

DOCUMENTATION

The ASEAN Free Trade Area: Moving Ahead on Regional Integration Address by H. E. Rodolfo C. Severino, Secretary-General of the Association of Southeast Asian Nations, at the AFTA Roundtable Discussion

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We are here, first, to have a close look at where we are in the economic integration of Southeast Asia — particularly at the state of the ASEAN Free Trade Area, which is a key component of regional integration. Secondly, we hope to harvest from our discussions some ideas on how to deepen, broaden and hasten integration.

The public discussion of regional economic integration in Southeast Asia in the past three years has been burdened by two myths. The first myth is that the financial crisis would lead to the crippling, even the death, of AFTA and the consequent evisceration, and even the break-up, of ASEAN. The second myth is that the delay in the transfer by one country of finished or knocked-down cars into the AFTA scheme would constitute a devastating setback for AFTA, if not for ASEAN itself.

First, the myth about the financial crisis destroying AFTA. Almost as soon as the crisis struck, many commentators predicted — almost in glee — that the ASEAN countries would retreat into protectionism, into isolationism, that AFTA would break up. It would be every country for itself. Such predictions flew in the face of logic, of ASEAN's words, and of ASEAN's deeds. They went against what would logically be expected and against what actually happened.

Apprehensions over AFTA's death as a result of the crisis went against all logic. If ASEAN needed anything in those difficult times, it was investments, particularly foreign direct investments. The way to attract investments was to move faster on creating a big, regional, integrated market, which investors, particularly in these times, generally prefer to small, national, fragmented economies. It made no sense for the ASEAN countries, having gone so far on the road to a free trade area, suddenly to reverse course. It would have been self-destructive.

The ASEAN commitment to AFTA and to regional economic integration was exactly what ASEAN's leaders re-affirmed at the height of the crisis. At their summit in December 1997, they issued the ASEAN Vision 2020 statement, in which they committed themselves "to moving towards closer cohesion and economic integration" and resolved to "advance economic integration and co-operation" by, among other measures, "fully implement(ing) the ASEAN Free Trade Area and accelerat(ing) the liberalization of trade in services".

The next year, in December 1998, the ASEAN leaders declared:

We reaffirm our commitment to the greater integration of our economies as a primary expression of our co-operation and solidarity. ASEAN will keep its markets open as it recognizes that the key to strengthening and stabilizing the region's currencies and economies is to attract long-term investments. ASEAN reaffirms its commitment to trade and investment liberalization and facilitation, at the multilateral and regional levels, and will continue to undertake concrete measures towards these objectives.

We resolve to implement, as scheduled, the ASEAN Free Trade Area (AFTA) and all approved programmes and projects. In addition, we seek to further accelerate AFTA and expedite the implementation of the ASEAN Industrial Co-operation Scheme (AICO). We shall open up our investment regimes through the launching of the ASEAN Investment Area (AIA), which will enhance the attractiveness of the region as an investment destination through the application of consistent investment laws and policies.

Bold Measures

To carry out their resolve, the ASEAN leaders, on the same occasion, announced a series of special measures. One of these was AFTA's acceleration. In what they called their Statement on Bold Measures, the leaders affirmed: "In order to regain business confidence, enhance economic recovery and promote growth, the ASEAN Leaders are committed to the realization of the ASEAN Free Trade Area (AFTA). . . . To enhance further economic integration of the region, the Leaders also agreed to further liberalize trade in services."

I quote the ASEAN leaders at some length to emphasize that ASEAN has not been lacking in clear statements of policy. Those were the words, but many outside observers did not hear — or listen. What the leaders actually did was to accelerate AFTA, but many outside observers did not seem to notice.

At that same summit in 1998, ASEAN agreed to advance AFTA's completion, for the six original signatories to the AFTA agreement, from the then target year of 2003 to 2002. This meant that tariffs of the six countries on products traded among them in the AFTA scheme would be brought down to anywhere between 0 and 5 per cent by the beginning of 2002. This is just a little over a year from now. Moreover, by 2000, at least 90 per cent of their total tariff lines would be within the 0–5 per cent zone, accounting for more than 90 per cent of intra-ASEAN trade, a target that has already been exceeded. Individually, each country would bring down to 0–5 per cent the tariffs on at least 85 per cent of the products on its Inclusion List by this year and 90 per cent by 2001. The member countries also agreed to eliminate tariffs altogether as soon as possible and accelerate the transfer into the Inclusion List of products not yet in it.

Modification of Concessions

These decisions were made almost two years ago, and they are being carried out. Yet, the notion persists that AFTA has been derailed. This impression has been reinforced by the well-publicized proposal of one ASEAN member to delay the transfer into its Inclusion List of finished or completely knocked-down automobiles. The idea is being spread that the acceptance of this proposal would deal a fatal blow to AFTA.

Let us look at this issue in perspective. First, the proposal involves only completely built-up and completely knocked-down vehicles and has nothing to do with car parts. Secondly, it is limited to trade involving Malaysia. Trade between other parties to AFTA is not directly affected. Thirdly, the proposed delay will be limited in its timeframe. Finally, the products involved account for less than 2 per cent of intra-ASEAN trade.

In a couple of days, the ministerial-level AFTA Council will sign a protocol laying down some stringent rules to govern such modifications of concessions. These rules are patterned after Article XXVIII of GATT and, therefore, accord with international practice. Invocation of the protocol requires negotiations with affected parties and could entail compensation. Its application would be transparent and rules-based. It would be limited to situations of real difficulty.

AFTA's tariff-cutting schedule is essentially on track. But it is, of course, not enough. AFTA is not just about tariff-cutting. It also calls for the dismantling of non-tariff barriers. Here, it gets more complicated, as those barriers come in many disguises — not just in ASEAN, not just among developing countries, but, perhaps especially, in the developed countries. ASEAN is keeping a watchful eye on such devices and striving patiently to do away with them.

Nor is removing barriers enough. Economic integration requires making trade smoother and easier. Customs, for example. To be effective, AFTA has to be administered at ports of entry, by customs. This means the training of customs officials. ASEAN is doing that jointly. ASEAN is streamlining customs procedures. It is planning to adopt the post-audit clearance system. ASEAN is harmonizing its tariff nomenclatures, the harmonized system to be implemented starting in 2002.

ASEAN is also making it easier to trade specific products, sector by sector, through mutual recognition arrangements and the harmonization of regulations, product standards and safety norms. The process has begun with respect to cosmetics, pharmaceuticals, and electrical and electronic equipment. ASEAN is not stopping at trade in goods. Following the leaders' explicit instructions, ASEAN is moving on the much more complex endeavour of liberalizing trade in services, putting together a package of commitments, beyond those that they have made in WTO, to remove restrictions on certain modes of trade in services.

Easing Transportation

In facilitating trade, priority is given to transportation. Removing tariff and technical barriers to trade would have little effect if goods could not physically cross national boundaries with ease and dispatch. ASEAN has put in place an agreement to ease the overland transport of goods between two ASEAN countries through a third ASEAN country. It is also working on agreements on multi-modal transport and inter-state transport.

ASEAN has identified twenty-three priority routes for the upgrading and development of the trans-ASEAN highway system. Three days from today, ASEAN's leaders will receive the completed feasibility study on the Singapore-Kunming railway. The plan is to connect the existing railway lines in mainland Southeast Asia to form one system linking ASEAN to southern China.

ASEAN is progressively liberalizing air transport, working on a multilateral air transport agreement that should lead eventually to an open-skies regime. ASEAN's energy agencies and companies are formulating master plans for the ASEAN Power Grid and the Trans-ASEAN Gas Pipeline Network so as to improve the region's energy security. Telecommunications interconnectivity is being worked out.

ASEAN is working together to pull Southeast Asia into the information age, something that we hope will further strengthen ASEAN's cohesion. A public-private task force is helping ASEAN working groups to create a regional electronic space that encompasses infrastructure, e-commerce, free trade in information and communications technology goods and services, people's IT skills, and the development and use of IT in government and society as a whole. Japan and multinational companies are supporting

this effort. At their summit in Singapore three days from today, ASEAN's leaders will be signing the e-ASEAN Framework Agreement to provide the political impetus and the formal basis for ASEAN's move into cyberspace.

Much work is going on to integrate the ASEAN economy in many ways and dimensions. A great deal of this work is quiet and does not interest people very much, although some corporations are intensely watching it. It is plodding, patient, slow work — often, too slow. But it is going on, and, as it progressively integrates the ASEAN economy, it has a real impact on companies operating in ASEAN and on the lives of its people.

It also has implications broader than the purely economic. But that is another story.

SOURCE: ASEAN Secretariat <<http://www.aseansec.org>>