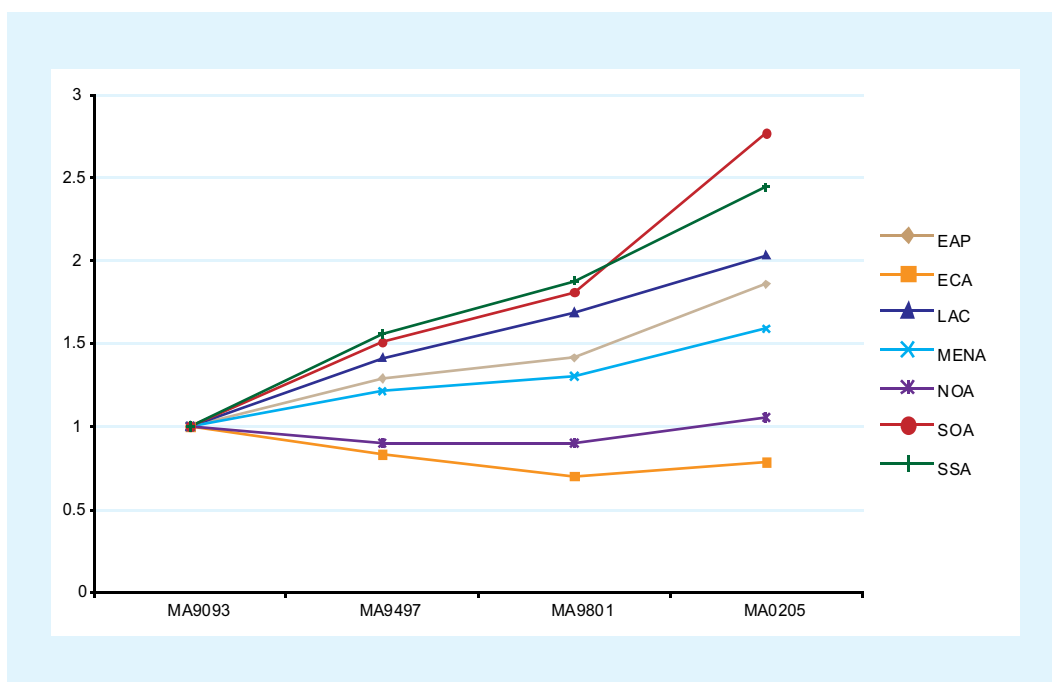
Figure III.1. Export performance (base period 1990-1993)



Source: UNCTAD estimates.

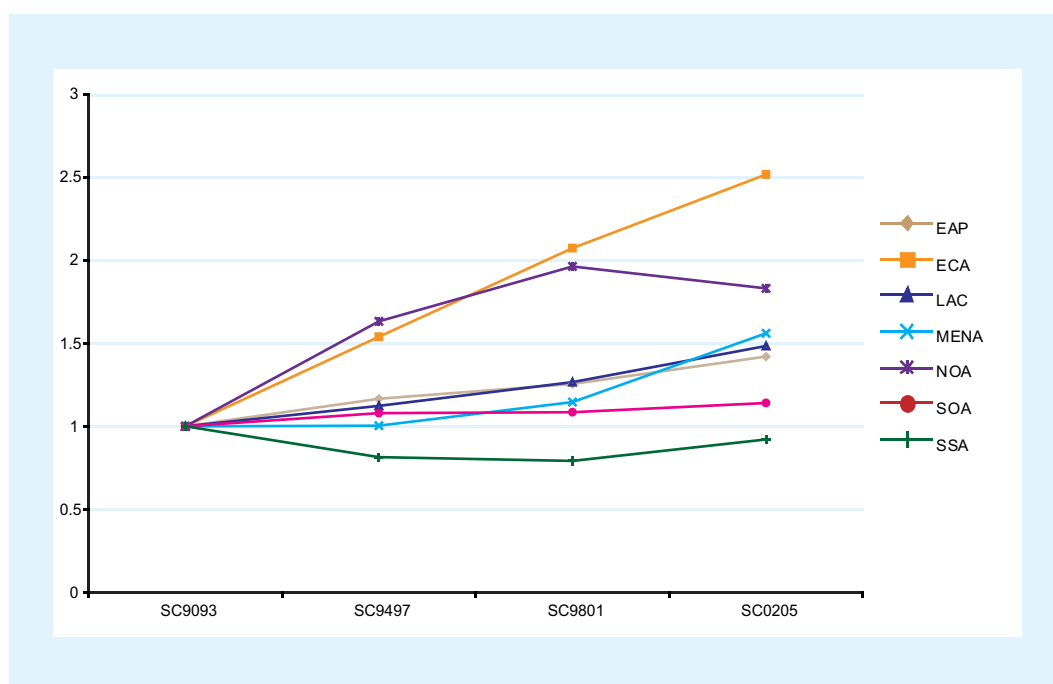
Note: Figures are ratios to the first period of analysis, 1990-1993.

Figure III.2. Foreign market access (base period 1990-1993)



Source: UNCTAD estimates.

Note: Figures are ratios to the first period of analysis, 1990-1993.

Figure III.3. Supply capacity (base period 1990-1993)

Source: UNCTAD estimates.

Note: Figures are ratios to the first period of analysis, 1990-1993.

Tables III.1 to III.3 reveal that the export performance of China, the Republic of Korea, Malaysia, The Philippines, Thailand, Bangladesh and India has increased by more than three-fold in the observed period. Improving supply capacity has been the main driver for China, the Republic of Korea and the Philippines. This is particularly true for China and the Philippines and may reflect the exponential development of productive capacity in China and the completion of trade liberalization adjustments in the Philippines. It is also likely to reflect to some extent the “Factory Asia” phenomenon, especially if we include in the analysis the observed decline in Japan’s supply capacity over the whole period. Indeed, Japan’s export performance has improved thanks to increasing foreign market access, which may denote the re-organization of production carried out since the late 1980s. All Asian developing countries have seen their market access increase substantially over the past 15 years. This remains the main driver of their export performance. Changes in supply capacity conditions have been positive only for India and Bangladesh up to 2005. They have been negative for the rest of the region. The worsening of supply capacity is significantly strong for Nepal and Pakistan.

Redding and Venables (2003b) have carried out similar analysis for 1970-1997 and observe that at the beginning of their study period export performance in South-East Asian countries was driven by supply capacity growth, and then foreign market access become relatively more important. This information complements this study since, even though country selection is different, it suggests that there may have been prior internal changes in the countries that affected supply capacity before the market access effect on exports jump-started.

The “Factory Asia” phenomenon began in the mid-1980s (Baldwin, 2006), when the unilateral liberalization of tariffs made possible the increasing trade in parts and components. The tariff cuts of the 1990s were significant. This fitted the “dual track” strategy, which consisted of promoting industrialization, while selectively “screening” certain imports and promoting exports. The “Domino theory”⁴ could

⁴ See Baldwin (1993) for a detailed presentation of the theory.

explain why after China's integration into WTO several trade agreements were negotiated and signed, showing how critical it is to Asian countries to preserve foreign market access. If China also lowered its tariffs, many trade-related investments would be directed to China. The period is also characterized by a proliferation of trade agreements among the countries of the region, which may have fostered foreign market access of the participating countries (but also complexity in economic and eventually political relations) as suggested in Figure III.2. This "domino" effect could be reflected in the increasing upward tendency observed in foreign market access between 1998-2001 and 2002-2005. For both East Asian and South Asian countries, foreign market access has increased relatively more than what was observed in the 1990s. However, utilization rates in the various trade agreements are significantly low. This may suggest that rather than reflecting a pure extension of trade relationships due to new trade agreements, the increasingly upward trend observed in foreign market access also corresponds to an intensification of production relationships established in the 1990s.

A further step in the decomposition analysis is to look at the geographical sources of the export growth components. This further decomposition could shed some additional light on the underlying nature of the integration generation process in Asia.

The equation below indicates that foreign market access of country i , located in region R_n is given by the sum of the access to markets in each region. That is:

$$FMA_i = FMA_i^{R_1} + FMA_i^{R_2} + \dots + FMA_i^{R_n}$$

where $FMA_i^{R_n}$ denotes country i market access derived from region n . The change in the market access of country i can be expressed as the sum of the contribution of each region. We have

$$\frac{\Delta FMA_i}{FMA_i} = \frac{FMA_i^{R_1}}{FMA_i} \frac{\Delta FMA_i^{R_1}}{FMA_i^{R_1}} + \dots + \frac{FMA_i^{R_n}}{FMA_i} \frac{\Delta FMA_i^{R_n}}{FMA_i^{R_n}} \quad (3)$$

The above equation indicates that the contribution to foreign market access growth of country i from a given region is larger the bigger is this region's market share in country i 's foreign

market access ($\frac{FMA_i^{R_1}}{FMA_i}$), or the greater is the increase in market demand in this partner region

($\frac{\Delta FMA_i^{R_1}}{FMA_i^{R_1}}$).

Tables III.4 and III.5 report growth rates at the regional level for the Asia-Pacific region. Tables III.6 to III.10 report the results for other regions. Results for Asia-Pacific countries are reported in tables III.11 and III.12. The largest source of increased market access in East Asia and the Pacific is the region itself. Two thirds of the region's market access growth is generated within the region and another 30 per cent of this growth originated in Europe and North America. The share of growth in market access between 1990-1993 and 1994-1997 which originated in the region amounts to 64.2 per cent, and climbs to 78.4 per cent between 1998-2001 and 2002-2005. The figures for South Asia are 21.5 and 44.4 per cent, respectively. Between the first two periods, half of South Asia's foreign market access growth came from either itself or East Asia and Pacific, and 40 per cent is due to access to Europe and North America. Between the last two periods the former figure jumps to more than 80 per cent, while the second collapses to only slightly more than 15 per cent.

At the country level experiences vary. While all East Asian and Pacific countries draw the largest share of growth in their market access from their own region, their experience over the period under study varies considerably. More than 90 per cent of Malaysia's market access growth came from the East Asia and Pacific region over the last two periods of analysis. This is the highest figure. The lowest figure belongs to Australia which draws almost 60 per cent of its growth in market access from the region. In the first half of the 1990s some countries experienced a fall in intraregional market access growth. These countries are Japan, New Zealand and especially Taiwan Province of China. On the other hand, the corresponding figure for Singapore, Malaysia and especially China was significantly large. The second half of the 1990s was in general characterized by positive growth rates. For some countries, such as the Republic of Korea, the contribution to foreign market access growth of intraregional growth in market access was much larger than during the previous period. This is true for most East Asian and Pacific countries, in particular for Japan, Taiwan Province of China and New Zealand after the collapse at the beginning of the decade. The last period of analysis shows essentially an upward trend for most countries.

As far as South Asian countries are concerned there is no particular common trend to be identified. The only common element is the increasing importance of market access growth generated in the East Asia and Pacific region.

These results corroborate the previous analysis, but further clarifications are required to determine the relative importance of "true" trade integration or a deepening of the delocalization process of production ("hollowing-out") in the main East Asian countries such as Japan, Taiwan Province of China, the Republic of Korea and Singapore.

**Table III.1. Export performance and its components:
Developed countries in Asia and the Pacific**

		1994-1997/ 1990-1993	1998-2001/ 1990-1993	2002-2005/ 1990-1993
AUS	EXP	1.31	1.44	2.00
	MA	1.67	1.82	2.41
	SC	0.79	0.79	0.83
NZL	EXP	1.36	1.37	1.80
	MA	1.66	1.89	2.45
	SC	0.82	0.72	0.73
JPN	EXP	1.31	1.32	1.61
	MA	1.30	1.35	2.01
	SC	1.00	0.98	0.80

Note: Figures are ratios to the first period of analysis 1990-1993; EXP: Export Performance; MA: Foreign Market Access; SC: Supply Capacity

Major findings

Existing data allows us to distinguish between two possible reasons underpinning export performance: external access to markets and internal supply capacity increase. It is widely known that Asian countries have consolidated the liberalization of their economies and deepened regional integration over the course of the past decade. What is now known is that data confirms that the main driver for export performance for developing Asian countries was their external market access increase, rather than their increased internal supply capacity. Exceptions are China, Philippines and the Republic of Korea. These countries' exports grew because of their own capacity to substantially increase their production. Other countries need foreign markets to continue to expand to enable to improve their export performance. The common economic needs of Asian countries are reflected in the fact that they are more closely integrated.

This analysis, however, does not show whether there is a constraint for export growth, but only the *ex post* source of its performance. It may not be said that there is actually a supply capacity constraint if the main source of export growth is market access, although it may be logical to think so. While other analysis needs to be made in order to trace exports constraints, this methodology points to the interdependence of Asian economies in the process of integrating into a global value chain.

The mesh of RTAs in Asia that should contribute to regional integration may be a consequence of the process started decades ago to search for new markets for new products. This created dependence on foreign market access that in turn led to interdependence among Asian countries and all members of the global value chain. Hence, the observed gains in foreign market access are the result of both trade integration and the deepening of the hollowing-out phases of production experienced since the late 1980s.

**Table III.2. Export performance and its components:
Developing countries in East Asia and the Pacific (base period 1990-1993)**

		1994-1997/ 1990-1993	1998-2001/ 1990-1993	2002-2005/ 1990-1993
CHN	EXP	1.96	2.92	5.83
	MA	1.14	1.03	1.25
	SC	1.73	2.83	4.65
HKG	EXP	1.01	1.01	1.12
	MA	1.19	1.29	1.87
	SC	0.85	0.78	0.60
IDN	EXP	1.55	1.83	2.76
	MA	1.62	1.57	2.63
	SC	0.96	1.17	1.05
BRN	EXP	1.03	1.11	1.78
	MA	1.56	1.70	2.14
	SC	0.66	0.65	0.83
KOR	EXP	1.62	2.17	3.36
	MA	0.93	0.98	1.22
	SC	1.73	2.21	2.76
MYS	EXP	1.91	2.30	3.24
	MA	1.81	3.55	4.88
	SC	1.05	0.65	0.66
PHL	EXP	2.00	3.57	4.91
	MA	1.24	1.30	1.59
	SC	1.61	2.76	3.08
SGP	EXP	1.74	1.79	2.37
	MA	1.62	1.37	1.56
	SC	1.07	1.31	1.52
THA	EXP	1.80	2.20	3.17
	MA	1.53	1.66	2.15
	SC	1.17	1.32	1.47
TWN	EXP	1.43	1.67	2.32
	MA	1.15	1.15	1.48
	SC	1.25	1.46	1.57

Note: Figures are ratios to the first period of analysis 1990-1993; EXP: Export Performance; MA: Foreign Market Access; SC: Supply Capacity

**Table III.3. Export performance and its components:
Developing countries in South Asia (base period 1990-1993)**

		1994-1997/ 1990-1993	1998-2001/ 1990-1993	2002-2005/ 1990-1993
BGD	EXP	1.82	2.65	3.85
	MA	1.49	2.08	2.45
	SC	1.22	1.27	1.58
IND	EXP	1.72	2.07	3.63
	MA	1.44	1.55	2.37
	SC	1.20	1.34	1.53
LKA	EXP	1.59	1.92	2.23
	MA	1.61	1.81	2.41
	SC	0.99	1.06	0.92
NPL	EXP	1.25	1.96	1.93
	MA	1.52	1.80	3.08
	SC	0.82	1.09	0.63
PAK	EXP	1.29	1.37	1.78
	MA	1.52	1.80	3.27
	SC	0.85	0.76	0.54

Note: Figures are ratios to the first period of analysis 1990-1993; EXP: Export Performance; MA: Foreign Market Access; SC: Supply Capacity

Table III.4. Sources of market access growth: East Asia and Pacific
(shares in per cent)

Source	gMA9497	gMA9801	gMA0205
EAP	64.2	69.4	78.4
ECA	15.6	-1.4	7.5
LAC	1.3	1.1	0.8
MENA	0.9	0.7	0.8
NOA	15.6	24.9	7.6
SOA	1.7	4.8	4.5
SSA	0.7	0.5	0.4

Note: Each column should add up to 100 per cent.
Possibly observed deviations would correspond to rounding.

Table III.5. Sources of market access growth: South Asia
(shares in per cent)

Source	gMA9497	gMA9801	gMA0205
EAP	33.4	19.5	38.3
ECA	23.8	-2.2	8.9
LAC	1.3	0.9	0.5
MENA	1.9	2.0	1.3
NOA	17.1	25.4	6.2
SOA	21.5	53.6	44.4
SSA	1.0	0.7	0.4

Note: Each column should add up to 100 per cent.
Possibly observed deviations would correspond to rounding.

Table III.6. Sources of market access growth: Europe
(shares in per cent)

Region	growthFMA9497	growthFMA9801	growthFMA0205
EAP	-0.1	-1.9	6.1
ECA	107.8	109.5	77.2
LAC	-0.2	-0.3	0.6
MENA	0.5	-2.1	5.8
NOA	-7.6	-4.9	8.6
SOA	-0.3	-0.1	1.4
SSA	-0.1	-0.1	0.3

Note: Each column should add up to 100 per cent.
Possibly observed deviations would correspond to rounding.

Table III.7. Sources of market access growth: Latin America and Caribbean
(shares in per cent)

Region	growthFMA9497	growthFMA9801	growthFMA0205
EAP	-0.1	7.3	9.9
ECA	-0.7	18.6	16.4
LAC	11.5	20.3	17.5
MENA	0.2	0.7	1.2
NOA	88.1	52.1	53.0
SOA	0.4	0.3	1.4
SSA	0.4	0.8	0.7

Note: Each column should add up to 100 per cent.
Possibly observed deviations would correspond to rounding.

Table III.8. Sources of market access growth: Middle East and North Africa
(shares in per cent)

Region	growthFMA9497	growthFMA9801	growthFMA0205
EAP	3.3	17.1	15.2
ECA	-1.4	34.3	44.7
LAC	1.8	2.2	1.0
MENA	29.8	14.6	18.2
NOA	57.6	28.2	14.0
SOA	6.6	1.9	5.9
SSA	2.3	1.8	1.0

Note: Each column should add up to 100 per cent.
Possibly observed deviations would correspond to rounding.

Table III.9. Sources of market access growth: North America
(shares in per cent)

Region	growthFMA9497	growthFMA9801	growthFMA0205
EAP	31.9	-1.7	1.2
ECA	67.2	-4.5	2.0
LAC	-353.3	-1.4	1.5
MENA	-16.2	-0.2	0.2
NOA	428.1	107.9	95.1
SOA	-35.2	-0.1	0.2
SSA	-22.4	-0.1	0.0

Note: Each column should add up to 100 per cent.
Possibly observed deviations would correspond to rounding.

Table III.10. Sources of market access growth: Sub-Saharan Africa
(shares in per cent)

Region	growthFMA9497	growthFMA9801	growthFMA0205
EAP	3.1	21.6	20.2
ECA	-1.7	48.7	32.1
LAC	1.8	4.5	1.5
MENA	2.2	3.8	4.4
NOA	46.8	37.1	22.2
SOA	2.8	1.4	4.9
SSA	44.9	-17.2	14.7

Note: Each column should add up to 100 per cent.
Possibly observed deviations would correspond to rounding.

Table III.11. Sources of market access growth: East Asia and Pacific
(shares in per cent)

Country	Region	growthFMA9497	growthFMA9801	growthFMA0205
AUS	EAP	54.4	46.3	57.9
AUS	ECA	-1.5	19.6	13.6
AUS	LAC	2.4	3.5	2.5
AUS	MENA	0.7	1.0	1.4
AUS	NOA	40.5	27.1	19.6
AUS	SOA	2.7	1.0	4.0
AUS	SSA	0.8	1.4	1.1
BRN	EAP	53.9	70.2	68.1
BRN	ECA	-2.3	13.5	11.6
BRN	LAC	1.6	1.0	1.1
BRN	MENA	1.3	0.8	1.2
BRN	NOA	37.1	12.6	11.2
BRN	SOA	7.6	1.3	6.1
BRN	SSA	0.9	0.6	0.6
CHN	EAP	384.3	26.5	79.3
CHN	ECA	14.8	31.6	5.9
CHN	LAC	-9.4	1.9	0.5
CHN	MENA	-5.6	1.9	0.6
CHN	NOA	-232.2	29.9	5.6
CHN	SOA	-48.4	7.3	7.8
CHN	SSA	-3.5	0.9	0.2
HKG	EAP	62.2	46.2	85.2
HKG	ECA	-1.8	24.4	5.3
HKG	LAC	1.3	1.6	0.5
HKG	MENA	0.9	1.5	0.6
HKG	NOA	29.7	22.6	5.0
HKG	SOA	7.3	2.8	3.2
HKG	SSA	0.6	0.9	0.2
IDN	EAP	71.9	80.7	66.6
IDN	ECA	-1.4	8.9	12.5
IDN	LAC	1.0	0.7	1.0
IDN	MENA	0.8	0.5	1.4
IDN	NOA	22.3	7.8	11.3
IDN	SOA	4.7	0.8	6.3
IDN	SSA	0.7	0.5	0.8
JPN	EAP	-59.4	35.9	76.2
JPN	ECA	-6.9	27.0	8.6
JPN	LAC	6.4	2.1	1.1
JPN	MENA	2.3	1.4	0.8
JPN	NOA	143.0	31.1	10.1
JPN	SOA	13.0	1.7	2.9
JPN	SSA	1.7	0.7	0.3
KOR	EAP	53.8	184.1	80.5
KOR	ECA	-2.3	-37.2	7.2
KOR	LAC	1.7	-2.5	0.8
KOR	MENA	0.8	-2.1	0.8
KOR	NOA	40.2	-38.4	7.5
KOR	SOA	5.2	-2.8	3.0
KOR	SSA	0.5	-1.0	0.2
MYS	EAP	97.3	87.9	90.5
MYS	ECA	-0.1	5.6	3.4
MYS	LAC	0.1	0.4	0.3
MYS	MENA	0.1	0.4	0.4
MYS	NOA	2.0	4.8	3.0
MYS	SOA	0.6	0.7	2.2
MYS	SSA	0.1	0.3	0.2

Table III.11. (continued)

Country	Region	growthFMA9497	growthFMA9801	growthFMA0205
NZL	EAP	-11.4	46.4	80.2
NZL	ECA	-2.6	16.6	5.6
NZL	LAC	6.4	4.3	1.4
NZL	MENA	1.2	0.8	0.5
NZL	NOA	100.4	29.8	10.3
NZL	SOA	4.3	0.8	1.4
NZL	SSA	1.8	1.4	0.5
PHL	EAP	27.9	53.2	68.5
PHL	ECA	-3.4	20.8	11.4
PHL	LAC	2.6	1.5	1.2
PHL	MENA	1.6	1.2	1.2
PHL	NOA	59.4	20.4	11.5
PHL	SOA	10.8	1.9	5.6
PHL	SSA	1.1	0.8	0.5
SGP	EAP	112.4	85.7	60.1
SGP	ECA	0.6	6.6	14.6
SGP	LAC	-0.4	0.5	1.1
SGP	MENA	-0.4	0.4	1.7
SGP	NOA	-9.4	5.7	12.8
SGP	SOA	-2.5	0.7	8.7
SGP	SSA	-0.3	0.4	0.9
THA	EAP	39.4	69.5	72.4
THA	ECA	-2.8	14.0	9.5
THA	LAC	1.6	0.9	0.7
THA	MENA	1.8	0.9	1.2
THA	NOA	41.2	11.7	8.0
THA	SOA	17.8	2.3	7.8
THA	SSA	1.1	0.6	0.5
TWN	EAP	-1 113.1	39.2	77.5
TWN	ECA	-58.4	27.1	8.2
TWN	LAC	43.5	1.9	0.8
TWN	MENA	24.9	1.6	0.9
TWN	NOA	1 005.8	26.8	8.2
TWN	SOA	180.4	2.5	4.1
TWN	SSA	16.9	0.9	0.3

Note: Each column should add up to 100 per cent. Possibly observed deviations would correspond to rounding.

Table III.12. Sources of market access growth: South Asian countries
(shares in per cent)

Country	Region	growthFMA9497	growthFMA9801	growthFMA0205
BGD	ECA	-1.1	17.7	10.2
BGD	LAC	0.6	1.0	0.7
BGD	MENA	0.8	1.3	1.3
BGD	NOA	14.8	13.6	7.8
BGD	SOA	73.7	32.4	40.4
BGD	SSA	0.4	0.7	0.5
IND	EAP	46.3	37.6	56.5
IND	ECA	-5.7	31.8	12.4
IND	LAC	2.3	1.6	0.7
IND	MENA	5.7	2.7	1.8
IND	NOA	64.0	22.1	8.3
IND	SOA	-14.4	3.0	19.9
IND	SSA	1.8	1.2	0.5
LKA	EAP	34.5	43.8	46.1
LKA	ECA	-3.1	26.8	18.9
LKA	LAC	1.5	1.7	1.1
LKA	MENA	3.2	2.0	2.6
LKA	NOA	41.8	19.7	13.8
LKA	SOA	20.4	4.3	16.3
LKA	SSA	1.6	1.6	1.2
NPL	EAP	21.4	32.1	39.1
NPL	ECA	-1.7	20.9	6.0
NPL	LAC	0.8	1.1	0.4
NPL	MENA	1.4	1.6	0.8
NPL	NOA	21.1	15.4	4.4
NPL	SOA	56.6	28.1	49.1
NPL	SSA	0.6	0.8	0.3
PAK	EAP	14.0	24.8	26.3
PAK	ECA	-2.3	25.6	6.8
PAK	LAC	0.8	1.2	0.3
PAK	MENA	2.3	2.3	1.0
PAK	NOA	24.0	17.2	4.3
PAK	SOA	60.6	27.9	60.9
PAK	SSA	0.7	0.9	0.2

Note: Each column should add up to 100 per cent.

Possibly observed deviations would correspond to rounding.

B. Country/regional analyses

1. ASEAN-related RTAs and their economic impacts

The creation of free trade areas centered on ASEAN has been progressing steadily in Asia. This section will present an estimate of the economic effects of RTAs in Asia by means of model analysis. By clarifying the effect of upward pressure on GDP and changes to the structure of trade, it will present the possibilities brought by RTAs, together with measures intended to maximize the economic effects of RTAs.

Needless to say, estimations of the economic effects of an RTA by means of a model will produce results according to the assumptions involved. If the conditions and assumptions are made as clear as possible, however, and the effects of the RTA are presented concretely and specifically, then the results may be significant insofar as they are able to provide certain suggestions for discussions on RTAs, as well as the issues involved in their implementation.

The estimate here was made using GTAP (sixth edition, with 2001 base data), which is the most standard general equilibrium model. The subject was RTAs centered on ASEAN, including the ASEAN Free Trade Area (AFTA), ASEAN+1, ASEAN+3, ASEAN+6, and so on. This includes RTAs that have been signed, on which agreements have been reached, and that are being planned. The analysis was applied to a total of 11 industries with a focus on eight industrial classifications involving manufacturing of electric machinery, transportation equipment, and so on. (Further information, including details of the assumptions employed, can be found in Annex III.3).

The economic effects of an RTA were first estimated by converting base data from the period before the RTA was concluded or completely implemented, in the case of ASEAN, to the common effective preferential tariff (CEPT) rate as of 2003.⁵ The working assumption is that tariffs within the region will then be eliminated and non-tariff measures (NTMs) will be reduced. The liberalization effects are estimated on this basis. For ASEAN+6, only the effects of tariff elimination were estimated, for purposes of comparison.

(a) ASEAN+6 FTA pushes GDP up in signatory countries

The economic effects of an RTA bring changes to the entire economy in the form of consumption and production structure changes that occur when trade within and outside the area rises and falls because of the elimination of tariffs and the reduction of NTMs. These are static effects.

The economic effects of the main RTAs centered on ASEAN (envisioning tariff elimination and NTM reduction) include, in the case of ASEAN+6, pushing GDP up in all signatory countries by 1.3 per cent. In the case of ASEAN+3, this margin was 1.0 per cent (table III.13). For Japan, the margin of GDP increase from ASEAN+6 was 1.0 per cent, from ASEAN+3 it was 0.7 per cent, and from Japan-ASEAN it was 0.3 per cent. The margin of GDP increase for ASEAN from ASEAN+6 was 2.3 per cent, followed by ASEAN+3 at 2.0 per cent, while the margins from ASEAN+1 were 1.0 per cent (ASEAN-India FTA) to 1.4 per cent (Japan-ASEAN), and 0.9 per cent (AFTA), respectively.

⁵ The adoption of CEPT tariff rates in 2003, in the present model analysis, results in an intra-ASEAN tariff rate of 2.1 per cent. Consequently, the liberalization effect of intra-ASEAN trade is the effect of not imposing this 2.1 per cent tariff. The original ASEAN signatory countries are slated to remove tariffs on more or less all product categories by 2010.

On the other hand, examination of the effects on countries that have not joined RTAs shows that there was either a diminishing effect or no effect in all cases. It was confirmed that RTAs could, in some cases, have a negative effect on outside (non-signatory) countries. In the case of Japan, the ASEAN-China and ASEAN-Australia RTAs, to which Japan is not a party, had a diminishing effect of 0.01 per cent.

Table III.13. Effects of various FTAs on GDP (in per cent)
(tariff totally eliminated and NTM reduced by 50 per cent)

	Intra-ASEAN (AFTA)	ASEAN-China	ASEAN-Rep. of Korea	ASEAN-Japan	ASEAN-Australia	ASEAN-India	ASEAN +3	ASEAN +6
Countries	0.9	0.7	0.7	0.5	0.8	0.9	1.0	1.3
ASEAN	0.9	1.3	1.0	1.4	1.0	1.0	2.0	2.3
Japan	-	-0.01	-	0.3	-0.01	-	0.7	1.0
China	-0.01	0.4	-0.02	-0.02	-0.01	-0.01	1.5	1.7
Rep. of Korea	-0.01	-0.04	0.3	-0.02	-0.01	-	1.6	1.7
India	-0.01	-0.03	-0.02	-0.1	-0.02	0.9	-0.1	1.2
Australia	-	-0.02	-0.01	-0.04	0.5	-0.01	-0.1	1.4

Source: GTAP estimates.

Notes: Rounded off below two decimal places; regard 0.00 per cent as no influence and indicate as “-”
Shaded boxes indicate FTA member countries/regions.

In all cases, the effects were greatest with ASEAN+6, which has the most comprehensive membership. This is because the effects of an RTA are propagated directly through trade, so that liberalization of trade between a larger number of countries will have a greater effect. In other words, the elimination or reduction of tariffs and NTMs tends to lower the prices of import and increase their volume, but the effect on imports as a whole will be greater when the tariffs and NTMs imposed on imports from a counterpart country are at a higher level (so the effects of reduction are correspondingly greater), or when imports from a counterpart country make up a larger percentage of total imports. With ASEAN+6, ASEAN reduced tariffs and NTMs on imports from signatory countries within the area by 8.4 per cent of the total. The effects on imports as a whole were greater because imports from within the area made up over half the total, and the volume of imports from the rest of the world increased by 12.9 per cent. Meanwhile, with ASEAN+3, ASEAN reduced tariffs and NTMs on imports from within the area by the equivalent of 8.0 per cent, while the percentage of imports from within the area was 47.8 per cent of the total. Both these figures are lower than for ASEAN+6, and the effects on imports as a whole were consequently smaller than in ASEAN+6. The volume of imports from the rest of the world increased 12.0 per cent, which was also lower than the figure for ASEAN+6.

As in the case of imports from within the area, exports to the area have also increased in accordance with the extent of tariff elimination and NTM reduction by the trading partner country. In the case of ASEAN+6, for example, ASEAN exports to the area increased by 39.7 per cent, while exports to the rest of the world also increased 6.2 per cent.

An increase in imports has an unmistakable depressing effect on GDP. The inflow of inexpensive imported goods, however, can lead to a growth in personal consumption, capital investment and other internal demand, with the result of pushing GDP up. For example, the rate of increase in ASEAN imports as a result of ASEAN+6 was greater than the increase in exports. Therefore, external demand (net exports) had the effect of depressing GDP by 4 points. Meanwhile, internal demand grew, with personal consumption increasing 5.2 per cent and capital investment increasing 14.0 per cent, so that internal demand had a positive upward effect of 6.2 points, offsetting the decreasing effect of external demand. The increase in GDP as a whole amounted to 2.3 per cent.

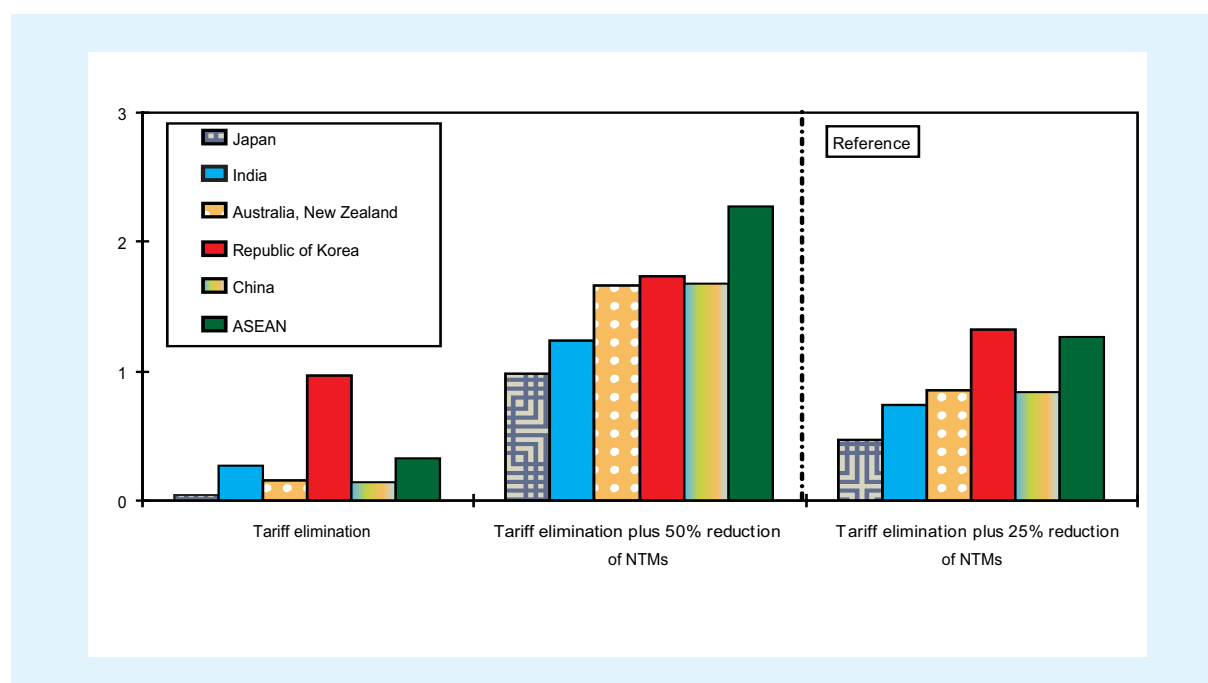
(b) The effects of NTM reduction

The above estimates took into account the effects from the elimination of tariffs and the reduction of NTMs by RTAs. When only tariffs are eliminated, however, the economic effects are limited. Considering the margin of GDP increase in ASEAN+6, for instance, the effect of tariff elimination does not exceed 0.2 per cent for ASEAN+6 as a whole (figure III.4). This is because the tariffs imposed by the main countries on imports from within the area are already low, at 4.2 per cent for ASEAN, 5.0 per cent for Japan, 6.4 per cent for Australia, and so on.

When NTMs are taken into consideration, however, the margin of GDP increase in ASEAN+6 as a whole rises to 1.3 per cent, and in the main countries and areas it expands by 1.0 to 2.3 per cent.⁶ Australia imposed a tariff rate of 6.4 per cent on imports from within the area, while the tariff equivalent rate of NTMs are reduced is 9.3 per cent, and the impact of the NTMs is therefore approximately 1.5 times greater. In the case of ASEAN, NTMs at 4.3 per cent are higher than the tariff rate of 4.2 per cent. When NTM reduction is included, the effect in ASEAN+6 as a whole is to push the GDP up by 1.1 points more than when only tariffs are eliminated.

UNCTAD estimates show that NTMs tend to be higher in advanced countries, such as Australia, where the tariff rates are already at low levels. The data used in this chapter for the tariff equivalent rate of NTMs indicate, for example, that Australia imposes technical measures (technical regulations, standards, quality assessment, and so on) on agricultural products, some general machinery, as well as some other items.

Figure III.4. Effects of ASEAN+6 FTA on GDP of each country/region (in per cent)



Source: GTAP estimates.

⁶ The present analysis assumed that RTAs would reduce NTMs by half. The effects from a 25 per cent reduction and 75 per cent reduction of NTMs within the ASEAN+6 framework were also considered, for reference. A 25 per cent reduction of NTMs results in a margin of GDP increase of 0.7 per cent in the area as a whole, while the effect of a 75 per cent reduction was 2.0 per cent. The extent to which an RTA reduces NTMs has a relatively large influence on the resulting effect of upward pressure on the GDP.

(c) The importance of reducing service link costs

An estimation of the economic effects of RTAs with a focus on ASEAN shows that the greatest economic effects were felt in ASEAN+6 countries. An examination of the economic effects of RTAs shows that the economic effects from the elimination of tariffs alone are limited and that the effects from reduction of NTMs are often greater than those from elimination of tariffs.

When negotiating FTAs and EPAs the extent to which NTMs can be reduced is, therefore, an essential consideration for maximizing the economic benefits to be received. Many researchers have recognized that governments, especially in developing countries, do not make clear the nature of the measures they actually put in place as NTMs. The collection and publication of more highly accurate information regarding NTMs by national governments and international organizations is therefore a crucial first step toward the reduction of NTMs.

The reduction of NTMs has great significance for recent business expansion by Japanese enterprises. Enterprises have been undergoing fragmentation as their bases become geographically dispersed. This is progressing along two tracks: dispersal of an enterprise's in-house production processes to different sites within the country, and international outsourcing.⁷ In this context, the international division of labour furthered by RTAs lowers service related costs. These are the costs of linking together different production bases, such as tariffs, NTMs, transportation costs, and so on. The lowering of these costs makes it likely that production networks within the area will become more active, so that lowering NTMs and other such service link costs other than tariffs offers a greater margin for possible cost reduction.

The estimates made in this chapter have also shown that the reduction of NTMs, which account for a certain percentage of service link costs has a greater effect than the elimination of tariffs. Thus, it is important for RTAs to include schemes not just for the reduction of NTMs, but also beyond that, for reducing service link costs as a whole, to include physical distribution infrastructure, financial services and so on. This is crucial in trying to estimate the economic effects of an RTA. The reduction of service link costs provides a boost to enterprises seeking to optimize production or achieve economies of scale by making use of comparative advantages within the region, for example by clustering, etc. Depending on the RTA, the productivity of an enterprise could be enhanced or its competitiveness reinforced.

(d) Significant expansion of ASEAN+6 imports and exports

Changes in trade volume resulting from ASEAN+6 among signatory countries as a whole will be examined in detail, industry by industry. The growth in intra-area export volume for all industries is 65.9 per cent. This major increase was brought about by the elimination of tariffs and reduction of NTMs (table III.14).

On the other hand, exports outside the area shrank by 14.0 per cent overall (i.e. through the trade diversion effect). In terms of global exports to countries inside and outside the area, all the ASEAN+6 signatory countries and regions show a positive effect. The overall figure is an increase of 13.8 per cent.

⁷ Kimura and Ando (2006).

Table III.14. The number of NTMs in ASEAN countries

	Number of cases of NTMs, by country						Main examples
	Thailand	Malaysia	Indonesia	Singapore	Philippines	Viet Nam	
Quantity control measures	113	123	189	64	67	82	Import licensing on a discretionary basis (foods, electric equipment, etc.); import quotas (iron and steel, automobiles, foods, etc.), prohibitions on imports (used cars, etc.)
Technical measures	22	6	134	29	90	158	Quality inspections, labeling and specifications standards, advertising restrictions on foods, pharmaceuticals, cosmetics, electric products, machinery, etc.
Monopolistic measures	0	1	13	0	2	8	Monopolistic import company system for rice, petroleum, etc.
Price control measures	0	0	0	1	0	34	Price controls on imports (in Viet Nam, on beverages, glass, etc.), anti-dumping measures (in Singapore, on iron and steel products)
Other	6	4	71	8	0	1	Automatic licensing measures
Total	141	134	407	102	159	283	

Source: ASEAN Secretariat.

Note: We summarized the data disclosed by ASEAN Secretariat, which had taken the information of the number of NTA from APEC, UNCTAD, etc. who compiled the data mainly reported from each government. The years of compiling the data vary with country, ranging from 2001 to 2003. We count the number of NTM regardless of the level of HS digit in question. For instance, a measure affecting HS tariff lines (products) at two digit level is counted as one while another measure affecting products at HS eight digit level is also counted as one. Thus, that a country is shown as having a large number of NTMs in this table does not necessarily mean that it does have many NTMs or that the impact of the NTMs applied is large.

Total imports for all industries from within the region likewise amounts to an increase of 67.1 per cent, and a decrease of 12.6 per cent from outside the region, so that global imports from all countries show a 21.0 per cent increase. As with exports, the trade creation and diversion effects are perceptible. Examination of total growth in global exports and imports for all industries shows that the growth in imports exceeds the growth in exports by about seven points. This is because a larger percentage of imports are from within the region, and the growth in the large intra-area imports has a greater contributory effect toward the total growth.

Examination of the rate of growth in intra-area exports for the major industries shows that transportation machinery, the manufacturing industry subject to the highest tariff rate (18.6 per cent) for intra-area imports, increased intra-area exports by a factor of two or more. Japan and the Republic of Korea, which account for approximately 60 and 10 per cent of intra-area exports, respectively, increased by a factor of 2.5. Under imports, China increased by a factor of 5.6.

In general machinery, Japan accounts for 47.5 per cent of intra-area exports. Reduction by a tariff equivalent of 10.7 per cent in tariffs and NTMs resulted in an increase of 73.6 per cent in Japanese intra-area exports. Transportation machinery and general machinery are sectors where Japanese exports are very competitive, and these two industries account for just under one-half of the percentage increase of Japanese intra-area exports.

Electric machinery, which is the manufacturing industry sector with the largest export volume, showed a relatively low increase of 25.8 per cent. This is because there are not very many NTMs

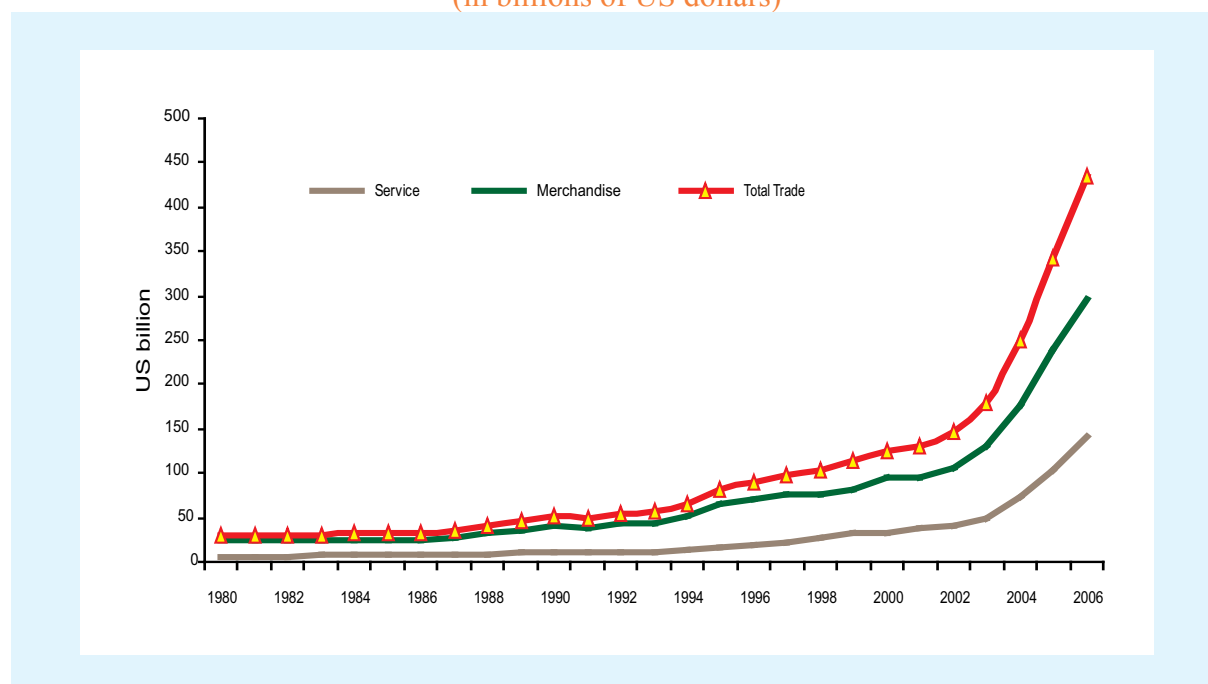
involved and because the intra-area tariff rate for the electric machinery industry is already low at 2.9 per cent due to the WTO's Information Technology Agreement (ITA).⁸ In electric machinery, Chinese intra-area exports increased 66.2 per cent while exports outside the area increased 27.2 per cent. In this case, both increased. Intra-area imports also increased 71.2 per cent. This is thought to be in part because of the processing trade pattern whereby China imports parts from within the area to assemble into finished goods that it then exports to countries inside and outside the area.

2. India and South-South RTAs: Patterns and prospects

The prime targets of India's economic reform strategy at present include *structural measures*, consisting of, among others, industrial policy reform, trade and exchange rate reform (i.e. external sector), financial sector and public sector reforms, as well as measures to streamline tax reforms. The other policy changes were related to deregulation and promoting private sector investment, trade liberalization and opening up the door to both foreign direct and portfolio investment. This was followed by a series of measures dealing with *deregulation of imports*, and opening up the trade and investment regime to foreign competition. These reforms were gradually phased in from the early 1990s.

Since the economic reforms India has taken steps to *reduce the average rate of import tariffs*, as India's import duties were the highest in the world – more than 200 per cent on certain items. *Exchange rate management* is another area where reforms proceeded very cautiously and with care. There was a strong feeling among reformers that foreign investment (both short-term and long-term capital) in the economy was needed as public sector investment was no longer available in the light of huge losses and inefficiency in resource mobilization. Recent legislations allowed FDI of up to 51 per cent foreign equity in a defined list of 48 industries, and up to 74 per cent for nine high priority industries.

Figure III.5. Trends in India's total, service and merchandise trade
(in billions of US dollars)



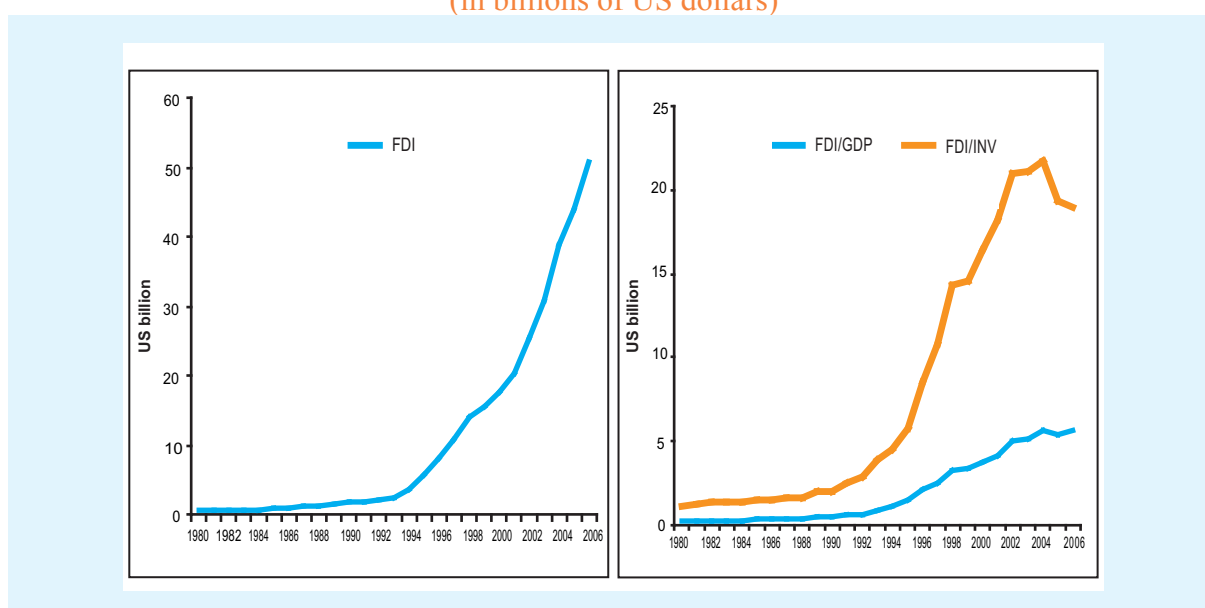
Source: UNCTAD Handbook of Statistics, 2006-2007.

⁸ Countries that have signed the WTO's Information Technology Agreement (ITA) have agreed to eliminate their tariffs on IT-related products. The ASEAN+6 signatory countries analysed in this chapter have all joined the ITA.

Over the years, India has become a major player in international trade and subsequently helped raise the overall economic growth of developing countries. According to the UNCTAD (2007), India's total merchandise stood at \$295 billion, while services reached \$140 billion in 2006. Hence, India's overall trade in merchandise and services has risen from \$126 billion in 2000 to \$435 billion in 2006. Moreover, India's share in world merchandise and services trade stood at 1.5 per cent in 2006.

Several recent opinion surveys pointed that India is now one of the most attractive destinations for foreign investors. Statistics indicate that the share of FDI (inward/stock) in India's GDP stands at 5.6 per cent of GDP in 2006. Indian economy continues to attract a growing amount of foreign investments, as reflected in UNCTAD statistics which show that FDI (inward/stock) rose from \$ 17.5 billion in 2000 to \$50.6 billion in 2006.

Figure III.6. Trends in FDI (inward/stock)
(in billions of US dollars)



Source: UNCTAD Handbook of Statistics, 2006-2007.

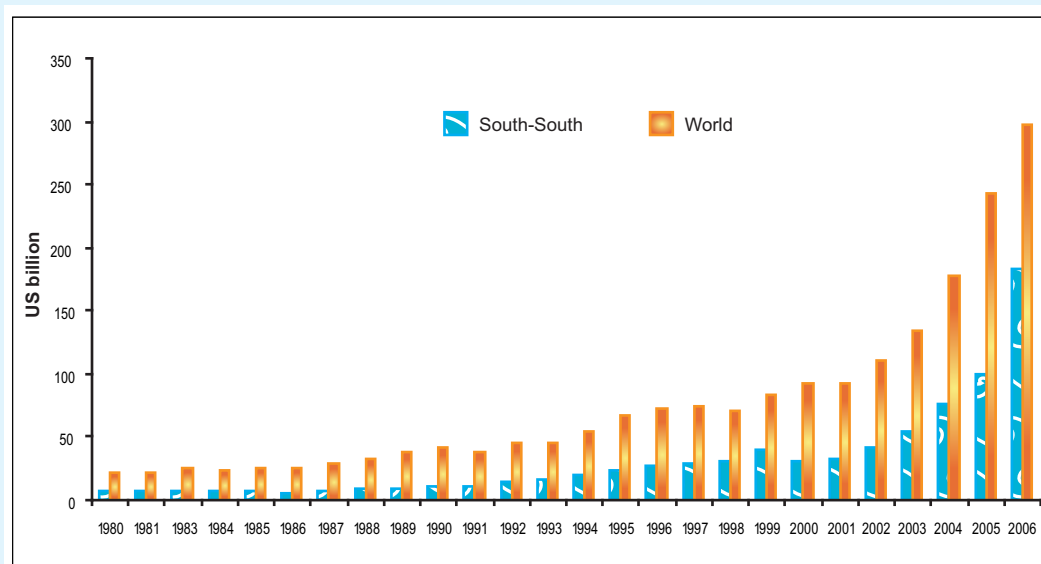
India eased and/or removed the magnitude of *quantitative restrictions (QRs)* that were used as an instrument to restrict imports of not only finished consumer goods, but also input of raw material components and capital goods. India's licensing restrictions on imports of raw materials and intermediate manufactures were removed during the economic reforms in 1991. But other restrictions of industrial goods and agricultural products were removed gradually following all the WTO rules. It was definitely a major way a step forward towards integration with the world economy.

(a) India in South-South trade

The spectacular rise of Indian trade levels has clearly opened up lots of opportunities for developing countries in general, and Asia in particular. In the past two decades, export from India to other developing countries, or South-South trade, has grown at a much faster rate than export growth to the rest of the world.

UNCTAD estimates show that trade between developing countries (South-South trade) is becoming important for India as 53 per cent of its merchandise exports have gone to developing countries in 2006.

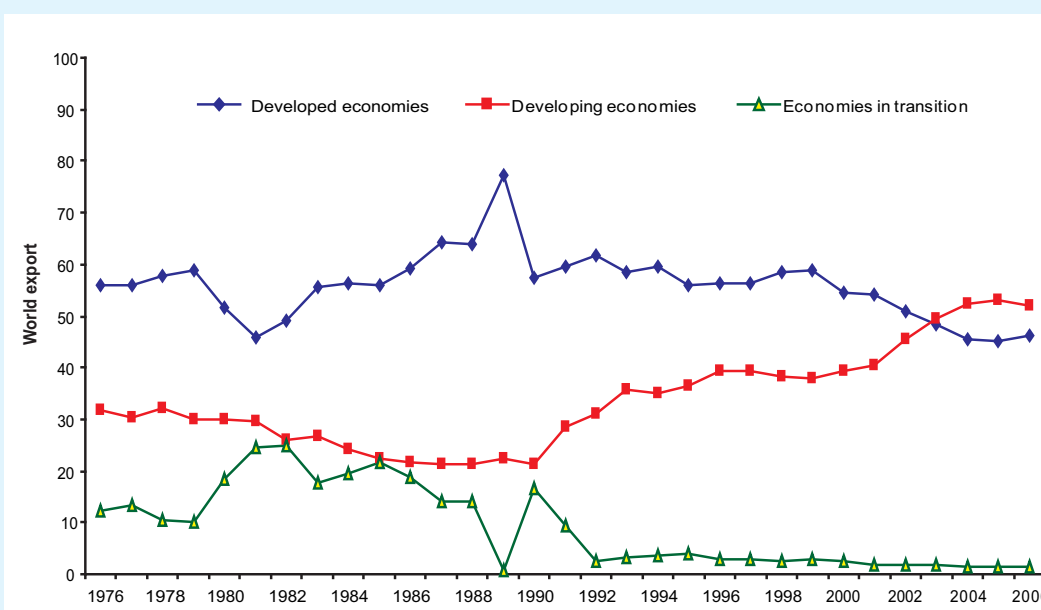
Figure III.7. Trends in India's trade with developing countries and the world
(in billions of US dollars)



Source: UNCTAD Handbook of Statistics, 2006-2007.

Over the last decade, India's total merchandise trade with developed countries has grown at an annual average rate of 12 per cent, while its South-South trade has grown a lot faster, at 17 per cent per annum.

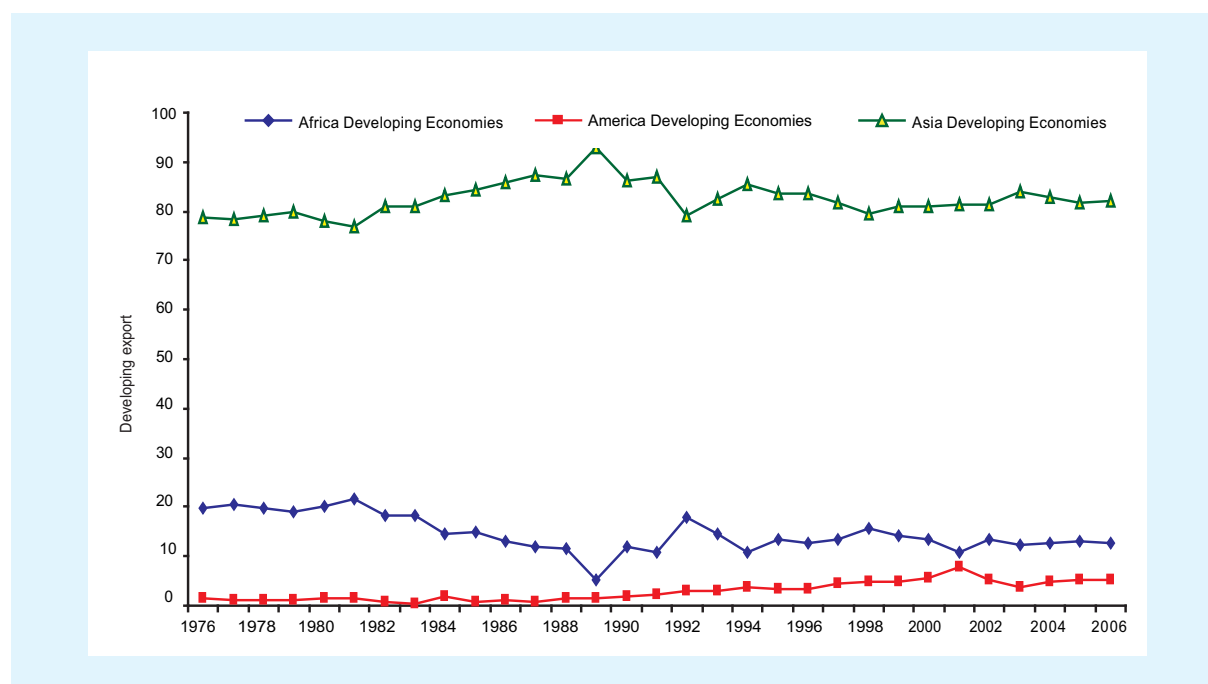
Figure III.8. India's turning point in trade integration
(in per cent)



Source: UNCTAD Handbook of Statistics, 2006-2007.

Most of the India's trade expansion has been fuelled by increasing demand from other Asian economies. The Government of India has in recent years actively sought to increase trading volumes with Latin America and Africa. But, it will take some time before they can reach the levels India has achieved in its trade with Asia.

Figure III.9. India's South-South trade strongly driven by Asia
(in per cent)



Source: UNCTAD Handbook of Statistics, 2006-2007.

Table III.15 shows India's trade-weighted applied tariffs imposed on imported goods. These data include preferential rates. Figure III.5 shows that India's merchandise trade has grown significantly over the 1990s. India imposed average tariffs of 20.96 per cent on imports from developed countries, 23.20 per cent on imports from developing countries, and 20.27 per cent on imports from LDCs in 1997, respectively. Over the years, India's tariff rates have declined gradually. Current information on tariffs indicates that India has imposed 13.51 per cent on developed countries imports, 15.24 per cent on developing countries and 17.88 per cent on LDCs in 2005, respectively (see table III.15). On the other hand, regional disaggregations show that India also imposes lowest tariff on imports from Asia. India imposed tariffs of 22.96 per cent on imports from Asia in 1997, and 14.27 per cent in 2005. Similarly, in 2005 Africa and the Americas faced tariffs of 16.32 and 28.21 per cent, respectively. These results are a clear indication of India's economic reform and tariff liberalization which have contributed to its growing trade integration with the rest of the world. (see Annex table III.1 for India's trade-weighted applied tariffs for number of Asian RTAs).

Table III.15. Trade-weighted average applied tariffs, including preferences
(in per cent)

	Developed countries	South-South economies		South-South regions		
		Developing countries	Least developed countries	Asia	Africa	Americas
1997	20.96	23.20	20.27	22.96	24.69	20.54
2001	29.84	30.53	24.81	30.33	29.37	36.03
2005	13.51	15.24	17.88	14.27	16.32	28.21

Source: Computed from UNCTAD SSTIS, 2008

The trade-weighted average tariffs imposed by India have impacted imports from these economies. The higher tariff reduces the trade linkages between India and other economies (see table III.14). Imports of merchandise products from developed countries have gone up considerably since 1995, while the increase has been noticeable for developing countries.

Table III.16. India's merchandise imports
(in billions of US dollars)

	Developed countries	South-South economies		South-South regions		
		Developing countries	Least developed countries	Asia	Africa	Americas
1995	16.91	12.08	0.66	9.52	1.97	0.59
2000	20.33	13.47	0.95	10.65	2.10	0.72
2005	52.43	48.29	2.28	40.74	4.89	2.66
2006	64.47	113.74	4.85	92.95	14.70	6.09

Source: UNCTAD SSTIS, 2008.

India's imports from LDCs have not grown much. It was observed that Asia has received much of the tariff reduction (including preferences) from India, and that has been reflected in India's import from Asia. Total imports in amounts to \$113.74 billion (2006) from developing countries, of which Asia (\$92.95 billion) has contributed the most to this change (table III.14). Imports from LDCs have gone up to \$4.85 billion in 2006 from \$0.66 billion in 1995.

(b) India and RTAs

Although India is committed to multilateralism under the overall framework the WTO, it has in recent years regularly been involved in concluding RTAs with neighbouring countries, regional/ interregional groupings, as well as countries in other regions. It has also adopted different kinds of framework of cooperation within these models of RTAs. Given the slowdown of the WTO Doha Round, India's trade policy strategy has also consisted of looking for new partners and conducting RTA negotiations. These agreements have not only laid out a framework for preferential liberalization of merchandise trade, but have also been broadened to include services, investments and environmental issues. Issues related to non-tariff barriers are also being discussed under these new arrangements.

In engaging more in RTAs, Indian policymakers intend to get a better idea of probable welfare effects, either through trade creation or diversion. However, the final outcome of preferential trade agreements with other economies is heavily dependent on the pattern of products being traded and price-setting in international markets. The issues related to tariff and non-tariff barriers are also instrumental in generating final results on welfare changes in the partner countries. When India trades within various Asian RTAs, their potential welfare gains from trade vary considerably due to the above mentioned trade-related measures and barriers. One of the major reasons to form trading relationships between India and other developing countries has been to conduct negotiations so as to minimize potential welfare losses.

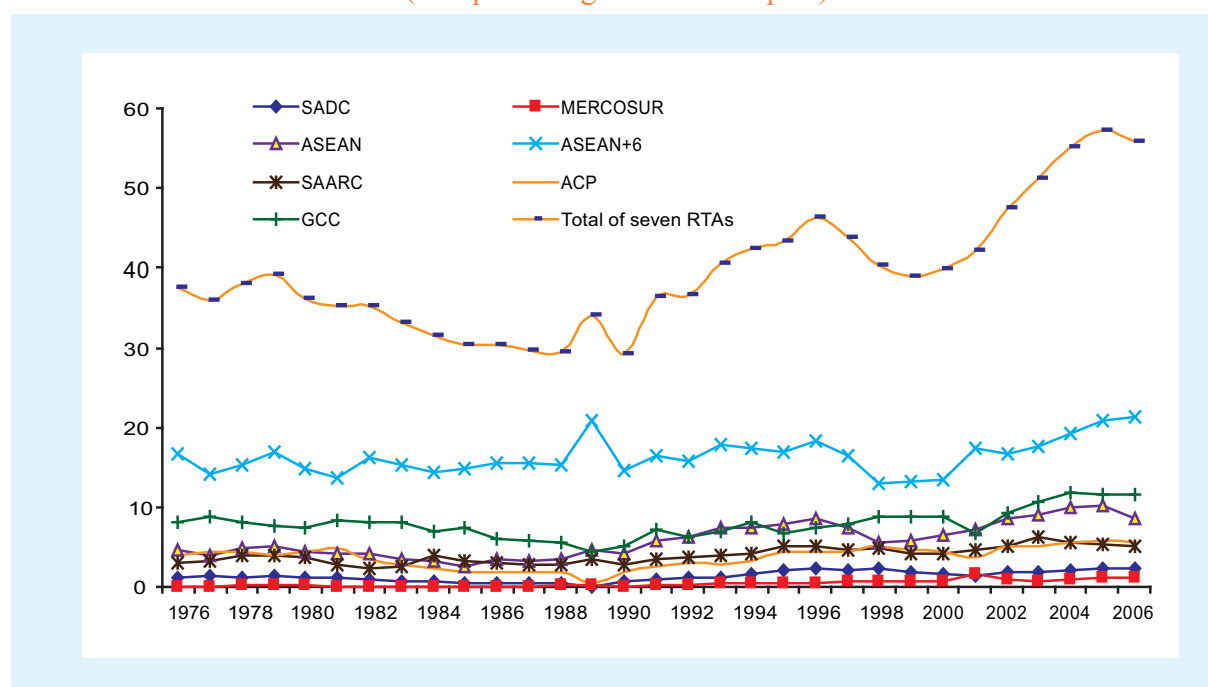
India has signed several bilateral RTAs with Asian LDCs, such as the India-Afghanistan Preferential Trade Agreement, Agreement on India-Bhutan Trade and Commerce, India-Nepal Treaty of Trade, Trade Agreement between India and Bangladesh, and Trade Agreement between India and Maldives. These agreements are discussed below.

In addition, India has also concluded a Comprehensive Economic Cooperation Agreement (CECA) with Singapore and Thailand. In terms of country groupings, India is a party to the Agreement on the South Asian Association for Regional Cooperation (SAARC) that has led to the creation of South Asia Free Trade Area (SAFTA), as well as to the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC). It also has a preferential trade agreement with ASEAN.

Moreover, India participates in the Global System of Trade Preferences (GSTP), as well as the Bangkok Agreement (1975)⁹ which was the “First Agreement on Trade Negotiations among Developing Countries of the Economic and Social for Asia and Pacific”. India has preferential trade agreements with developing countries in other regions, such as Chile and MERCOSUR.

The analysis of seven South-South RTAs, in which India is a partner, demonstrates that India’s trade with these RTAs has increased manifold, especially since the Doha Round was launched in 2001 (see figure III.10).

Figure III.10. India’s trade with selected South-South RTAs on the rise
(as a percentage of world export)

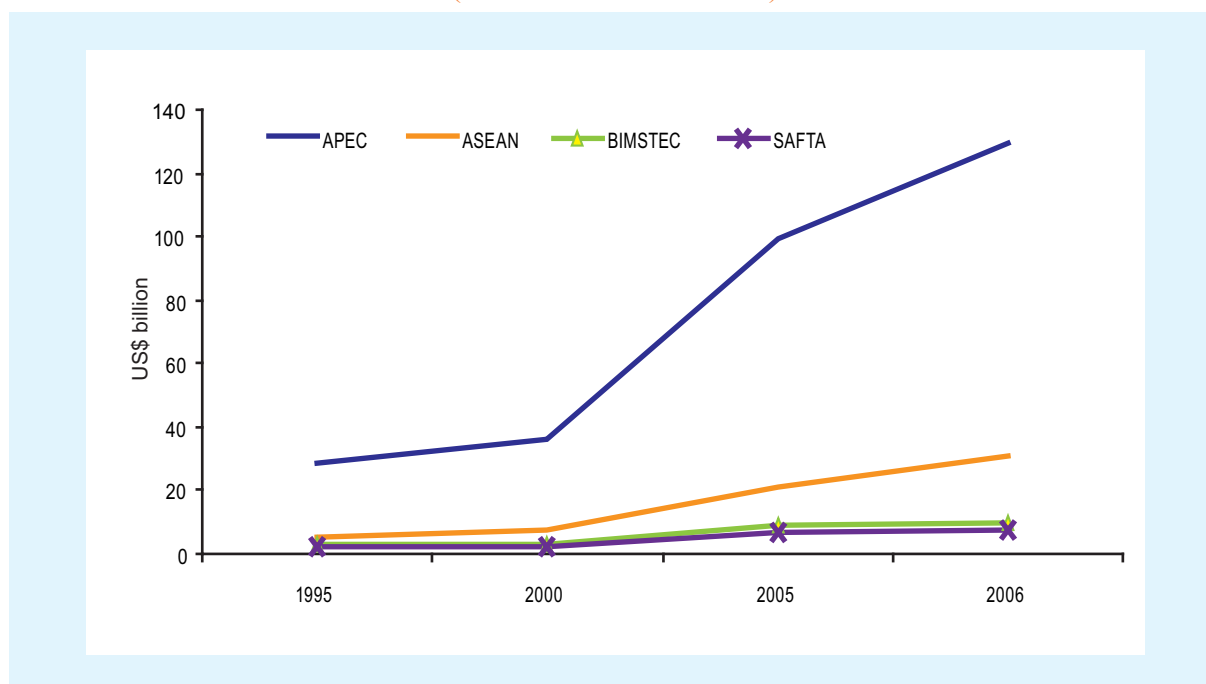


Source: UNCTAD Handbook of Statistics, 2006-2007.

India’s trade with Asia and other developing countries is seen as a major advancement towards setting the future trends and dynamics of the domestic production structure and value chains. In recent years, India’s trade with Asian South-South RTAs have increased robustly (figure III.10). For example, over the past decade, India’s trade with ASEAN has increased from \$5.3 in 1995 to \$30.6, with BIMSTEC from \$2.6 in 1995 to \$10.11 billion in 2006, respectively.

⁹ The Bangkok Agreement was superseded by the Asia-Pacific Trade Agreement (APTA) in July 2006 (see <http://www.unescap.org/tid/apta>).

Figure III.11. India's trade with selected Asian RTAs
(in billions of US dollars)



Source: UNCTAD Handbook of Statistics, 2006-2007.

(c) India and Asian South-South RTAs: Quantifying the trade gains

This sub-section examines the potential for gains from liberalization of India's trade within a selected number of Asian South-South RTAs under some scenarios. We have used both the partial equilibrium and general equilibrium models to estimate the possible impacts of these potential trade relationships. The welfare implications of RTAs can be analysed in terms of trade creation or diversion, employment creation, goods and services, and overall economic development.

The results are obtained for a comprehensive tariff liberalization simulation using the Computable General Equilibrium (CGE) for India and its preferential trading partners. Several scenarios are considered in this context. For CGE modelling results, we employ version 6 of the GTAP (Global Trade Analysis Project) database, which includes preferential tariffs. GTAP is a comparative static and general equilibrium trade model which is used to assess the potential impacts from tariff liberalization scenarios. In this case, we have quantified the impacts on India of four alternative scenarios as described in table III.17: Free trade, Doha Round outcomes, North-South and South-South RTAs. The preliminary results show that there are significant potential gains from India and South-South trade liberalization (see Fugazza and Vanzetti, 2007 for detailed results of CGE analysis).

Table III.17. Four alternative liberalization scenarios

Free Trade	Elimination of all import and export tariffs and subsidies in all countries.
Doha Round*	Elimination of export subsidies and reduction in import duties and domestic support. This follows the Harbinson proposals in agriculture and a 50/33 per cent reduction in industrial tariffs in developed and developing countries respectively. No reductions for least developed countries.
North–South	Elimination of all import and export duties and subsidies in developed countries on trade with all countries.
South–South	Elimination of all import and export tariffs and subsidies in developing countries on trade with other developing countries.

* There are several proposals and formulas on the Doha Development Round, but estimates are not available.

The free trade scenario is a benchmarking scenario, while the Doha simulation provides indication of the gains from multilateral liberalization. The two other scenarios show the potential impact of alternative regional trade agreements. It is worth noting that the three scenarios assume a complete liberalization in agriculture and industrial products, whereas the Doha scenario is partial.

The potential impact assessments from India's liberalization are obtained by using version 6 of the GTAP database (GTAP 2005). The database applies to 2001 figures and has 87 countries and regions and 57 sectors that are aggregated (see table III.19). The sectoral aggregation separates the sectors with significant protection, such as textiles, apparel, motor vehicles and electronics. The database includes tariffs, export subsidies and taxes, and subsidies on output and inputs. Preferential tariffs are included in the initial database.

The GTAP modelling exercise attempts to include linkages between economies and between sectors within economies. The market is assumed to be perfectly competitive and is characterized by constant returns to scale. Countries imports are assumed to be distinct from domestically produced goods, while primary factors are substitutable but as a composite are used in fixed proportions to intermediate inputs. However, simulations do not take into account dynamic impact of tariff liberalization.

In terms of potential gains from exports, India stands to gain in export revenues from South–South liberalization far exceeding the benefits of further access to Northern markets and that of Doha Round as presented in table III.18.

Table III.18. Initial and change in value of exports relative to base

	Initial (US\$)	Free trade (per cent)	Doha Round	North-South (per cent)	South-South (per cent)
India	61 126	42.44	5.43	1.93	31.58
Developing countries	2 365 462	11.73	1.77	1.44	6.68
Total	6 910 230	6.32	1.34	2.13	1.97

Source: GTAP simulations

India is expected to increase its exports by 32 per cent under South-South liberalization but only negligibly under North–South liberalization. Overall, South-South trade reform is estimated to be beneficial for most developing country regions. Hence, the potential gains from export flows indicate that South-South liberalization provides greater export growth to developing countries than the regional, North-South or Doha options.

Again, policymakers are keen to quantify sectors of their national interest and qualify sensitivity of the sectors accordingly. The results from India's trade liberalization vis-à-vis South-South indicate that the largest percentage increases in exports among the list of products occur in the following sectors: dairy (164.5 percent), motor vehicles (96.8 percent), sugar (88.4 percent), livestock (85.1 percent), and manufactures (71.6 percent). While there are three sectors with the smallest percentage change in exports, such as transport services (7.6 percent), services in general (6.7 percent), and business services (5.7 percent), are shown in table III.19 (panel A).

Table III.19. India's potential sectoral gains from trade liberalization
(in per cent)

Panel A: Change in sectoral exports relative to base from South-South liberalization		Panel B: Change in quantity of output relative to base from South-South liberalization		Panel C: Initial share in total world sectoral output	
Export sectors	Change	Export sectors	Change	Export sectors	Change
Dairy	164.5	Leather	13.9	Vegetable oils	24.5
Motor vehicles	96.8	Apparel	8.9	Cereals	10.6
Sugar	88.4	Textiles	6.6	Sugar	8.3
Livestock	85.1	Other foods	5.8	Vegetables, fruits & nuts	5.7
Resources	72.3	Electronics	4.6	Dairy	5.7
Manufactures	71.6	Petroleum and coal products	3.7	Textiles	4.5
Electronics	62	Motor vehicles	2.7	Other crops	3.1
Cereals	55.8	Sugar	1.9	Petroleum and coal products	2.7
Petroleum and coal products	43.9	Non metallic manufactures	1.6	Livestock	1.9
Non metallic manufactures	42.6	Cereals	1.5	Resources	1.9
Textiles	35.6	Other crops	0.8	Leather	1.8
Leather	33.2	Services	0.7	Manufactures	1.6
Other foods	29.5	Transport	0.7	Non metallic manufactures	1.5
Other crops	27.6	Dairy	0.5	Services	1.5
Vegetable oils	26.8	Manufactures	0.5	Apparel	1.2
Vegetables, fruits & nuts	22.9	Business services	-0.7	Business services	1.1
Apparel	11.9	Resources	-2.2	Other foods	0.9
Transport	7.6	Vegetables, fruits & nuts	-2.9	Motor vehicles	0.9
Services	6.7	Vegetable oils	-3.1	Transport	0.8
Business services	5.7	Livestock	-19.9	Electronics	0.4

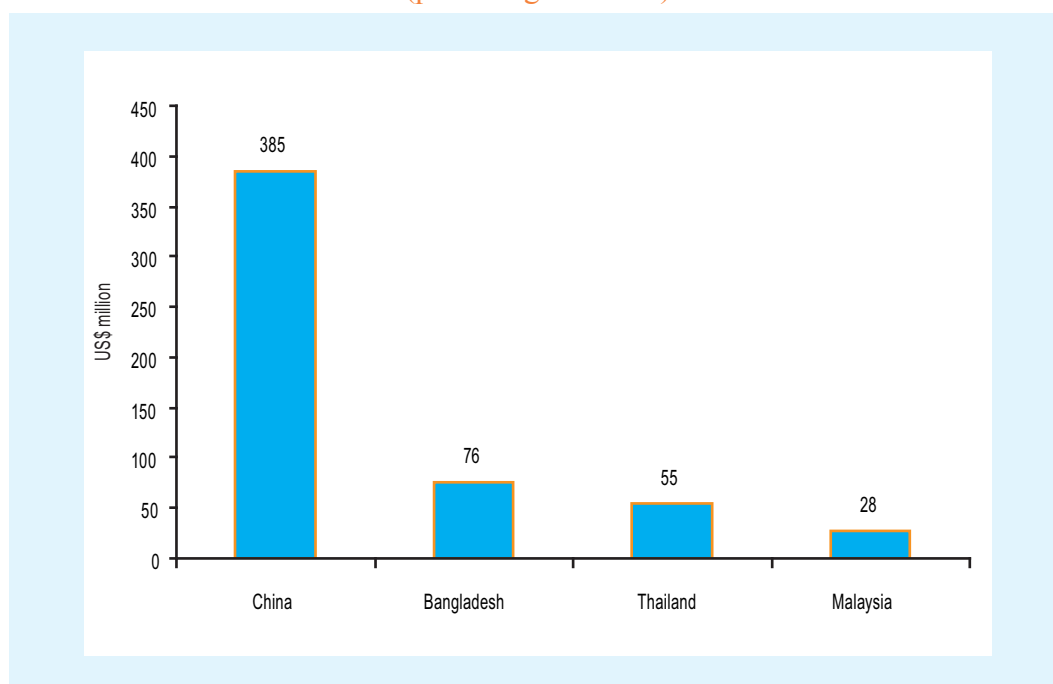
Source: GTAP simulations

Whereas table III.19 (panel B) presents the results for change in the quantity of output, the results from Indian trade liberalization within South-South trade indicate that the largest estimated percentage gains are in leather (13.9 percent), apparel (8.9 percent), textiles (6.6 percent), other foods (5.8 percent) and electronics (4.6 percent). The largest falls are in livestock (19.9 percent), vegetables oil (3.1 percent), resources (2.2 percent) and business services (0.7 percent). Similar, results are shown for India's potential change in the sectoral share in total world sectoral output in panel C.

The CGE results of India's export and sectoral gains are supplemented by partial equilibrium simulations that would allow looking into results from India's RTAs on the basis of top 15 products of its trading interests. The UNCTAD SMART model is used to simulate India's RTA-related trade scenarios. The impact of tariff cuts on India's exports and imports with South-South RTAs, using SMART, comparative static and partial equilibrium, and a simulation model. The scenario is a linear cut across top 15 products of India's export or imports and full tariff liberalization is included. The estimation is based on five of India's RTAs partners. As in CGE, SMART simulation does not take into account the dynamic impact of tariff liberalization.

In this case, the full liberalization scenario is estimated to show India's export revenue (import before-import after) gains after tariff cuts by RTAs partners. We may estimate likewise CGE, the scenarios, but the objective of this exercise is to identify the direct trade linkages with partner countries

**Figure III.12. Tariff cuts by RTAs partners to India:
Full liberalization and growth in India's exports
(percentage of tariff)**

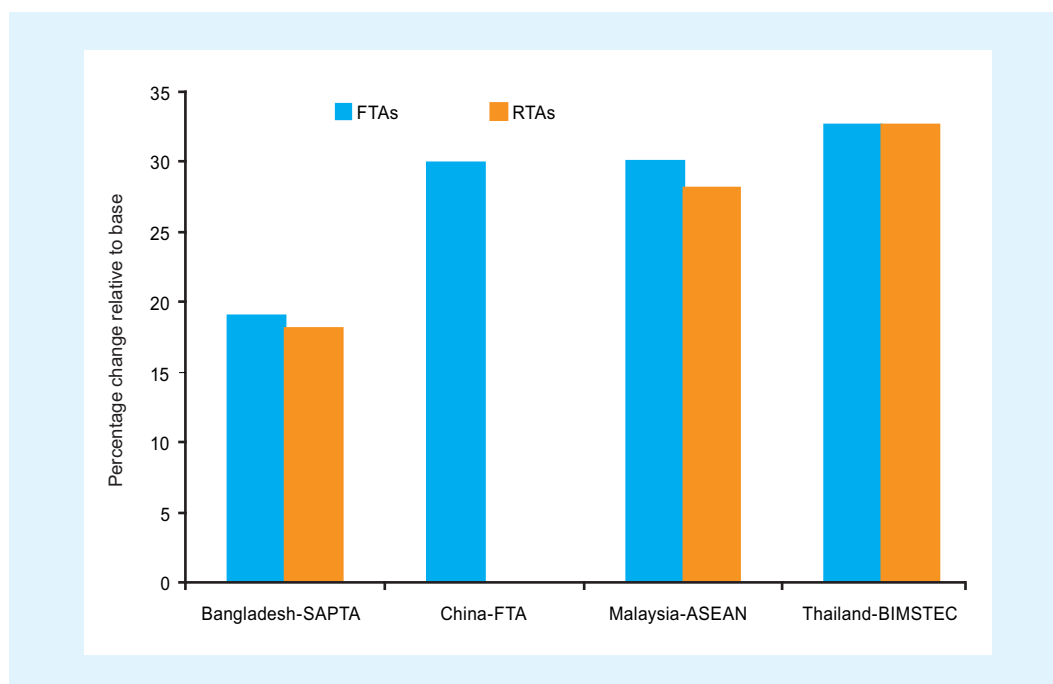


Source: UNCTAD Software on Market Analysis and Trade (SMART) simulations.

In figure III.12, we show results that indicate the possible export revenue gain by India from four trade partners. The results show that with full trade liberalization from China, India's exports stands to gain (\$385 million) the largest (top 15 products) value relative to base, followed by Bangladesh (\$76 million), Thailand (\$55 million) and Malaysia (\$28 million).

We have considered Bangladesh as one of the Asian LDCs with which India has a free trade agreement; moreover Bangladesh gets additional special tariff preferences due to its status as an LDC. Similar results with four other LDCs indicate gains due to tariff cuts.

Figure III.13. Tariff cuts by India to FTAs and RTAs and growth in India's imports



Source: UNCTAD SMART simulations

The simulation results are also obtained from two different types of trading relationships, namely India's bilateral trade with a particular country and India's trade with a country within the context of an RTA. The first type covers bilateral RTAs, the second covers India's trade with other countries within the RTA framework. The results are discussed with regard to the above four countries as they have FTAs and RTAs with India. The full liberalization scenario is explored to indicate the change in the value of Indian imports (top 15 products) relative to the benchmark.

The difference between FTAs and RTAs are not too great in the case of Thailand due to complementarities of products traded between two countries. The current scenario indicates that if India applies full tariffs on imports from China, then it is estimated that change from China is about 30 percent as compared to the base. On the other hand, there has not been much change with preference given to Bangladesh within the bilateral FTAs, or within the SAFTA trade arrangements as trade between these two countries are concentrated on complementary products.

India's growing importance in the international trading landscape has provided tremendous opportunities for the emergence of new features and dynamism in South-South trade. India's trading patterns have changed considerably over the past few decades, and are now concentrating not only on dynamic products, but also many new products with developing countries and many RTAs, as was evident in our previous analysis. For India, the key is now not only to continue with its usual trading partners but also to diversify markets and looking for new mechanisms to increase export and employment opportunities. India has a lot to gain from the South-South liberalization scenario in terms of increasing exports. The results also indicate that there are potential gains from several of India's partners through RTAs, but these potential gains differ due to their differential level of relative factor endowments and production costs structures.

(d) India's RTA with Asia's LDCs

India has recently become more proactive in updating arrangements with five LDCs in Asia. There is a form of non-reciprocity for LDCs. For example, there is clear evidence that developing countries give differential treatment in tariff preference to LDCs. Accordingly, India has also accorded special and favourable treatment for LDCs. These preferences are non-reciprocal and unconditional to make the tariff concessions deeper and wider in coverage. Table III.20 provides clear evidence in the context of the SAARC Preferential Trading Arrangement and later on with SAFTA. The effective preferential agreement coverage rate on products for overall SAARC member countries increased from 0.89 per cent in 1992 to 15.29 per cent for SAFTA members in 2005. On the other hand, India has extended much deeper and wider concessions to LDCs members of SAARC/SAFTA. The LDCs countries together used to obtain about 1.35 per cent concessions in 1992, and have gone up significantly to 39.63 per cent in 2005. Thus the improved trade flows between LDCs and India has led to continuous cuts in applied tariffs rates to much lower levels, and at the same time these countries received much higher concessions.

Total trade with five Asian LDCs (Afghanistan, Bangladesh, Bhutan, Maldives and Nepal) has risen from \$1.4 billion to \$3.6 billion in 2006 (see figure III.14).

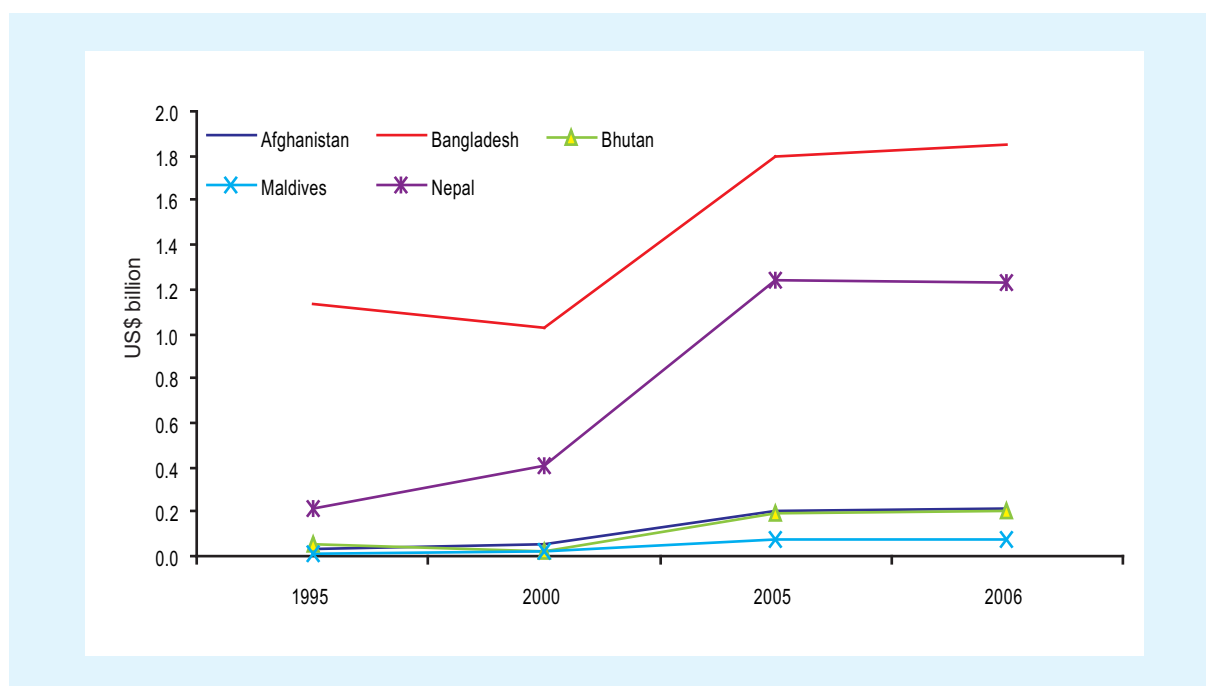
Table III.20. India's preferential tariff to SAARC/SAFTA countries and LDCs

	Year	Simple average (per cent)	Number of lines	Number of lines duty-free	Number of lines with a non-ad valorem duty	Effective Preferential Agreement Coverage Rate (per cent)
SAARC:Preferential tariff	1992	36.95	44	0	0	0.89
SAARC:Preferential tariff (LDC)	1992	26.60	67	12	0	1.35
SAARC:Preferential tariff	1997	20.47	44	0	0	0.87
SAARC:Preferential tariff (LDC)	1997	10.18	69	13	0	1.37
SAARC:Preferential tariff	1999	17.58	110	12	0	2.17
SAARC:Preferential tariff (LDC)	1999	10.11	68	13	0	1.34
SAFTA:Preferential tariff	2005	14.48	1 744	0	0	15.29
SAFTA:Preferential tariff (LDC)	2005	8.68	4 520	291	0	39.63

Source: UNCTAD-TRAINS.

In particular, the information on trade flows in figure III.14 shows that trade between India and Bangladesh has increased over the years and that tariff concessions to Bangladesh have worked well. So, among SAFTA LDCs, Bangladesh has been able to use the preferences to its advantage. Nepal and Bhutan have enjoyed duty-free access to the Indian market to their increasing benefit, while trade with the Maldives has increased at a relatively lower pace.

Figure III.14. India's trade with Asian LDCs
(in billions of US dollars)



Source: UNCTAD Handbook of Statistics, 2006-2007.

(e) Policy implications

India's growing importance in the international trading landscape has provided tremendous opportunities for new commercial gains in South-South trade. India's trading patterns has changed considerably over past decades, and are now concentrating not only on dynamic products, but also many new products with developing countries and many RTAs. For India, the key is now not only to continue with its usual trading partners but also to diversify markets and looking for new mechanisms to increase export and employment opportunities thereby. Thus, India has a lot to gain from South-South liberalization scenario, mainly in terms of increasing exports.

The UNCTAD simulation results also indicate that there are potential gains from several of India's partners through RTAs, but these gains differ due to the trading partners' differential level of relative factor endowments and production costs structures. India's trade with several Asian RTAs has increased over the years, and that has created a space for economic gains, mostly from expanded exports.

Furthermore, India has also been able to effectively make trade relationships with Asian LDCs, but there is still a lot of room for improving trade in new and dynamic sectors of world trade with these countries. There is also an evident need to reduce other constraints to trade, such as infrastructural deficiencies, lack of trade financing and other trade facilitation shortcomings (such as customs regulations, procedures and other administrative obstacles). In order to maximize gains from RTAs, these should also address improved operational provisions for trade financing, trade logistics, and the elimination of non-tariff barriers (NTBs).

Annex III.1. The theoretical context: A heuristic description

The theoretical framework is essentially a standard new trade theory model based on product differentiation derived from a constant elasticity of substitution demand structure.

The economy consists of a number N of countries. Only the manufacturing sector is considered. Firms in that sector operate under increasing returns to scale and produce symmetric differentiated goods, which are used in consumption. Preferences are represented by a CES utility function in which the elasticity of substitution σ between any pair of products is the same.

In that framework, the demand in country j for each variety produced in country i , is a function of country's j total expenditure on differentiated products, the price of the good and the price index defined over the prices of individual varieties produced in i and sold in j . Total expenditure is assumed to be exogenously given. The elasticity of demand is identical across varieties and larger than 1. The producer price is assumed to be the same for all varieties produced in country i . Transport frictions, which reflect the cost of getting a good from country i to country j , are set proportional to producers price. This cost is composed by three elements: the cost of getting the product to and from the border in countries i and j and the cost of getting the product across the border. Intra-country cost would reflect internal geography and infrastructure. Inter-country cost would reflect external geography and policy barriers.

Exports from country i to country j are equal to the product of, supply capacity, trans-border transport costs and the market capacity of country j . Supply capacity of the exporting country is the product of the number of varieties and their price competitiveness, which is measured by the product of the producer price and internal transport costs. The market capacity of country j depends positively on total expenditures in j , on the number of competing varieties and their prices expressed in the price index, and negatively on country j internal transport costs.

The total value of exports of country i is equal to the product of its supply capacity and the sum of the market capacity of all country i exports destination countries, weighted by bilateral trade costs. The latter represents country i foreign market access or equivalently country i market potential which refers to the concept developed by Harris (1954).

The model presented above postulates that the effect of a rise in expenditure on traded goods in a given country would benefit relatively more than those of its trading partners that are relatively closer (the demand pecuniary effect). In this context, distance has to be interpreted not only as a pure geographical element but also as any element that possibly represents a barrier to trade, such as tariffs, non-tariff barriers, anti-competitive barriers, etc. The model also suggests that in order to capture fully the demand pecuniary effect just described, favourable supply conditions are expected to play an essential role.

Annex III.2. Data sources

Bilateral Trade Flows: United Nations COMTRADE database

US GDP deflator: IMF, International Financial Statistics (IFS)

Miscellaneous: CIA World Fact Book

C. Geographical Country Groups

Europe and Central Asia (**ECA**): Austria, Belgium Luxembourg, Switzerland, Cyprus, Germany, Denmark, Spain, Finland, France, United Kingdom, Ireland, Italy, The Netherlands, Norway, Sweden, Greece, Portugal, Bulgaria, Hungary, Poland, Romania, Turkey.

Sub-Saharan Africa (**SSA**): Burkina-Faso, Côte d'Ivoire, Ghana, Kenya, Madagascar, Mali, Mauritania, Mauritius, Niger, Nigeria, Rwanda, Senegal, Tanzania, Uganda, South Africa, Zambia, Zimbabwe.

Middle East and North Africa (**MENA**): Algeria, Egypt, Islamic Republic of Iran, Israel, Jordan, Kuwait, Morocco, Syrian Arab Republic, Tunisia.

South Asia (**SOA**): Bangladesh, India, Sri Lanka, Nepal, Pakistan.

Latin America and Caribbean (**LAC**): Argentina, Bolivia, Brasil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Honduras, Jamaica, Nicaragua, Panama, Peru, Paraguay, El Salvador, Trinidad and Tobago, Uruguay, Venezuela.

East Asia and Pacific (**EAP**): Australia, Brunei, China, Hong Kong, Indonesia, Japan, the Republic of Korea, Malaysia, New Zealand, The Philippines, Singapore, Thailand, Taiwan Province of China.

North America (**NOA**): United States of America, Canada.

Annex III.3 Overview of simulations and assumptions

The Global Trade Analysis Project (GTAP)

A computable general equilibrium (CGE) model was selected to serve as a framework for analysis of the economic effects of RTAs. The purpose is to analyse the effects of an FTA before it is concluded, or before the substance of the FTA agreement is fully executed (*ex ante* analysis), and to analyse its influence on the economy as a whole.

A CGE model known as GTAP was used for the analysis contained in this chapter. The Global Trade Analysis Project (GTAP) was developed primarily by Professor Hertel of Purdue University in the United States and is being operated as a worldwide trade model. The latest version covers 87 countries and regions and 57 industries across the globe. GTAP has become established as the worldwide standard CGE model for estimating the economic effects of an FTA. This has happened for various reasons, including: (1) that it allows easy access to databases, models, and related information, and enables analysis to be done with relative ease; and (2) that the entire project is operated in an open environment in which specialists in every country and field provide their data and other resources. The present analysis used the most recent version (sixth edition) of the GTAP database with 2001 base data.

Care is required, however, since accurate measurement of FTA economic effects using the analytical model has proven to be difficult. The CGE model is capable of measuring an RTA's effects on the economy as a whole, for example, but this analysis requires vast amounts of data, and it is more or less impossible to gather data with uniformly high levels of quality on all countries and industries. Another point is that the model is based on general economic theories that are simplified, for example, in their assumptions of perfect competition. Also, there are limits to the accuracy of the various types of coefficients and factors that exercise a major influence on the results of analysis. For reasons like these, analysis by this model does not necessarily yield a faithful reflection of economic reality. Although the results obtained by model analysis may be suitable for determining an outlook on the economic effects of an RTA, therefore, the resulting figures cannot be expected to be accurate.

Countries, region, industries, tariff rates, and non-tariff measures in the analytical model

The countries and regions of the model were Thailand, Malaysia, Indonesia, the Philippines, Singapore, Viet Nam, Japan, China, the Republic of Korea, Hong Kong, China, Taiwan Province of China, Australia, New Zealand, India, the United States, the EU-15 countries, the new EU signatory countries (12 countries), and 18 additional countries and regions of the world from the GTAP database of 87 countries.

The RTAs subjected to analysis were the ASEAN Free Trade Area (AFTA), ASEAN+1, ASEAN+3 and ASEAN+6.

The 11 industries considered in the model were agriculture, forestry, fisheries (including food products), mining, textiles, paper manufacturing, chemicals, metals, general machinery, electric machinery, transportation machinery, other manufacturing industries, and services out of the 57 industries in the GTAP database. There are limitations on the trade data on services, making it difficult to calculate the economic effects on this industry from an RTA. Consequently, this was not broken down into more detailed industrial classifications, but rather aggregated as services.

The original GTAP database only recorded the most-favoured nation (MFN) tariff rate for the Thai tariff rates. The Common Effective Preferential Tariff (CEPT) rates were not utilized. It was

therefore desirable to bring Thai tariff rates closer to the norm, and to better reflect the fact that the original ASEAN member countries have reduced tariff rates to the 0-5 per cent range on almost all items since 2003 (full implementation of CEPT). For that purpose, the 2002 CEPT package published on the ASEAN Secretariat Web site was taken as a basis for the 2003 CEPT concessionary rates.

The NTMs adopted for the model were the tariff equivalents that Ando (2005)¹⁰ converted by country and industrial category. Ando compared the import price of a certain goods with the domestic manufacturer's price, broke down the difference to identify the portion with the tariff excluded, and estimated the influence on price of the NTM by conducting regression analysis of the portion with the tariff excluded and the NTM incidence. This is known as the price gap approach. The results of estimation by Ando are used to obtain total values for four measures: technical regulation (labeling, standards, implementation of quality inspections, troublesome customs procedures, etc.); quantitative limits (arbitrary issuance of import licences, import quotas, import prohibitions, etc.); monopolistic behaviour (allowing imports only by monopolistic import companies, etc.); and price regulation (control of import prices, etc.). For convenience, however, average values were used for certain countries that were not analysed by Ando, namely Thailand, Indonesia, and Malaysia for the Philippines and Viet Nam, and Thailand, Indonesia, Malaysia, and China for India.

Worldwide tariff rates are converging on lower levels, and the existence of NTMs is exerting no small influence on trade in this context, as is apparent also from interviews with enterprises. Researchers do not agree, however, on the extent to which trade is distorted because of: (1) the lack of accurate data on the status of NTM implementation; (2) various statistical errors that occur when converting NTMs to tariff equivalents, and other such factors in positive analysis. Although the research results in Ando have received positive evaluations from specialists in NTM research in terms of what it is possible to calculate at the present stage, these results should be understood as a partial representation of the distorting effects on trade from actual NTMs.

Assumptions regarding the liberalization caused by FTAs

This section has presented an estimate of the liberalization effects of FTAs made with the following policy variables changed externally.

With regard to tariffs, it was assumed that tariffs on imports from countries covered by an RTA would be eliminated, and that subsidies on exports to countries covered by the RTA would be eliminated. With regard to NTMs, it was assumed that the RTA would reduce them by half. Since NTMs correspond to transportation costs in the broad sense, they constitute an external shock to import-related productivity where imports from countries covered by the RTA are concerned. This effect is generally similar to that of tariff reduction.

¹⁰ Ando (2005), *op. cit.*

Annex table III.1. India and RTAs: Trade-weighted average applied tariffs
(including preferences) (in per cent)

	Weighted average	Standard deviation	Minimum rate	Maximum rate	Number of total lines	Number of NA lines	Number of domestic peaks	Number of International Peaks
World	13.26	14.46	0.00	182.00	231 006	20	3 511	27 678
Bangladesh	12.05	17.79	0.00	160.00	1 207	0	24	195
China	11.37	12.13	0.00	182.00	9 655	0	150	1 172
Indonesia	41.68	13.91	0.00	160.00	4 358	0	90	571
Japan	15.36	13.91	0.00	182.00	7 538	1	126	927
Korea, Republic of	10.36	11.69	0.00	160.00	6 681	0	94	671
Malaysia	15.56	11.26	0.00	160.00	5 492	0	61	717
Mauritius	16.82	5.81	0.00	30.00	487	0	0	20
Saudi Arabia	11.91	14.74	0.00	160.00	1 664	0	25	220
Singapore	8.90	16.18	0.00	182.00	7 186	0	132	914
Sri Lanka	0.54	9.20	0.00	182.00	3 265	0	15	16
Thailand	12.67	13.28	0.00	160.00	6 058	1	115	854
ASEAN --- ASEAN	20.58	14.47	0.00	182.00	26 755	1	497	3 641
BIMSTEC --- BIMSTEC	11.64	15.44	0.00	182.00	12 948	1	224	1 589
GCC --- GCC	13.42	18.40	0.00	182.00	10 493	2	278	1 491
SAARC --- SAARC	9.78	16.41	0.00	182.00	8 200	0	127	877

Source: UNCTAD/TRAINS.

Note: Tariffs are for latest available years.

Annex table III.2. Country and commodity coverage

Regions	Sectors
European Union	Cereals
USA	Vegetables, fruits and nuts
Rest of North America	Vegetable oils
Japan	Sugar
Other developed countries	Other crops
China	Livestock
Other Asia	Resources
India	Dairy
Other South Asia	Other foods
ASEAN	Textiles
Mexico	Apparel
Andean	Leather
Mercosur	Non-metallic manufactures
Rest of Latin America	Petroleum and coal products
Central America	Motor vehicles
Caribbean	Electronics
South Africa	Manufactures
(Rest of) sub-Saharan Africa	Services
South African Development Community ^a	Transport
Middle East and North Africa	Business services
Commonwealth of Independent States South-East	
Europe (CIS & SEE)	
Rest of World	


^a Excludes South Africa.

**Annex table III.3. India trade with five countries for top 15 products
as per market value of exports in 2006
(in millions of US dollars)**

Partner	Product	Product name	1995	2000	2005
China	2601	Iron ores and concentrates, including roasted iron pyrites	69 248	131 959	3 285 405
	5201	Cotton, not carded or combed	1 798	0	402 715
	2818	Aluminium oxide (incl. artificial corundum); aluminium hydroxide	8 373	1 783	318 260
	3901	Polymers of ethylene, in primary forms	0	27 325	200 900
	2610	Chromium ores and concentrates	40 677	22 357	135 100
	7219	Flat-rolled products of stainless steel, of a width of 600mm or more	0	7 178	134 151
	2516	Granite, porphyry, etc. and other monumental or building stone	12 450	44 537	125 644
	2304	Oil-cake and other solid residues, of soya-bean	24 849	8 213	120 336
	7210	Flat-rolled products of iron/non-alloy steel, of width >600mm, clad, plated	723	1 191	119 599
	7403	Refined copper and copper alloys, unwrought	0	13 240	108 901
	303	Fish, frozen, (excl. those of 03.04)	8 394	77 568	100 233
	2905	Acyclic alcohols and their halogenated... or nitrosated derivatives	551	9 638	88 894
	2933	Heterocyclic compounds with nitrogen hetero-atom(s) only; nucleic acids	6 932	9 191	64 584
	2942	Other organic compounds, nes	291	12 136	59 773
	6703	Human hair, dressed, etc; animal hair and synthetic materials for wigs	1 020	16 756	55 747
Thailand	7102	Diamonds worked/not worked but not mounted or set	213 280	177 136	284 012
	7403	Refined copper and copper alloys, unwrought	0	805	81 985
	2304	Oil-cake and other solid residues, of soya-bean	47 496	33 850	54 161
	8708	Parts and accessories of the motor vehicles of headings 87.01 to 87.05	469	1 233	41 063
	7103	Precious, semi-precious stones (other than diamonds) easily transportable	13 514	14 523	39 011
	7213	Bars and rods, hot-rolled, in irregular wound coils, of iron/non-alloy steel	626	4 431	25 152
	7201	Pig iron and spiegeleisen in pigs, blocks or other primary forms	0	4 633	24 447
	5201	Cotton, not carded or combed	4 316	152	19 935
	3204	Synthetic organic colouring matter and preparations and products	7 539	8 466	17 305
	2942	Other organic compounds, nes	2 013	6 677	16 571
	3808	Insecticides, rodenticides... and similar products, for retail sale	4 101	10 196	13 459
	2941	Antibiotics	3 435	10 932	12 739
	3004	Medicaments of mixed or unmixed products, for retail sale	4 518	8 488	11 923
	7210	Flat-rolled products of iron/non-alloy steel, of width >600mm, clad, plated	1 467	673	9 781
	1515	Other fixed vegetable fats and oils (incl. jojoba oil) and fractions	9 149	9 164	9 673
Bangladesh	5205	Cotton yarn, with >=85 per cent cotton, not put up for retail sale	186 031	136 017	137 154
	1006	Rice	283 678	66 141	125 285
	1001	Wheat and meslin	22 767	25 605	102 874
	2710	Petroleum oils, etc. (excl. crude); preparations thereof, nes	0	47	95 993
	713	Dried leguminous vegetables, shelled	0	18 264	69 653
	703	Onions, shallots, garlic, leeks...etc, fresh or chilled	5 932	9 417	66 219
	5201	Cotton, not carded or combed	1 460	2 601	47 848
	2701	Coal; briquettes, ovoids and similar solid fuels manufactured from coal	23 292	30 377	47 839
	5209	Woven fabrics of cotton, with >=85 cotton, >=200g/m2	13 240	33 399	42 838
	1005	Maize (corn)	700	3 157	42 292
	5207	Cotton yarn (excl. sewing), put up for retail sale	9 627	10 701	42 145

Annex table III.3. (continued)

Partner	Product	Product name	1995	2000	2005
	7207	Semi-finished products of iron or non-alloy steel	1 242	129	30 210
	7305	Other tubes and pipes, having CS diameter >406.4mm, of iron or steel	162	128	29 357
	7208	Flat-rolled products of iron/non-alloy steel, of width >600mm, hot-rolled	1 888	3 891	28 769
	2304	Oil-cake and other solid residues, of soya-bean	613	22 074	25 730
Malaysia	202	Meat of bovine animals, frozen	44 047	55 760	112 675
	8708	Parts and accessories of the motor vehicles of headings 87.01 to 87.05	2 601	3 803	96 797
	2902	Cyclic hydrocarbons	0	3 567	85 226
	703	Onions, shallots, garlic, leeks...etc, fresh or chilled	18 985	20 255	40 156
	7403	Refined copper and copper alloys, unwrought	45	914	37 208
	5407	Woven fabrics of synthetic filament yarn	3 361	8 241	34 043
	2901	Acyclic hydrocarbons	20	2	26 711
	1202	Ground-nuts, not roasted or otherwise cooked	2 820	9 313	25 402
	904	Pepper of the genus Piper, Capsicum or Pimenta, dried, crushed or ground	2 699	2 051	22 648
	8504	Electrical transformers, static converters and inductors	903	1 020	18 795
	7201	Pig iron and spiegeleisen in pigs, blocks or other primary forms	17 710	12 907	18 584
	306	Crustaceans, fresh, chilled or frozen	7 407	3 480	18 243
	4104	Leather of bovine or equine animals, without hair on	1 514	2 894	13 290
	7209	Flat-rolled products of iron/non-alloy steel, of width >600mm, cold-rolled	316	389	12 454
	3004	Medicaments of mixed or unmixed products, for retail sale	3 502	5 361	12 179



CHAPTER IV

REGIONAL TRADE AGREEMENTS AND BUSINESS STRATEGIES

A. Global business strategy and Japanese companies

1. Global business models from the perspective of Japanese companies

(a) The growing debate over innovation

When Japan decided on its “New Economic Growth Strategy” in June 2006, the government set a goal of accomplishing real GDP growth of about 2.2 per cent per year on average between 2004 and 2015. In a society with a falling birth rate and ageing population, the strategy identified innovation as the key to new economic growth. In June 2007 the government merged this with other strategies to form its Strategic Framework for Economic Growth, with innovation singled out as particularly important for making Japan more internationally competitive. The government envisioned turning Japan into the world’s innovation center, from which position it could partner with other Asian countries to continue developing and offering new, internationally competitive technologies and products, creating a positive cycle at the world level.

The Japan Business Federation (Nippon Keidanren), meanwhile, initiated its “INNOVATE Japan” campaign; its central message was that if Japan is to continue to be a major player in the world economy, it must work non-stop to hone its competitive edge with innovation.

The idea that innovation is crucial to international competitiveness is echoed in the United States and countries of Europe and Asia, inspiring a noteworthy trend among individual countries and regions to step up their own innovation strategies.

Japan occupied second place in innovation and came in eighth place in the overall ranking of the 2007-2008 World Economic Forum’s Global Competitiveness Report,¹ which ranks the competitiveness levels of 125 countries and regions. Private investment in research and development in Japan, the

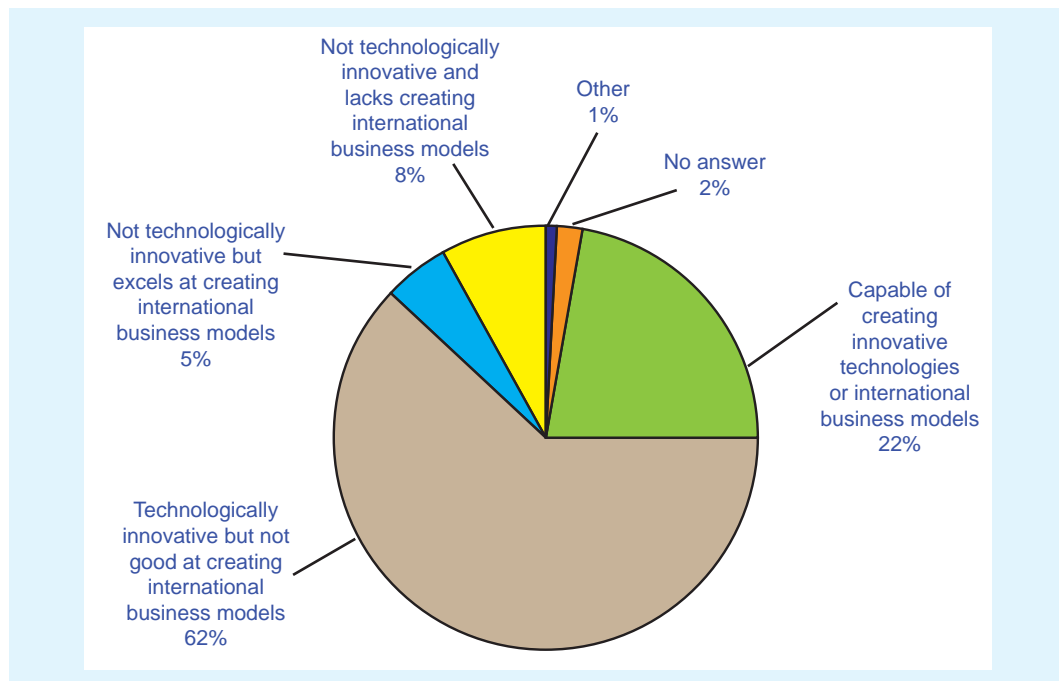
¹ The Global Competitiveness Report consists of general statistical data along with results of studies that the World Economic Forum conducted jointly with research institutes and companies. It uses results of questionnaires given to 11,000 business men and women in 125 countries and regions of the world.

usefulness of its scientists and engineers, and its excellent record in acquiring large numbers of general patents were all major factors pushing Japan's overall ranking so high. Innovative new products keep appearing, from hybrid cars and flat-panel televisions to game machines like the Nintendo Wii.

(b) Toward a profitable international business model

A JETRO Survey on Japanese Firms' International Competitiveness and Business Development addressed to 1,605 Japanese manufacturing companies between March and May 2007 (response rate, 29.1 per cent) found that 22 per cent of respondents, or 104 companies, said that their own businesses were "capable of creating innovative technologies and profitable international business models using them" (figure IV.1). This reflects the opinions of those in supporting industries for metal products, as well as those in the electrical machinery and automobile industries.

Figure IV.1. Innovative capacity of Japanese corporations (single answer, N= 467)



Source: JETRO, Survey on Japanese Firms' International Competitiveness and Business Development, May 2007.

On the other hand, 62 per cent of companies (289 companies) answered that they were "technologically innovative but not good at creating profitable international business models". A further 8 per cent (38 companies) said that they were "not technologically innovative and not good at creating profitable international business models." Combining the number of respondents giving the latter two answers, 70 per cent of companies felt that they were insufficiently capable of creating international business models.

In probing the reasons for these results, this issue was examined from three different perspectives: 1) the question of whether currently used business models are consistent with international trends; 2) the effectiveness of the strategic use of outsourcing; and 3) issues of overseas marketing.

The JETRO survey also asked participants about changes in the overseas business environment facing the responding company in comparison with five years earlier (2001); 65 per cent of respondents said that the environment had "improved" (figure IV.2). Reasons given for claiming improvement included "our overseas market share has expanded" (46.5 per cent), "our profit margin from overseas has

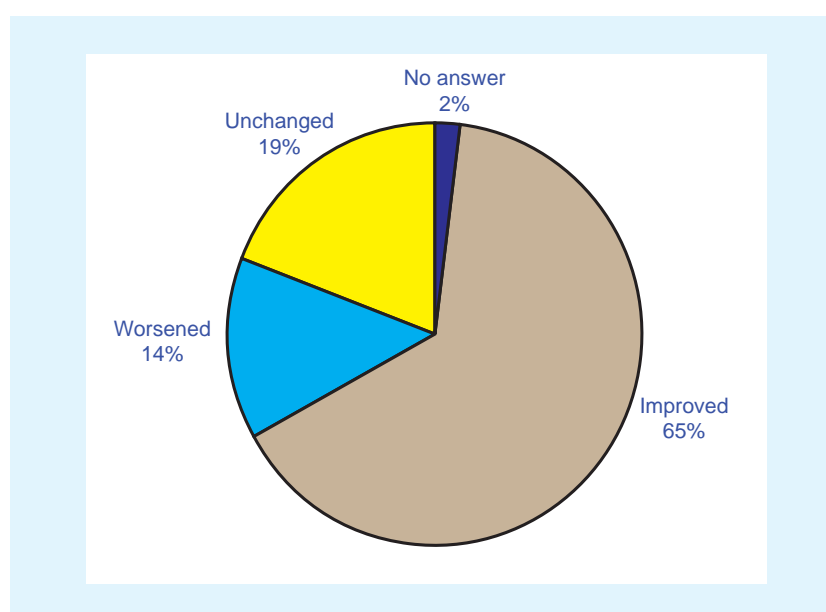
expanded” (40.3 per cent), and “our brand is stronger” (28.4 per cent) (figure IV.3). Industries for which the overseas business environment was improving included: “general machinery”; “automobiles and parts/other transportation equipment”; “fiber and textile products/apparel”; “chemicals”; and “ferrous and nonferrous metals/metal products” (table IV.1).

Table IV.1. Changes in the overseas business environment, compared with five years ago (by industry, N= 467)

Rank	Industries reporting improvement	Industries reporting worsening	Industries reporting no change
1	General machinery (80.4 per cent)	Communications equipment, electronic components and devices (43.3 per cent)	Lumber, wood products, furniture, construction materials, paper, pulp (50.0 per cent)
2	Automobiles, parts, other transport equipment (71.1 per cent)	Textiles and textile products, apparel (21.1 per cent)	Ceramic, stone and clay products (33.3 per cent)
3	Textiles and textile products, apparel (68.4 per cent)	Precision parts (20.7 per cent)	Drugs, medicines, cosmetics (31.3 per cent)
4	Chemicals (68.3 per cent)	Electrical equipment (14.3 per cent)	Petroleum and coal products, plastic and rubber products (27.6 per cent)
5	Ferrous and nonferrous metals, metal products (66.7 per cent)	Petroleum and coal products, plastic and rubber products (13.8 per cent)	Electrical equipment (23.8 per cent)

Source: JETRO, Survey on Japanese Firms’ International Competitiveness and Business Development, May 2007.

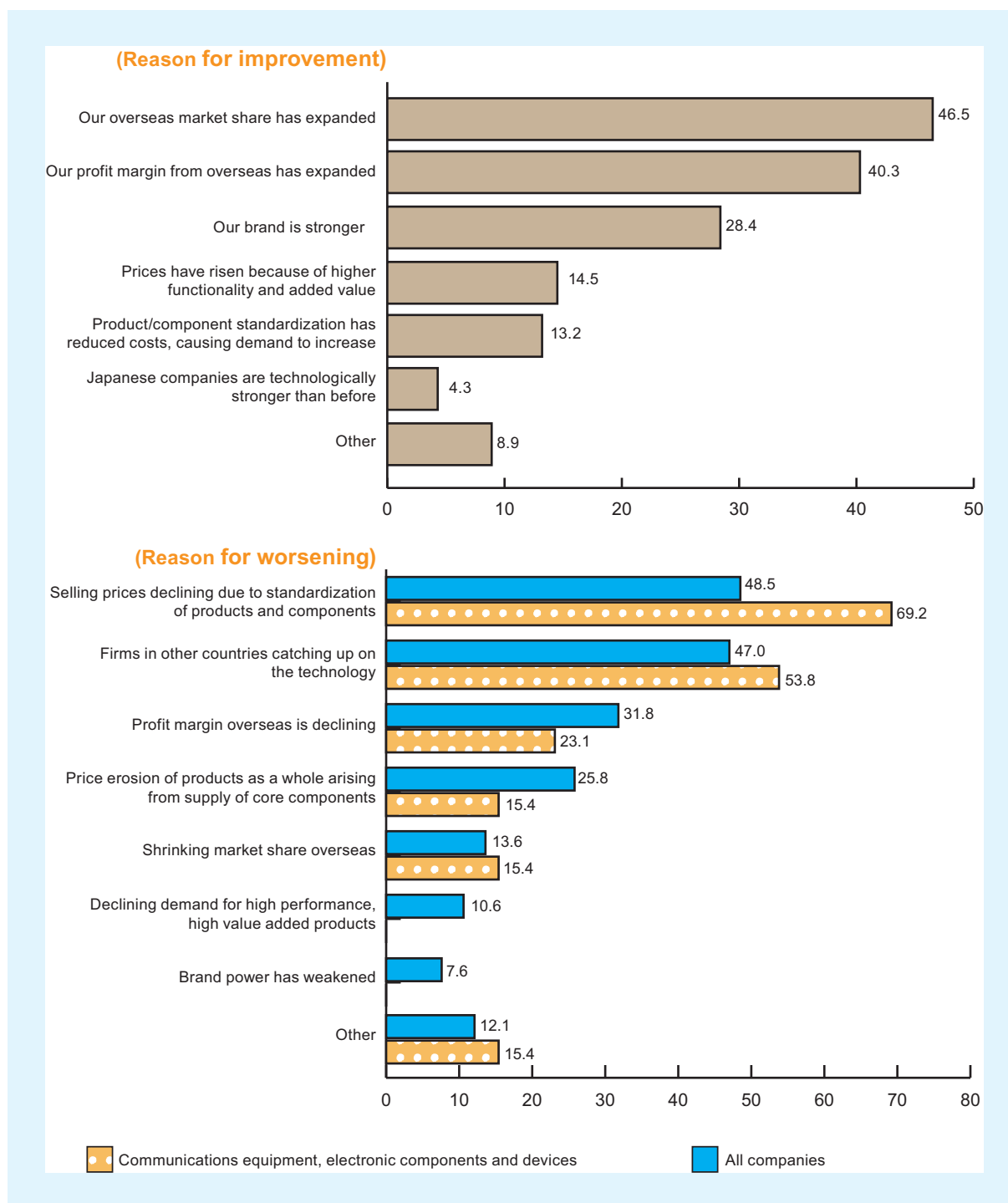
Figure IV.2. Changes in the overseas business environment, compared with five years ago (N= 467)



Source: JETRO, Survey on Japanese Firms’ International Competitiveness and Business Development, May 2007.

Only 14 per cent of companies answered that the business environment had “worsened”, but the percentage was high in such industry sectors as “communication equipment, electronic components and devices” (43.3 per cent). The reasons given for a worsening environment by this industry included “sales prices have fallen because of product and component standardization, etc.” (69.2 per cent) and “companies in other countries are catching up technologically” (53.8 per cent) (figure IV.2).

Figure IV.3. Reasons for the improvement or worsening of the overseas business environment



Source: JETRO, Survey on Japanese Firms' International Competitiveness and Business Development, May 2007.

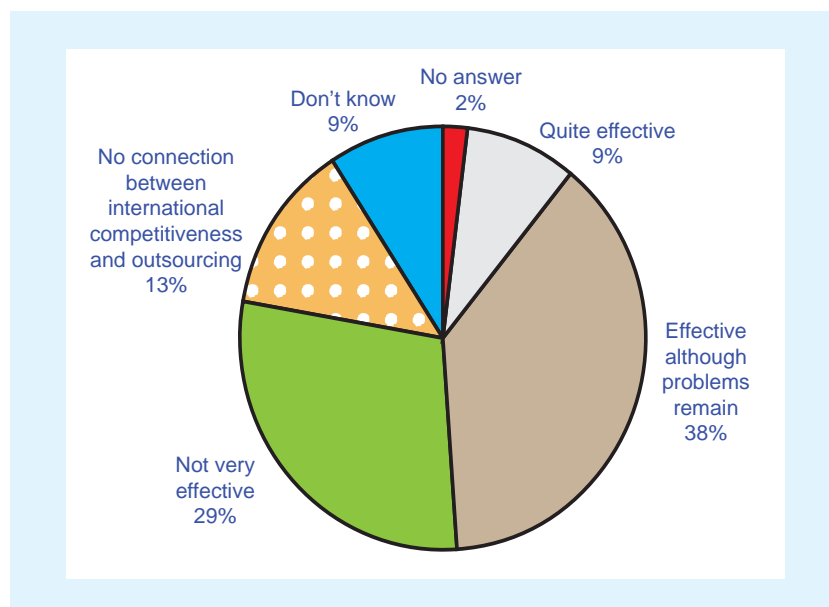
The trend toward standardization (modularization) of products and components in the electronics industry was already apparent in the 1990s, but as digitalization has advanced in recent years, it has become easier for new businesses trying to get into this industry with an assembly (modularization) business model, as long as a supply of funding and semiconductors is available. Companies in the United States, Republic of Korea, Taiwan Province of China, and China created this trend and have increased their share of the international market for digital products.

Also in recent years, the product cycle of digital goods has grown shorter and shorter, with the result that capital investment costs are a huge burden for companies. As a result, a trend has emerged in which vertically-integrated finished product manufacturers are ensuring a certain amount of revenue by selling intermediate goods (such as semiconductors and electronic devices) to competing companies, thus recovering a portion of their capital investment. This poses a dilemma for manufacturers as it could lead to a trend towards price erosion of the final product and the commoditization of goods because of the competition.

(c) *Strategic use of outsourcing*

Many Japanese companies such as those in the electronics and pharmaceutical industries, have developed and produced goods on the principle of vertically-integrated self-sufficiency. This principle has its merits: namely, it raises the motivation of engineers who want to build fine products in-house; it brings out the overall strength of the company by fusing company technologies (that is, the technologies of different departments); and maintains employment. On the other hand, however, companies must consider strategic outsourcing in those areas where they aren't as strong, in order to make themselves more cost competitive. So-called fabless companies, which do not have their own factories (such as Qualcomm and Broadcom) have rapidly grown in the United States to become world leaders in terms of semiconductor sales. These companies specialize in product development and marketing, but leave production to Taiwanese foundries (manufacturing contractors). Under this arrangement, each business recognizes its own strengths; this is a horizontal and non-integrated business model.

Figure IV.4. Effectiveness of overseas outsourcing (SA, N= 467)

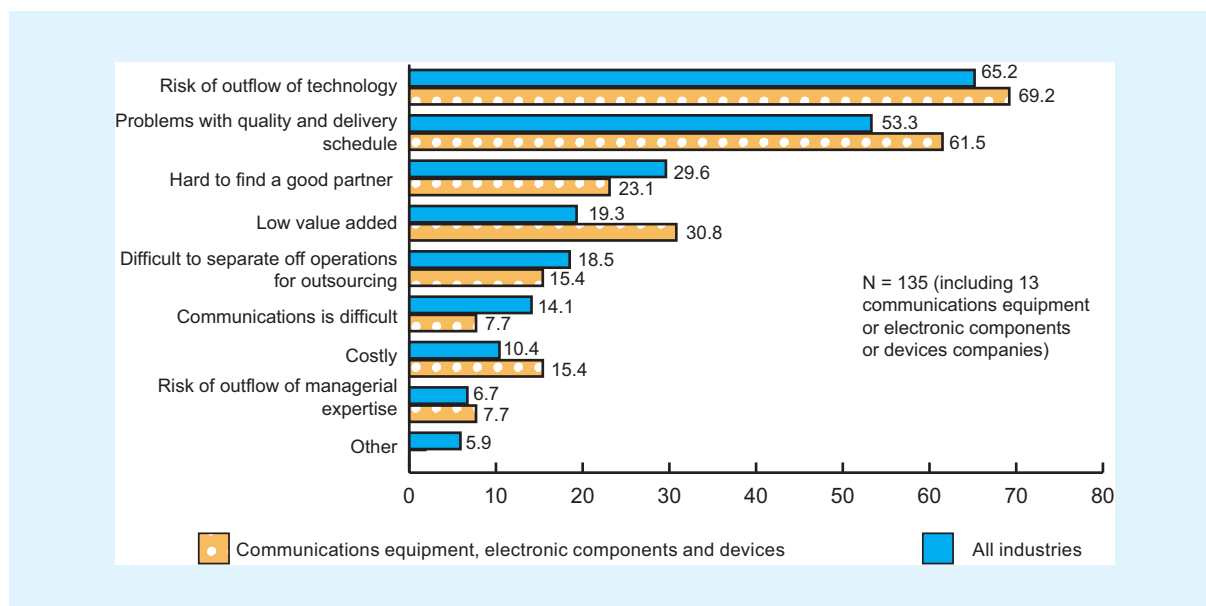


Source: JETRO, Survey on Japanese Firms' International Competitiveness and Business Development, May 2007.

In the previously mentioned JETRO questionnaire, 47 per cent of Japan's manufacturing companies said that "offshore outsourcing is effective" for maintaining and expanding global competitiveness, including those who modified this remark by saying that this posed some problems. The result indicates that there is a high level of awareness that outsourcing is effective (figure IV.4).

On the other hand, 29 per cent of companies answered that outsourcing "is not very effective." By industry sector, 43 per cent of the "communication equipment, electronic components and devices" industry answered that "offshore outsourcing is not effective." Asked to explain why, the respondents who answered this way said that offshore outsourcing causes a "risk of leak of technology" (69.2 per cent), entails "problems with quality and delivery" (61.5 per cent) or "leads to a decline of added value" (30.8 per cent) (figure IV.5). It would therefore appear that if outsourcing is to be adopted, it will be necessary to take approaches and steps different from those of companies in the United States and the emerging countries of Asia.

Figure IV.5. Reasons for not outsourcing overseas
(in per cent)

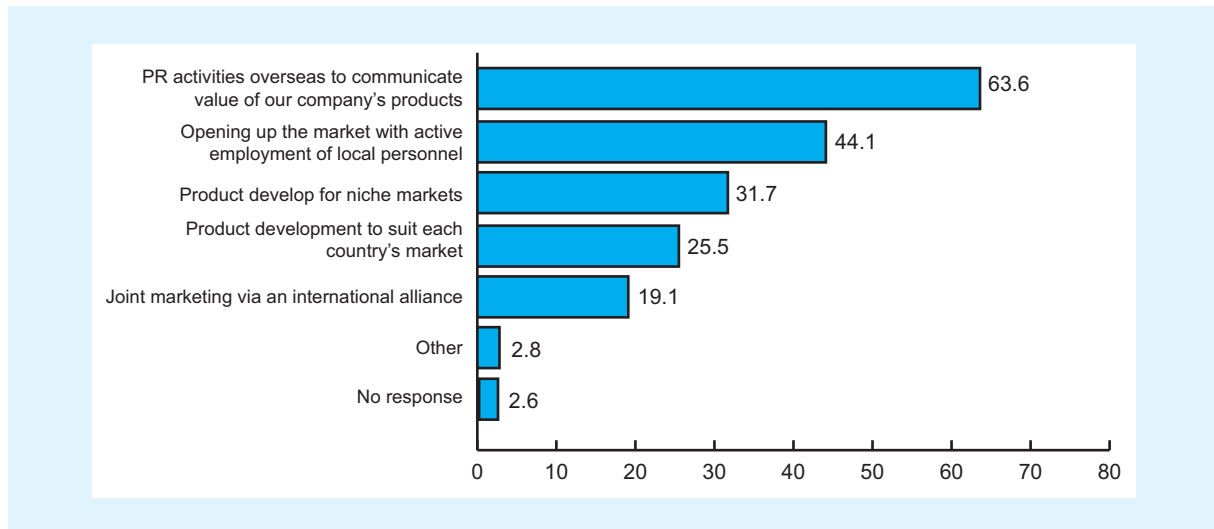


Source: JETRO, Survey on Japanese Firms' International Competitiveness and Business Development, May 2007.

(d) Active promotion of product value overseas and hiring of local talent

Next, looking at overseas marketing, the active promotion of product value overseas is necessary to get overseas companies and consumers, who have different business models and cultures, to understand the value of one's own products. Asked on the questionnaire about their plans for overseas marketing in the future, 63.6 per cent of companies said that they would "promote the value of their products overseas"; 44.1 per cent of these companies said that they intend to "actively hire local talent to develop markets" (figure IV.6).

Figure IV. 6. Future strategies for expanding overseas market share (MA, N=467)
(in per cent)



Source: JETRO, Survey on Japanese Firms' International Competitiveness and Business Development, May 2007.

In terms of R&D, it will be necessary to investigate whether product development is taking place that is consistent with the needs of world markets. Because Japan is the world's second largest economy, companies can expect to earn fairly sizeable revenues, just from Japan, as long as they develop products focusing on this market. If the goal is to reach world markets, however, products have to be created with the world in mind from the very start of development, and efficient R&D investment should be leveraged to generate profits.

The automobile and parts industry for its part considered that the overseas business environment had improved compared to five years before, as the industry had properly read the needs of the time and thus successfully increased its share of the international market and its profitability. Now that international concern has grown about the environment, including global warming and the high price of gasoline, Japanese manufacturers have gained an increasing amount of trust as they have developed hybrids and highly fuel-efficient cars.

B. Sectoral review

1. Digital home electronics

(a) Emergence of businesses in emerging countries

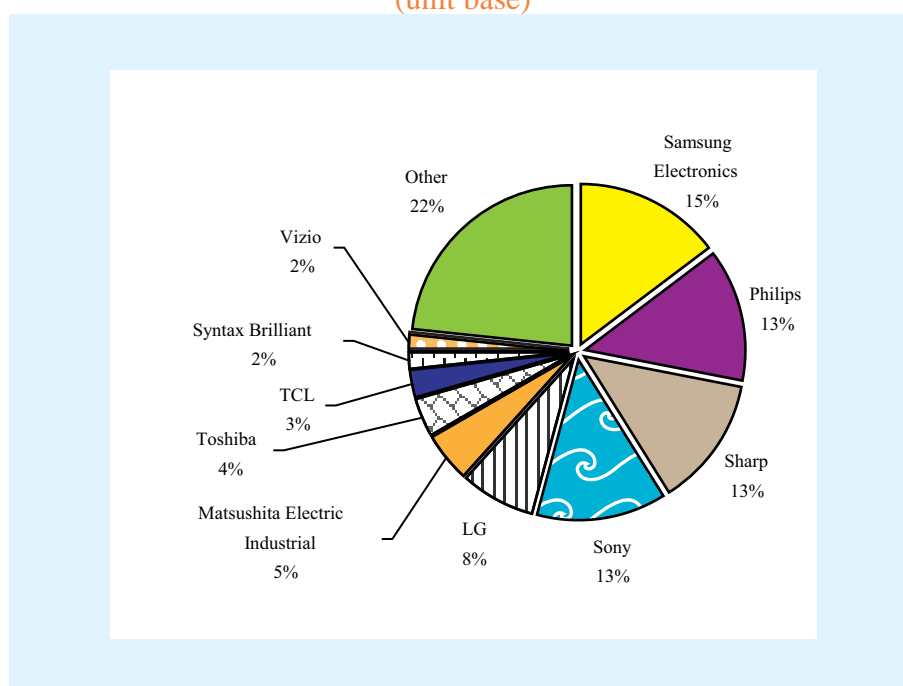
The digital home electronics market is expected to continue growing dramatically, spurred by flat-panel televisions, such as liquid crystal and plasma display panel televisions. Japanese brands have a comparatively high share of world markets for digital home electronics.

However, manufacturers from emerging countries, such as Taiwan Province of China and China have gained increasing market presence in recent years (figure IV.7). Most of these manufacturers have entered the market as modular type manufacturers who procure components, such as semiconductors and panels externally, and then assemble them. There are also many manufacturers who have entered the market that do not even have their own factories; Vizio, a company from the United States, is an example of this type of completely OEM-based producer.

(b) Characteristics of the digital home electronics market

It is said that the field of digital home electronics offers low profitability for finished products and makes it difficult for any one product to distinguish itself from others. The low profitability of finished products is primarily because prices tend to drop precipitously. Although most analog product prices drop after one year cycle, the prices of digital home electronics drop after a cycle of just half a year, or even three months.

Figure IV.7. Global market share of LCD TVs in 2006, by manufacturer (unit base)



Source: iSuppli.

Note: In 2002, Sharp, Matsushita and Sony accounted for 60, 8 and 5 per cent, respectively, of the global market share of LCD TVs (Nikkei Market Research survey).

The major reason for price declines is that digital home electronics tend to become commoditized. Because of worldwide oversupply and the advancement of information networks, technologies and components become standardized more quickly than in the past. Digital home electronics can be simply manufactured by procuring the parts externally and assembling them to create a product with a certain level of performance. Therefore, once intermediate products and modular components make it to the market, even companies that do not have the fundamental technology can enter the market. Any company can develop a new product simply by modifying the assembly of modules, so it is easier for manufacturers from emerging countries, since they can assemble modules at low-cost, to get into the market.

Because so many of their functions tend to be concentrated in semiconductors, which are their core technology, it is difficult to develop digital home appliances that stand out from other similar products. Even if the producer goes to great expense to add many functions, the basic functions are evolving day by day, making it all the more difficult for customers to recognize value. As digital home electronics technologies and markets mature, markets will increasingly be subject to price and brand influence competition.

(c) Responding to modular type products

Most Japanese manufacturers specializing in products with numerous functions and high added value find that competing with modular type products is one of their biggest challenges. In the early 2000s, when the market for liquid crystal televisions started to expand, the Japanese manufacturers who were driving this field owned more than half of the market share (Sharp had 60 per cent of the world market share in 2002, Matsushita 8 per cent, Sony 5 per cent and so on), but as products became more commoditized, non-Japanese manufacturers gained market share.

In response to these circumstances, many Japanese manufacturers have tried first of all to keep companies from other countries from catching up by creating a technology lead time. Although commoditized goods have low profit margins but sell in high volume and are thus very economic, high-performance, high-added-value products need only sell in small volumes for the manufacturer to maintain profitability, until such time as the competition catches up technologically.

Second, manufacturers such as Sharp and Matsushita use the technique of simultaneous worldwide product launches. This is a marketing technique to sell the product at essentially the same time around the world when product value is highest. To do this, companies are finding ways to reduce the time spent in transportation.

Third, manufacturers are increasingly compensating for the price drops of flat-panel televisions by creating entire line-ups of peripheral equipment (such as DVD recorders, PCs and digital cameras), thus helping to keep up purchase prices. Although this offers little profitability for individual products, it can increase sales as consumers buy product bundles.

(d) A business model with a double-sided strategy

In view of future growth expectations, a strategy for expanding markets in such places as emerging countries is essential. Digital home electronics are generally not widely diffused in new markets, such as the BRICs (Brazil, Russia, India and China), companies therefore have an opportunity to expand their share as markets switch from analog to digital products. However, if the technology from non-Japanese manufacturers ends up satisfying the demand of consumers in these countries, it seems necessary for these companies to take a more active role in the market for general-use products in order to advance their businesses. Active outsourcing and alliances with competitors should also be considered.

It is important that Japanese companies follow a two-pronged strategy, catering to the high-end market as in the past by taking full advantage of Japan's integral type technology and working to secure lead time, while also serving the market for general-use products by actively engaging in outsourcing and working within alliances. These companies need to put such a business model into effect and simultaneously work on building their overseas marketing.

2. Semiconductors

Most of the Japanese semiconductor businesses that started out as divisions of general home electronics manufacturers are oriented toward a vertically-integrated business model, in which everything from development to production takes place in-house. In the 1980s, these companies led the world market in production, particularly in DRAM products.

(a) Shares in world market

Since the Japanese semiconductor industry lost the lead to Intel in 1991, its share of sales in international markets has slowly declined, so that by 2006 only two Japanese companies ranked in the top 10 for sales: Toshiba and Renesas Technology (table IV.2). Japan's presence in this sector has declined in this area, especially as in the middle of the 1980s, six of the top 10 semiconductor manufacturers were Japanese.

(b) Japan: a latecomer to modularization

The first reason that the presence of Japanese semiconductor manufacturers has declined is because they have clung to high-function, high-added-value integral type products, even as the industry has moved toward modularization, which allows producers to create inexpensive general-use products.

Table IV.2. Rankings of semiconductor manufacturers by sales

Rank	Company (country)	Sales (in US\$ millions)	Growth rate from 2005 (in per cent)	Sales share (in per cent)	Average operating income, 2002-2006 (in US\$ millions)
1	Intel (United States)	31 542	- 11.1	12.1	23.6
2	Samsung Electronics (Rep. of Korea)	19 842	12.0	7.6	29.5
3	Texas Instruments (United States)	12 600	17.3	4.8	17.1
4	Toshiba (Japan)	10 141	11.7	3.9	10.6
5	STMicroelectronics (France-Italy)	9 854	11.0	3.8	6.3
6	Renesas technology (Japan)	7 900	- 2.6	3.0	n.a.
7	Hynix (Rep. of Korea)	7 865	41.5	3.0	8.5
8	AMD (United States)	7 506	91.6	2.9	- 8.9
9	Freescale Semiconductor (United States)	5 988	7.0	2.3	- 11.7
10	NXP (Netherlands)	5 874	4.0	2.3	- 12.9
11	NEC Electronics (Japan)	5 679	- 0.5	2.2	1.4
12	Qimonda (Germany)	5 413	0.0	2.1	- 5.1
13	Micron technology (United States)	5 210	9.1	2.0	- 12.3
14	Infineon Technologies (Germany)	5 119	- 38.3	2.0	- 5.6
15	Sony (Japan)	4 852	6.1	1.9	n.a.
16	Qualcomm (United States)	4 529	31.0	1.7	38.2
17	Matsushita Electric (Japan)	4 022	- 2.6	1.5	n.a.
18	Broadcom (United States)	3 668	37.3	1.4	- 53.3
19	Elpida Memory (Japan)	3 527	98.6	1.4	- 14.2
20	Sharp Electronics (Japan)	3 341	2.3	1.3	n.a.

Source: Company websites.

Modularization in the semiconductor industry covers design and software embedding processes; in this way, technology and know-how are embedded even within production systems. All the producer needs to do is to purchase such systems to be able to make products more or less of the desired specifications, even if the producer does not have any particular integrating technology. Semiconductor manufacturers in the United States, Republic of Korea and Taiwan Province of China have actively pursued this trend to modularization. In part because Japanese companies have been oriented toward high-added value products, they have been passive towards the modularization trend, and as a result they have allowed the Republic of Korea and Taiwan Province of China to gain market share and the United States to recover its share.

A second reason is related to the modularization trend: the fact that in semiconductor development and production, processes are being spun off. The great example of this is the sharing of processes between fabless companies in the Silicon Valley (i.e. semiconductor manufacturers without factories) and Taiwanese foundries (production contractors). This arrangement allows each side to specialize in its strengths and to run its business more efficiently. As a result, it is possible to enter the industry without the need for massive capital investment, a characteristic which has allowed fabless world companies, such as Qualcomm and Broadcom to emerge.

Third, since most of Japan's semiconductor manufacturers have put their main effort into meeting demand from their parent companies (general home electronics manufacturers), they have not become industry platform leaders and have not had many products that could affect pricing on the world market. Many of the top manufacturers in the world have actively pursued standardization, establishing industry standards for such items as microprocessors (Intel), DRAM (Samsung Electronics) and DSP (Texas Instruments) and thereby assuring high profitability.

It is not the case that Japanese semiconductor manufacturers have lost share on the international market because their technology is declining, but rather that differences in business structure and management policies have had a major impact.

(c) Generating a profit in the market for general-use products

Japan's IDMs (vertically-integrated device manufacturers), have adopted a business model that allows the same production line to be used to produce a high volume of general-use products to generate profits, even after the depreciation of highly advanced factories built for custom items and system LSI technology that required a high degree of integration technology. The reason is because in the semiconductor industry, the chips are getting smaller and smaller every year, so that one needs to make very large capital investments (about ¥100 billion) and as such, each company is trying to recover its development investment and expand profits by re-using the assets earned by the development of leading edge products.

The problem is how the relative weight is placed in such a portfolio; the part of the portfolio for leading edge products is very important in terms of the level of technical development, but if too much emphasis is placed here, it is difficult to benefit from economies of scale because these are small-lot custom products, making this a management structure in which it is difficult to generate a profit overall.

Ideally, Japanese manufacturers would find a way to develop products they have manufactured with their strong internal integration capacity, which others cannot copy, as de facto standards (as Intel and AMD have done), and they would also be able to incorporate the integral type technologies they have developed into general-use products to set themselves apart from businesses that have focused on modular type technology. As a specific example, a business could apply ASIC-derived technology to ASSP (system LSI technology for non-specific products).

It is additionally important for companies to make the non-competitive portions of their businesses more efficient, for example by jointly developing with other companies the embedded software platforms (embedded operating systems and middleware) for system LSI technology that each company currently develops individually and by seeking industry standardization.

(d) Pursuing a two-pronged strategy

In the future, semiconductor applications are expected to face growing demand, these include high performance microcomputers and systems on chip (SoCs) for high-end digital home electronics (organic EL TVs and other next-generation flat-panel TVs, next-generation DVD players and recorders, single lens reflex digital cameras, etc.), as well as automobiles, industrial equipment, medical devices and robots. Also anticipated are applications in products with integrated functions such as recent 1seg mobile telephones.

Thus, Japan's semiconductor manufacturers need to have a two-pronged strategy in which they work to expand the market for high-end products, which take advantage of the vertically integrated form of these companies, along with developing the market for general-use products, for which the company, as described previously, can exert some influence over pricing.

3. Automobiles and parts

(a) Japan: Strong in integral type products

In order to survive intense competition from companies in Europe, the United States and the Republic of Korea, Japanese auto manufacturers have assembled cars with very precisely integrated components. In the development process, which is where the design of the automobile begins, and in the manufacturing process based on this, Japanese companies are vertically integrated, such that most of these processes take place in-house. An advantage of vertical integration is that, by controlling the various processes, one can easily maintain a high degree of functionality and quality assurance over the automobiles.

To give an example, enhancing the handling of an automobile requires integrating components, not only those of the steering but also of the body, suspension, brakes and tires. Japanese automobile and parts manufacturers are well-known for their integral type architecture, which allows them to achieve an optimal balance of functions and parts. This is a very important reason why they are so competitive internationally.

(b) Different approaches to modularization

When Japanese auto manufacturers develop parts with other parts manufacturers and procure from them, they are practicing a type of outsourcing, but rather than just handing the whole process over, the two sides work together and remain in constant communication. In other words, the auto manufacturers embrace a development system that reaches beyond company boundaries, as if the parts manufacturer were a division of the auto manufacturer. As an outgrowth of this, auto manufacturers have begun directing parts manufacturers to develop units, or assemblies of components, in order to reduce costs and processes.

In contrast, manufacturers in the United States and Europe are asking their suppliers not just for assemblies of a limited number of components, but even large modularized units that completely integrate components, such as instrument panels (including the speedometer, other instruments and air-conditioning vents). Near a factory, there may be sub-lines where doors, front ends or other modules are

put together, and these are then brought by truck or conveyor belt to a production line for assembly. In recent years, some parts makers have started to undertake nearly every auto production process, which is modularization to its extreme. The reason this trend has taken hold in the United States and Europe is because the markets in those regions have matured while demand in emerging countries is expanding, forcing manufacturers to become more cost competitive. This trend brings in modular type production, in which various components are gathered and pieced together like Lego blocks, in place of the integral type manufacturing traditional to the auto industry.

Modularization has several advantages: it makes assembly less labour intensive, cuts costs because fewer suppliers are used, makes just-in-time parts procurement easier, makes development and design less of a burden for manufacturers, and so on.

The reasons that Japanese auto manufacturers have not actively endorsed modularization until now may be because they already had a fairly advanced practice of procuring assembled units, because modularization would make them more dependent on parts manufacturers in terms of quality maintenance control and technical development, and because the cost savings would be smaller than those afforded in the United States and Europe owing to the wage differential. It would appear, therefore, that Japanese manufacturers chose to counter the practice of modularization by counterparts in the United States and Europe by further strengthening the integral type elements of their own production systems, engaging components' manufacturers under the "concept-in" principle.

C. Utilization of existing RTAs in Asia

A succession of new RTAs have been forged in the Asia-Pacific region, but the status of their utilization is another matter. Thailand and Malaysia publish their record of RTA utilization in terms of the value of exports involved but, with some partial exceptions, no official statistics are available.

JETRO conducted a survey in November and December of 2006 to determine how Japanese enterprises had been using RTAs in Asia. The questionnaire results show that the largest group of respondents (42.7 per cent) said they were "not utilizing or not planning to utilize preferential tariff schemes" for export business in RTAs that are presently in effect in Asia, while the number responding that they are "utilizing or planning to utilize preferential tariff schemes" amounted to 13.3 per cent (97 of 728 responding enterprises). On the other hand, "undecided" enterprises also amounted to 34.2 per cent (249 enterprises), suggesting that a lack of familiarity with RTAs is one of the reasons explaining this situation.

Regarding the RTAs that are being utilized, some distinctive points are as follows: (1) There is considerable utilization of AFTA, where Japanese enterprise production networks are becoming widely established; (2) there is conspicuous use of the Japan-Malaysia Economic Partnership Agreement (EPA), which went into effect in July 2006; and (3) cases can be found of FTA utilization for export from Thailand – a key production base for Japanese enterprises – to India, Australia, and other countries outside the ASEAN market area (table IV.3).

Table IV.3. Japanese firms utilizing/planning to utilize schemes under the FTAs in effect within the Asia Pacific region for their export business

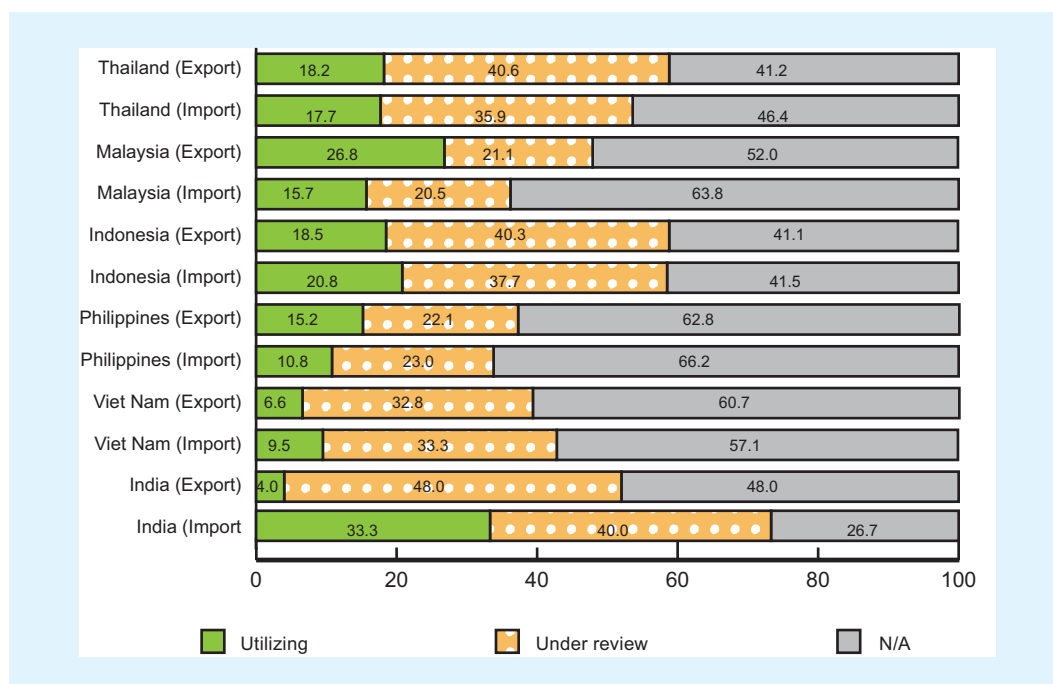
FTA	Number	Percentage share (n=37)
AFTA	24	64.9
Japan - Malaysia	15	40.5
Thailand - Australia	8	21.6
China - Hong Kong, China	7	18.9
Thailand - India	6	16.2
China - ASEAN	4	10.8
Thailand - New Zealand	2	5.4
Japan - Singapore	1	2.7

Source: JETRO, Survey on International Operations of Japanese Firms.

Note: Firms utilizing schemes under the FTAs in effect.

The JETRO survey also showed that the number of enterprises that are "are currently utilizing" FTAs amounted to some 10-20 per cent of the total (figure IV.8). Thirty three point three per cent (10 out of 30 enterprises) of Japanese enterprises based in India utilize the FTA for imports to India.

Figure IV.8. Japanese firms utilizing schemes under the FTAs in effect in major Asian countries



Source: JETRO, Survey of Japanese Manufacturers in Asia.

Notes:

1. Number of firms: Thailand = Export 187, Import 192; Malaysia = Export 123, Import 127; Indonesia = Export 124, Import 130; Philippines = Export 145, Import 148; Viet Nam = Export 61, Import 63; India = Export 25, Import 30.

2. Conducted from 27 November 2006 to 27 December 2007.

1. Japan-Malaysia EPA

The Japan-Malaysia EPA went into effect in July 2006 as Japan's third EPA following those between Japan and Singapore and Mexico. Among items exported from Japan to Malaysia, automobile parts are considered to be significantly affected by the elimination of tariffs in the Japan-Malaysia EPA. Malaysia instantly eliminated tariffs on completely knocked-down (CKD) products and plans to eliminate tariffs on passenger vehicles with 2000-cc or larger engines by 2010, and those on other passenger vehicles by 2015. Colour television sets are another item subject to instant elimination or phased reduction of tariffs, and expansion is expected to take place in exports of Japanese flat-panel television sets, and other high value-added products in which Japanese enterprises are highly competitive.²

Textile products figure prominently among the products imported by Japan from Malaysia. Japanese import tariffs are already at low levels on most items. Malaysian imports from Japan in most categories were originally subject to generalized system of preferences (GSP) rates, which are even lower than the most-favoured nation (MFN) tariff rates for developing countries. In this context, textiles were among the products for which tariff elimination had a relatively large effect in the Japanese tariff structure for both MFN and GSP rates. Japan's MFN and GSP tariff rates on textile products are within the 0-14 per cent range, with many items of apparel subject to rates of around 10 per cent. As a result of the Japan-Malaysia EPA, almost all textile product items imported by Japan from Malaysia are not subject to tariffs.

Eighty per cent of Japan's share of textile imports by Japan come from China, where GSP or MFN tariff rates are applied. Malaysia therefore has an advantage relative to China with respect to tariffs, as well. Japanese textile imports from Malaysia amounted to \$142.61 million in 2006, which is only 0.5 per cent of total textile imports. It appears, however, that the tariff benefits are being enjoyed since the Japan-Malaysia EPA went into effect. Imports of some items are on a rising trend, with imports of sheep wool for 2006 increasing 27.5 per cent over the previous year to \$36.85 million. The total value of imports of these products as a share of total imports from the world also rose from 5.2 per cent the previous year to 6.2 per cent. No marked increase has been apparent in apparel since the Japan-Malaysia EPA went into effect, but it is conceivable that the FTA will be utilized because of the large tariff advantage.³

2. Japan-Singapore EPA

The Japan-Singapore EPA, which came into effect in November 2002, appears to be utilized for Japanese exports of beer to Singapore. The only items subject to tariffs in Singapore are six alcohol items. Beer is subject to duty at the rate of 0.8 Singapore dollars (S\$) per litre and S\$1.7 per litre for stout beer. Medicinal liquors (HS 22089010–22089040) are subject to a duty of S\$8 per liter. In other words, the only items for which counterpart countries can obtain any tariff advantage under the FTA with Singapore for their exports to Singapore are these six items. Imports of dutiable alcohol by Singapore in 2006 amounted to \$78 million. The share of total imports value by RTA signatory countries⁴ grew from

² Tariff reductions under the Japan-Malaysia EPA were established with reference to tariffs in place as of 2005. The Government of Malaysia has lowered its MFN tariff rate since that EPA went into effect, however, so that some items are now subject to MFN tariffs that are lower than the Japan-Malaysia EPA tariffs. It will be necessary, therefore, to check both MFN and EPA tariff rates and confirm which are lower. For details, see the Ministry of Economy, Trade and Industry Website (http://www.meti.go.jp/policy/trade_policy/epa/data/061127malaysia_epa_MFN.pdf).

³ Rules of origin for textile products are subject to manufacturing process criteria. In principle, it is a condition that two processes be carried out in a signatory country or in an ASEAN member country.

⁴ The FTA signatory countries are ASEAN, Japan, the Republic of Korea, China, Australia, New Zealand,

63.0 per cent in 2004 to 71.2 per cent in 2006, suggesting that this tariff advantage in imports of dutiable alcohol is being enjoyed. Japanese imports in 2006 accounted for 2.8 per cent of that share.

A protocol amending the Japan-Singapore EPA was signed in March 2007, providing for an increase in the number of items subject to lower tariffs from 2008. Certain items had previously been excluded from tariff reductions on the Japan side, including organic chemicals (HS 29), plastics and articles thereof (HS 39), cocoa paste (defatted or not), and cocoa powder, unsweetened (HS 1803 and 1805), chocolate and other food products containing 'cocoa' (HS 1806). Now the tariffs on these items are to be lowered still further, and utilization of the Japan-Singapore EPA can be expected to expand from 2008.

AFTA eliminates 76 per cent of intra-area tariffs for original ASEAN signatories and lowers almost all tariffs to 5 per cent or less

AFTA initiated tariff reductions among the original ASEAN signatories (Thailand, Malaysia, Singapore, Indonesia, the Philippines, Brunei) in 1993, and is among the very oldest FTAs formed in the Asia-Pacific region. It provided graduated tariff reductions such that, in 2003, tariff rates on the majority of items were in the 0-5 per cent range for the original ASEAN signatories. There is also the ASEAN Framework Agreement for the Integration of Priority Sectors, concluded in November 2004, which identifies 11 sectors to be given priority for integration (agriculture-based products, fisheries, automotives, electronics, healthcare, rubber-based products, wood-based products, textiles and apparels, e-ASEAN [IT and other related products], air travel, and tourism). The nine sectors dealing with material goods, out of the 11 sectors identified as priority sectors for integration, are to become exempt from tariffs, with the exception of excluded items (to be limited to 15 per cent of the subject items at most), beginning from January 2007 in the original ASEAN member and from January 2012 in Cambodia, Lao PDR, Myanmar and Viet Nam (CLMV).

Looking at the status of tariff reductions under the Common Effective Preferential Tariff (CEPT) scheme to lower tariffs under AFTA, we find that the original ASEAN member countries eliminated tariffs on 75.7 per cent of all items in 2007 (table IV.4), and the remaining 22.4 per cent of items have had tariffs reduced to 5 per cent or less, as well. AFTA is becoming a very complete FTA with respect to trade in material goods. On a country-by-country basis, Thailand has exempted 54.4 per cent of items from tariffs, which leaves its rate of tariff elimination at a relatively low level. In CLMV, only 16.5 per cent of items have been made tariff-exempt, and 65.0 per cent of items are subject to tariffs of 5 per cent or less. In Viet Nam, however, 51.2 per cent of items have been made tariff-exempt, and it is leading CLMV in tariff reduction.

In AFTA, the original members of ASEAN are to eliminate tariffs on all items on the inclusion list in 2010, and in CLMV, tariffs are to be lowered to the 5 per cent range in Viet Nam in 2006, in Myanmar and Lao PDR in 2008, and in Cambodia in 2010, and then eliminated by 2015, with the exception of some excluded items.

Table IV.4. CEPT tariff reductions

(Number of categories, in per cent)

	Number of categories	Products on the inclusion list (IL)										Temporary exclusion list (TEL)	General exception list (GEL)	SL/HSL
		Ratio	≤ 5%		0%		Dutiable		> 5%	Other				
			Ratio	Ratio	Ratio	Ratio								
							Ratio	Ratio						
Thailand	8 301	100.0	8 288	99.8	4 513	54.4	3 775	45.5	13	0	0	0		
Malaysia	12 593	99.3	12 439	98.8	9 785	77.7	2 654	21.1	34	31	0	89		
Indonesia	8 732	98.7	8 619	98.7	5 730	65.6	2 889	33.1	0	0	0	96		
Philippines	11 490	99.6	11 369	98.9	8 149	70.9	3 220	28.0	75	0	0	27		
Singapore	10 705	100.0	10 705	100.0	10 705	100.0	0	0.0	0	0	0	0		
Brunei	10 702	99.0	9 924	92.7	8 444	78.9	1 480	13.8	674	0	0	104		
ASEAN countries	62 523	99.4	61 344	98.1	47 326	75.7	14 018	22.4	796	31	0	316		
Viet Nam	10 689	98.4	10 285	96.2	5 478	51.2	4 807	45.0	238	0	0	166		
Lao PDR	10 690	97.2	9 960	93.2	629	5.9	9 331	87.3	429	0	0	98		
Cambodia	10 689	97.8	5 301	49.6	603	5.6	4 698	44.0	5 153	0	0	181		
Myanmar	10 689	99.3	9 325	87.2	365	3.4	8 960	83.8	1 286	0	0	51		
CLMV	42 757	98.2	34 871	81.6	7 075	16.5	27 796	65.0	7 106	0	0	496		
Total	105 280	98.9	96 215	91.4	54 401	51.7	41 814	39.7	7 902	31	0	812		

Source: ASEAN Secretariat.

Notes:

1. Products on the inclusion list (IL) are subject to tariff reductions.
2. Products on the temporary exclusion list (TEL) are temporarily shielded from tariff reductions (preparations for reductions are not complete).
3. General exception list (GEL) items are generally excluded from tariff reductions (defense-related categories, items of scholarly value, etc.).
4. SL: The sensitive list items (unprocessed agricultural products, for which a flexible approach to transfer to the IL is taken).
5. HSL: Highly sensitive list items (rice-related).
6. The number of items is based on ASEAN Harmonized Tariff Nomenclature 2002 (AHTN 2002), except for Indonesia and Thailand, for which AHTN 2007 was used.
7. These calculations assume that tariffs on all items slated for tariff elimination in the eleven priority sectors for integration have been entirely eliminated.
8. The items for which tariffs exceed 5% include items for which specific duties rather than ad valorem duties apply. "Other" is 31 items on which Malaysia applies a special tax.
9. 2007 shifts to the IL included Brunei's transfer of items from the GEL and Malaysia, Thailand, and the Philippines from the SL. Vietnam, which had delayed shifting 14 automobile-related items to the IL, did make that transfer.
10. The CLMV countries are Cambodia, Lao PDR, Myanmar, and Viet Nam.

3. AFTA

The figures for trade utilizing CEPT published by Thailand and Malaysia provide fundamental data for determining the status of AFTA utilization. The value of exports by Thailand and Malaysia utilizing CEPT in 2006 comes to \$8.4 billion in total (excluding Singapore, where only alcohol is subject to tariffs in any event). This constitutes a 23.5 per cent share (utilization rate) of the total value of exports (table IV.5).

Table IV.5. AFTA (CEPT) utilization ratios in Thailand and Malaysia
(in per cent)

	Country/Region	1998	1999	2000	2001	2002	2003	2004	2005	2006
Total for Thailand and Malaysia	Viet Nam	0.8	6.6	5.3	8.2	12.8	30.3	33.3	38.3	42.4
	Philippines	9.3	12.7	10.9	16.5	18.2	24.9	29.6	33.2	31.9
	Indonesia	5.0	7.0	10.5	14.9	15.0	20.6	27.1	33.9	29.6
	Malaysia	11.9	14.0	12.7	15.5	20.4	20.7	22.1	22.4	20.5
	Thailand	3.9	8.0	6.8	10.8	11.3	13.0	16.0	16.2	14.9
	Brunei	0.1	0.2	0.1	0.8	1.1	0.7	0.8	1.3	3.3
	Singapore	0.1	0.1	0.1	0.3	0.5	1.1	1.5	1.3	2.8
	Lao PDR	0.0	0.0	0.0	0.0	0.0	0.9	3.1	2.8	2.3
	Myanmar	0.0	0.0	0.0	0.1	0.0	0.4	0.6	0.6	0.4
	Cambodia	0.0	0.0	0.1	0.0	0.1	0.0	0.0	0.1	0.1
	Total	2.2	3.3	3.4	5.1	6.2	9.3	12.0	13.3	13.6
(Except Singapore)	5.6	8.5	8.4	11.9	13.7	18.4	22.2	24.6	23.5	
Thailand	Indonesia	6.5	12.6	20.8	24.9	23.8	32.1	41.5	45.9	50.6
	Viet Nam	1.1	9.0	6.3	8.2	13.8	31.2	33.8	41.5	39.9
	Philippines	13.1	16.1	14.5	20.2	24.3	31.6	40.4	41.8	37.6
	Malaysia	11.9	14.0	12.7	15.5	20.4	20.7	22.1	22.4	20.5
	Brunei	0.4	1.3	0.7	1.4	2.3	2.1	3.2	3.9	8.2
	Singapore	0.2	0.1	0.2	0.4	0.9	1.8	2.7	2.7	2.5
	Lao PDR	0.0	0.0	0.0	0.0	0.0	0.9	3.1	2.8	2.3
	Myanmar	0.0	0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.4
	Cambodia	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
	Total	4.0	5.7	6.4	8.6	10.8	15.5	19.3	21.5	20.2
(Except Singapore)	7.4	10.7	11.5	14.6	17.7	23.0	27.5	30.0	28.2	
Malaysia	Viet Nam	0.2	3.0	3.5	8.1	11.3	28.9	32.6	31.7	46.7
	Philippines	6.8	10.3	8.7	13.1	12.4	17.1	19.4	24.2	25.0
	Thailand	3.9	8.0	6.8	10.8	11.3	13.0	16.0	16.2	14.9
	Indonesia	3.5	2.6	2.5	6.1	6.8	8.0	12.1	19.6	12.4
	Lao PDR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.8
	Singapore	0.1	0.1	0.1	0.2	0.3	0.8	1.0	0.9	2.9
	Brunei	0.0	0.0	0.0	0.8	0.9	0.5	0.3	0.8	2.1
	Cambodia	0.0	0.0	0.4	0.0	0.0	0.0	0.3	0.5	0.5
	Myanmar	0.0	0.0	0.0	0.1	0.0	0.9	2.2	1.7	0.3
	Total	1.2	2.0	1.8	3.2	3.6	5.3	7.2	7.9	9.2
(Except Singapore)	3.8	6.5	5.6	9.3	9.8	13.2	16.4	18.5	18.4	

Source: Ministry of International Trade and Industry, Malaysia and Ministry of Commerce, Thailand and trade statistics of Thailand and Malaysia.

Note: The CEPT utilization ratio is value of exports utilizing CEPT/total value of exports.

Malaysia has published actual CEPT utilization amounts by item (exports). The top items in 2006 were machinery and equipment at 20.5 per cent, chemical products and plastics for a total of 26.3 per cent, and electronic and electric products at 7.9 per cent (table IV.6). Thailand has not published a breakdown by item, but Thailand's exports to ASEAN by item in 2006 show that the main part is made up by general machinery (16.9 per cent), electric machinery (14.8 per cent), transportation machinery (11.5 per cent), and other such mechanical categories, together with plastics and other chemical products (18.0 per cent), suggesting that CEPT is being utilized for items such as these. Exports of automobiles, in particular, have increased rapidly since 2003, and the value of \$1.3 billion reached in 2006 is 8.9 times the 2002 figure.

Table IV.6. Malaysia's CEPT utilization amounts by item (exports, 2006)

Items	Amount in US dollars	Percentage of share
Machinery and mechanical appliances	792	20.5
Chemical products	583	15.1
Plastic products	432	11.2
Food seasoning and preparations	337	8.7
Electrical and electronics products	306	7.9
Vegetable oil and fats	284	7.4
Iron and steel	217	5.6
Cereals and pastry products	110	2.8
Textile and textile products	104	2.7
Wood and wood products	102	2.6
Other	596	15.4
Total	3 861	100.0

Source: Ministry of International Trade and Industry, "International Trade and Industry Report 2006".

An examination of CEPT utilization by country shows that Thailand and Malaysia both have relatively high rates of utilization with exports to Viet Nam, together reaching 42.4 per cent of the total. The simple average of Viet Nam's most-favoured nation (MFN) tariff rate had been high at 16.8 per cent, so that the January 2006 reduction of CEPT tariffs on most items to the 0-5 per cent level has significantly expanded advantageous AFTA utilization. Exports to Viet Nam from Thailand and Malaysia are centered on plastic products and other such chemical goods and transportation machinery. Air conditioners have been a conspicuous presence in the expansion of exports from Thailand to Viet Nam. Thai exports to Indonesia also show a high rate of CEPT utilization, and that utilization is progressing. Approximately 50 per cent of exports from Thailand to Indonesia are made up of chemical products and transportation machinery, and CEPT utilization appears to be particularly notable in passenger vehicle exports.

4. ASEAN-China FTA

The ASEAN-China FTA began reducing tariffs on agriculture and fishery products (HS 01–08) as part of the Early Harvest (EH) scheme. Tariff reductions in non-agriculture and fishery sectors began following the signing of an Agreement on Trade in Goods in July 2005. China and the original ASEAN signatories will be eliminating tariffs on most items classified as normal track, with the exception of up to 150 deferred items, in 2010. The deferred items are also scheduled to have their tariffs eliminated by 2012. Sensitive list (SL) items are to number no more than 400 items at the HS six-digit level, and are not to exceed 10 per cent of the total value of imports. The upper limit on the number of highly sensitive list (HSL) items is to be 40 per cent of the SL, or 100 items, whichever is smaller. Although tariffs on these items are to be lowered step by step, it is possible for them to be declared exceptions. CLMV will be subject to a less demanding tariff elimination schedule than the original ASEAN signatories, such that tariffs will be eliminated on all but deferred items, which are to number up to 250, by 2015. Tariffs on the deferred items are also scheduled to be eliminated in or after 2018.

Under the ASEAN-China FTA, products in the automobile and household electrical appliance sectors, for which there appear to be high utilization demand by Japanese and other enterprises, are assigned to the SL in many cases. Passenger vehicles are on the SL or HSL in both China and the major ASEAN countries, while motorcycles are on the SL or HSL in the major ASEAN countries. Although the majority of items in the household electrical appliance category are assigned to the normal track in China, television sets are categorized as SL or HSL in China and the major ASEAN countries; Thailand has placed many household electrical appliances, such as air conditioners, refrigerators, television sets, etc., in the SL or HSL categories in a bid to foster its electronics industry. The ASEAN-China FTA also includes a reciprocity⁵ arrangement so that when items are classified as normal track in the importing country and are nevertheless assigned to SL or HSL in the exporting country, the agreement tariff rate does not have to be applied (Annex 2 of the Agreement on Trade in Goods).

As to the utilization of the ASEAN-China FTA by Malaysia and Thailand, the record of Thailand's actual exports to China in 2006 by value (\$11.8 billion) shows that the portion of this amount attributable to FTA utilization was \$1.5 billion. The rate of utilization rises no higher than 12.3 per cent, but this is still double the 2005 figure of 6.7 per cent (table IV.7). Contributory factors in this result were the EH programme and the fact that tariff reductions in the non-agricultural and fishery sectors began in July 2005. Similarly for Malaysia, the portion of the value of actual exports to China in 2006 (\$11.7 billion) attributable to FTA utilization was \$1 billion. The rate of utilization in 2006 was 8.9 per cent – a significant increase from the 2.9 per cent registered in 2005. The total rate of FTA utilization for the two countries combined was 4.8 per cent in 2005, which rose to 10.6 per cent in 2006.

Trade between ASEAN and China since the FTA went into effect can be examined by comparing the ASEAN share of exports to and imports from China for 2006 with the figure for 2003, before the FTA went into effect. Although trade appears generally to show little change in terms of total value, items subject to the EH scheme (HS 01–08) showed a considerable increase in both imports and exports (table IV.8). In agricultural and fishery products, China's imports of cassava and fruit from Thailand are said to have increased. Malaysia also publishes the items that are utilized under the ASEAN-China FTA, and chemical products account for approximately 50 per cent of the items utilized in exports to China in 2006, while rubber products account for approximately 30 per cent. Other items utilizing the FTA for export to China include vegetable oil, cocoa products, etc.

⁵ Specifically, items positioned as SL in the exporting country and subject to tariff rates above 10% will be subject to MFN tariff rates in the importing country. For items with tariff rates of 10% or less, the tariff rate is to be either the country's own SL rate or the counterpart country's normal track rate, whichever is higher. (However, the importing country's MFN tariff rate is to be the upper limit.)

Table IV.7. FTA usage in Thailand and Malaysia

		Trading partner	2005	2006
Thailand	Value of exports using an FTA	China	614	1 450
		Australia	2 122	2 746
		India	267	328
		ASEAN (exclusive of Singapore)	4 942	5 299
		Total	7 944	9 824
	Value of total exports	China	9 104	11 797
		Australia	3 153	4 383
		India	1 519	1 815
		(The 82 Early Harvest items only)	338	368
		ASEAN (exclusive of Singapore)	16 467	18 809
	Total	37 668	45 205	
	FTA utilization rate (in per cent)	China	7	12
		Australia	67	63
		India	18	18
		(The 82 Early Harvest items only)	79	89
ASEAN (exclusive of Singapore)		30	28	
Total	26	27		
Malaysia	Value of exports using an FTA	China	274	1 045
		ASEAN (exclusive of Singapore)	2 731	3 150
		Total	3 005	4 194
	Value of total exports	China	9 303	11 735
		ASEAN (exclusive of Singapore)	14 756	17 141
		Total	24 059	28 876
	FTA utilization rate (in per cent)	China	3	9
		ASEAN (exclusive of Singapore)	19	18
		Total	12	15
Total	Value of exports using an FTA	China	888	2 495
		ASEAN (exclusive of Singapore)	7 673	8 449
		Total	8 561	10 944
	Value of total exports	China	18 048	23 532
		ASEAN (exclusive of Singapore)	31 223	35 950
		Total	49 630	59 482
	FTA utilization rate (in per cent)	China	5	11
		ASEAN (exclusive of Singapore)	25	24
		Total	17	18

Source: Ministry of International Trade and Industry, Malaysia and Ministry of Commerce, Thailand and trade statistics of Thailand and Malaysia.

Note: The utilization rate is value of exports utilizing an FTA/total value of exports.

Table IV.8. Major ASEAN trade items with China

Category	Exports				Imports				
	2003	Percentage of all external trade	2006	Percentage of all external trade	Category	2003	Percentage of all external trade	2006	Percentage of all external trade
	Value in US dollars		Value in US dollars			Value in US dollars		Value in US dollars	
Electrical equipment	7 195	8.1	19 360	8.5	Electrical equipment	17 248	16.6	39 914	18.2
General machinery	6 360	7.6	12 636	6.8	General machinery	8 203	11.5	14 186	13.0
Textiles & textile products	3 627	4.9	7 071	5.1	Chemicals	7 237	12.8	13 808	13.5
Iron & steel	1 107	8.6	6 406	12.3	Mineral fuel	5 511	19.2	7 160	8.1
Chemicals	2 814	9.1	6 045	9.0	Animal, vegetable oils and fats and cleavage products	1 675	19.2	2 813	23.0
EH (agricultural and fisheries products)	694	8.4	1 303	10.7	EH (agricultural and fisheries products)	567	13.9	1 207	19.4
Total	30 935	7.1	71 325	7.4	Total	47 350	11.5	89 538	11.3

Source: China Foreign Trade Statistics.

Notes:

1. EH stands for "Early Harvest" (HS01-08).
2. The per cent of all external trade is the ratio of ASEAN exports (or imports) to total world exports (or imports) of items in this category.

Large amounts of the trade between ASEAN and China and within the ASEAN area has been covered by wide-ranging tariff exemptions through systems other than FTAs. Many of the Japanese enterprises that have established presences in China and the ASEAN region have created export bases there, particularly in the electronics and textiles sectors. The importation of capital goods and intermediate goods to export bases occurs under export processing zones, bond arrangements schemes, and similar other schemes that in many cases provide import tariff reductions and exemptions but that are different from FTAs (table IV.9). Major Asian countries are prepared to provide a variety of tariff reduction and exemption schemes, including export processing zones and free trade zones as well as arrangements to grant enterprises bonded status. These systems had been adopted before FTAs were concluded in order to attract investment and for other such purposes, and tariff reduction and exemption schemes of these kinds are being utilized in a wide-ranging manner, together with FTAs for trade between ASEAN and China and within the ASEAN area. Tariff-free importation based on the ITA is widely utilized in China and within ASEAN, which have become export bases for IT products.

A distinctive characteristic of Japanese enterprises operating in ASEAN is the high proportion of raw materials and parts that they import free of tariffs and the high proportion of export in their sales. According to the Survey of Business Conditions for Japanese Manufacturing Companies in Asia, which was discussed earlier, Japanese manufacturing companies operating in ASEAN show a high percentage of raw materials and parts procured through tariff-free importation, and exports make up a large percentage of their sales. Enterprises that obtain 50 per cent or more by value of their raw materials and parts at zero tariff make up 60-70 per cent of the enterprises in the Philippines, Malaysia, and Viet Nam, and approximately 40 per cent in Thailand and Indonesia. Similarly, enterprises that receive 50 per cent or more of their sales by value from exports make up 60-80 per cent of the enterprises in the Philippines, Malaysia, and Viet Nam, and approximately 40 per cent in Thailand and Indonesia (table IV.10). In India, on the other hand, 71 per cent of enterprises have less than 10 per cent of their products tariff free, and 61.8 per cent of enterprises export less than 10 per cent of their products. These figures are extremely low compared to ASEAN, and these enterprises are engaged in production geared to internal demand.

Table IV.9. Tariff exemption systems of major Asian countries

Country	Overview of key system points
Thailand	<ul style="list-style-type: none"> • Export processing zones and free zones are exempt from import tariffs. There are nine export processing zones and 19 free zones in operation. • Bonded factories are exempt from customs duty and so on, on condition that products be reexported. Component members must be reexported within two years. There are 151 bonded factories • Tax exemptions include tariff exemptions for components produced for export instituted by Board of Investment, tariff refunds for components produced for export allowed under Article 19 of the Customs Law, tariff exemptions for electrical and electronic components (EEI scheme), tariff reductions and exemptions for automotive parts, and so on.
Malaysia	<ul style="list-style-type: none"> • Free zones are exempt from import and other tariffs. • Bonded warehouses (LNW) are granted import tariff exempt status intended for manufacturers that place establishments in locations other than free zones. • Raw materials, parts, equipment, and so on that are for export or that were not produced domestically are exempt from import and other such tariffs.
Indonesia	<ul style="list-style-type: none"> • Export processing zones (EPZ) and stand-alone export processing zones (EPTE) are exempt from import and other such tariffs. • There are tariff exemptions on unrefined sugar imported by sugar refiners, tariff exemptions on products imported for operation of geothermal energy businesses, import tariff reductions and exemptions on major raw materials and secondary materials for the manufacture of electronic products and parts, and so on.
Philippines	<ul style="list-style-type: none"> • Special economic zones are exempt from import and other such tariffs. There are 111 special economic zones. • There are tariff reductions and exemptions for enterprises registered with the Board of Investment.
Viet Nam	<ul style="list-style-type: none"> • Export processing zones (EPZ) and export processing enterprises (EPE) are exempt from import tariffs and other such. There are three export processing zones in operation.
China	<ul style="list-style-type: none"> • Export processing zones (EPZ) are exempt from import tariffs and other such. There are 37 EPZs being operated. • Free trade zones are exempt from import and other such tariffs. There are 15 FTZs. • Under the processing trade system, component members are exempt from import tariffs on the condition that they are reexported.
India	<ul style="list-style-type: none"> • Special economic zones (SEZ) are exempt from import and other such tariffs and other such. There are 14 SEZs in operation. • It is possible to import goods in bond in export-oriented units (EOU). There are 1,924 companies with EOUs in operation. • There are import tariff reduction and exemption systems of various kinds, including advance authorization schemes (AAS) that provide tariff exemption to manufacturers that import intermediate goods and parts to manufacture specific export products, process them, and export them), duty-free import authorization schemes (DFIA) that provide import tariff exemption for intermediate goods and parts used in manufacturing specific export products, for traders acting as agents for manufacturers engaging in import and export, duty-free replenishment certificate (DFRC) schemes for intermediate goods, duty entitlement pass book (DEPB) schemes, export promotion capital goods (EPCG) schemes.

Source: JETRO, Status and issues of FTAs and tariff reduction and exemption systems in East Asia.

Table IV.10. Total imported cost and ratio of exports of Japanese affiliated companies in ASEAN and India
(in per cent)

(measure: %)

	Percentage of raw materials and parts procured through tariff-free importation				Percentage of sales from exports			
	0 – 10	10 – 50	50 – 100	100	0 – 10	10 – 50	50 – 100	100
Thailand	47.6	11.6	31.2	9.5	27.6	30.7	32.2	9.5
Malaysia	15.3	11.5	32.1	41.2	12.8	27.1	40.6	19.5
Indonesia	46.6	17.3	18.8	17.3	32.6	23.2	30.4	13.8
Philippines	19.5	6.7	22.1	51.7	14.1	9.0	35.9	41.0
Viet Nam	23.1	13.8	20.0	43.1	25.0	7.4	14.7	52.9
India	71.0	16.1	6.5	6.5	61.8	20.6	14.7	2.9

Source: JETRO, Survey of Japanese Manufacturers in Asia.

Notes

1. Number of Percentage of raw materials and parts procured through tariff-free importation: Thailand=189, Malaysia=131, Indonesia=133, Philippines=149, Viet Nam=65, India=31
2. Number of Sales by value from exports: Thailand=199, Malaysia=133, Indonesia=138, Philippines=156, Viet Nam=68, India=34
3. Conducted from 27 November 2006 to 27 December 2007.

Under export processing zones, free trade zones, and other such tariff reduction and exemption schemes, goods marketed domestically are generally subject to tariffs. For this reason, FTA utilization is expected to continue increasing in China and ASEAN, together with domestic marketing that addresses expanding internal demand.

5. Thailand-India FTA

Like Singapore, Thailand is one of the ASEAN countries most actively engaged in promoting bilateral FTA negotiations, and it has already concluded bilateral FTAs with India (Early Harvest only), Australia, and New Zealand. The Thailand-India FTA began implementing an Early Harvest scheme for 82 items in September 2004, with phased reduction of tariffs, and eliminated basic tariffs from September 2006 onwards. Although it covers only some items, the Thailand-India FTA has attracted considerable interest from Japanese enterprises, and it is known as the FTA that reversed the balance of trade between the two countries. The average annual growth in exports of EH items from Thailand to India from 2004 to 2006 was 58.7 per cent, a major expansion (table IV-11). On the other hand, imports of EH items and total imports both showed growth of only about 20 per cent. As a result, Thailand overcame the trade deficit with India that had lasted up to 2004, and began showing a trade surplus from 2005 onwards.

Table IV.11. Top five exports and imports, by value of trade among the 82 Thailand-India Early Harvest categories
(in per cent)

	Category	2003 (in US\$ millions)	2004 (in US\$ millions)	2005 (in US\$ millions)	2006 (in US\$ millions)	Annual average growth rate, 2004-2006 (per cent)
Exports	Color TVs	0	43	96	125	70.5
	Polycarbonates	11	17	112	52	77.6
	CRTs for TVs	0	5	21	32	160.1
	Air conditioners	9	8	16	28	90.4
	Epoxy resins	3	5	11	16	80.1
	Early Harvest total	66	146	338	368	58.7
	Total exports	639	905	1 519	1 815	41.6
Imports	Gear boxes	0	4	30	40	206.1
	Ferrous and non-metal products	30	36	6	12	-41.7
	Cocks, valves, etc.	1	2	4	6	84.3
	Anodized aluminum	2	4	6	6	16.0
	Other polyester	0	1	2	6	151.8
	Early Harvest total	73	70	88	101	20.0
	Total imports	877	1 138	1 275	1 625	19.5
Balance of trade		- 239	- 233	244	190	-

Source: Thai trade statistics.

The value of Thailand's exports to India in 2006 utilizing the FTA was \$300 million. Even though applied only to the 82 EH items, this resulted in a utilization rate of 18.1 per cent of Thailand's exports to India (table IV.11). This accounted for 89.1 per cent of exports from Thailand to India in the Early Harvest categories, meaning that the majority of those exports utilized the FTA. A background factor here was that the kind of production activity conducted by export bases supplying intermediate goods to each other, as occurs within ASEAN and between China and ASEAN, was not occurring between India and ASEAN. In the trade between India and ASEAN, the bulk of exports to India were intended for the end market. In other words, the exports to India were not directed to export processing bases, but were mainly exported to meet India's internal demand. Consequently, they are thought to have utilized FTAs more than in-bond and other such schemes that provide import tariff reductions and exemptions for export processing bases.

Looking at specific items, the export of colour television sets from Thailand to India in 2006 amounted to \$124.78 million, while television picture tubes similarly amounted to \$32.27 million. These figures represented an average annual growth of 70.5 and 160.1 per cent, respectively, from 2004 to 2006. There was also a conspicuous expansion in exports of polycarbonates used in a wide range of products, including air conditioners, CDs, DVDs, and all types of household electrical appliances. Imports of these products to India are exempt from basic tariffs, so they are contributing to a tax saving effect and a rise in the price competitiveness against goods imported from other countries. A background factor in this situation is thought to be the Japanese and other enterprises with production bases in Thailand that are using exports from Thailand as an approach to development of the growing markets in India.

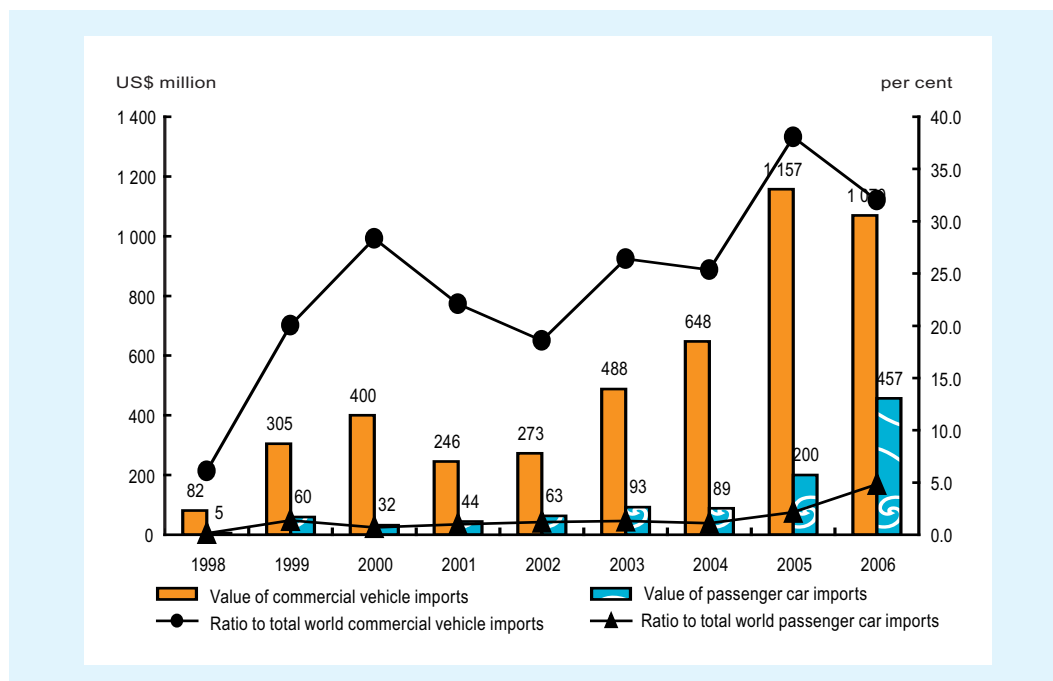
Gear boxes are a conspicuous element in the increase of imports to Thailand from India. Gear boxes are a type of transmission mechanism used in motor vehicles, and this increase suggests that Japanese automobile manufacturers are supplying the automobile industry clustered in Thailand with parts from India.

6. Thailand-Australia FTA

Australian FTAs in the Asia-Pacific region began with the FTA with Singapore, which went into effect in July 2003, followed by the FTA with Thailand (TAFTA), which went into effect in January 2005.

Exports from Thailand to Australia utilizing the FTA amounted to \$2.7 billion in 2006. This made up 62.6 per cent of the total export value. Examination of trends in trade after the Thailand-Australia FTA went into effect shows a conspicuous expansion of automobile exports from Thailand to Australia. Australia imposes tariffs of 5 per cent on commercial vehicles and 5-10 per cent on passenger vehicles. With the Thailand-Australia FTA, however, automobile imports from Thailand have become tariff-exempt. This has provided a tariff advantage to Japanese enterprises that have clustered their production bases in Thailand. Figures for automobile imports to Australia show that in 2005, when the Thailand-Australia FTA went into effect, imports of commercial vehicles from Thailand increased 78.6 per cent year-on-year to \$1.2 billion, and imports of passenger vehicles increased 124.5 per cent to \$200 million (figure IV.9). Although the figure for commercial vehicles declined somewhat to \$1.1 billion in 2006, the figure for passenger vehicles doubled with an increase of 128.5 per cent to \$500 million. The share of vehicles from Thailand in Australia's commercial vehicle imports has increased from 25.3 per cent in 2004, before the FTA went into effect, to 32.0 per cent in 2006. Passenger vehicle imports also rose sharply from 1.1 to 4.8 per cent, while commercial vehicle imports from Thailand overtook those from Japan in 2005, making Australia the greatest importer from Thailand. These exports of automobiles from Thailand to Australia are the work of Japanese enterprises.⁶

Figure IV.9. Imports by Australia of automobiles from Thailand



Source: Australian trade statistics.

Note: Passenger cars are HS code 8703; commercial vehicles HS code is 8704.

⁶ The primary reason for the increase in exports from Thailand to Australia is the way that the Japanese automobile industry's global strategy has positioned Thailand as an automobile production base. Even if the Thailand-Australia FTA had not gone into effect, Thailand's automobile exports would probably have increased. The FTAs, however, have effectively provided tariff advantages and increased the price competitiveness of automobiles manufactured in Thailand.

Thailand's FTAs with India and Australia have a high rate of utilization, largely from Japanese enterprises. It would appear that these FTAs, which encompass the promising end markets in India and Australia, are contributing to market development by Japanese enterprises from their existing bases in ASEAN and other areas.

7. China-Hong Kong China CEPA

The Closer Economic Partnership Arrangement (CEPA) between China and Hong Kong, China was concluded in 2003 and went into effect in January 2004. At present it has been amended three times, gradually expanding the scope of liberalization. Agreement on the fourth amendment was reached in June 2007, and this will open up 11 service sectors for the first time, including public services, from January 2008. The main distinctive characteristics of the China-Hong Kong China CEPA are that it will enable practically all goods from Hong Kong, China to be imported tariff-free by China where trade in goods is concerned so long as the rules of origin are met, and, in the service sectors, that enterprises in Hong Kong, China, including foreign-owned enterprises that meet certain conditions, will be allowed priority access to the China market.

There are many examples of FTAs in Asia that are utilized for trade in goods, but there are few instances of utilization in services. Given these circumstances, it is surprising to see that so many enterprises, largely in the transportation and physical distribution sectors, including Japanese enterprises, as shown below, have utilized the CEPA.

The China-Hong Kong China CEPA will enable service enterprises in Hong Kong, China to move into mainland China before China carries out the commitments it made in joining the WTO. This was intended to put those enterprises in a position of competitive advantage over other foreign enterprises. It was also envisioned as an inducement to foreign enterprises seeking to utilize the China-Hong Kong CEPA to locate in Hong Kong, China. A background factor in the situation appears to be the intention to forestall any progressive decline in Hong Kong, China's position as a center for services directed to China as a result of that country's liberalization.

The amended version of the CEPA that went into effect in January 2007 gives priority access to 27 industries to the Chinese market. Enterprises that attempt to establish a presence in China utilizing the China-Hong Kong CEPA will have to acquire Hong Kong Service Supplier (HKSS) certification. The requirements for HKSS certification are: (1) For most industries, having operated in Hong Kong, China for three years or more (five years for construction, banking, insurance, and ground-based services of air transportation – no period specified for real estate); (2) having paid corporate taxes in Hong Kong, China; (3) either owning or renting offices appropriate to the size of the business in Hong Kong, China; and (4) having half or more of the employees hired in Hong Kong, China as residents with permanent residence status or people from mainland China staying on residential visas.

A cumulative total of 1,739 HKSS certificates had been issued by the end of March 2007 (table IV.12). Transportation and physical distribution account for just under 60 per cent of the total, and wholesale and retail approximately 20 per cent, so that these two sectors together account for 80 per cent of the whole. About 1,000 enterprises have HKSS certification (some enterprises hold several HKSS certificates), and just under half of these are thought to be foreign-owned enterprises. Japanese enterprises are said to account for about 10 per cent of the total.

Table IV.12. Hong Kong Service Supplier (HKSS) certification

Business Area	Number of issuance
Transportation/Distribution	1 023
Whole sales/Retail sales	337
Advertisement	79
Architecture	73
Employment placement	36
Management consulting	32
Total	1 739

Source: Hong Kong Trade and Industry Department.

Notes: A cumulative total as of March 2007.

Conspicuous examples of utilization by Japanese enterprises can be found in the transportation and physical distribution sector. As of August 2005, there were 19 Japanese enterprises making use of the China-Hong Kong China CEPA to establish 22 wholly-owned local subsidiaries in China (*Japan Maritime Daily* of 27 September 2005). For example, the Hong Kong, China subsidiary of Nippon Express obtained HKSS certification in April 2004. In a press release, this company pointed out that the ability to establish a wholly-owned subsidiary in China before that country carries out the commitments it made in joining the WTO was an advantage of utilizing the China-Hong Kong China CEPA. That company subsequently established a wholly-owned warehouse company in Zhejiang Province in November of that year. There is also the case of the Hong Kong, China subsidiary of Tempstaff, an employment agency, which utilized the China-Hong Kong China CEPA to establish a wholly-owned local subsidiary in Guangzhou in February 2007. They will build up a full-scale business supplying Japanese-speaking personnel mainly to Japanese enterprises in Guangzhou, where an automobile industry cluster has formed. In the retail sector, the Hong Kong, China subsidiary of Aeon obtained HKSS certification in September 2004, and established Aeon China in Shenzhen to control its business in China.

The advantages offered by the China-Hong Kong China CEPA in the service sectors existed only insofar as it enabled enterprises to establish a presence in China early, i.e. before that country carried out the commitments it made when joining the WTO. As China gradually carries out its membership commitments, therefore, those sectors that were liberalized only under the China-Hong Kong China CEPA scheme are being liberalized on an MFN basis instead, diluting the advantages of utilizing the China-Hong Kong China CEPA. In the transportation and physical distribution sector, for example, 100 per cent foreign ownership was allowed until December 2005, and in the wholesale and retail sector until December 2004. There are some exceptions in both sectors.

Advantages to utilizing the China-Hong Kong China CEPA presently exist only in those particular sectors where the minimum capitalization amounts are set at low preferential levels, for example, or where 100 per cent foreign ownership is allowed only under the China-Hong Kong China CEPA, such as in air freight forwarding.

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QUESTIONNAIRE

SOUTH-SOUTH TRADE IN ASIA: THE ROLE OF REGIONAL TRADE AGREEMENTS

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