

Chapter 3

Liberalisation of the Trade in Services in ASEAN, China, and the TPP Negotiating Members

*Hikari Ishido**

ABSTRACT

Service liberalisation is becoming the next agenda for mega free-trade agreements as well as national policy. This paper compares the Hoekman Indices of the ASEAN member states under the AFAS 9th package, China under the China (Shanghai) Pilot Free Trade Zone (PFTZ), and Pacific-rim countries under the Trans-Pacific Partnership (TPP). The analysis reveals that TPP is the highest-committed plurilateral trade agreement. As for policy implications, it is essential for the ASEAN member states (including Thailand) to promote further service liberalisation, as service liberalisation will contribute to their development. From a spatial economic perspective, the country should focus on attracting further inward investment with “Multiple equilibria”, i.e., with “China plus one” in view. Service liberalisation in various sectors such as wholesale and retail will achieve higher economic growth. In particular, services related to the manufacturing sector, such as logistics, finance, and professional services, should contribute to reducing barriers in the agricultural manufacturing sectors and achieve higher economic growth. In fact, China is active in service liberalisation through the China (Shanghai) Pilot Free Trade Zone and its expansion across the whole country. The comparison analysis in this paper reveals that ASEAN has been opening up its service sector; however, it needs further service liberalisation (when compared with TPP), which will achieve a positive economic impact in the region.

Keywords: Trade in services, ASEAN Framework Agreement on Services, China, TPP

JEL Classification: F14, F15, F21

*Professor, Faculty of Law, Politics & Economics, Chiba University. Research assistance by Richard Liang and Kenta Suzuki is cordially acknowledged.

1. Introduction

The services sector is indispensable to ASEAN's further economic development. Professional services (e.g., lawyers and architects) as well as more facility-oriented services including transportation and information technology services contribute to smoothing the agricultural and manufacturing activities. The impact of FTAs in ASEAN on trade in general should therefore be measured quantitatively to the greatest extent possible.

Table 1 shows the foreign value added share of gross exports to the world by country. The ASEAN countries including Cambodia, Malaysia, Thailand, and Vietnam have experienced larger roles of foreign value added as inputs for their exports. Importantly, this trend is backed by the trade in services, which is the focus of this paper.

This paper is structured as follows. The next section introduces the Hoekman Index method for measuring the degree of service trade liberalisation policy. Section 3, applies the indexation method and compares the ASEAN, China, and Trans-Pacific trade agreements incorporating liberalisation of the trade in services. Section 4, assesses the impact of service trade liberalisation on the macro economy. Section 5, concludes with some policy implications.

Table 1. Foreign value added share of gross global exports

2. Unit: Percent

| Country/Economy | 1995 | 2000 | 2005 | 2008 | 2009 | 2010 | 2011 |
|---|-------|-------|-------|-------|-------|-------|-------|
| <i>ASEAN countries</i> | | | | | | | |
| Brunei Darussalam | 7.28 | 5.37 | 4.65 | 3.77 | 5.26 | 4.52 | 4.27 |
| Cambodia | 12.73 | 36.99 | 42.21 | 42.02 | 35.03 | 37.38 | 36.82 |
| Indonesia | 12.57 | 17.37 | 16.56 | 14.62 | 11.08 | 11.08 | 11.97 |
| Malaysia | 30.5 | 47.73 | 45.95 | 41.23 | 40.04 | 41.73 | 40.62 |
| Philippines | 30.06 | 33.05 | 38 | 31.93 | 27.05 | 27.72 | 23.58 |
| Singapore | 42.38 | 45.33 | 39.79 | 37.47 | 41.85 | 41.32 | 41.81 |
| Thailand | 24.29 | 31.92 | 36.84 | 39.25 | 34.58 | 36.57 | 38.99 |
| Vietnam | 21.31 | 26.94 | 30.75 | 35.42 | 32.85 | 34.71 | 36.26 |
| ASEAN average | 22.64 | 30.59 | 31.84 | 30.71 | 28.47 | 29.38 | 29.29 |
| <i>Non-ASEAN economies in the Asia-Pacific region</i> | | | | | | | |
| Australia | 12.11 | 15.91 | 12.18 | 13.75 | 13.08 | 12.98 | 14.1 |
| Canada | 24.15 | 26.95 | 23.48 | 22.75 | 22.33 | 23.38 | 23.47 |
| Chile | 14.15 | 21.69 | 18.87 | 24.69 | 18.83 | 17.78 | 20.18 |
| China (People's Republic of) | 33.38 | 37.28 | 37.43 | 31.77 | 30.82 | 32 | 32.16 |
| "Hong Kong, China" | 21.69 | 15.66 | 17.58 | 21.98 | 19.2 | 20.14 | 20.41 |
| Chinese Taipei | 30.72 | 32.28 | 37.48 | 44.22 | 37.86 | 41.77 | 43.58 |
| India | 9.36 | 11.28 | 17.47 | 22.66 | 20.97 | 22.31 | 24.1 |
| Japan | 5.63 | 7.4 | 11.12 | 15.77 | 11.2 | 12.73 | 14.68 |
| Korea | 22.33 | 29.77 | 33.02 | 41.76 | 37.53 | 39.24 | 41.7 |
| Mexico | 27.34 | 34.39 | 33.03 | 32.75 | 33.55 | 34.47 | 31.71 |
| New Zealand | 16.85 | 22.22 | 15.61 | 18.67 | 15.21 | 16.07 | 16.66 |
| Russia | 13.26 | 18.31 | 12.78 | 13.89 | 12.7 | 13.1 | 13.72 |
| United States | 11.46 | 12.58 | 13.05 | 15.62 | 11.6 | 13.44 | 15.03 |
| Non-ASEAN average | 18.65 | 21.98 | 21.78 | 24.64 | 21.91 | 23.03 | 23.96 |

Source: OECD data on Trade in Value Added (<https://stats.oecd.org/>).

2. Overview of the Hoekman Index method

Measurement of the degree of service trade liberalisation, albeit important, naturally faces a methodological difficulty (hence the paucity of literature to empirically address indexation methods). While the subjective way of evaluating service trade restrictiveness facing the business sectors is a useful method in that it attempts to capture the actual trade barriers, it also seems to face some difficulty, especially in terms of constructing non-biased and comparable indices.

Hoekman (1995) proposes an objective indexation method for measuring the GATS-style degree of commitment by the service sector. This remains one of the few indexation methods that are objective. This method assigns values to each of 8 cells (4 modes and 2 aspects--market access (MA) or National Treatment (NT)--), as follows: N=1, L=0.5, U=0; it then calculates the average value by the service sector and by country. Using this database the “Hoekman Index” is calculated for each of the 155 sub-sectors. Then, the simple average at the level of the 55 sectors is calculated. Tables 2-11 show the result of the calculation for AFAS (ASEAN Framework Agreement on Services) and ASEAN+1 FTAs. Table 2, shows the Hoekman Index for AFAS (the 9th package signed in November 2015). It should be noted that Financial services and Mode 4 (supply of services through international movement of natural persons) are not covered.

While the results of Hoekman Index calculation can be obtained rather easily due to its simple method; mode-by-mode calculation is also possible. One thing to note is that the calculated Hoekman Index values measure the *bound* level of restrictiveness only, not the *actual* service sector restrictiveness. Also, the index does not take into

account the possibility that the incidence of “Unbound” can be due to mere technical infeasibility: for instance, a surgical operation as part of a medical service cannot be provided through Mode 1 (a cross-border transaction using an IT network for example) simply because of technical infeasibility. This being said, the result nevertheless indicates the degree of service trade liberalisation.

With these facts as a necessary background, this paper applies the Hoekman Index calculation method to compare the agreements involving ASEAN, China, and the Trans-Pacific Partnership (TPP) negotiating members.

3. Hoekman Index evaluation of trade agreements

3-1. ASEAN Framework Agreement on Services (AFAS)

Tables 2-11, show the average Hoekman Index value by mode for each of the ASEAN member states under AFAS (the 9th package signed in November 2015). As shown in these tables, the ASEAN members are actively engaged in step-by-step service trade liberalisation.

Table 2. Average Hoekman Index by mode for Brunei under AFAS (the 9th package)

| | Mode 1 | Mode 2 | Mode 3 |
|--|----------------|----------------|----------------|
| 1. Business services | 0.61 | 0.62 | 0.49 |
| 2. Communication services | 0.38 | 0.38 | 0.32 |
| 3. Construction and related engineering services | 0.00 | 0.60 | 0.15 |
| 4. Distribution services | 0.20 | 0.20 | 0.10 |
| 5. Educational services | 1.00 | 1.00 | 0.50 |
| 6. Environmental services | 0.50 | 0.50 | 0.38 |
| 7. Financial services | Not applicable | Not applicable | Not applicable |

| | | | |
|---|------|------|------|
| | | | |
| 8. Health related and social services | 0.00 | 0.00 | 0.00 |
| 9. Tourism and travel related services | 0.00 | 0.00 | 0.00 |
| 10. Recreational, cultural, and sporting services | 0.00 | 0.00 | 0.00 |
| 11. Transport services | 0.40 | 0.40 | 0.29 |
| Average | 0.31 | 0.37 | 0.22 |
| Mode 1-Mode 3 average | 0.30 | | |

Source: Calculation based on the AFAS (the 9th package) commitment table.

Table 3. Average Hoekman Index by mode for Cambodia under AFAS (the 9th package)

| Service sector | Mode 1 | Mode 2 | Mode 3 |
|--|----------------|----------------|----------------|
| 1. Business services | 0.30 | 0.30 | 0.30 |
| 2. Communication services | 0.37 | 0.37 | 0.35 |
| 3. Construction and related engineering services | 0.00 | 1.00 | 1.00 |
| 4. Distribution services | 0.80 | 0.80 | 0.80 |
| 5. Educational services | 0.60 | 0.60 | 0.60 |
| 6. Environmental services | 1.00 | 1.00 | 1.00 |
| 7. Financial services | Not applicable | Not applicable | Not applicable |
| 8. Health related and social services | 0.00 | 0.00 | 0.00 |
| 9. Tourism and travel related services | 0.50 | 0.50 | 0.44 |
| 10. Recreational, | 0.20 | 0.20 | 0.20 |

| | | | |
|--------------------------------|------|------|------|
| cultural and sporting services | | | |
| 11. Transport services | 0.52 | 0.52 | 0.52 |
| Average | 0.43 | 0.53 | 0.52 |
| Mode 1-Mode 3 average | 0.49 | | |

Source: Calculation based on the AFAS (the 9th package) commitment table.

Table 4. Average Hoekman Index by mode for Indonesia under AFAS (the 9th package)

| Service sector | Mode 1 | Mode 2 | Mode 3 |
|--|----------------|----------------|----------------|
| 1. Business services | 0.35 | 0.37 | 0.21 |
| 2. Communication services | 0.13 | 0.13 | 0.10 |
| 3. Construction and related engineering services | 0.00 | 0.80 | 0.40 |
| 4. Distribution services | 0.20 | 0.20 | 0.10 |
| 5. Educational services | 0.60 | 0.60 | 0.30 |
| 6. Environmental services | 0.50 | 0.50 | 0.25 |
| 7. Financial services | Not applicable | Not applicable | Not applicable |
| 8. Health related and social services | 0.00 | 0.00 | 0.00 |
| 9. Tourism and travel related services | 0.00 | 0.00 | 0.00 |
| 10. Recreational, cultural and sporting services | 0.00 | 0.00 | 0.00 |
| 11. Transport services | 0.26 | 0.29 | 0.14 |
| Average | 0.20 | 0.29 | 0.15 |
| Mode 1-Mode 3 | 0.21 | | |

| | |
|---------|--|
| average | |
|---------|--|

Source: Calculation based on the AFAS (the 9th package) commitment table.

Table 5. Average Hoekman Index by mode for the Lao PDR under AFAS (the 9th package)

| Service sector | Mode 1 | Mode 2 | Mode 3 |
|--|----------------|----------------|----------------|
| 1. Business services | 0.58 | 0.58 | 0.53 |
| 2. Communication services | 0.35 | 0.35 | 0.33 |
| 3. Construction and related engineering services | 0.50 | 0.50 | 0.50 |
| 4. Distribution services | 0.20 | 0.20 | 0.05 |
| 5. Educational services | 0.50 | 0.50 | 0.20 |
| 6. Environmental services | 0.50 | 0.50 | 0.50 |
| 7. Financial services | Not applicable | Not applicable | Not applicable |
| 8. Health related and social services | 0.00 | 0.00 | 0.00 |
| 9. Tourism and travel related services | 0.25 | 0.25 | 0.13 |
| 10. Recreational, cultural and sporting services | 0.00 | 0.00 | 0.00 |
| 11. Transport services | 0.29 | 0.29 | 0.21 |
| Average | 0.32 | 0.32 | 0.25 |
| Mode 1-Mode 3 average | 0.30 | | |

Source: Calculation based on the AFAS (the 9th package) commitment table.

Table 6. Average Hoekman Index by mode for Malaysia under AFAS (the 9th package)

| Service sector | Mode 1 | Mode 2 | Mode 3 |
|----------------|--------|--------|--------|
|----------------|--------|--------|--------|

| | | | |
|--|----------------|----------------|----------------|
| 1. Business services | 0.64 | 0.64 | 0.49 |
| 2. Communication services | 0.45 | 0.45 | 0.31 |
| 3. Construction and related engineering services | 0.00 | 0.80 | 0.60 |
| 4. Distribution services | 0.80 | 0.80 | 0.40 |
| 5. Educational services | 0.10 | 0.50 | 0.40 |
| 6. Environmental services | 0.50 | 0.50 | 0.38 |
| 7. Financial services | Not applicable | Not applicable | Not applicable |
| 8. Health related and social services | 0.00 | 0.00 | 0.00 |
| 9. Tourism and travel related services | 0.75 | 0.75 | 0.38 |
| 10. Recreational, cultural and sporting services | 0.00 | 0.20 | 0.15 |
| 11. Transport services | 0.15 | 0.17 | 0.12 |
| Average | 0.34 | 0.48 | 0.32 |
| Mode 1-Mode 3 average | 0.38 | | |

Source: Calculation based on the AFAS (the 9th package) commitment table.

Table 7. Average Hoekman Index by mode for Myanmar under AFAS (the 9th package)

| Service sector | Mode 1 | Mode 2 | Mode 3 |
|---------------------------|--------|--------|--------|
| 1. Business services | 0.40 | 0.41 | 0.24 |
| 2. Communication services | 0.70 | 0.70 | 0.46 |

| | | | |
|--|----------------|----------------|----------------|
| 3. Construction and related engineering services | 1.00 | 1.00 | 0.50 |
| 4. Distribution services | 0.40 | 0.40 | 0.20 |
| 5. Educational services | 1.00 | 1.00 | 1.00 |
| 6. Environmental services | 1.00 | 1.00 | 0.63 |
| 7. Financial services | Not applicable | Not applicable | Not applicable |
| 8. Health related and social services | 0.75 | 0.75 | 0.63 |
| 9. Tourism and travel related services | 0.50 | 0.50 | 0.44 |
| 10. Recreational, cultural and sporting services | 0.60 | 0.80 | 0.50 |
| 11. Transport services | 0.15 | 0.15 | 0.15 |
| Average | 0.65 | 0.67 | 0.48 |
| Mode 1-Mode 3 average | 0.60 | | |

Source: Calculation based on the AFAS (the 9th package) commitment table.

Table 8. Average Hoekman Index by mode for the Philippines under AFAS (9th package)

| Service sector | Mode 1 | Mode 2 | Mode 3 |
|--|--------|--------|--------|
| 1. Business services | 0.35 | 0.43 | 0.35 |
| 2. Communication services | 0.19 | 0.17 | 0.11 |
| 3. Construction and related engineering services | 0.00 | 1.00 | 0.50 |
| 4. Distribution services | 0.60 | 1.00 | 0.70 |

| | | | |
|--|----------------|----------------|----------------|
| 5. Educational services | 0.00 | 0.60 | 0.30 |
| 6. Environmental services | 0.50 | 1.00 | 0.75 |
| 7. Financial services | Not applicable | Not applicable | Not applicable |
| 8. Health related and social services | 0.00 | 0.75 | 0.56 |
| 9. Tourism and travel related services | 0.75 | 0.75 | 0.63 |
| 10. Recreational, cultural and sporting services | 0.40 | 0.60 | 0.45 |
| 11. Transport services | 0.06 | 0.43 | 0.34 |
| Average | 0.29 | 0.67 | 0.47 |
| Mode 1-Mode 3 average | 0.48 | | |

Source: Calculation based on the AFAS (the 9th package) commitment table.

Table 9. Average Hoekman Index by mode for Singapore under AFAS (the 9th package)

| Service sector | Mode 1 | Mode 2 | Mode 3 |
|--|--------|--------|--------|
| 1. Business services | 0.74 | 0.77 | 0.75 |
| 2. Communication services | 0.39 | 0.39 | 0.41 |
| 3. Construction and related engineering services | 1.00 | 1.00 | 1.00 |
| 4. Distribution services | 0.60 | 0.60 | 0.60 |
| 5. Educational services | 1.00 | 1.00 | 1.00 |
| 6. Environmental services | 0.00 | 0.25 | 0.25 |
| 7. Financial | Not | Not | Not |

| | | | |
|--|------------|------------|------------|
| services | applicable | applicable | applicable |
| 8. Health related and social services | 0.00 | 0.19 | 0.19 |
| 9. Tourism and travel related services | 1.00 | 1.00 | 1.00 |
| 10. Recreational, cultural and sporting services | 0.60 | 0.60 | 0.60 |
| 11. Transport services | 0.02 | 0.04 | 0.02 |
| Average | 0.54 | 0.58 | 0.58 |
| Mode 1-Mode 3 average | 0.57 | | |

Source: Calculation based on the AFAS (the 9th package) commitment table.

Table 10. Average Hoekman Index by mode for Thailand under AFAS (the 9th package)

| Service sector | Mode 1 | Mode 2 | Mode 3 |
|--|----------------|----------------|----------------|
| 1. Business services | 0.61 | 0.70 | 0.52 |
| 2. Communication services | 0.41 | 0.44 | 0.33 |
| 3. Construction and related engineering services | 0.00 | 1.00 | 0.75 |
| 4. Distribution services | 0.80 | 0.80 | 0.60 |
| 5. Educational services | 1.00 | 1.00 | 0.60 |
| 6. Environmental services | 0.00 | 0.75 | 0.56 |
| 7. Financial services | Not applicable | Not applicable | Not applicable |
| 8. Health related and social services | 1.00 | 1.00 | 0.69 |
| 9. Tourism and travel related services | 0.50 | 0.75 | 0.56 |

| | | | |
|--|------|------|------|
| | | | |
| 10. Recreational, cultural and sporting services | 0.40 | 1.00 | 0.75 |
| 11. Transport services | 0.24 | 0.34 | 0.24 |
| Average | 0.50 | 0.78 | 0.56 |
| Mode 1-Mode 3 average | 0.61 | | |

Source: Calculation based on the AFAS (the 9th package) commitment table.

Table 11. Average Hoekman Index by mode for Vietnam under AFAS (the 9th package)

| Service sector | Mode 1 | Mode 2 | Mode 3 |
|--|----------------|----------------|----------------|
| 1. Business services | 0.53 | 0.53 | 0.41 |
| 2. Communication services | 0.34 | 0.43 | 0.40 |
| 3. Construction and related engineering services | 0.00 | 1.00 | 0.50 |
| 4. Distribution services | 0.50 | 0.80 | 0.55 |
| 5. Educational services | 0.60 | 1.00 | 0.60 |
| 6. Environmental services | 0.63 | 1.00 | 0.81 |
| 7. Financial services | Not applicable | Not applicable | Not applicable |
| 8. Health related and social services | 0.75 | 0.75 | 0.50 |
| 9. Tourism and travel related services | 0.75 | 0.75 | 0.44 |
| 10. Recreational, cultural and sporting services | 0.00 | 0.40 | 0.30 |
| 11. Transport services | 0.24 | 0.26 | 0.19 |
| Average | 0.43 | 0.69 | 0.47 |

| | |
|--------------------------|------|
| Mode 1-Mode 3 average | 0.53 |
|--------------------------|------|

Source: Calculation based on the AFAS (9th package) commitment table.

3-2. Liberalisation of trade in services in China's Pilot Free Trade Zone (PFTZ)

This section calculates how much deregulation of trade in services is accomplished in China's Pilot Free Trade Zone (PFTZ) compared with other Free Trade Agreements by China and its trading partners. With the recent growth of the service economy, liberalisation of service trade is becoming one of the main policy issues in China. The China (Shanghai) Pilot Free Trade Zone (PFTZ) has been implemented by the government as a deregulation measure of trade. The PFTZ is different from other policy frameworks concerning the deregulation of trade, such as, special economic zones or industrial parks. "Pilot" means China is planning to introduce the system to other areas after the test. Thus, analysing the recent study of the PFTZ is an important policy issue for both Japan and China, as Japan is the country doing the investment and China is accepting it. Though the name of "trade" is included as the name of this area, the PFTZ is mainly promoting investment, such as establishing companies by drawing investment from national and foreign capital. Indeed, the range of deregulation in the PFTZ covers manufacturing and services; it is, however, mainly subject to services. Liberalisation of trade in the PFTZ is shown based on the original national standard of industrial classification. The bilateral investment treaty between China and the U.S is now subject to negotiation and the same original standard is used in the negotiation.

In the PFTZ, China opens the market for national and foreign investment for various industries, including agriculture and manufacturing, although mainly for services. In Shanghai, Tianjin, Guangdong, and Fujian, the same reservation list applies

to the standard for liberalisation. Specifically, prohibition and regulation are indicated in the reservation list. In the case of no indication, the items are regarded as liberalised because the list is negative. The three types are subject to China's policy making. The Catalogue of Industries for Guiding Foreign Investment is one of the legal standards of the negative list in the PFTZ. The PFTZ was issued as the "Special Management for the Entry of Foreign Investment in the PFTZ" (Negative list, revised in 2014) based on "The Framework Plan for the PFTZ", "Measures to spread the range of deregulation in the PFTZ" and the "Catalogue for the Guidance of Foreign Investment Industries", which were approved by the State Council of the People's Republic of China.

Liberalisation of service-related investment in the PFTZ translates into Mode 3 of the trade in services, i.e., the offer of service through establishment of commercial bases as far as the service trade is concerned. Therefore, the principal comparison of the PFTZ with free trade agreements in China are possible. This allows us to consider how much deregulation of the service trade is carried out in the PFTZ. Before making international comparisons, it is necessary to classify the service sectors as the WTO has defined. Then the Hoekman Index is calculated. This index calculates the average score of each sector by giving 1 point when the sector is completely free, 0.5 point when the sector has some regulation, and 0 point when the sector has no potential for deregulation (Hoekman, 1995). Although the way of calculating Hoekman Index is rather crude by nature, since the index is given with discrete numbers, it is expected that the law of large numbers in statistics works, that is to say, the more samples collected, the higher the degree of confidence that can be obtained when the degree of liberalisation is calculated on an aggregate level. In addition, collecting more samples reduces any mismatches, which inevitably happen when changing classifications to apply the

WTO's standard.

As a reference of comparison, three free trade agreements have been selected, i.e., the Closer Economic Partnership Agreement (CEPA) made between China and Hong Kong under the idea of one country and two systems, the ASEAN-China Free Trade Area (ACFTA), which was made between China and ASEAN in January 2010, and the Economic Cooperation Framework Agreement (ECFA), which was made between China and Taiwan in June 2010. These free trade agreements adopt positive lists. In other words, only liberalised sectors are included in the lists. On the other hand, the PFTZ adopts a negative list in which the reserved sectors are included.

The data in Table 12 shows the result of calculating the Hoekman Index. The Hoekman Index for the PFTZ shows the highest score overall, partly because the PFTZ adopts the negative list. Below are some observations by service sector.

Table 12. China's Hoekman Index under the PFTZ and other FTAs (Mode 3 only)

| Service sector | PFTZ | ACFTA (Package 2) with ASEAN | CEPA V with Hong Kong | ECFA with Chinese Taipei |
|--|------|---------------------------------------|--------------------------------|-----------------------------------|
| 1. Business services | 0.90 | 0.39 | 0.13 | 0.04 |
| 2. Communication services | 0.64 | 0.34 | 0.35 | 0.00 |
| 3. Construction and related engineering services | 1.00 | 0.75 | 0.50 | 0.00 |
| 4. Distribution services | 0.78 | 0.65 | 0.40 | 0.00 |
| 5. Educational services | 0.33 | 0.25 | 0.00 | 0.00 |
| 6. Environmental services | 0.63 | 0.75 | 0.00 | 0.00 |
| 7. Financial services | 0.48 | 0.41 | 0.29 | 0.29 |
| 8. Health related and social services | 0.38 | 0.00 | 0.00 | 0.13 |
| 9. Tourism and travel related services | 0.71 | 0.38 | 0.25 | 0.00 |
| 10. Recreational, cultural, and sporting | 0.64 | 0.35 | 0.00 | 0.00 |

| | | | | |
|------------------------|------|------|------|------|
| services | | | | |
| 11. Transport services | 0.76 | 0.24 | 0.21 | 0.00 |
| Average | 0.66 | 0.41 | 0.19 | 0.04 |

Source: Author's calculations are based on the agreement texts for service liberalisation.

01. Business Services

The Hoekman Index is 0.90, which is the second highest score among the 11 sectors. As the business services are closely related to how highly the industries have developed, many regulations have been removed.¹

02. Communication Services

The Hoekman Index is 0.64, which is the sixth highest score among these sectors.

03. Construction and Related Engineering Services

The Hoekman Index is 1.0, which is the highest score. This result indicates that there is no regulation in this sector. Deregulation in construction services is an important base for physical infrastructure, hence the high degree of liberalisation.

04. Distribution Services

The Hoekman Index is 0.78, which is the third highest score. Distribution services form logistical networks. Removing regulations in this sector results in generating a large amount of positive effects for other industries.

05. Education Services

The Hoekman Index is 0.33, which is the lowest score. Education services are domestic demand-based sectors and deeply related to domestic politics. Therefore, the departments are not widely open.

06. Environmental Services

The Hoekman Index is 0.63, which is the eighth highest score. The fact that environmental issues have been much talked about in China due to its economic growth, makes it important to remove regulations to some extent in order to make use of new environmental services, though such services are a domestic demand-based sector.

¹ As for legal services, for instance, both partnership agreements and the company method are admitted in China and the former is the ordinary one.

07. Financial Services

The Hoekman Index is 0.48, which is rather low. Financial services are not only parts of services, but also the main sector managing China's macro economy. Thus, the sector is not widely open.

08. Health related and Social Services

The Hoekman Index is 0.38, which is rather low. Health services are a domestic demand-based sector that does not require large-scale infrastructure. For the factor of domestic employment, it may be inappropriate to remove the regulations.

09. Tourism and Travel Related Services

The Hoekman Index is 0.71, which is the fifth highest score. Tourism services make use of local human resources. They also affect the movement of people from overseas countries. For these reasons it seems the sector is open to some extent.

10. Entertainment, Culture, and Sports Services

The Hoekman Index is 0.64 which is the seventh highest score. These sectors tend to make good use of locally available human resources. Therefore, they are not widely open.

11. Transport Services

The Hoekman Index is 0.76, which is the fourth highest score. Transport services are important network industries that ensure connectivity. Hence, they are widely open.

Thus, each sector shows a rather higher score for the degree of liberalisation. However, even though the open-door policy for investment is a highly-liberalised system and legally provided, when companies decide to invest, transparency and clearness are needed. Thus, how to comply with these two standards is an important policy issue. From an economic point of view, it is better to apply a transparent measure to reduce transaction costs caused by a complicated legal system.

In the General Agreement on Trade in Services (GATS), implemented by the WTO, the degree of service trade liberalisation is low. Therefore, the PFTZ as the original domestic policy China implemented has an international meaning. Take one for example. The Trans-Pacific Strategic Economic Partnership Agreement (TPP) has spread and advanced around the Pacific Rim, although China has not joined in its

negotiation. In such a situation, the government recognises that it is important to carry out the original format of liberalisation of the service trade for the purpose of advancing domestic industrial accumulation. With the PFTZ, China can expect that the number of companies coming from overseas to Shanghai and the other areas will increase. The PFTZ is also effective as an alternative measure to join other Free Trade Agreements covering wide areas.

However, the current classification standard does not necessarily correspond with the classification of services defined by the WTO which can be compared internationally.² The demand to adopt this classification standard has not appeared in the conference on the bilateral investment treaty which China and the U.S are currently negotiating. Nevertheless, the classification standard should be adjusted to CPC as defined by the WTO. Enhancing transparency is a future important issue to implement the policy of liberalisation of the service trade in the PFTZ. In particular, it is necessary not only to ask for a report after the establishment of commercial bases, but also to carry out a positive provision of information about the investment environment.

The content of deregulation in the PFTZ applies to the liberalisation of investment, Mode 3 (provision of services by establishing commercial bases) in the Free Trade Agreement. Thus, from now on, comparing the content with other Free Trade Agreements results in creating strong relationships between China and the other countries or regions covered by such Free Trade Agreements. It is also expected that the Chinese economy will develop stronger relationships with other areas. Harmonising the degree of liberalisation under the PFTZ and other ASEAN+1 type Free Trade Agreements which China has negotiated with ASEAN would result in decreasing unnecessary trade-related transactions costs. There are some Free Trade Agreements covering wide areas in east Asia that enhance the linkage among manufacturing and services inside these areas. It is important for China to implement an internationally cooperative trade policy concerning the PFTZ, which is to be further liberalised in a step-wise manner.

3-3. Liberalisation of trade in services under the Trans-Pacific Partnership (TPP)

The Trans-Pacific Partnership (TPP) stipulates liberalisation of the services trade. Although the US (under the Trump administration) has expressed its intention to withdraw from the forum, there is still hope that this much-negotiated framework can be

² The document on the classification of services defined by the WTO is MTN.GNS/W/120 (available by Internet search).

applied in a modified manner. In contrast with the GATS-style commitment, TPP applies the negative list approach. Although it is difficult to read from the text “How much is newly liberalised”, it still merits the Hoekman Index calculation for comparison. Table 13, shows the Hoekman Index calculation results for Brunei, Malaysia, Singapore, Vietnam, the US, and Japan under the Trans-Pacific Partnership (TPP). As shown, the index values are rather high under TPP, reflecting its ambitious negative-listing format.

Table 13. Hoekman Index for the ASEAN member states, the US, and Japan under TPP (Mode 3 only)

| Sector | Brunei | Malaysia | Singapore | Vietnam | US | Japan |
|---|--------|----------|-----------|---------|------|-------|
| 1. Business services | 0.73 | 0.83 | 0.82 | 0.58 | 0.73 | 0.91 |
| 2. Communication services | 0.52 | 0.50 | 0.65 | 0.52 | 0.58 | 0.77 |
| 3. Construction and related engineering services | 0.50 | 0.50 | 1.00 | 1.00 | 1.00 | 1.00 |
| 4. Distribution services | 1.00 | 0.10 | 0.70 | 0.50 | 0.70 | 1.00 |
| 5. Educational services | 0.50 | 0.00 | 0.30 | 0.50 | 0.20 | 0.90 |
| 6. Environmental services | 0.50 | 0.00 | 0.50 | 0.75 | 1.00 | 1.00 |
| 7. Financial services | 0.00 | 0.00 | 0.47 | 0.47 | 0.47 | 0.97 |
| 8. Health related and social services | 0.50 | 0.00 | 0.00 | 0.00 | 0.00 | 0.75 |
| 9. Tourism and travel related services | 0.63 | 0.75 | 0.38 | 0.50 | 0.38 | 1.00 |
| 10. Recreational, cultural, and sporting services | 0.80 | 0.40 | 0.80 | 0.30 | 0.80 | 1.00 |
| 11. Transport services | 0.63 | 0.47 | 0.53 | 0.40 | 0.40 | 0.82 |
| Average | 0.57 | 0.32 | 0.56 | 0.50 | 0.57 | 0.92 |

Source: Calculated from the negative list table by the countries listed in the TPP.

4. Assessment on the impact of service trade liberalisation on the macro economy

As for policy implications, it is essential for the ASEAN member states (including Thailand) to promote further service liberalisation, since service liberalisation will contribute to development. From a spatial economic perspective, the country should focus on attracting further inward investment with “multiple equilibria”, i.e., the “China plus one” in perspective.

Another important point is that service firms in general provide an important “support function” for other business sectors. A narrowly defined “benefit”, most notably the surplus/deficit of the service trade account, might not be the top priority,

since even a service trade-deficit could usher in manufacturing investment, thereby more than offsetting the negative figure in the service trade account. Policymakers in the ASEAN countries should clearly bear this in mind in policy formulation of service trade liberalisation for ASEAN-related FTAs.

The last point concerns the impact of service trade liberalisation on the macro economy.

Table 14, provides the estimate of tariff equivalents for five service sectors in six ASEAN countries. These rates are used in the model discussed below. Protection is estimated to be nil for electricity, gas, and water, and higher in other private services (including financial services) for all countries except Singapore, and high in trade and transport in the Philippines and Thailand. Thus, liberalisation of the trade in services in the AEC is expected to have a significant effect on the services trade and on other linkages that depend on service inputs.

Table 14. Tariff Equivalent of Service Sector Restrictiveness (percent)

| | Indonesia | Malaysia | Philippines | Singapore | Thailand | Vietnam |
|------------------------|-----------|----------|-------------|-----------|----------|---------|
| Construction | 6.0 | 4.0 | 15.0 | - | 13.5 | 6.0 |
| Trade and Transport | 12.0 | 4.5 | 17.0 | 2.5 | 17.0 | 7.5 |
| Other Private Services | 21.5 | 3.5 | 17.5 | 3.0 | 17.0 | 9.5 |
| Government Services | 10.5 | 5.5 | 10.5 | 5.5 | 13.0 | 10.5 |

Source: Petri, Plummer and Zhai (2010), Table 6.

Table 15, shows the result of the CGE-based simulation analysis by Petri, Plummer and Zhai (2010). Overall, ASEAN-centred FTAs are expected to significantly benefit ASEAN on the whole, with the scenario of AEC++ achieving the best outcome. As is also shown, all the ASEAN members stand to benefit from the ASEAN-centred FTAs under proposal. On the other hand, ASEAN's partners (except Japan) might lose their benefits, depending on the scenario.

Table 15. Welfare Gains (as % of GDP) Relative to the 2015 Baseline Year

| | AFTA | AFTA+ | AEC | AEC+ | AEC++ |
|-----------------|-------------|--------------|------------|-------------|--------------|
| ASEAN | 0.8 | 2.9 | 5.3 | 8.9 | 11.6 |
| Brunei | 2.6 | 5.4 | 7.0 | 9.3 | 10.6 |
| Cambodia | 2.7 | 5.4 | 6.3 | 7.2 | 12.3 |
| Indonesia | 0.2 | 1.4 | 6.2 | 8.2 | 9.7 |
| Laos | 0.6 | 2.5 | 3.6 | 3.8 | 4.6 |
| Myanmar | 0.3 | 1.2 | 4.4 | 4.8 | 9.3 |
| Malaysia | 1.4 | 1.5 | 3.0 | 11.2 | 14.7 |
| Philippines | 0.6 | 1.6 | 3.2 | 3.2 | 4.3 |
| Singapore | 1.6 | 9.0 | 9.7 | 11.6 | 12.2 |
| Thailand | 0.6 | 3.9 | 4.9 | 7.8 | 10.4 |
| Vietnam | 1.1 | 1.8 | 2.8 | 16.0 | 39.8 |
| Partners | - | - | - | - | - |
| China | 0.0 | -0.1 | -0.2 | -0.1 | -0.3 |
| Japan | 0.0 | 0.0 | 0.0 | 0.2 | 0.1 |
| Korea | 0.0 | -0.1 | -0.3 | 1.1 | 0.9 |
| India | 0.1 | 0.0 | -0.1 | 1.7 | 1.6 |
| Australia | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| New Zealand | 0.0 | -0.1 | -0.1 | 0.0 | -0.1 |
| USA | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Europe | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| World | 0.0 | 0.0 | 0.1 | 0.3 | 0.3 |

Source: Petri, Plummer and Zhai (2010), Table 9 (modified).

Kawasaki (2011) makes a similar CGE-based analysis, and Table 16, shows the impact of some regional trade liberalisation (FTAs) covered in the work. As mentioned in the work these results are based solely on the impact of tariff elimination, and “other factors, i.e., the impact of non-tariff barriers in the areas of service trade and investments and non-economic effects, such as strengthening of the diplomatic ties with partner countries, and so forth, are not covered”. In the absence of reliable measures on non-tariff barriers, CGE models tend to omit the impact arising from service trade liberalisation, thus posing a significant limitation. The work by Petri, Plummer and Zhai (2010) referred to above, therefore seems to be an important step forward, yet the methodology for calculating the tariff equivalent data (shown in Table 14) remains

rather implicit.

However, there is evidence that the FTAs in ASEAN promote trade in services, as the computable general equilibrium (CGE) analyses suggest. The tariff equivalents in the service sector restrictiveness range from single digit to some 20% according to some work (e.g., Petri, Plummer and Zhai, 2010, as above). The growth of the service trade volume is implicit in the CGE's modeling, hence a need for more elaborate, preferably survey-based analyses incorporating liberalisation of the trade in services.

Table 16. Impact of regional trade liberalisation on real GDP (percent)

| | World | FTAAP | ASEAN+6 | ASEAN+3 | China-Japan-Korea | TPP |
|------------------|-------|-------|---------|---------|-------------------|-------|
| Indonesia | 4.71 | 3.64 | 3.69 | 3.00 | -0.32 | -0.36 |
| Malaysia | 12.34 | 9.43 | 8.27 | 7.53 | -0.52 | 4.57 |
| Philippines | 6.00 | 6.07 | 4.60 | 4.42 | -0.75 | -0.39 |
| Singapore | 3.53 | 2.42 | 3.15 | 2.71 | -0.42 | 0.97 |
| Thailand | 26.35 | 20.24 | 17.03 | 16.31 | -1.19 | -0.89 |
| Vietnam | 37.50 | 34.75 | 23.42 | 23.13 | -0.50 | 12.81 |
| CLM | 12.95 | -1.78 | 9.21 | 9.04 | -0.23 | -0.35 |
| China | 7.35 | 5.83 | 3.43 | 3.16 | 2.27 | -0.30 |
| Hong Kong, China | 3.19 | 2.65 | -0.24 | -0.10 | -0.30 | -0.33 |
| Japan | 1.25 | 1.36 | 1.10 | 1.04 | 0.74 | 0.54 |
| Taiwan | 7.51 | 6.44 | -1.88 | -1.73 | -1.18 | -0.33 |
| Korea | 8.68 | 7.10 | 6.34 | 5.94 | 4.53 | -0.33 |
| India | 8.39 | -0.91 | 2.99 | -0.29 | -0.16 | -0.22 |
| Australia | 2.46 | 2.08 | 2.44 | -0.04 | -0.11 | 1.16 |
| New Zealand | 4.86 | 3.80 | 2.29 | -0.19 | -0.24 | 2.15 |
| US | 0.35 | 0.26 | -0.07 | -0.03 | -0.05 | 0.09 |
| Canada | 0.71 | 0.71 | -0.02 | 0.03 | -0.02 | -0.24 |
| Mexico | 4.46 | 3.03 | -0.10 | -0.07 | -0.08 | -0.42 |
| Chile | 1.57 | 1.35 | -0.13 | -0.02 | -0.13 | 0.40 |
| Peru | 1.88 | 0.94 | -0.06 | -0.02 | -0.04 | 0.64 |
| Russia | 5.45 | 1.50 | -0.05 | 0.06 | -0.08 | -0.17 |
| EU | 0.87 | -0.31 | -0.12 | -0.05 | -0.09 | -0.14 |
| Switzerland | 2.30 | -0.10 | -0.09 | 0.01 | -0.04 | -0.08 |

Notes: CLM means Cambodia, Laos, and Myanmar (treated as a combined region); FTAAP means the proposed Free Trade Area of the Asia-Pacific (among all the 21 APEC member economies); TPP stands for the Trans-Pacific Partnership under

negotiation by the following countries: Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, the United States, and Vietnam (Japan is a likely future member included in the analysis; Canada and Mexico, although having joined the TPP in October 2012, are not included in this analysis, which was prepared before their participation).

Source: Kawasaki (2011).

5. Policy implications for service trade liberalisation

Service liberalisation in various sectors, such as wholesale and retail, brings higher economic growth. In particular, services related to the manufacturing sector, such as logistics, financial, and professional services, should contribute to reducing barriers in the agricultural manufacturing sector and achieve higher economic growth. In fact, China is active in service liberalisation through the China (Shanghai) Pilot Free Trade Zone and its expansion across the whole country. The comparison analysis in this paper reveals that ASEAN has been opening up its service sector; however, it needs further service liberalisation (when compared with TPP), which will achieve a more positive economic impact in the region.

References:

- Adlung, Rudolf and Martin Roy (2005), "Turning Hills into Mountains? Current Commitments under the General Agreement on Trade in Services and Prospects for Change", *Journal of World Trade*, 39(6).
- Chang Jae Lee and Misa Okabe (eds.) (2011), "Comprehensive Mapping of FTAs in ASEAN and East Asia", ERIA Research Project Report 2010-26 (http://www.eria.org/publications/research_project_reports/comprehensive-mapping-of-ftas-in-asean-and-east-asia-1.html).
- Dee, Philippa (2011), "Services Liberalisation Towards the ASEAN Economic Community", in Urata, S. and M. Okabe (eds.), *Toward a Competitive ASEAN Single Market: Sectoral Analysis*. ERIA Research Project Report 2010-03, pp.17-136. Jakarta: ERIA (downloadable at http://www.eria.org/publications/research_project_reports/-towards-a-competitive-asean-single-market-sectoral-analysis.html).
- Dunning, John H. (1992), *Multinational Enterprises and the Global Economy*, Wokingham, England: Addison-Wesley Publishing.
- Fink, Carsten and Martin Molinuevo (2008), "East Asian Preferential Trade Agreements in Services: Liberalisation Content and the WTO Rules", *World Trade Review*,

- 7:4, pp.641-673.
- Fujita, Masahisa, Paul Krugman and Anthony Venables (1999), *The Spatial Economy: Cities, Regions, and International Trade*, Cambridge, Massachusetts: The MIT Press.
- Gootiiz, Batshur and Aaditya Mattoo, “Services in Doha: What’s on the table?” Policy Research Working Paper, WPS4903, 2009
(<ftp://ftp.worldbank.org/pub/repec/SSRN/staging/4903.pdf>)
- Hoekman, Bernard, “Assessing the General Agreement on Trade in Services” World Bank Discussion Paper No.307, World Bank, Washington DC, 1995
- Hoekman, Bernard (1995), “Assessing the General Agreement on Trade in Services”, World Bank Discussion Paper No.307, World Bank, Washington DC.
- Hoekman, Bernard, Will Martin and Aaditya Mattoo (2009), “Conclude Doha: It Matters!”, World Bank Policy Research Working Paper 5135, World Bank, Washington DC.
- Ishido, Hikari (2011), “Liberalisation of Trade in Services under ASEAN+n: A Mapping Exercise”, ERIA Discussion Paper 2011-02 (http://www.eria.org/publications/discussion_papers/liberalization-of-trade-in-services-under-asean-a-mapping-exercise.html).
- Ishido, Hikari and Yoshifumi Fukunaga (2012), “Liberalisation of Trade in Services: Toward a Harmonised ASEAN++ FTA”, ERIA Policy Brief 2012-02 (http://www.eria.org/publications/policy_briefs/liberalization-of-trade-in-services-toward-a-harmonized-asean-fta.html).
- Isono, Ikumo and Hikari Ishido (2015), “Service liberalisation in the Lao PDR”, IDE Discussion Paper No. 559, Institute of Developing Economies.
- Joung Jin, Hyun, Won W. Koo and Bongsik Sul (2006), “The Effects of the Free Trade Agreement among China, Japan and South Korea”, *Journal of Economic Development*, 55, Volume 31, Number 2, December 2006.
- Kawasaki, Kenichi (2011), "Determining Priority Among EPAs: Which trading partner has the greatest economic impact?", Column: 218 (online), Research Institute of Economy, Trade and Industry (http://www.rieti.go.jp/en/columns/a01_0318.html).
- Melitz, Marc (2003), “The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity”, *Econometrica*, Vol. 71, No. 6, 1695-1725.
- Ochiai, Ryo, Philippa Dee and Christopher Findlay (2007), “Services in Free Trade Agreements” RIETI Discussion Paper Series 07-E -015. <http://www.rieti.go.jp/jp/publications/dp/07e015.pdf> (accessed 23 March 2011). (Also published as Ryo Ochiai, Philippa Dee and Christopher Findlay (2010) “Services in Free Trade Agreements” Christopher Findlay and Shujiro Urata eds. *Free Trade Agreements in the Asia Pacific*, World Scientific, Singapore.)
- OECD (2003), “Quantifying the Benefits of Liberalising Trade in Services”. [http://books.google.co.jp/books?id=eMP_d_upbYC&pg=PA150&lpg=PA150&dq=Hoekman+Commitment+Index+\(1995\)&source=bl&ots=M0hjel7bXy&sig=_ic1rpqQ3aAb5xzbr2GhCaoGvXo&hl=ja&ei=o6-JS7-WLM-LkAX19-2TDw&s_a=X&oi=book_result&ct=result&resnum=10&ved=0CEkQ6AEwCQ#v=onepag](http://books.google.co.jp/books?id=eMP_d_upbYC&pg=PA150&lpg=PA150&dq=Hoekman+Commitment+Index+(1995)&source=bl&ots=M0hjel7bXy&sig=_ic1rpqQ3aAb5xzbr2GhCaoGvXo&hl=ja&ei=o6-JS7-WLM-LkAX19-2TDw&s_a=X&oi=book_result&ct=result&resnum=10&ved=0CEkQ6AEwCQ#v=onepag)

- e&q=Hoekman%20Commitment%20Index%20(1995)&f=false (accessed 14 January 2011).
- OECD (2009), “Testing the Services Trade Restrictiveness Index: Gravity Regressions and Trade Cost Analysis”, a paper presented at the OECD Experts Meeting on the Services Trade Restrictiveness Index (STRI), Paris, 2-3 July, 2009. http://www.oecd.org/document/9/0,3343,en_2649_36344374_41524105_1_1_1_37431,00.html, (accessed 14 January 2011).
- Petri, Peter A., Michael G. Plummer and Fan Zhai (2010), “The Economics of the ASEAN Economic Community”, an online discussion paper (http://www.brandeis.edu/departments/economics/RePEc/brd/doc/Brandeis_WP13.pdf#search=%27Peter+Petri+GTAP%27), 15 September 2010.
- World Trade Organisation (2005), *Methodology to Assess the Schedule of Commitments under the GATS*, TN/S/W/51.