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From ASEAN to AFTA

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1. Introduction

During many years, the many initiatives of developing countries to establish regional economic integration have been examples of how this should not be done. Often, these initiatives were taken by heads of government, or stimulated by international organisations, without any involvement of the private sector. Things seem to be different as far as the Association of South East Asian Nations (ASEAN) is concerned.

The Fourth ASEAN Summit of Heads of Government that was held in Singapore on the 27th and 28th of January 1992, is a milestone in the history of the ASEAN. It was decided at this summit to reform the institutional framework of ASEAN, and to create the ASEAN Free Trade Area, in short AFTA, by 2008. The institutional reforms entailed: (1) the creation of a formal governing body, the "ASEAN Heads of Government" that would be convened every three years, (2) a transformation of the ASEAN Secretariat and the extension of its competence, and (3) the dissolution of the former "ASEAN Economic Committees" and the delegation of all matters related to economic cooperation within ASEAN to a "Senior Economic Officials Meeting" (SEOM).

2. ASEAN: a brief account ultimo 1992

The *Association of South East Asian Nations* which was established in 1967, consists of Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand and since June 1995 Vietnam. According to the Bangkok Declaration of 8 August 1967, the aims of the Association are:

1. To accelerate the economic growth, social progress and cultural development in the region through joint endeavours in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community of South-East Asian Nations;
2. To promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries of the region and adherence to the principles of the United Nations Charter;
3. To promote active collaboration and mutual assistance on matters of common interest in the economic, social, cultural, technical, scientific and administrative fields;
4. To provide assistance to each other in the form of training and research facilities in the educational, professional, technical and administrative spheres;
5. To collaborate more effectively for the greater utilization of their agriculture and industries, the expansion of their trade, including the study of the problems of international commodity trade, the improvement of their transportation and communication facilities and the raising of the living standards of their peoples;
6. To promote South-East Asian studies;
7. To maintain close and beneficial cooperation with existing international and regional organizations with similar aims and purposes, and explore all avenues for even closer cooperation among themselves."

Although economic cooperation between the countries of South-East Asia is listed explicitly¹, ASEAN is not showing after 25 years an impressive record of economic achievements. ASEAN's success, however, has to be found primarily in the area of international politics. Thanks to ASEAN, for instance, the member countries could take a common political stance regarding Cambodia. Cooperation between ASEAN-countries in the field of international politics has been concentrating on specific concrete problems, that were carefully approached, and discussions about which were prepared by government officials in special committees. Its procedures might look tedious and inefficient, but not in the long run. Only this cautious approach could lead to the mutual trust between the member countries, which today is coming to fruition (also in the international arena) (see Pelkmans, 1992a).

Economic cooperation between the ASEAN-countries was neglected until 1976, the First ASEAN Summit of Heads of Government. But even after 1976, doubts remained with the policy makers in the ASEAN countries about the benefits of cooperation. These doubts were justified. By and large, the ASEAN countries were hardly, if at all, complementary economies, and followed widely differing development strategies, from free trade in Singapore, to export promotion in Thailand and Malaysia, to import substitution in Indonesia and the Philippines. We have to wait until the liberalisation policies in Indonesia, Malaysia, the Philippines and Thailand in the second half of the 1980s, to find the economic policy priorities between the ASEAN-countries as sufficiently converged, to allow for the next steps in economic cooperation (Akrasanee & Stifel, 1992: 29-37; Naya & Imada, 1992: 55-58).

Among the ASEAN initiatives taken in the second half of the 1970s and destined at stimulating intra-ASEAN economic relations, a distinction should be made between stimuli of intra-ASEAN trade and stimuli of industrial cooperation. These measures had only a very limited success, mainly because they were mere inventions of government officials, giving rise to bureaucratic fuss and bother, and hardly supported by the private sector in the ASEAN countries.

In order to promote intra-ASEAN trade, the *Agreement on ASEAN Preferential Trading Arrangements (PTA)* was signed in 1977, creating a framework for trade promotion between the ASEAN countries through preferential tariffs, export credit support using preferential interest rates, long term quantity contracts, etc. The ASEAN PTA had only a limited impact, because:

- the product groups that get a preferential treatment in an ASEAN country, often are of little importance as imports,
- ASEAN countries could easily exclude product groups from the PTA, leading to long exclusion lists,
- preference margins (tariff reductions of 20-25 %) are too low (the more so if the low price elasticity of demand for PTA goods is taken into account).

Therefore, it was decided at the Third ASEAN Summit of Heads of Government in December 1987 to increase the preference margins (to 50 %), to reduce the "ASEAN content requirement" from 50 % to 35 %, and to negotiate about the reduction of non-tariff measures between ASEAN countries.

¹Apparently, the Bangkok Declaration is not mentioning economic integration as a goal, at a time when this was very fashionable in Latin America, as evidenced e.g., by the agreements on the Central-American Common Market of 1961, the Latin American Free Trade Agreement of 1960 and the Andean Pact of 1969.

In order to boost industrial cooperation between the ASEAN countries, three agreements were concluded:

- the *Basic Agreement on ASEAN Industrial Projects (AIP)* of 1980,
- the *Basic Agreement on ASEAN Industrial Complementation (AIC)* of 1981,
- the *Basic Agreement on ASEAN Industrial Joint Ventures (AIJV)* of 1983.

AIP's are large scale industrial projects (300-400 million US\$) aiming at meeting a specific regional demand. Under the AIP Agreement, two ureum factories were established (in Malaysia and Indonesia, respectively) that are exporting their output to other ASEAN countries under the PTA, as well as to non-ASEAN countries. The large scale of the projects and the important role of the government in the coming into being of these AIP's explains to a large extent the lack of success.

The intention of AIC's was the development of complementary industrial activities between the ASEAN countries. The AIC partners are companies that are established in at least two ASEAN countries. The semi-processed products of these companies are handled under the PTA between the AIC partners for further processing. Here, as in the case of AIP's, the lack of flexibility of the governments in the ASEAN countries, has been responsible for its lack of success. Originally hardly one AIC (auto parts) was approved. From 1988, and thanks to additional efforts, 5 AIC projects have been approved in automobile assembly by Mitsubishi Motor Corporation (UNCTAD, 1991: 10). In 1992, Toyota Motor Corporation planned the production of parts in Indonesia, Malaysia, the Philippines and Thailand under the ASEAN Complementary Auto Parts Scheme (Lloyd, 1992).

AIJV's are joint ventures between industrial companies in ASEAN countries. The AIJV Scheme was provided because of the lack of success of the AIC Scheme, and explicitly aimed at involving and integrating the private sector in the ASEAN countries. In order to facilitate the transfer of technology from industrial countries, AIJV participation by non-ASEAN partners (up to 49 %) is allowed. At the Third ASEAN Summit of Heads of Government in December 1987, the AIJV Scheme was adapted as follows:

- the provision of a prior AIJV approval list, aiming at the facilitation of new applications and their approval,
- the rise in the participation limit for non-ASEAN AIJV partners from 49 % to 60 % (for AIJV's that are approved before the end of 1990),
- the establishment of a minimum participation per ASEAN AIJV partner of 5 %.

At the 26th Meeting of the ASEAN Economic Ministers in Chiang Mai, September 1994, the Ministers extended the application deadline for allowing 60 % foreign equity from the end of 1990 until the end of 1996. In addition, the Rules of Origin of the AIJV were amended, lowering the local content requirement from 50 % to 40 % (as in the CEPT, see below) (ASEAN Economic Ministers, 1994).

The ASEAN Industrial Joint Venture Scheme has lead to a few projects with interests of multinational companies.

3. AFTA

Starting in the second half of the 1980s, drastic changes occurred in the ASEAN countries, which have finally led to radical reductions of trade restrictions. Due to the increasing pace of industrialisation in the ASEAN countries, the share of manufactured exports was rising perceptibly. An increase in intra-industry trade was also experienced. Moreover, under internal and external pressure (from the World Bank and the IMF), countries like Indonesia, belonging to the advocates of the import substitution development strategy, have switched to trade liberalisation (Naya & Imada, 1992: 56).

From the start of the 1990s, the ASEAN countries have armed themselves against a number of changes in the international environment, that were perceived as a threat. Among these changes we mention the decline in foreign investment in the ASEAN countries (due to foreign investment diversion to China and some other Asian countries), and regional integration in Europe (the European Single Market, the European Economic Area, the EU association agreements with Central and Eastern Europe) and North-America (the US-Canada free trade agreement, NAFTA), of which the trade and investment diversion effects are feared (Naya & Imada, 1992: 56).

With the aim of the liberalisation of intra-ASEAN trade, but according to key witnesses even more to stimulate investment in the region, the AFTA agreement was concluded in January 1992 (see ISEAS, 1992). This agreement provides for a carefully staged trade liberalisation, with a reduction of import duties on intra-ASEAN imports to 0-5 % during a period of 15 years (starting 1 January 1993). Therefore, the ASEAN Free Trade Area will be established by 2008. At the September 1994 meeting of the ASEAN Economic Ministers (AEM), it was decided to bring this period to 10 years, instead of 15 years, and to liberalise also intra-ASEAN trade in agricultural products (Thailand Times, 1994).² At the ASEAN Senior Economic Officials meeting in Brunei early September 1995, no agreement was reached to cut this timeframe further to the year 2000.

The main instrument to arrive at AFTA is the *Common Effective Preferential Tariff (CEPT)*. Until the September 1994 AEM meeting, the CEPT agreement (see ASEAN Secretariat, 1993: 29-39) was relevant for manufactured and semi-manufactured products, including capital goods and processed agricultural products, not for raw agricultural products. Products taken under the *Accelerated Tariff Reduction Programme (ATR)* (also called the "fast-track" system) are from 15 product groups of the Harmonised System (HS) at the 6 digit level. The import tariff on these ATR products in intra-ASEAN trade has to be reduced to max. 5 % during a period of 7 to 10 years (CEPT, art.4.1); The CEPT, therefore, will replace the ASEAN PTA. Malaysia and Singapore are applying the ATR starting in 1993, Brunei Darussalam in 1994, Indonesia and Thailand in 1995 and the Philippines in 1996.

Separately, a "normal track scheme" was designed to bring the other product groups under the CEPT. Tariff rates for these products of more than 20 % have to be reduced to 20 % during a period of 8 years and subsequently reduced with 5 % every two years, to reach according to the original time-

² Vietnam which acceded to ASEAN in July 1995, is allowed to complete its trade liberalisation programme under AFTA by January 1, 2006 (ASEAN Secretariat, 1995).

frame of 15 years, to max. 5 % by 2008. According to the same original timeframe, tariffs of 20 % or less have to be brought to max. 5 % in 10 years (CEPT, art. 4.1).

Malaysia and Singapore started these “normal track” tariff reductions in 1993. Brunei started reducing its tariffs of more than 20 % in 1994, the Philippines in 1996, and Indonesia and Thailand in 1998. Tariffs of 20 % or less are reduced in Brunei, Indonesia and the Philippines in 1996, and in Thailand in 1999.

The original schemes were revised as follows at the 26th Meeting of the ASEAN Economic Ministers in September 1994 (ASEAN Economic Ministers, 1994):

- Normal Track
 - ◇ reduction of tariff rates above 20 % to 20 % by 1 January 1998 and subsequently from 20 % to 0-5 % by 1 January 2003,
 - ◇ reduction of tariff rates at or below 20 % to 0-5 % by 1 January 2000.
- Fast Track:
 - ◇ reduction of tariff rates above 20 % to 0-5 % by 1 January 2000,
 - ◇ reduction of tariff rates at or below 20 % to 0-5 % by 1 January 1998.

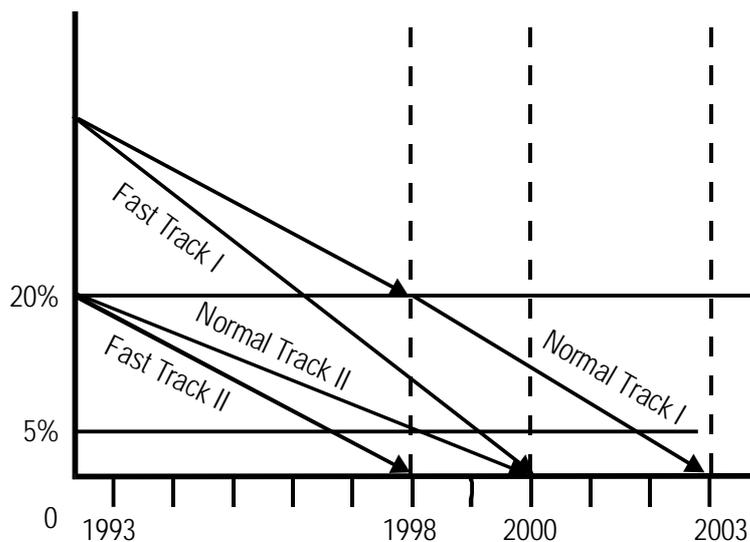


Figure 1: AFTA 2003

An ASEAN country can refuse to apply the CEPT preferences to specific imports of another ASEAN country, if the former has excluded the said products from the CEPT. More: according to art. 4.2 of the CEPT agreement, preferential market access is only automatic if the import duties on the relevant goods in the country of exportation are 20 % or less (Ariff, 1994: 9).

Table 1: Distribution of product groups according to “fast track”, “normal track” and excluded products under AFTA (number of HS lines at 9 digit level)

Country	"Fast track"	"Normal track"	Temporarily excluded	General exception	Unprocessed agricultural products	Total
Brunei	2420	3659	208	201	56	6544
Indonesia	2816	4539	1654	50	324	9383
Malaysia	3166	5611	627	98(*)	541	10023
Philippines	1033	3418	714	28	398	5591
Singapore	2205	3517	-	120	-	5842
Thailand	3509	5254	118(**)	26(*)	415	9322

Source: ASEAN Secretariat (1993).

(*)Products

(**) at HS 10-digit level

The AFTA agreement allows member countries to exclude particular, so-called sensitive products, from tariff reduction under the “normal track” or “fast track scheme”. Excluded products have to be identified at the HS 8/9 digit level.³ The exclusion lists will be in force during 8 years and at the end of this period it will be decided which products remain excluded from the CEPT (CEPT, art. 2.3).

In the course of 1993, the exclusion lists were bound to be negotiated. The protectionist lobbies in the ASEAN countries reacted quickly, which explains why the Indonesian temporary exclusion list contains more than 1650 products, that of the Philippines 714, that of Thailand 118. Malaysia temporarily excludes 627 products from the CEPT. Member states can also invoke safeguard measures, and temporarily and without discrimination lift the preferences granted (CEPT, art.6). The 26th AEM (Chiang Mai, September 1994) decided, however, to remove the temporary excluded items from the list by 20 % annually, and therefore to integrate all the temporary exclusions into the CEPT in five years.

Tariff reductions only apply to products of ASEAN origin. ASEAN origin is obtained if at least 40 % of the value of a product originated in ASEAN countries (“ASEAN content requirement”, CEPT, art. 2.4).

The CEPT agreement also envisages the elimination of quantitative import restrictions on CEPT products, as well as the gradual abolishment of the other non-tariff barriers, during a period of five years. These provisions, however, are conditional: abolishment has to take place “upon enjoyment of the concessions applicable to those products” (CEPT, art. 5.A).

From the above it will clearly appear that the decision to arrive at the AFTA, as well as the decisions about the instrument, the CEPT, has been a political decision at the highest level. Once this decision taken, the respective national administrations are responsible for the implementation. The CEPT agreement consists of only 10 articles. As accompanying guidelines are lacking, the implementation process slowed down. This is why on January, the 1st, 1993, only Singapore and Malaysia actually started with the CEPT. One has to wait until the meeting of the Senior Economic Officials of ASEAN, Fall 1993, before knots are cut by the decision that all ASEAN countries (except Brunei) have to start

³It will be noticed that CEPT products are defined at the HS 6 digit level. The reason for defining the exclusions of the CEPT at the HS 8/9 digit level is to avoid the exclusion of broad product groups (Akransee & Stifel, 1992: 38).

with the agreed tariff reductions at the latest on 1 January 1994. It also was decided at the SEOM to increase the number of product groups falling under the “fast track” scheme of tariff reductions.⁴

4. Comments on AFTA and the CEPT: advantages and shortcomings

It was stressed above that the AFTA and CEPT agreements are short texts, without detailed guidelines and clarifications. This is a strength and a weakness at the same time. It is a strength as it enables a political breakthrough by consensus, with the essence of the message conveyed in all the clarity needed. It is a weakness as there are so many accompanying measures and implementation modalities still to be developed and adopted, which can brake the momentum of the process of integration.

Furthermore, the AFTA and CEPT agreements show a number of advantages and shortcomings, that will influence the future pace of integration between the ASEAN countries.

Among the advantages of both agreements we mention:

1. For the first time in the history of ASEAN, a timetable for tariff reductions was agreed (Akraanee & Stifel, 1992: 38).
2. Although originally raw agricultural products were not falling under the CEPT, the ASEAN countries agreed to introduce these products by unilateral decisions (Pangestu, 1994:5). In September 1994, the ASEAN Economic Ministers subscribed to the recommendation of the AFTA Council to bring agricultural products under the CEPT, apart from items that would be mentioned in an exclusion list that had to be drawn up (Thailand Times, 1994; Bangkok Post, 1994a).
3. AFTA can be considered as a “kindergarten” or “playing ground” for the “young” ASEAN producers, who by opening up their protected markets for regional competitors, can prepare themselves for the hard world outside ASEAN of international competition (Akraanee & Stifel, 1992: 33; Ariff, 1993; Ariff, 1994: 16; Pangestu, 1994: 9, Chia, 1994: 18).
4. Because of AFTA, ASEAN countries are becoming more attractive for foreign direct investment (Akraanee & Stifel, 1992; Ariff, 1994: 5). In this way, it is hoped, they can turn the receding tide of FDI, which is increasingly flowing to China and Vietnam.
5. Peace and stability in the region is a non-economic advantage of AFTA, which have important economic spin-offs. Because of peace and stability, the investment and business climate, no doubt, will improve further, but the ASEAN countries can also concentrate much more on economic targets and goals (Ariff, 1994: 5).

Among the most important shortcoming of AFTA and the CEPT, we list:

1. No agreements were made to abolish the tariffs that become 5 %. Some authors expect that the cost of collection, however, will be higher than the revenue obtained from these tariffs (Ariff, 1994: 11, 14).

⁴A list of quantitative and other non-tariff trade barriers was also drawn up and an “ASEAN Consultative Committee on Standards and Quality” established. See Chia (1994: 2).

2. The transition period is much too long and many experts agree that the pace of implementation has to be speeded up (Naya & Imada, 1992: 62; Alburo, 1994: 18; Pangestu, 1994; Chia, 1994: 3). The exclusion lists have to be reviewed sooner (e.g. annually) (Chia, 1994: 3; Ariff, 1994: 14).
3. The exclusion lists are at HS 8/9 digit level. At that level, however, the national tariff nomenclatures within ASEAN are not harmonised, which implies a considerable trade barrier (Naya & Imada, 1992: 62). There is thus a huge need for intra-ASEAN tariff harmonisation (see also Puppavesa, 1994).
4. AFTA relates only to international trade and there are no rules for the elimination of the many national distortions (Naya & Imada, 1992: 60).
5. As economic cooperation with non-ASEAN countries is not settled (Chia, 1994: 18), there remain too much national differences in the treatment of non-ASEAN partners.
6. A number of issues that have been arranged multilaterally by Uruguay Round agreements, are not dealt with in the AFTA or CEPT agreement. The original CEPT lists are not containing agricultural products or services (Chia, 1994: 18). At the AEM of September 1994 it was decided, however, to bring agricultural products under the CEPT. An ASEAN Framework Agreement on Services was accepted in principle at the September 1995 ASEAN Economic Ministers Meeting (Nation, 1995c).
7. Under AFTA no mention is made of the liberalisation of intra-ASEAN investment, which needs to be dealt with urgently (Alburo, 1994: 18; Ariff, 1994: 14; Chia, 1994: 4, 18). One could grant "national treatment" to investors of ASEAN countries (Chia, 1994: 4; Ariff, 1994: 15), set up joint investment promotion campaigns, or promote "growth triangles" in ASEAN (Chia, 1994: 4). It is necessary to go beyond the CEPT, or AFTA will be "too little, too late" (Chia, 1993; see also Pangestu, 1994: 11).
8. Although safeguard measures can be adopted, there is no timetable for phasing out these measures (Naya & Imada, 1992: 62). Also in this respect, the AFTA agreement is clearly lagging behind the multilateral agreement reached in the Uruguay Round.
9. It is not clear what will happen to the non-tariff barriers, including norms and standards (Pangestu, 1994; Ariff, 1994: 10). According to art 5.A of the CEPT agreement, quota's are to be abolished immediately upon enjoyment of concessions. The same goes for other NTBs, be it within a period of 5 years. This process should be speeded up (Chia, 1994: 3). Also the issue should be tackled how to distinguish a rightful regulation from an illegitimate trade distortion, and how to survey and monitor the process of NTB reduction (Kenevan & Winden, 1993: 237-238). Moreover, under AFTA anti-dumping rules will have to be designed.
10. The rules of origin for CEPT goods (40 % local content) are not according to international practice (see e.g., Asakura, 1993), are leading to confusing situations and enable abuses (Akrasanee & Stifel, 1992: 39, Kenevan & Winden, 1993: 227-228). This can easily be avoided by giving up the 40 % rule and by substituting it by the GATT rule of "change of tariff heading" (Naya & Imada, 1992: 59-60; Ariff, 1994: 7-8). Mention should be made in this respect of the fear that third countries might penetrate the AFTA market using the free port facilities in Singapore and Brunei (Ariff, 1994: 11). On the other hand, some authors are not worried by such fears (Puppavesa, 1994).
11. Up to now, no mechanisms for dispute settlement are provided (Kenevan & Winden, 1993: 236-237; Naya & Imada, 1992: 63; Ariff, 1994: 11,13; Chia, 1994: 3). This obviously lends much less credibility to the CEPT, particularly for the business community. Moreover, this lack prevents the

accumulation of AFTA jurisprudence, that should warrant the equal treatment of analogous disputes and independence. The establishment of a dispute settlement mechanism was envisaged only at the September 1995 ASEAN Economic Ministers Meeting (Nation, 1995c).

12. There is a huge information need for private sector and official circles alike. Therefore the need of an information centre on the implementation of AFTA is intensely felt (Pangestu, 1994).

5. National potentials and readiness to implement AFTA

Recent research results have evidenced that the contribution of intra-industry trade to the growth of ASEAN trade is increasing. Therefore, it is deduced that the adjustment costs in the respective industries, due to the implementation of AFTA, will be lower than often expected (Menon, 1996). Still, ASEAN countries often show similar relative factor endowments and few complementarities. Differences in production costs between the ASEAN countries and the rest of the world are mostly large, and small between the ASEAN countries. In addition, after 1992 tariffs in some ASEAN countries with respect to third countries are declining only to a limited extent, apart from their Uruguay Round commitments, so that it is expected that AFTA will lead to trade diversion to the detriment of the rest of the world (Nadal De Simone, 1996: 106). Therefore, any verdict on the static effects of AFTA depends on the trade creation it will generate. It was calculated that trade liberalisation under AFTA will induce for the ASEAN countries hardly 3 to 4 billion USD (Chirathivat, 1996: 29).

According to available simulations AFTA will have limited static effects, but comparatively large dynamic effects on economic growth. This is vindicated a.o. by Yap and Edillon (1993), Imada (1993), Ramasamy (1994) and Ramasamy (1995).

Ramasamy (1995) found that the Philippines will benefit most of trade diversion in ASEAN in favour of its products (estimated at 10 % of the Philippines's exports to the rest of ASEAN). Indonesia will benefit only to a limited extent (+ 3 % of its exports to ASEAN). Malaysia, Singapore and Thailand will experience proportionate export increases to the rest of ASEAN of 5, 8 and 6 % respectively. However, as these trade diversion effects imply the substitution of cheaper goods from the world by less efficiently produced goods in ASEAN, AFTA on this account will create welfare losses for the ASEAN countries. After having looked at the likely trade creation effect of AFTA, Ramasamy (1995: 15-16) concludes that trade creation will be larger than trade diversion in Indonesia, the Philippines and Thailand, while the reverse holds for Malaysia and Singapore.

The industrial sectors in the ASEAN countries will be affected differently. It appears that among the ASEAN countries a number of industrial shifts are expected which are due to the implementation of the AFTA agreement. These expected shifts are corroborated by the few existing econometric estimates of the impact of AFTA. The impact of this industrial restructuring will, however, be eased by the higher economic growth, going together with the expected expansion of intra-ASEAN trade and investment.

Relative to the CEPT implementation potentials the following considerations can be made:

- Singapore has only minimal import and export restrictions. Therefore, import duties on practically 98 % of the CEPT products are *de facto* nil, and no serious adjustment problems as a result of the implementation of the AFTA agreement are to be expected (Chia, 1994: 10). Moreover, Singapore started its “regionalisation” policy, through which Singaporean investment in East, South-East and South-Asia is encouraged, provided there are “backward linkages” to the Singaporean economy (Chia, 1994: 14). There exists, evidently, no inconsistency whatsoever with the aims of AFTA, although Singapore is not satisfied with the liberalisation of intra-ASEAN services and investment flows (Chia, 1994: 18).
- Between 1988-1993, Malaysia has reduced its import duties unilaterally, though in an *ad hoc* way. It is expected that Malaysia will have no difficulties in meeting its agreed AFTA obligations (Ariff, 1994: 6).
- In Indonesia it is still unclear if it can (or wants to) go further with AFTA than it offered in the Uruguay Round to bind the import duties at 40 % (except a list of excluded product categories)(Pangestu, 1994: 2-6).
- Although the private sector in Thailand has reacted unexpectedly positively to the AFTA agreement, there is pressure from some industrial sectors that were encouraged earlier to establish (e.g. petrochemicals) to delay the implementation process. Because no strategy is developed of economic restructuring when the agreed tariff reductions are becoming effective, precious time is wasted (Pupphavesa et al., 1994). On the other hand, Thailand has reduced its tariffs more than agreed in the Uruguay Round, and also for quite a number of product items its MFN tariff reductions are larger than originally agreed under the CEPT.
- In the Philippines, policy makers seem to be looking at AFTA rather as a means towards acquiring cheaper inputs, with the domestic industry based on import substitution, remaining protected. Hence, there is reason to fear that the Philippines will try to back out of its AFTA obligations (Alburo, 1994). A similar lack of clarity as in Indonesia holds for the Philippines: in the past, trade liberalisation in the Philippines has been largely of a “stop-and-go” type and import substitution policies are still dominant

It goes without saying that the interests of all ASEAN countries are best served by multilateral trade liberalisation, and only in a second order by regional liberalisation. Why is it then that the countries with outspoken global, rather than regional interests, are cooperating in AFTA anyway? The reason has to be found in the expected dynamic effects of AFTA. In addition, they are considering the negative aspects of AFTA as a price they have to pay temporarily for access to the positive aspects. Contrary to the European Single Market, the expected impact of which, both at the micro- and the macro-economic level, was calculated in advance, the decision to establish a free trade area between the ASEAN countries is a purely political decision, which was not preceded by any “number crunching”. Therefore, AFTA seems to mean: “Agree First, Talk After”.

6. AFTA, a first step towards an ASEAN customs union?

Referring to the European experience, many economists tend to believe that a free trade zone can be considered as a first step towards a customs union. A customs union, however, is not considered in ASEAN, and leading economists in the ASEAN countries are eager to warn against a customs union:

"... the goal of ASEAN co-operation has never been a form of integration in which supranational characteristics progressively transcend national sovereignty. Co-operation in the region was pursued as a means of assuring national independence and mutual benefit for all participants. A Southeast Asian community similar to that of the European Community (EC) is not a realistic model for ASEAN co-operation" (Akrasanee & Stifel, 1992: 31).

"... a customs union (...) has supranational characteristics which are unacceptable" (Akrasanee & Stifel, 1992: 40).

"ASEAN is not ready for a customs union in view of the large divergences in tariff levels among countries, notwithstanding the unilateral tariff liberalization undertaken by a number of high-tariff member countries in recent years. Also, a customs union has more negative trade diversion effects as it would require low-tariff member countries to raise their tariff levels *vis-à-vis* the rest of the world" (Chia, 1992: 97).

Moreover, the creation of an ASEAN customs union could well have negative consequences for the countries involved. The share of intra-ASEAN trade is still low and, consequently, a restrictive common external tariff would lead to much trade diversion and few trade creation. Trade between Malaysia and Singapore alone represents 52 % of intra-ASEAN trade. Nevertheless, for a country like Malaysia extra-regional trade is of much more importance than intra-regional trade, that represents some 22 % of Malaysia's trade flows (Yap & Edillon, 1993: 11-12).

Above it was argued that the trade policy stance among the ASEAN countries is not fully in line. This implies that a compromise on a common external tariff will not be easy to reach. More liberal ASEAN countries are anxious that AFTA and the CEPT might turn the attention of the less liberal ASEAN countries "inwards", i.e. to the old import substitution policies, be it within AFTA. Therefore, individual ASEAN countries should have agendas for unilateral trade liberalisation at their disposal, which evidently conflicts with a common trade policy and a customs union.

The economic relations between the ASEAN countries and neighbouring trade partners are deserving special attention. With economic liberalisation progressing in the People's Republic of China or Vietnam, also the prospects for closer economic cooperation between these countries and the ASEAN countries are improving. We refer to the plea that is made in favour of subregional economic cooperation, e.g. between the countries of the so-called Mekong Economic Growth Circle (Asian Development Bank, 1993a and 1993b).⁵ Economic cooperation of this type, evidently, has important implications for ASEAN and AFTA. Goods that are produced in Laos or in the Yunnan province will obviously have to

⁵This "growth circle" encompasses Thailand, Myanmar, the Yunnan Province of the PR of China, Laos, Cambodia and Vietnam.

be granted access to Thailand, but also to the other ASEAN countries. In turn, it implies that the ASEAN countries grant a preferential treatment to the goods that originated in the non-ASEAN countries concerned, or sign an association agreement, similarly to the agreement between the European Union and the countries of Eastern and Central Europe. Whatever the scenario will be, if this cross-border economic cooperation is taken seriously (which Thailand certainly is doing), it will necessitate further economic integration of the ASEAN countries, beyond AFTA (common preferences and rules of origin and/or a common customs tariff with the non-ASEAN countries concerned, etc.).

We should not forget either that a successful implementation of AFTA assumes an institutional framework that has credibility with the business community and responsibility for monitoring the implementation process, the design of customs procedures where needed, the creation of legal security and the provision of dispute settlement (Pelkmans, 1992b: 124-129). It can be doubted whether the "AFTA Council", which lacks a clear mandate, together with the ASEAN Secretariat will suffice here (Kenevan & Winden, 1993: 238-239). Moreover the Council is not sufficiently independent from the member states and, being a consensus-seeking body, is not in a position to assess the non-compliance of member countries (Santiago, 1995:22).⁶ Given the quantity and the complexity of the practical implementation and monitoring of AFTA, some delegation of authority seems indicated.

In this connection, the reader is referred to the pressure from e.g. American and Australian side on the ASEAN countries to join geographically much larger free trade arrangements. Although the ASEAN countries at present do not seem willing to join unconditionally, they all feel a huge need for a common ASEAN policy in this matter. It is also felt that if ASEAN countries would like to link up to such initiatives (or would conclude other free trade agreements, like e.g. with the "Australia-New Zealand Closer Economic Relations Agreement"), it could be better jointly, in stead of by bilateral agreements of the individual ASEAN countries (Bangkok Post, 1994b).⁷ This also gives rise to a need for some AFTA supranationality, which transcends the mere free trade agreement.

This need was apparently felt by Dr. Supachai Panitchpakdi, the at that time Deputy Prime Minister of Thailand, who announced his intentions to raise the question of creating a common market among ASEAN members at the informal ASEAN Economic Ministers Meeting in Phuket, April 1995 (Nation, 1995a), of which the joint press statement of that meeting (ISEAS, 1995) shows no sign, however.

⁶ The ASEAN Economic Ministers's Meeting in September 1995 agreed on the establishment of a specific dispute settlement mechanism, but this mechanism is unlikely to work well on a voluntary basis (Nation, 1995c).

⁷ A first meeting to link AFTA with the Australia-New Zealand Closer Economic Relations Agreement was held by the ASEAN Economic Ministers and the respective Foreign Trade Ministers of Australia took place in September 1995 (Nation, 1995b).

7. Some conclusions

There is no question that the ASEAN countries are gaining momentum. Each economy is growing fast. To a large extent, this growth is fueled by exports. Economic growth also feeds back into a sufficient and increasing effective local demand. No wonder that the ASEAN countries are attractive hosts of foreign direct investment (including flows from Newly Industrialising Countries like Korea and Taiwan) aiming at producing for the local or the export markets.

The ASEAN economies are, however, only to a limited degree complementary. Their export structure, both according to sector and to geographical destination, is highly similar. As a result, the share of intra-ASEAN trade in the foreign trade in the respective countries is very low, providing insufficient scope for economic integration.

In order to entice increasing intra-ASEAN trade and investment flows, initiatives were developed inside ASEAN, creating a framework for economic cooperation. Unfortunately, these initiatives have only had a limited success. Too often, plans merely sprang from the brains of the bureaucrats, without a say or support of the private sector. Moreover, these initiatives were taken in a period when a number of ASEAN countries were still pursuing import substitution policies.

Due to the successes of export-led growth and the fear of losing attractiveness as foreign direct investment host countries, the agreement of the establishment of the ASEAN Free Trade Area was concluded in 1992. Originally, this agreement excluded agricultural products and planned the liberalisation measures to be implemented in the course of a 15 years period. Recently, however, agricultural products were included (although subject to an exclusion list) and the period of intra-ASEAN trade liberalisation reduced to 10 years.

AFTA is burdened with some important shortcomings. Much and complex coordination is still ahead. We have only reviewed some constraints and bottlenecks. Many accompanying measures are awaiting development. If AFTA wants to keep sufficient momentum, support and close cooperation with the private sector in the ASEAN countries is needed. As a number of industrial sectors in the ASEAN countries will have to restructure because of AFTA, support from the private sector will probably come only from the "winners". It is generally expected that the gains of AFTA relate to its dynamic long-term impact. Hence, it is improbable that in the short period "winners" will win enough to compensate losing sectors. It follows that the pioneering role of "visionaries" in ASEAN in keeping the AFTA process going, is far from finished.

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